

ORDER NO. _____

AN ORDER TO REVIEW AND ADOPT THE DEER PARK FIRE CONTROL, PREVENTION AND EMS DISTRICT INVESTMENT POLICY.

THE BOARD OF DIRECTORS OF THE DEER PARK FIRE CONTROL, PREVENTION, AND EMS DISTRICT hereby reviews and adopts the following Investment Policy, which conforms with all current State and Federal regulations:

I. POLICY

It is the policy of the Deer Park Fire Control, Prevention, and EMS District (the "District") to invest funds in a manner that will ensure the preservation of capital, meet the daily cash flow needs of the District, conform to all applicable state statutes and provide reasonable investment returns.

The Texas Public Funds Investment Act, Government Code Ch. 2256 as amended (the "Act") prescribes that each city shall adopt rules to govern its investment practices and to define the authority of the investment officer(s). The City of Deer Park (the "City") has adopted a policy in accordance with the Act to address the methods, procedures, and practices established to ensure effective and judicious fiscal management of the City's funds worthy of the public trust. The District, having entered into an agreement with the City whereby the City shall perform administrative services for the District, including cash and investment management, hereby elects to comply with the Act and to establish a policy comparable to the investment policy of the City.

II. SCOPE

This investment policy shall apply to all financial assets and funds under control of the District, other than those expressly excluded herein or by applicable law or valid agreement. These funds include tax revenues, charges for services, and interest earnings.

The overall investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. The Board of Directors of the District (the "Board") and the investment officers shall recognize that the investment activities of the District are a matter of public record.

III. OBJECTIVES AND STRATEGY

The District strives to invest funds in a manner where the rate of return is secondary to safety and liquidity. To accomplish this, the District's principal investment objectives, in priority order, are as follows:

- A. *Suitability.* Each investment must be in conformance with all Federal regulations, state statutes, and other legal requirements—including any order or resolution of the Board and this investment policy.
- B. *Preservation and safety of principal.* Investments of the District shall be handled in a manner that seeks to ensure the preservation of capital and the protection of investment principal in the overall portfolio. All participants in the investment process shall act responsibly as custodians of the public trust.
- C. *Liquidity.* The District's investment portfolio will remain sufficiently liquid to enable the District to meet operating requirements that might be reasonably anticipated. Liquidity shall be achieved by maintaining appropriate cash equivalent balances, matching investment maturities

with forecasted cash flow requirements, and investing in securities with active secondary markets.

- D. *Marketability.* The District's policy is to buy and hold investments until maturity; however, marketability is of great importance should the need arise to liquidate an investment before maturity.
- E. *Diversification.* Investments shall be diversified, as appropriate, by type and maturity to eliminate the risk of loss resulting from the concentration of assets in a specific maturity, a specific issuer or a specific class of securities. While investments of the District shall be selected to provide for stability of income and reasonable liquidity, the investments shall be structured to meet the projected cash flow needs of the District first, and then to enhance interest income. The stated maturity of any investment in the District's portfolio shall not exceed one year and the weighted average maturity of the District's portfolio shall not exceed 180 days.
- F. *Yield.* The District's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the District's risk constraints and the cash flow characteristics of the portfolio. Given this strategy, the basis used to determine whether reasonable yields are being achieved shall be the rolling average yield of the three-month U.S. Treasury Bill or such other index that most closely matches the average maturity of the portfolio.

IV. AUTHORIZATION

The authority of the District to manage the investment program is derived from Local Government Code, Chapter 344, Fire Control, Prevention and Emergency Medical Services Districts. Management responsibility for the investment program is hereby delegated to the Director of Finance of the City of Deer Park, including responsibility for all investment transactions and the related system of controls to regulate the activities of subordinate officials. The City's Director of Finance shall serve as the primary investment officer for the District and shall invest District funds in legally authorized and adequately secured investments in accordance with this policy and the Act. The City Manager and Assistant City Manager of the City of Deer Park shall also serve as investment officers of the District. The investment officers shall be bonded.

V. RESPONSIBILITY AND CONTROL

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 their own affairs, not for speculation, but for investment, considering the safety of capital and the income to be derived.

