

City of Deer Park
Annual Investment Policy Review – 2016
Record of Changes

To comply with the Texas Public Funds Investment Act, Government Code Ch. 2256 as amended (the "Act"), the governing body of an investing entity shall (1) review its investment policy and investment strategies not less than annually, and (2) adopt a written instrument by rule, order, ordinance, or resolution stating that it has reviewed the investment policy and investment strategies. The written instrument so adopted shall record any changes made to either the investment policy or investment strategies.

The investment policy for the City of Deer Park was last reviewed and updated in September 2015. During the prior fiscal year, the policy received re-certification from the Government Treasurer's Organization of Texas in July 2015, and that certification is valid for two years to July 27, 2017. Effective October 1, 2015 at the start of the fiscal year, Valley View Consulting, LLC began working with the City to provide Investment Advisory Services. The firm has reviewed the City's Investment Policy and has suggested several changes to consolidate or improve policy language, remove duplicate references, etc. The City is in agreement with these changes and they have also been discussed with the City's Finance Committee at a meeting on August 26, 2016. At that meeting, the Committee also reviewed and discussed the list of authorized broker/dealers.

Below is a summary of the major changes to the policy being presented for annual review on September 20, 2016:

2-267 Scope – Removed duplicate language as the following: "This policy shall not supersede the restrictions on investment and use applicable to any specific fund and, in the event of any conflict between this policy and the requirements of any fund subject hereto, the specific requirement applicable to such fund shall be followed as well as all other provisions of this policy other than those in conflict." is addressed in Sec. 2-274 – Authorized and Suitable Investments – Bond Proceeds.

2-268 Objectives and Strategy – This section has been edited primarily for clarity, including better and more concise wording. Subsection (f) has been modified relative to the benchmark yield changing "average yield of the current three-month U.S. Treasury Bill" to "rolling average yield of the three-month U.S. Treasury Bill", which provides a more accurate focus for evaluating quarterly results.

2-269 Authorization – This section has been changed to officially name the City Manager and Assistant City Manager as investment officers. Currently, the Director of Finance is named as the investment officer, with the City Manager authorized to serve in that capacity in the absence of the Director. With the addition of the City Manager and Assistant City Manager as investment officers, the Director of Finance is designated as the "primary" investment officer. Throughout the policy, references to

"investment officer" have been updated to the either/or "investment officer(s)" prior to this change and the plural "investment officers" after this change.

2-270 Responsibility and Control – This section includes minor edits only for better wording.

2-271 Ethics and Conflicts of Interest – This section has been edited to clarify that the statement related to personal business relationships shall also be filed with "the City Council" rather than simply "the City."

2-272 Investment Training – This section includes minor edits for better wording and clarifies that the City Council shall approve the organizations and associations designated to provide the required investment training. These designated organizations, which are also listed in the investment policy, are as follows:

Government Finance Officers Association of Texas
Government Treasurer's Organization of Texas
Texas Municipal League
The University of North Texas Center for Public Management

2-273 Authorized Investments – The narrative was revised (1) because the City's authorized investments are in accordance with Federal and state laws (e.g., the Act), the additional reference to "Trust Agreements, the City's depository contract and other approved collateral provisions" is not valid and has been removed; (2) the City does not and does not plan to invest in Collateralized Mortgage Obligations so that has been removed from the list of authorized investments; (3) the catchall "such other investments as permitted by the Act and not specifically prohibited by this policy" has also been removed; and (4) because the investment pools conform to the Act, the subsection relative to investment pools has been updated to simplify and consolidate language. Additionally, several minor edits result in better wording.

The following was better suited in another section of the policy and was moved and/or consolidated to eliminate duplicate references:

"All investment transactions will be completed on a delivery versus payment ("DVP") basis. The investment officer is authorized to solicit bids for investments orally, in writing, electronically, or in any combination of these methods. No investment of City funds shall be authorized unless it conforms to this investment policy and the seller of the investment has executed a Certification Form in favor of the City as set forth in this policy." is now addressed in Sec. 2-285 – Custody and Safekeeping.

"An investment that requires a minimum rating does not qualify as an authorized investment during the period the investment does not have the minimum rating. The Director of Finance shall take all prudent measures consistent with this policy to liquidate any investment that does not have the minimum rating." is now addressed in Sec. 2-276 Existing Investments and Minimum Rating Requirements.

2-274 Authorized and Suitable Investments – Bond Proceeds – This section includes minor edits for better wording. The following sentence was removed as unnecessary: "The list of authorized financial institutions to be used for purposes of this section may be set forth in the resolution authorizing the bonds, notes or other obligations or in any other resolution of the City Council and may be different from the financial institutions used for other investments."

