

CITY OF GRAND PRAIRIE

INVESTMENT POLICIES

December 12, 2023

Prepared by the Finance Department

Approved by the City Manager
(Originally approved March, 1986)
Adopted by the City Council December 12, 2023

INVESTMENT POLICIES
Table of Contents

	<u>Page No.</u>
I. Introduction and Scope	1
II. Responsibility	1
III. Investment Committee	2
IV. Authorized Investments	2
V. Prohibited Investments	3
VI. Diversification	3
VII. Authorized Broker/Dealers	3
VIII. Safekeeping and Custodial Agreements	3
IX. Collateral Policy	4
X. Investment Practice - General	4
XI. Reporting	5
XII. Training	5
XIII. Strategy	6
XIV. Indemnity	7
XV. Policy Revisions	7

CITY OF GRAND PRAIRIE
INVESTMENT POLICIES
MARCH 1, 1986
As Revised December 12, 2023

I. Introduction and Scope

The City of Grand Prairie (“City”) shall manage and invest its cash with three objectives, listed in order of priority: preservation and safety of principal, liquidity, and yield. The preservation and safety of the principal invested always remains the primary objective.

Cash management is defined as the process of managing monies in order to ensure optimum cash availability and optimum yield on short-term investment of idle cash. Pursued objectives include expediting revenue receipts and slowing down disbursements of cash.

The City shall maintain a comprehensive cash management program which includes collection of accounts receivable, vendor payment in accordance with invoice terms, and prudent investment of its available cash.

The Public Funds Investment Act Chapter 2256 Government Code of Texas (“PFIA”) as amended prescribes that each city is to adopt rules governing its investment practices. The Investment Policies are intended to fulfill the requirements of this State law.

Further, as administrative agent of the Grand Prairie Sports Facilities Development Corporation, Inc, (“the Sports Corp”) the scope of the City’s Investment Policies will apply to investments of the Sports Corp, unless otherwise indicated. However, the investments for the Sports Corp will be separately and discretely managed apart from City funds.

II. Responsibility

These Policies are developed to guide the Chief Financial Officer and staff in investment matters. The overriding goal of the Investment Policies is to enable the City to achieve the objectives of preservation and safety of principal, liquidity and yield while conducting its operations consistent with the Council’s objectives.

The City Council designates the Chief Financial Officer as the City's Chief Investment Officer. The Assistant Finance Director and Treasury Administrator are designated as additional Investment Officers. The Chief Financial Officer is responsible for the City's comprehensive cash management program, including the administration of the Investment Policies. The Chief Financial Officer is responsible for considering the quality and capability of staff involved in investment management and procedures. The Chief Financial Officer shall be responsible for authorizing investments, and the Assistant Finance Director shall account for investments and pledged collateral in order to maintain appropriate internal controls. The Assistant Finance Director shall be responsible for ensuring the investments are recorded in the City's financial system. The Internal Audit staff shall audit records quarterly and the external auditors will review management controls on investments and adherence to policy as required by law.

III. Investment Committee

An Investment Committee consisting of the Treasury Administrator, Assistant Finance Director, Chief Financial Officer, Audit/Budget Director, and Deputy City Manager shall meet as frequently as necessary to review the City's investment portfolio. The Committee shall also meet as necessary to review, revise, and adopt the list of qualified broker/dealers that are authorized to engage in investment transactions with the City and approve the list of independent training sources.

Any three of the five Investment Committee members constitute a quorum. The Assistant Finance Director shall serve as chairman of the Committee and maintain written record of Investment Committee meetings.

IV. Authorized Investments

City and Sports Corp funds governed by the Investment Policies may be invested in the instruments described below, all of which are authorized by the PFIA. Investment of City and Sport Corp funds in any instrument or security not authorized for investment under the PFIA is prohibited. The City and Sports Corp will not be required to liquidate an investment that becomes unauthorized after its purchase.

