

RECEIVED

**GOVERNMENT PERFORMANCE & FINANCIAL MANAGEMENT**  
DALLAS CITY COUNCIL COMMITTEE AGENDA

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2017 SEP -1 AM 10: 58

CITY CLERK  
DALLAS, TEXAS

TUESDAY, SEPTEMBER 5, 2017  
CITY HALL  
COUNCIL BRIEFING ROOM, 6ES  
1500 MARILLA  
DALLAS, TEXAS 75201  
1:00 P.M. – 2:30 P.M.

**REVISED**

**Chair**, Councilmember Jennifer S. Gates  
**Vice-Chair**, Councilmember Scott Griggs  
Councilmember Sandy Greyson  
Councilmember Lee M. Kleinman  
Councilmember Philip T. Kingston  
Councilmember Tennell Atkins  
Councilmember Kevin Felder

**Call to Order**

1. Consideration of the minutes from the August 21, 2017 Government Performance & Financial Management Committee meeting
2. Consideration of Draft Upcoming Agenda Items Memo(s) for September 13, 2017 City Council Meeting

**BRIEFINGS**

3. Employees' Retirement Fund of the City of Dallas Update  
Cheryl Alston, Executive Director  
*Employee Retirement Fund*  
David Etheridge, Deputy Director  
*Employee Retirement Fund*
4. Employee & Retiree Health Benefits  
Molly Carroll, Director  
*Human Resources*
5. Financial Management Performance Criteria  
Jack Ireland, Director  
*Office of Financial Services*
6. Annual Investment Policy Review  
Corrine Steeger, Assist. Director/Treasury Manager  
*City Controller's Office*
7. Public Information Office and Open Records Request Overview  
Kimberly Bizer Tolbert, Chief of Staff  
*City Manager's Office*

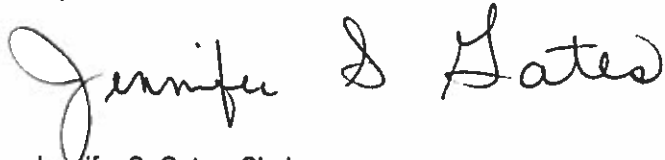
**FYI**

8. Financial Forecast Report  
*Information as of July 31, 2017*

**A quorum of the City Council may attend this Council Committee meeting**

9. Dallas Water Utilities Commercial Paper Program – Amendment and Extension of Credit Agreement
10. Quarterly Investment Report  
*Information as of June 30, 2017*
11. Atmos Statement of Intent to Increase Rates

Adjourn



Jennifer S. Gates, Chair  
Government Performance & Financial Management Committee

A closed executive session may be held if the discussion of any of the above agenda items concerns one of the following:

1. seeking the advice of its attorney about pending or contemplated litigation, settlement offers, or any matter in which the duty of the attorney to the City Council under the Texas Disciplinary Rules of Professional Conduct of the State Bar of Texas clearly conflicts with the Texas Open Meetings Act. [Tex. Govt. Code §551.071]
2. deliberating the purchase, exchange, lease, or value of real property if deliberation in an open meeting would have a detrimental effect on the position of the city in negotiations with a third person. [Tex. Govt. Code §551.072]
3. deliberating a negotiated contract for a prospective gift or donation to the city if deliberation in an open meeting would have a detrimental effect on the position of the city in negotiations with a third person. [Tex. Govt. Code §551.073]
4. deliberating the appointment, employment, evaluation, reassignment, duties, discipline, or dismissal of a public officer or employee; or to hear a complaint or charge against an officer or employee unless the officer or employee who is the subject of the deliberation or hearing requests a public hearing. [Tex. Govt. Code §551.074]
5. deliberating the deployment, or specific occasions for implementation, of security personnel or devices. [Tex. Govt. Code §551.076]
6. discussing or deliberating commercial or financial information that the city has received from a business prospect that the city seeks to have locate, stay or expand in or near the city and with which the city is conducting economic development negotiations, or deliberating the offer of a financial or other incentive to a business prospect. [Tex Govt. Code §551.087]
7. deliberating security assessments or deployments relating to information resources technology, network security information, or the deployment or specific occasions for implementations of security personnel, critical infrastructure, or security devices. [Tex. Govt. Code §551.089]

#### Handgun Prohibition Notice for Meetings of Governmental Entities

"Pursuant to Section 30.06, Penal Code (trespass by license holder with a concealed handgun), a person licensed under Subchapter H, Chapter 411, Government Code (handgun licensing law), may not enter this property with a concealed handgun."