2-276 Existing Investments and Minimum Rating Requirements – This section includes the addition of "and Minimum Rating Requirements" to the section heading. In conjunction with the expanded section heading, "An investment that requires a minimum rating does not qualify as an authorized investment during the period the investment does not have the minimum rating." was moved from Sec. 2-273 Authorized Investments.

2-277 Investment Advisors – This section heading was changed to the plural "Advisors" to better fit the narrative.

2-278 Investment Limits and Diversification – This section has been edited primarily for clarity, including reorganization of the narrative for better and more concise wording.

2-279 Investment Management – This section includes minor edits for better wording. "The investment officers are authorized to solicit quotes for investments orally, in writing, electronically, or in any combination of these methods." was moved from Sec. 2-273 Authorized Investments. Additionally, with the Director of Finance serving as the primary investment officer, any sale of a security prior to maturity or for less than book value must be approved by the City Manager or Assistant City Manager.

2-280 Qualified Financial Institutions and Broker/Dealers – This section includes minor edits for better wording and revisions for terminology used in the Act (e.g., business organizations). Because broker/dealers are not required to have an office in Texas, that reference was deleted. Also, the authorized broker/dealers are now being presented in a list format rather than as part of the narrative.

The following broker/dealers are authorized to engage in investment transactions with the City:

Coastal Securities, Inc.
Duncan-Williams, Inc.
Hilltop Securities (formerly First Southwest Company)
Wells Fargo Securities, LLC

The City shall annually review the quality of service of the broker/dealers. The reference to a review of their "financial stability" has been removed because the City is not in a position to effectively make that evaluation. The City's Investment Advisor will

be able to provide the City with any information relative to the financial stability of the broker/dealers.

2.281 Reporting – This section includes minor edits only for better wording.

2-282 Internal Controls – This section includes minor edits only for better wording.

2-283 Depositories – This section includes minor edits for better wording. It has also been expanded to itemize specific requirements of the depository agreement as follows:

The agreement must be in writing.

The agreement has to be executed by the depository and the City contemporaneously with the acquisition of the asset.

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.

The agreement must be part of the depository's "official record" continuously since its execution.

2-284 Collateral – This section has been updated to address collateral requirements for different types of investments now that the City is investing in certificates of deposit and other forms of deposit. The requirement that collateral meet or exceed 102 percent of the market value ("haircut") is most applicable to pledged securities. As written, the policy does not address the use of letters of credit, which are typically used as collateral for a certificate of deposit. These letters of credit are written for the amount of the principal plus accrued interest and do suffice as collateral on these forms of deposit. The policy language has been updated as follows: "For pledged securities, the market value of the principal portion of collateral pledged for deposits must at all times be equal to or greater than 102 percent of the total amount of deposits plus any accrued interest, less the insurance amount provided by the Federal Deposit Insurance Corporation ("FDIC"). For certificates of deposit or other forms of deposit, the City may accept a letter of credit issued by a U.S. Agency or Instrumentality. The value of the letter of credit must be equal to or greater than 100 percent of the total amount of deposits plus any accrued interest."

Because the City's current depository is unable to fully comply with the provision related to substitution of collateral, the following sentence is being removed at this time to avoid a compliance issue: "Collateralized deposits may require substitution of securities. Any depository institution requesting substitution of collateral must contact the Director of Finance for approval. Written approval is required before any pledged security is released. The value of the substituted security will be calculated and substitution approved if the substitution maintains the required collateral level." (Note: The bank has indicated it will notify the City if excess collateral is being removed from the account, but that has not happened. Presently, the City's current depository is the only bank available to serve the City. The City has the option to consider depositories that are not doing business within the city limits if the City Council "adopt[s] a written policy expressly permitting the consideration of applications received [from] a bank, credit

union, or savings association that is not doing business within the [City], after taking into consideration what is in the best interest of the [City]..." (Texas Local Government Code, Chapter 105, Depositories for Municipal Funds, Section 105.011)

2-285 Custody and Safekeeping – This section has been edited primarily to better differentiate the functions and responsibilities of custody and safekeeping. Additionally, several minor edits result in better wording.

2-287 Certification Form – This section includes revisions for terminology used in the Act (e.g., business organizations). Additionally, the sample form has been removed and replaced with the reference to the form requirements as stated in the Act, which is more appropriate given that the different types of organizations may use different terminology while still prescribing to the requirements of the Act.