In determining whether investment decisions were made exercising prudence, consideration shall be given to the following: the investment of all funds, or funds under the District's control, taken as a whole, rather than the prudence of a single investment; and whether the investment decision is consistent with the written investment policy of the District at that time. Occasional measured losses are inevitable and must be considered within the context of the overall portfolio's return.

An investment officer acting as a "prudent person" exercising due diligence in accordance with written procedures and the investment policy shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely manner and appropriate action is taken to control adverse market effects.

The written procedures for the operations of the City's investment program shall also be consistent with this investment policy and shall apply to the investment of District funds. No person may

engage in an investment transaction except as provided under the terms of this policy or these established procedures.

VI. ETHICS AND CONFLICTS OF INTEREST

In addition to any other requirements of law, the investment officers shall refrain from personal business activity that could conflict with the 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 District or who is related within the second degree by affinity or consanguinity to an individual seeking to sell an investment to the District shall file a statement with the District's Board of Directors and with the Texas Ethics Commission disclosing that relationship.

An investment officer has a personal business relationship with a business organization if the investment officer owns 10 percent (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, the investment officer receives funds from the business organization exceeding 10 percent (10%) of the investment officer's gross income for the previous year, or the investment officer has acquired from the business organization during the previous year investments with a book value of \$2,500 or more for the personal account of the investment officer.

VII. INVESTMENT TRAINING

The investment officers shall attend at least one training session relating to the investment officers' responsibilities under the Act within 12 months after taking office or assuming the duties of investment officer and accumulate not less than 10 hours of instruction relating to investment responsibilities under the Act. Further, an investment officer shall attend at least one investment training session not less than once in a two-year period (beginning on the first day of the District's fiscal year and consisting of the two consecutive fiscal years after that date) and accumulate not less than 8 hours of instruction relating to investment responsibilities under the Act.

Designated training sponsored by any of the following organizations is approved:

- A. Government Finance Officers Association of Texas
- B. Government Treasurer's Organization of Texas
- C. Texas Municipal League
- D. The University of North Texas Center for Public Management

Training must include education in investment controls, security risks, strategy risks, market risks, diversification of the investment portfolio, and compliance with the Act.

VIII. AUTHORIZED INVESTMENTS

In accordance with Federal and state laws, including Section 2256.005(b) of the Act, the following are authorized investments:

- A. Obligations of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks;
- B. Direct obligations of the State of Texas or its agencies and instrumentalities;
- C. Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the FDIC or by the explicit full faith and credit of the United States;
- D. Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent;
- E. A certificate of deposit, or other form of deposit that is placed and secured in accordance with Section 2256.010 of the Act;
- F. An investment pool to the extent and manner provided by law if the District by rule, order or resolution authorizes investment in the particular pool and if the investment pool conforms to the requirements of the Act. To maintain eligibility, an investment pool must conform to the requirements of the Act. Further, the investment pool must be continuously rated no lower than AAA or AAA-m or its equivalent by at least one nationally recognized rating service and must post on their website the specific disclosures required by the Act.

Currently, the following investment pools are approved: TexPool, TexSTAR, and Texas CLASS.

IX. PROHIBITED INVESTMENTS

The following are not authorized investments and are prohibited under this investment policy:

- A. Obligations for which the payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal (interest only bond);
- B. Obligations for which the payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest (principal only bond);
- C. Collateralized mortgage obligations that have a stated final maturity date of greater than 10 years;
- D. Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index (inverse floaters);
- E. A securities lending program of the nature permitted by Section 2256.0115 of the Act; and
- F. Commercial paper, including pools which invest in commercial paper.

X. EXISTING INVESTMENTS AND MINIMUM RATING REQUIREMENTS

Investments held on the effective date of this investment policy that are no longer authorized investments under the Act and/or this investment policy do not need to be liquidated before the final stated maturity of the investment. 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 investment officers shall take all prudent measures that are consistent with this investment policy to liquidate any investment that becomes a prohibited investment (e.g., through a rating downgrade after the purchase of the investment). In the event that the credit rating of any investment is publicly placed under review by the credit rating agency maintaining the rating, the primary investment officer shall closely monitor the investment and take such action as he/she deems prudent to protect the value of the investment.