*"De acuerdo con la sección 30.06 del código penal (ingreso sin autorización de un titular de una licencia con una pistola oculta), una persona con licencia según el subcapítulo h, capítulo 411, código del gobierno (ley sobre licencias para portar pistolas), no puede ingresar a esta propiedad con una pistola oculta."*

"Pursuant to Section 30.07, Penal Code (trespass by license holder with an openly carried handgun), a person licensed under Subchapter H, Chapter 411, Government Code (handgun licensing law), may not enter this property with a handgun that is carried openly."

*"De acuerdo con la sección 30.07 del código penal (ingreso sin autorización de un titular de una licencia con una pistola a la vista), una persona con licencia según el subcapítulo h, capítulo 411, código del gobierno (ley sobre licencias para portar pistolas), no puede ingresar a esta propiedad con una pistola a la vista."*

# GOVERNMENT PERFORMANCE & FINANCIAL MANAGEMENT

## Meeting Record

**Meeting Date:** August 21, 2017

**Convened:** 1:33 pm

**Adjourned:** 3:02 pm

**Committee Members Present:**

Jennifer S. Gates, Chair  
Scott Griggs  
Sandy Greyson

Lee Kleinman  
Philip Kingston  
Tennell Atkins

Kevin Felder

**Committee Members Absent:**

**Other Council Members Present:**

**Staff Present:**

Elizabeth Reich  
Akilah McLaughlin  
Jack Ireland  
Mike Frosch  
Stephanie Cooper  
Edward Scott

Lance Sehorn  
Janette Weedon  
Zeronda Smith  
Barbara McAninch  
Connie Tankersley  
Sheri Price

Jiroko Rosales  
Kelly High  
Sarah Standifer  
Errick Thompson  
Craig Kinton  
William Finch

Brett Wilkinson  
Mark Duebner  
Zoe Halfmann  
Richard Ngugi  
Theresa Hampden  
Carol Smith

Margaret Wright  
Brenda Sparks  
Cliff Gillespie  
Lisa Hamed

**Others Present:**

N/A

**AGENDA:**

**Call to Order**

1. **Consideration of the August 7, 2017 Minutes**

Presenter(s): N/A

Information Only: \_

Action Taken/Committee Recommendation(s):

A motion was made to approve the August 7, 2017 minutes. Motion passed unanimously.

Motion made by: Kevin Felder

Motion seconded by: Tennell Atkins

2. **Consideration of Upcoming Agenda Items Memo for August 23, 2017 City Council Meeting**

Presenter(s): N/A

Information Only: \_

Action Taken/Committee Recommendation(s):

A motion was made to forward to the City Council on August 23, 2017. Motion passed unanimously.

Motion made by: Scott Griggs

Motion seconded by: Tennell Atkins

# GOVERNMENT PERFORMANCE & FINANCIAL MANAGEMENT

## Meeting Record

### Briefings

3. **(a) Dallas Fort Worth International Airport Proposed FY 2018 Budget**

Presenter(s): Sean Donohue, CEO, Max Underwood, Vice President, and Mike Phemister, Treasurer, Dallas Ft. Worth International Airport

Information Only:

Action Taken/Committee Recommendation(s):

Recommendation of approval, and a motion was made to move forward to City Council on August 23, 2017. Motion passed on a 6/1 divided vote.

Motion made by: Tennell Atkins

Motion seconded by: Lee Kleinman

**(b) Dallas Fort Worth International Airport Approval of the 52<sup>nd</sup> Supplemental Bond Ordinance**

Presenter(s): Sean Donohue, CEO, Max Underwood, Vice President, and Mike Phemister, Treasurer, Dallas Ft. Worth International Airport

Information Only:

Action Taken/Committee Recommendation(s):

A motion was made to move forward to City Council on August 23, 2017 contingent on receiving requested information regarding minority participation (breakdown of percentage of black contractors) by Tuesday, August 22. Motion passed unanimously.

Motion made by: Kevin Felder

Motion seconded by: Tennell Atkins

4. **Office of the City Auditor Fiscal Year 2018 Audit Plan**

Presenter(s): Craig Kinton, City Auditor

Information Only:

Action Taken/Committee Recommendation(s):

A motion was made to include the initiation of the South Dallas Trust Fund in the Audit Plan, and move forward to City Council on August 23, 2017. Motion was denied.

Motion made by: Kevin Felder

Motion seconded by: None

A motion was made to move forward to City Council on August 23, 2017. Motion passed unanimously.

Motion made by: Philip Kingston

Motion seconded by: Sandy Greyson

5. **General Fund Reserves**

Presenter(s): Jack Ireland, Director, Office of Financial Services

Information Only:

Action Taken/Committee Recommendation(s):

Motion made by: Not Applicable

Motion seconded by: Not Applicable

# GOVERNMENT PERFORMANCE & FINANCIAL MANAGEMENT

## Meeting Record

6. **FY2017 Appropriations Adjustment and FY2016-17 Financial Forecast Report**

Presenter(s): Jack Ireland, Director, Office of Financial Services

Information Only: \_\_\_

Action Taken/Committee Recommendation(s):

A motion was made to move forward to City Council on August 23, 2017. Philip Kingston left meeting early, and motion was not able to be considered.