1. Obligations, including letters of credit, of the United States or its agencies and instrumentalities (including the Federal Home Loan Banks).
2. Obligations of states, agencies, counties, cities, and other political subdivisions rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent.
3. Commercial paper with a stated maturity of 365 days or less from the date of its issuance that is rated at least A-1, P-1, or the equivalent by at least two nationally recognized credit rating agencies or by one nationally recognized credit rating agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state thereof. The Sports Corp only allows this quality of commercial paper if managed through a local government investment pool.
4. Local Government Investment Pools, which (1) meet the requirements of the PFIA, (2) are rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service, and (3) are authorized by resolution or ordinance of the City Council or Sports Corporation Board.
5. An SEC-registered, no-load money market mutual fund whose investment objectives include seeking to maintain a stable net asset value of \$1.0000 per share and are rated AAAM, or its equivalent, by at least one nationally recognized rating service.
6. Certificates of deposit and other forms of deposit in a depository institution that has its main office or branch office in Texas; are guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or its successor; or are secured by obligations in any other manner and amount provided by law for deposits of the City. Or, deposits placed through a broker or financial institution that has its main office or a branch office in Texas that arranges for deposit of funds in one or more federally insured depository institution, wherever located, for an account of the City, and in compliance with the requirements of the PFIA.

V. Prohibited Investments

The City's authorized investment options are more restrictive than those allowed by State law. Furthermore, this policy specifically prohibits investment in the following investment securities.

1. Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal.
2. Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest.
3. Collateralized mortgage obligations that have a stated final maturity date of greater than 10 years.
4. Collateralized mortgage obligations, the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

VI. Diversification

Investments shall be diversified to reduce the risk of loss resulting from over-concentration of investments in a specific maturity, a specific issue, or a specific class of securities, as appropriate.

The asset mix of the City's and Sports Corp portfolio is expressed in terms of maximum commitment so as to allow flexibility to take advantage of market conditions. This policy represents the allowable maximum at the point in time that an investment is placed, or security bought, as maturities and call features may affect the portfolio distribution. The asset mix requirements are as follows:

	% City Max	% Sports Corp Max
U.S. Treasury Bills and Notes	75	75
U.S. Agency or Instrumentality Obligations	75	75
Repurchase Agreements (excluding Bond Proceeds)	20	20
Municipal Securities	40	40
Financial Institution Deposits	75	75
Money Market Mutual Fund	40	40
Local Government Investment Pool	50	100

VII. Authorized Broker/Dealers

The Investment Committee shall, at least annually, review, revise and adopt a list of authorized broker/dealers authorized to engage in securities transactions with the City. Authorized firms may include primary dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (Uniform Net Capital Rule), and qualified depositories.

The City shall evaluate the broker/dealers' soundness to the extent the Investment Committee considers necessary. Investigation may include review of rating agency reports, review of call reports, and analyses of management, profitability, capitalization, and asset quality. Financial institutions and broker/dealers with whom the City wishes to do business shall provide the financial data requested by the City.

A broker/dealer must be approved by the Investment Committee and added to the approved list before any

business can be transacted with the City.

The City will send the Investment Policies to all financial institutions and authorized broker/dealers and request acknowledgement of receipt.

VIII. Safekeeping and Custodial Agreements

The City shall contract with a safekeeping agent for the safekeeping of securities owned by the City as part of its investment portfolio. Securities owned by the City shall be held in the City's account as evidenced by safekeeping receipts of the institution holding the securities.

The City shall approve all third-party custodians for the holding of securities pledged to the City as collateral to secure financial institution deposits. The custodial agreement is to specify the acceptable pledged securities as collateral, including provisions relating to possession of the collateral, the substitution or release of pledged securities, ownership of securities, and the method of valuation of securities.

IX. Collateral Policy

With the exception of deposits secured with irrevocable letters of credit at 100% of principal plus anticipated interest, all deposits of City funds with financial institutions shall be secured by pledged collateral with a market value equal to or greater than 105% of the principal plus accrued interest of the deposits, less any amount insured by the FDIC. Repurchase agreements shall be documented by a specific agreement noting the "purchased securities" in each agreement; such securities shall comply with the PFIA. Collateral pledged and purchased securities shall be reviewed at least monthly to assure the market value equals or exceeds the related City investment.

The City shall accept forms of collateral permitted by the Public Funds Collateral Act, Chapter 2257 Government Code of Texas. All collateral shall be subject to inspection and audit by the City or the City's independent auditors.