XI. INVESTMENT ADVISORS

The City may from time to time employ qualified individuals or firms as an Investment Advisor to assist the investment officers in carrying out the investment program and complying with the requirements of this investment policy and the Act. Given the City's agreement with the District whereby the City shall perform administrative services for the District, including cash and investment management, the District's funds may also be subject to review by this Investment Advisor. Discretionary control over the District's investments shall remain with the investment officers.

XII. INVESTMENT LIMITS AND DIVERSIFICATION

The asset allocation in the portfolio should be flexible and responsive to the outlook for the economy and the securities markets. Risk management shall be addressed through portfolio diversification, as appropriate, by:

- A. Limiting investments to avoid over concentration by credit risk and maturity;
- B. Limiting investments in issuers that have higher credit risks;
- C. Investing in varying maturities; and
- D. Maintaining a minimum 10 percent (10%) of the total portfolio in cash equivalent instruments to meet ongoing obligations.

XIII. INVESTMENT MANAGEMENT

The investment officers shall exhibit prudence and discretion in the selection and management of investments in order that no individual or group of transactions undertaken shall jeopardize the total capital of the portfolio. The District will not allow speculation (e.g., anticipating an appreciation of capital through changes in market interest rates) in the selection of any investments. The investment officers shall monitor financial market indicators, study financial trends, and utilize available educational tools in order to maintain appropriate managerial expertise.

The investment officers are authorized to solicit quotes for investments orally, in writing, electronically, or in any combination of these methods. Each investment transaction – exclusive of cash equivalent transactions – must be based upon quotations received from multiple qualified financial institutions or authorized broker/dealers. Competing broker/dealers may not have access to the same securities in the secondary market. Therefore, competitive offerings may be evaluated for similar investments and/or a target maturity period rather than for a specific investment or maturity date.

While the District primarily utilizes a buy and hold strategy, active portfolio management may from time to time dictate the sale of securities to better position the overall portfolio. The City Manager or Assistant City Manager must approve the sale of any security prior to maturity or any sale of a security for less than the book value of the security.

XIV. QUALIFIED FINANCIAL INSTITUTIONS AND BROKER/DEALERS

Qualified financial institutions shall include financial institutions, broker/dealers, and other business organizations (e.g., investment pools and discretionary investment management firms) doing business in the State of Texas and licensed or otherwise registered and in good standing, as applicable, with the Texas Department of Securities, the Securities and Exchange Commission, the Financial Industry Regulatory Authority, Inc. ("FINRA"), or other applicable state or national regulatory organizations. If otherwise acceptable, the wholly owned subsidiary or affiliated companies of such regulated firms shall also be deemed qualified. Qualified financial institutions must have an office in Texas. Specifically, the District's depository bank, and any wholly owned subsidiary or affiliated company, is a qualified and authorized financial institution.

The investment officers shall maintain a list of security broker/dealers authorized by this investment policy. All broker/dealers shall maintain complete records of all transactions conducted on behalf of the District and shall make those records available for inspection at the District's request. At least annually, the investment officers shall review the list of broker/dealers authorized to engage in investment transactions with the District and shall make a recommendation as part of the Board's review of the investment policy. As part of this process, the investment officers shall review the quality of service of each broker/dealer. The investment officers may remove an authorized broker/dealer from the list if, in the opinion of the investment officers, the firm has not performed adequately or its financial condition has become unacceptable.

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

- A. FTN Financial (formerly Coastal Securities, Inc.)
- B. Duncan-Williams, Inc.
- C. Hilltop Securities
- D. Wells Fargo Securities, LLC

Nothing in this section relieves the District of the responsibility for monitoring the investments made by the District to determine that they are in compliance with this investment policy.