Motion made by: Philip Kingston

Motion seconded by: None

A substitute motion was made to move forward to City Council on August 23, 2017. Motion passed unanimously.

Motion made by: Scott Griggs

Motion seconded by: Tennell Atkins

7. **FY2017 Annual Budget: Government Performance & Financial Management**

Presenter(s): Jack Ireland, Director, Office of Financial Services

Information Only: \_

Action Taken/Committee Recommendation(s):

Committee considered one proposed amendment to lower the tax rate to 77.83 cent. Recommendation was made by Chair to move forward to the City Manager for consideration to brief City Council.

Adjourn

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Jennifer S. Gates, Chair  
Budget, Finance, & Audit Committee

# Memorandum



CITY OF DALLAS

DATE September 1, 2017

TO Honorable Members of the Government Performance & Financial Management Committee: Jennifer S. Gates (Chair), Scott Griggs (Vice Chair), Sandy Greyson, Lee M. Kleinman, Philip T. Kingston, Tennell Atkins, Kevin Felder

SUBJECT **Upcoming Draft Agenda Items for September 13 Council Agenda Meeting**

The following draft agenda items are scheduled to go before City Council on September 13, 2017.

## **Draft Agenda Item A**

Authorize a three-year service contract for scrap tire removal and disposal services - Thomas Cloud Parker, sole proprietor dba All American Tire Recyclers, lowest responsible bidder of two - Not to exceed \$449,885 – Financing: Current Funds (\$130,800), Sanitation Current Funds (\$262,500), Water Utilities Current Funds (\$9,085), and Stormwater Drainage Management Current Funds (\$47,500) (subject to annual appropriations)

## **Draft Agenda Item B**

Authorize **(1)** a three-year service contract for heating, ventilation, and air conditioning system equipment, parts, supplies, and repair services citywide - Trane U.S., Inc. in the amount of \$34,362,181, The Brandt Companies, LLC in the amount of \$4,934,280, and RushCo Energy Specialists in the amount of \$2,185,846, lowest responsible bidders of six; and **(2)** a three-year service contract for heating, ventilation, and air conditioning system equipment, parts, supplies, and repair services citywide with Wesco Chemicals, Inc in the amount of \$276,120 through the Texas Association of School Boards and Nalco Company LLC in the amount of \$225,120 through the Texas Multiple Award Schedule – Total not to exceed \$41,983,547 - Financing: Current Funds (\$27,135,098), Convention and Event Services Current Funds (\$12,265,822), Water Utilities Current Funds (\$2,222,086), Aviation Current Funds (\$330,000), Stormwater Drainage Management Current Funds (\$25,540), and Sanitation Current Funds (\$5,000) (subject to annual appropriations)

## **Draft Agenda Item C**

Authorize a two-year master agreement for asphalt emulsion to be utilized by Mobility and Street Services - Ergon Asphalt & Emulsions, Inc., lowest responsible bidder of three - Not to exceed \$1,185,274 - Financing: Current Funds

DATE September 1, 2017  
SUBJECT Upcoming Draft Agenda Items for September 13 Council Agenda Meeting

**Draft Agenda Item D**

Authorize a three-year master agreement for door hardware, exit devices, and vehicle key blanks for various City departments - Independent Hardware, Inc. in the amount of \$1,133,572 and Hans Johnsen Company in the amount of \$138,685, lowest responsible bidders of three - Total not to exceed \$1,272,257 – Financing: Current Funds (\$696,488), Convention and Event Services Current Funds (\$427,500), Aviation Current Funds (\$76,000), Water Utilities Current Funds (\$70,744), and Stormwater Drainage Management Current Funds (\$1,525)

**Draft Agenda Item E**

A resolution authorizing an agreement to extend the term of the Revolving Credit Agreement with JPMorgan Chase Bank, National Association in support of the City of Dallas, Texas Waterworks and Sewer System Commercial Paper Notes, Series E, the execution of agreements pertaining thereto and resolving other matters related thereto

**Draft Agenda Item F**

Authorize the annual adoption of the City’s Investment Policy regarding funds under the City’s control and the investment strategies for each of the funds under the City’s management - Financing: No cost consideration to the City

**Draft Agenda Item G**

An ordinance **(1)** eliminating the Mobility and Street Services Department; **(2)** renaming the Mobility and Street Services Department to the Public Works Department; **(3)** creating the Transportation Department; **(4)** incorporating portions of Mobility and Street Services to the Public Works Department; and **(5)** amending sections of the Dallas City Code related to transferring certain functions from Mobility and Street Services and the Dallas Police Department to the newly-created Transportation Department, effective October 1, 2017 - Financing: No cost consideration to the City

**Draft Agenda Item H**

A resolution extending the City Council's decision deadline for Atmos energy Corporation’s proposed new gas rate schedules for 90 days from the effective date of the filing (from September 22, 2017 to December 21, 2017). (Financing- No cost consideration to the City).