All financial institution deposits shall be insured or collateralized in compliance with applicable State law. The City reserves the right, in its sole discretion, to accept or reject any form of insurance or collateralization pledged towards financial institution deposits. Financial institutions serving as City Depositories will be required to sign a depository agreement with the City. The collateralized deposit portion of the agreement shall define the City's rights to the collateral in case of default, bankruptcy, or closing and shall establish a perfected security interest in compliance with Federal and State regulations, including:

- a. The agreement must be in writing;
- b. The agreement must be executed by the Depository and the City contemporaneously with the acquisition of the asset;
- c. The agreement must be approved by the Board of Directors or designated committee of the Depository and a copy of the meeting minutes must be delivered to the City; and
- d. The agreement must be part of the Depository's "official record" continuously since its execution.

X. Investment Practice - General

All investment decisions shall be internally documented and approved before execution by any two of the

Investment Officers. All funds reported in the City's Annual Comprehensive Financial Report (ACFR) are included in the Pooled Investment Fund. Any of the above Investment Officers may order investments orally, but the financial institution or broker/dealer shall follow up the investment order with a written confirmation.

All investments purchased by the City and held in safekeeping in a third-party safekeeping institution shall be purchased "delivery versus payment." That is, the City shall authorize the release of its funds only after it has received notification from the safekeeping bank that a purchased security has been received in the City's safekeeping account.

The City must have confirmation from the collateral custodian that collateral pledged from a financial institution is in the City's account or possession before investing in financial institution deposits.

The City will strive for a competitive environment on all individual security purchases and sales, financial institution time deposits and transaction accounts, and money market mutual fund and local government investment pool selections.

Effect of Loss of Required Rating – All prudent measures will be taken to liquidate an investment that is downgraded to less than the required minimum rating. This includes consideration of final maturity date, realized amount of gain/loss, alternative investment options, rating agency analyses and their rationale.

Rating changes will be monitored through the information published by the rating agencies, industry newsletters and broker/dealer notifications.

Investment Policy Certification – All local government investment pools and discretionary investment management firms must sign a certification acknowledging that the organization has received and reviewed the City's Investment Policies and that reasonable procedures and controls have been implemented to preclude investment transactions that are not authorized by the City's Policies and in accordance with the PFIA.

XI. Reporting

The City staff shall prepare a quarterly report for the City Council and Sports Corp on their investments. The report must:

- describe in detail the investment position of the entity on the date of the report;
- be prepared jointly by all Investment Officers of the City;
- be signed by each Investment Officer of the City;
- contain a summary statement of each pooled fund group that states the:
 - beginning market value for the reporting period;
 - additions and changes to the market value during the period;
 - ending market value for the period; and
 - fully accrued interest for the reporting period;
- state the book value and market value of each separately invested asset at the beginning and end of the reporting period by the type of asset and fund type invested;
- state the maturity date of each separately invested asset that has a maturity date;
- state the account or fund or pooled group fund in the City for which each individual investment was acquired; and
- state the compliance of the investment portfolio of the City as it relates to:
 - the investment strategy expressed in the City's Investment Policies; and
 - relevant provisions of the PFIA.

Weighted average yield to maturity shall be the portfolio's performance measurement standard.

If an entity invests in other than money market mutual funds, investment pools or accounts offered by its depository bank in the form of certificates of deposit, or money market accounts or similar accounts, the reports prepared by the Investment Officers under this section shall be formally reviewed at least annually by an independent auditor, and the result of the review shall be reported to the governing body by that auditor.

XII. Training

State law requires the Investment Officers of the City to attend at least one training session consisting of at least 10 hours of instruction relating to the Investment Officers' responsibilities within 12 months of assuming duties. Training must include education in investment controls, security risks, strategy risks, market risks, and compliance with the PFIA.

In addition, the Investment Officers must attend an investment training session not less than once in a two-year period that begins on the first day of the City's fiscal year and consists of the two consecutive fiscal years thereafter. Not less than 8 hours of instruction is required relating to investment responsibilities under this subchapter from an independent source approved by the governing body or Investment Committee.