XV. REPORTING

The investment officers shall prepare and submit to each member of the Board an investment report describing in detail the investment position of the District, signed by the investment officers, no less than on a quarterly basis. Currently, the District's investment activity is included on the quarterly report prepared for the City. In accordance with the Act, the report contains sufficient information

to provide for a comprehensive review of investment activity, current investments and performance for the period, including any variations from the investment strategy. The report also includes a description of each investment, the maturity date, the beginning and ending book and market values, the accrued interest, and the changes during the period as well as a summary by pooled fund group, as applicable. The annual audit shall include a review of the quarterly reports and a compliance audit of management controls on investments and adherence to the District's established investment policy and procedures.

XVI. INTERNAL CONTROLS

The City maintains a system of internal controls designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and management. Controls deemed most important shall include: control of collusion, separation of duties, separation of transaction authority from accounting and recordkeeping, independent safekeeping and custodial duties, avoidance of bearer-form securities, clear delegation of authority, specific limitations regarding securities losses, written confirmation of telephone transactions, and limiting the number of authorized investment officials. These controls shall also be applicable to the District and shall be reviewed by the City's independent audit firm as part of the annual audit.

XVII. DEPOSITORIES

The District maintains a separate depository account in the name of the District. Consistent with the requirements of the Texas Public Funds Collateral Act, Government Code Ch. 2257 as amended ("Public Funds Collateral Act"), the District shall require all depository institution deposits to be federally insured or collateralized with eligible securities. The District is served by the City's depository bank and is covered by the City's depository agreement and all other related documentation, which include these collateralization requirements. The current depository bank is Wells Fargo Bank, N.A.

XVIII. COLLATERAL

Eligible securities for collateralization of deposits are defined by the Public Funds Collateral Act. 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 (102%) 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 District 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 (100%) of the total amount of deposits plus any accrued interest, less the insurance amount provided by the FDIC.

Depository institutions with which the District maintains collateralized deposits shall require the custodian to provide a monthly report of the pledged securities. The investment officers shall monitor collateralization levels to verify market values and total collateral positions. If the value of the securities pledged falls below the required collateral level, the depository institution holding the deposit must pledge additional securities no later than the end of the next succeeding business day.

XIX. CUSTODY AND SAFEKEEPING

To protect against fraud, the deposits and investments of the District shall be secured in accordance with third-party custody and safekeeping procedures approved by the City.

A written collateral or custodial agreement shall be approved by the City with each custodian bank, such custodian being a permitted institution under the Public Funds Collateral Act. The City's agreement with the custodian bank shall also be applicable to the District. Upon receipt of pledged collateral, the custodian bank shall promptly issue and deliver to the District a pledge receipt identifying and evidencing receipt of the collateral.

All security transactions shall be completed on a delivery versus payment ("DVP") basis with the City's safekeeping agent. Securities shall be held with the safekeeping agent until liquidation or maturity.

The investment officers shall maintain the original pledge and safekeeping receipts. The investment officers shall routinely monitor that all securities owned by or collateral pledged to the District are held in an account(s) in the District's name. These records shall also be subject to an annual compliance audit of management controls on investments and adherence to the District's established investment policy and procedures.

XX. PROXY VOTING

The primary investment officer shall execute and deliver any proxies to be voted on behalf of the District based upon his or her judgment, as a prudent investor, as to the outcome of the voting that would be most beneficial to the District.

XXI. CERTIFICATION FORM

A written copy of the investment policy shall be provided to any person or business organization (local investment pool or discretionary investment management firm) offering to engage in investment activities with the District. Every business organization must execute a certificate in favor of the District substantially in a form acceptable to the District and the business organization substantially to the effect that the business organization has:

- A. Received and reviewed the District's investment policy; and
- B. Acknowledged that the business organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the District and the organization that are not authorized by the District's investment policy, except to the extent that this authorization is dependent on an analysis of the makeup of the District's entire portfolio or requires an interpretation of subjective investment standards or relates to investment transactions of the District that are not made through accounts or other contractual arrangements over which the business organization has accepted discretionary investment authority.

The investment officers may not acquire or otherwise obtain any authorized investment from any business organization until a signed document meeting the above stated requirements (e.g., certification form) has been delivered to the District.

XXII. ANNUAL REVIEW

The Board shall review the investment policy and investment strategies not less than annually and shall adopt a written instrument by order 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.