**Draft Agenda Item I**

A public hearing to receive comments on the proposed \$0.7825/\$100 property tax rate for the 2017-18 fiscal year; City Council will vote to adopt the proposed tax rate on Wednesday, September 20, 2017 at Dallas City Hall, 6ES at 9:00 a.m. - Financing: No cost consideration to the City

DATE September 1, 2017  
SUBJECT Upcoming Draft Agenda Items for September 13 Council Agenda Meeting

If you have questions regarding these items, please contact me at (214) 670-7804.



M. Elizabeth Reich  
Chief Financial Officer

c: Honorable Mayor and City Council  
T.C. Broadnax, City Manager  
Larry Casto, City Attorney  
Craig D. Kinton, City Auditor  
Biliera Johnson, City Secretary (Interim)  
Daniel F. Solis, Administrative Judge  
Kimberly Bizer Tolbert, Chief of Staff to the City Manager  
Majed A. Al-Ghafry, Assistant City Manager

Jon Fortune, Assistant City Manager  
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Jo M. (Jody) Puckett, Assistant City Manager (Interim)  
Nadia Chandler Hardy, Chief of Community Services  
Raquel Favela, Chief of Economic Development & Neighborhood Services  
Theresa O'Donnell, Chief of Resilience  
Directors and Assistant Directors



# Memorandum



CITY OF DALLAS

DATE September 1, 2017

TO Honorable Members of the Government Performance & Financial Management Committee: Jennifer S. Gates (Chair), Scott Griggs (Vice Chair), Sandy Greyson,, Lee M. Kleinman, Philip T. Kingston, Tennell Atkins, Kevin Felder

SUBJECT **Employees' Retirement Fund of the City of Dallas Update**

On Tuesday, September 5, 2017, the Employees' Retirement Fund will brief the Government Performance & Financial Management Committee on Employees' Retirement Fund of the City of Dallas Update. I have attached the briefing for your review.

Please let me know if you need additional information.

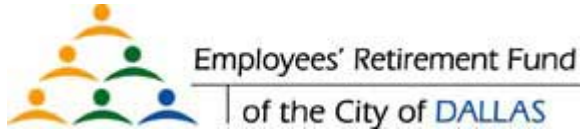
A handwritten signature in cursive script that reads "M. Elizabeth Reich".

M. Elizabeth Reich  
Chief Financial Officer

## Attachment

c: Honorable Mayor and City Council  
T.C. Broadnax, City Manager  
Larry Casto, City Attorney  
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Directors and Assistant Directors



# **Employees' Retirement Fund of the City of Dallas Update**

**September 5, 2017**

Cheryl D. Alston, Executive Director  
David K. Etheridge, Deputy Director



# Overview

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- I. Fund Background
- II. Annual Actuarial Valuation Update for FY 12/31/16
- III. Investment Performance Update
- IV. Chapter 40A Amendment



# Background

Authority	Chapter 40A of the Dallas City Code
History	First established in 1944
Type Plan	Single employer defined benefit plan that provides retirement, disability and death benefits for the permanent civilian employees of the City of Dallas
Governance	Seven member board consisting of three persons appointed by the City Council, three employees elected by the membership, and the City Auditor, ex officio
Design	City of Dallas does not participate in Social Security. City of Dallas does not provide disability insurance. Dallas ERF does not have a Deferred Retirement Option Program (“DROP”).



## Appropriate Checks and Balances are in Place

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- Grant Thornton conducts annual financial audits. Dallas ERF has the same auditor as the City of Dallas;
- Gabriel Roeder Smith & Company conducts annual actuarial valuations and an experience study at least every five years;
- Actuarial Peer Review conducted every three years by third party actuary mandated per Chapter 40A; and
- City of Dallas conducted a five-year peer review on assets and liabilities in 2015 and is now required to conduct an actuarial review every 5 years under State law.