XIII. Strategy

City Funds: The City accounts for investments in one main portfolio and is primarily managed through the Pooled Investment Fund. The City may, from time to time, specifically designate funds to isolate and distribute interest, such as Epic CIP, TxDot Grants, and TWDB Escrow. In those instances, interest will be distributed to the fund designated; otherwise, investment earnings will be pooled and distributed according to City policy and management or Council direction. Sports Corp will be kept separate.

Pooled Investment Fund

Suitability - Any investment eligible in the Investment Policy is suitable for Pooled Investment Funds.

Safety of Principal - All investments shall be of high quality with no perceived default risk. Market price fluctuations may occur. However, by managing the weighted average days to maturity for the portfolio to less than 365 days and restricting the maximum allowable maturity to three years, the price volatility of the overall portfolio will be minimized.

Liquidity - Cash equivalent investments will provide daily liquidity for the Pooled Investment Fund and may be utilized as a competitive yield alternative to fixed maturity investments.

Marketability - Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash flow requirement. Historical market "spreads" between the bid and offer prices of a particular security-type of less than ten basis points will define an efficient secondary market.

Diversification - Investment maturities should be staggered throughout the budget cycle to provide cash flow based on the anticipated operating needs of the City. Market cycle risk will be reduced by diversifying the appropriate maturity structure out through two years.

Yield - Attaining a competitive market yield for comparable investment-types and portfolio restrictions is the desired objective. The yield of an equally weighted, rolling three-month Treasury Bill portfolio will be the minimum yield objective.

Bond sale proceeds are part of the Pooled Investment Fund. As such arbitrage is an issue where the City continues to pursue maximizing yield on applicable investments while ensuring the safety of capital and liquidity. It is a fiscally sound position to continue optimization of yield and rebate excess earnings, if necessary.

Sports Corp Funds: The Sports Corp portfolio covers operating, reserve and construction project needs. Investment maturities shall be governed within the boundaries of maturity, diversity, liquidity and quality expressed in the Policies. Maturities will correspond with cash flow needs of the Sports Corp, but will not exceed 5 years. The total portfolio weighted average maturity will not exceed two years.

XIV. Indemnity

The City Manager, Deputy City Manager, Chief Financial Officer, Assistant Finance Director, Controller, Treasury Administrator, other Finance Department employees, and the Investment Committee shall be personally indemnified in the event of investment loss provided the Investment Policies are followed.

All participants in the investment process shall seek to act responsibly as custodians of public assets. Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

An Investment Officer who has a personal business relationship with a business organization offering to engage in an investment transaction with the City or an Investment Officer who is related within the second degree by affinity or consanguinity as determined under the Chapter 573 Government Code of Texas to an individual seeking to sell an investment to the City shall file a statement disclosing that personal business interest or relationship with the City Council and the Texas Ethics Commission.

An Investment Officer has a personal business relationship with a business organization if:

1. The Investment Officer owns 10% or more of the voting stock or shares of the business organization or owns \$5,000 or more of the fair market value of the business organization;
2. Funds received by the Investment Officer from the business organization exceed 10% of the Investment Officer's gross income for the prior year; or
3. The Investment Officer has acquired from the business organization during the prior year investments with a book value of \$2,500 or more for the personal account of the Investment Officer.

The standard of prudence to be used by the Investment Officers shall be the "Prudent Person Rule" which states "Investments shall be made with judgment and care, under prevailing circumstances, that a person of prudence, discretion and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived."

Investment Officers acting in accordance with written procedures and the Investment Policies and exercising due diligence shall be relieved of personal responsibilities for an individual security's credit risk or market price

change, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

XV. Policy Revisions

The Policies will be reviewed and adopted annually by the City Council Finance and Government Committee and City Council, as well as the Sports Corp Finance and Governance Committee and the Sports Corp Board. The Policies may be amended by recommendation of the City Manager and action (by resolution or minute order) of the City Council and Sports Corp. Investment Policies revision may become necessary with changes in State law, entity needs, the economy, and investment opportunities. Due to the less frequent timing of Sports Corp Board formal meetings, any administrative changes made by the City Council will apply to the Sports Corp until formal ratification can occur. Administrative matters may include definitions of authorized or unauthorized investments, clarification of matters pertaining to state law and procedures, assignment of Investment Officers and committees and similar items. No substantive changes to authorized investments, diversification or maximum maturity will be made to Sports Corp funds without their Board approval.