## Actuarial Valuation – FY 2016

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- Prepared as of December 31, 2016, using member data, financial data, benefit and contribution provisions, actuarial assumptions and methods
- Purposes:
  - Measure the actuarial liabilities of the ERF(Fund)
  - Determine actuarial required contribution rate
  - Provide other information for reporting
  - Explain changes in actuarial condition of the Fund



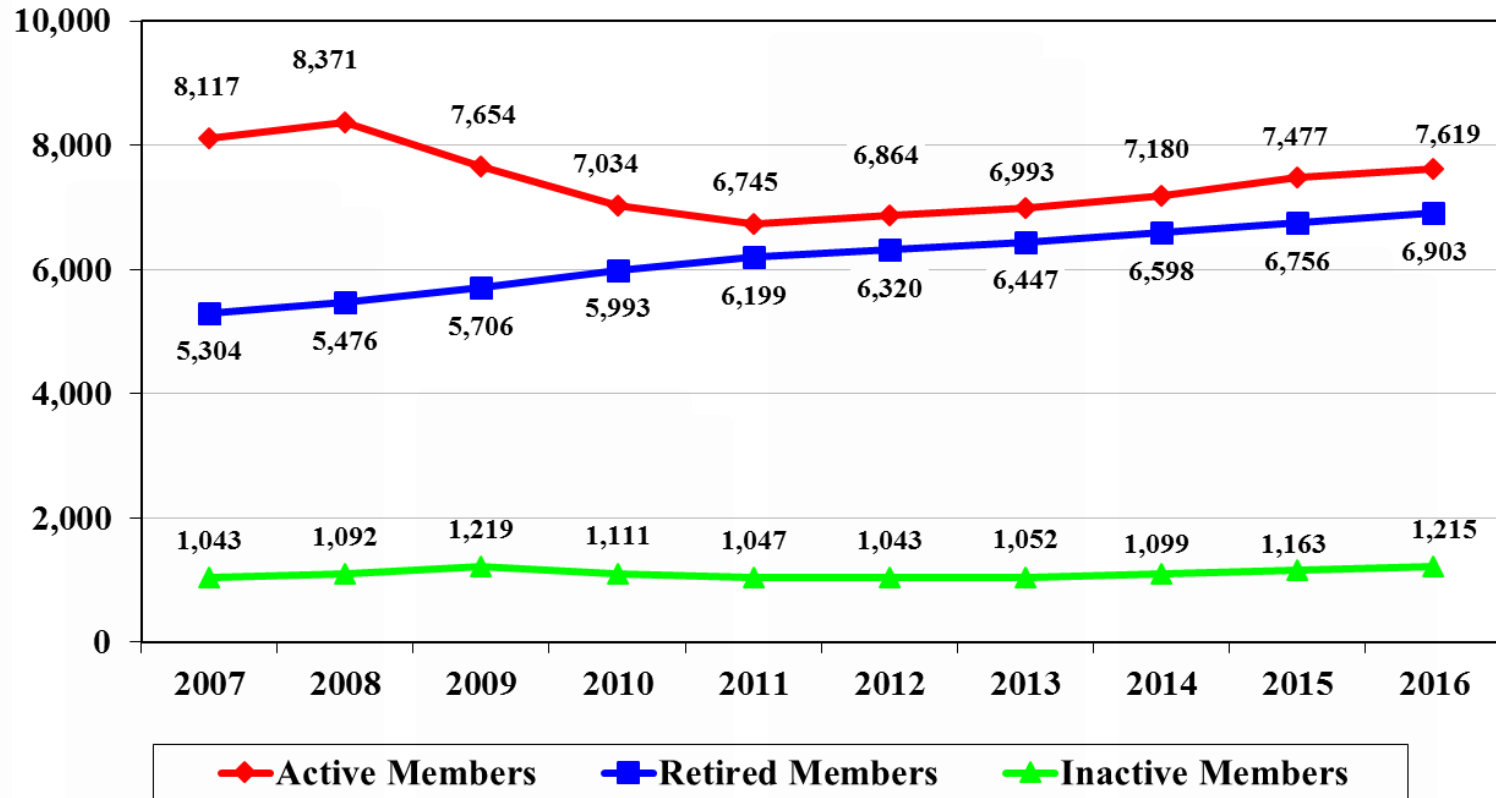
# Membership Statistics

- City of Dallas employs over 7,000 civilian employees to deliver City services to an estimated 1.2 million citizens.
- The Fund has given a benefit promise to over 15,500 families in the DFW area.

	Membership (12/31/2015)	Membership (12/31/2016)
Active Members	7,477	7,619
Benefit Recipients	6,756	6,903
Inactive Members	1,163	1,215
<b>Total</b>	<b>15,396</b>	<b>15,596+</b>



# Active Members and Retired Members

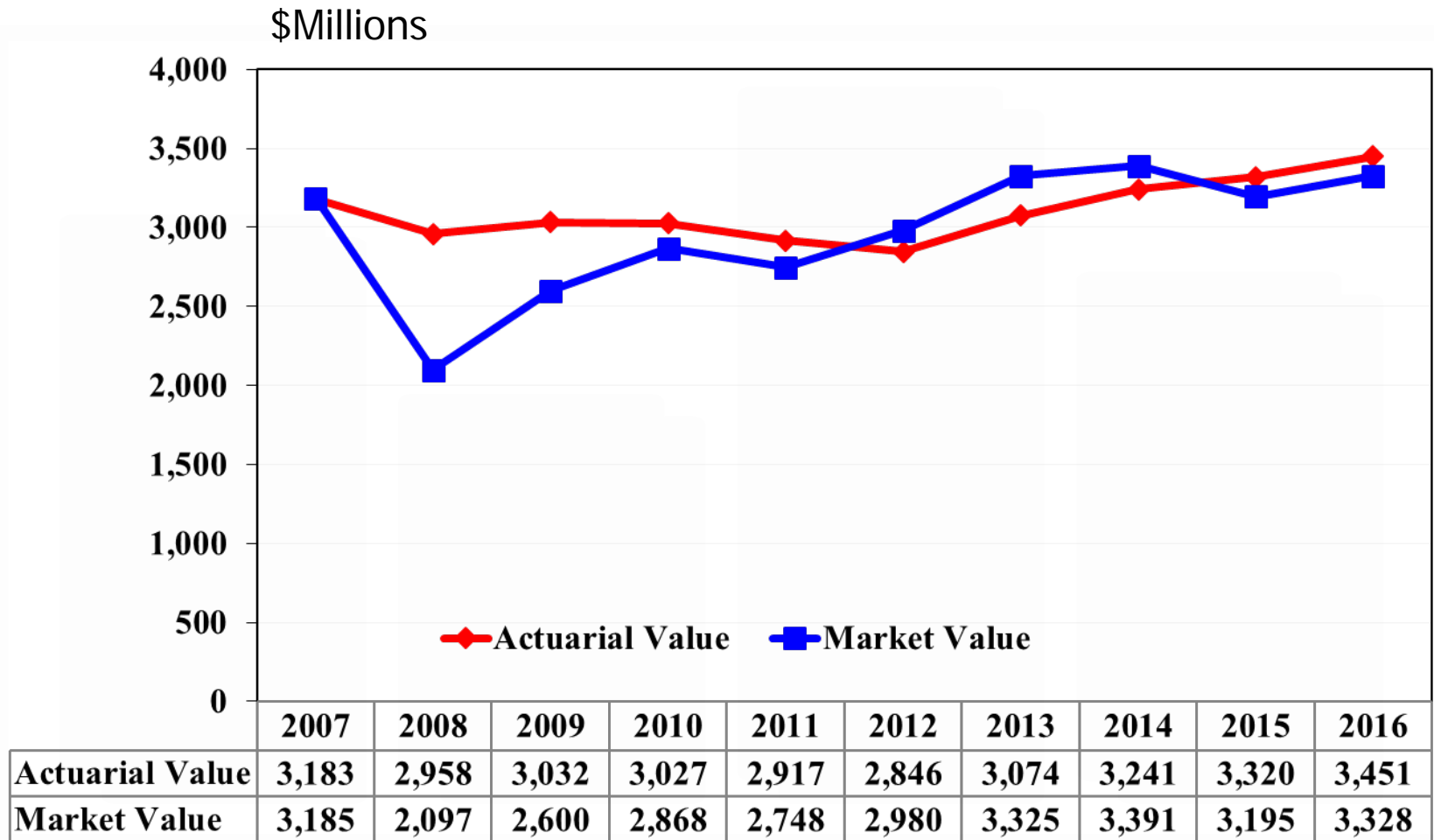


Note: active membership increased 1.9% over last year



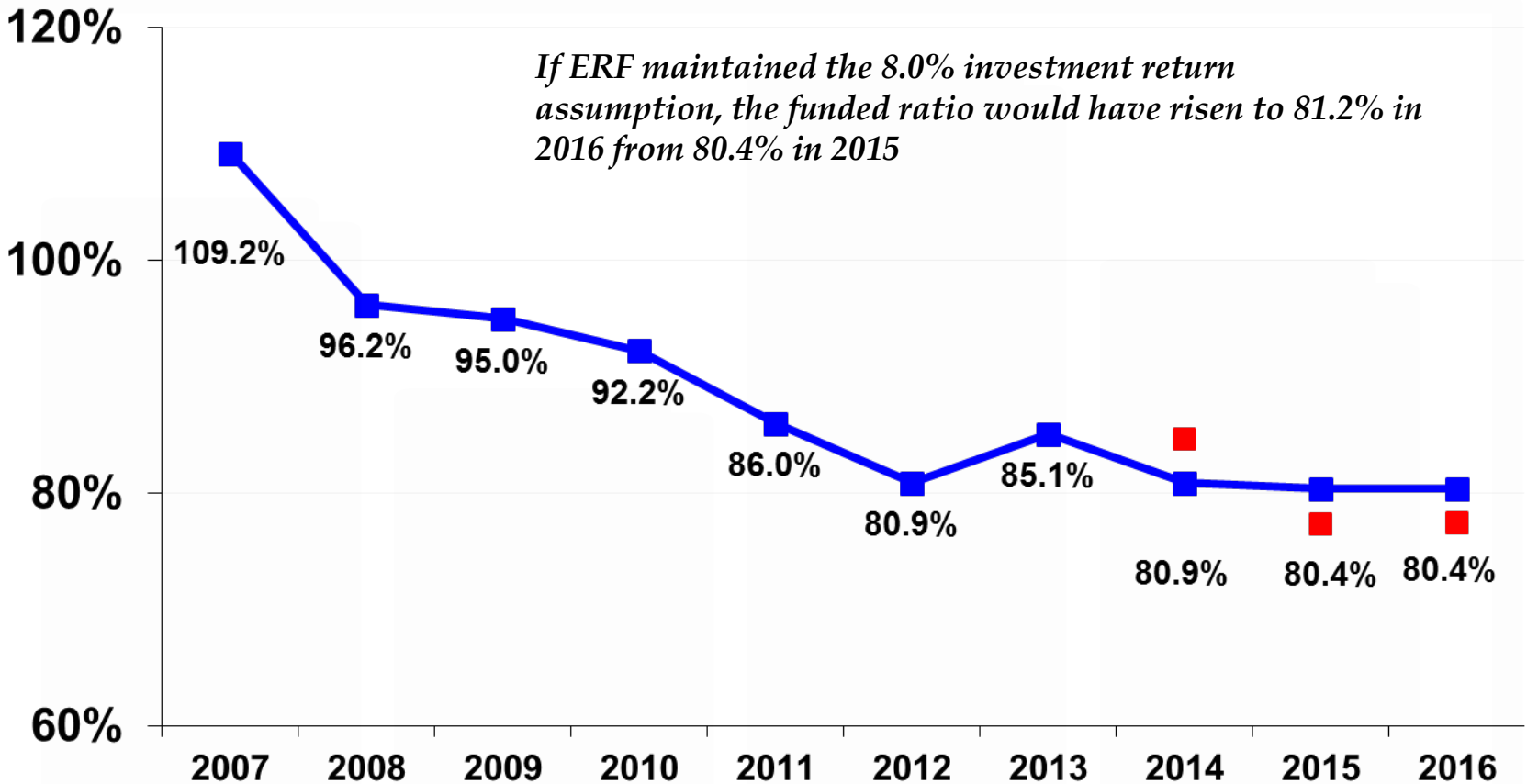


# Historical Asset Values





# Historical Funded Ratios



■ Funded ratio using market value of assets as of December 31, 2014 is 84.7 %.  
■ Funded ratio using market value of assets as of December 31, 2015 is 77.4%.  
■ Funded ratio using market value of assets as of December 31, 2016 is 77.5%.



# Key Issues and Changes

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- ERF was above the prior year's investment target of 8.0% on both a market value and actuarial value basis in 2016
  - Return on market value was 8.65%
  - Actuarial gain on assets of \$16 million
  
- ERF had positive liability experience in 2016
  - Primarily due to lower than expected cost of living adjustment – 1.446% (tied to Consumer Price Index)
  - Fewer retirements than expected
  - More retiree deaths than expected



# Key Issues and Changes

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- The ERF Board adopted the following changes to the economic assumptions
  - Decrease in inflation rate to 2.75%
  - Decrease in investment return assumption to 7.75%
  - 0.25% decrease in salary increase assumptions (individual)
  - 0.25% decrease in salary increase assumptions (aggregate)
- Change in assumptions increased normal cost and unfunded liability
  - Liabilities increased by \$41 million due to new assumptions
- Total Contribution Rate – 63% paid by City and 37% paid by members
  - City contribution rate is 22.68%
  - Member rate is 13.32%



# Key Issues and Changes

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- The new Tier was effective January 1, 2017
  - The liabilities and contribution rates shown in this presentation only reflect Tier A benefits
  - Tier B members will be included in the valuation beginning next year
- GASB Net Pension Liability – Fund passes test and Net Pension Liability is reduced



## GASB #67 & #68

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- Impact of new plan provisions on GASB #67 & #68
  - The Fund now passes the Single Discount Rate test
  - Long term return assumption used to determine liabilities
  - Net Pension Liability will be equal to Fund's AAL minus market value of assets
- NPL decreased from \$2.2 billion last year to \$964 million as of 12-31-2016



# Investment Update

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- Conservative Global Investment Portfolio
- 90% of Portfolio Valued Daily
- Rate of Return
  - 5.00% Real Rate of Return
  - 2.75% Inflation
  - = 7.75% Assumed Rate of Return
- Investment Returns (as of 7/31/2017)
  - CYTD – 8.51%
  - 1 year return – 10.03%
  - 5 year return – 8.99%
  - Since 12/31/84 – 9.26%



## Chapter 40A Amendment Process

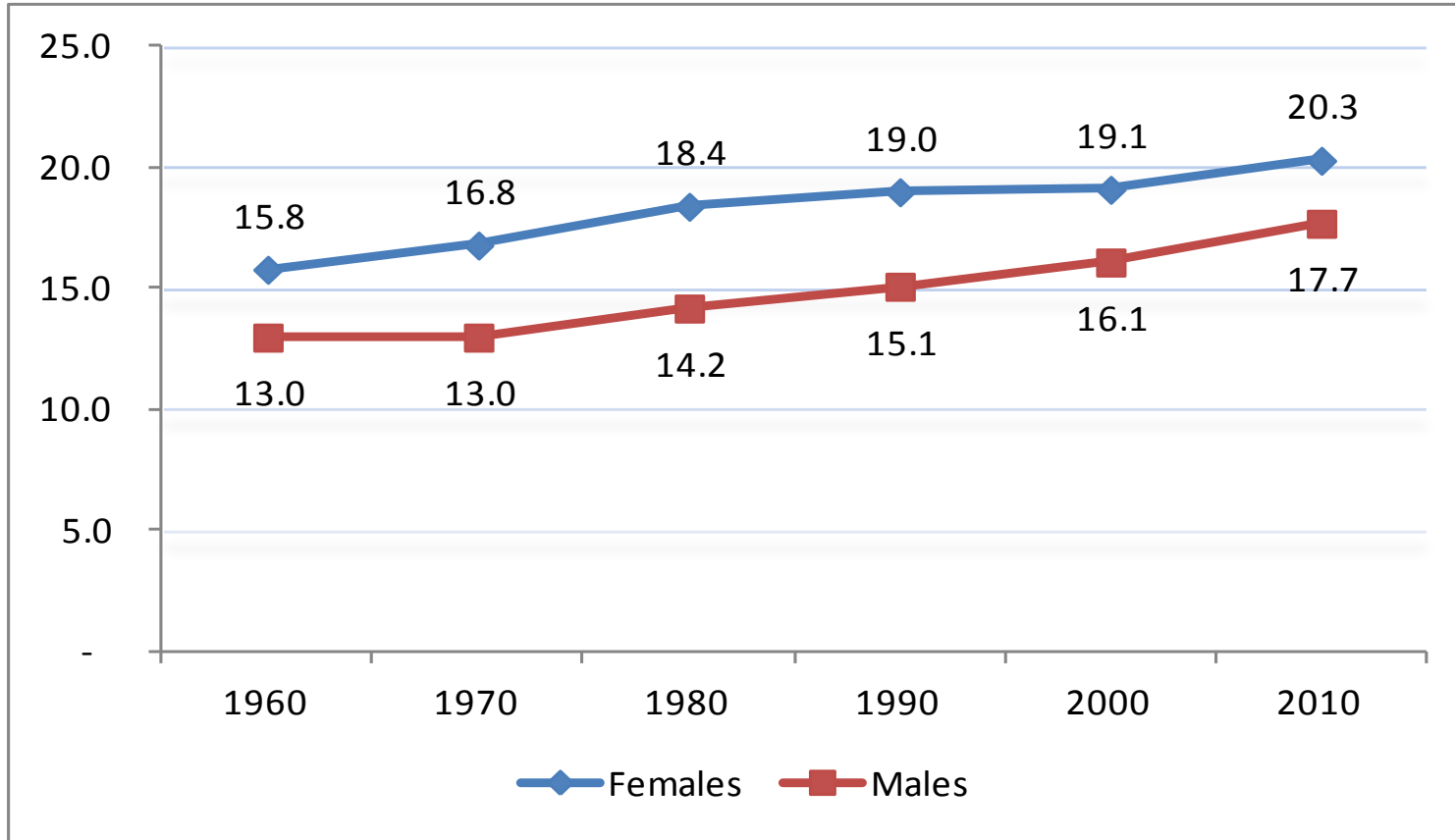
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- Chapter 40A Amendment process requires all interested parties to approve any changes not required by Federal law.
- The Dallas ERF Board, Dallas City Council, and the voters of the City of Dallas must approve the changes.
  - Dallas ERF Board unanimously approved in August 2016
  - Dallas City Council approved changes in August 2016
  - City of Dallas voters approved changes in November 2016 (69% of voters approved)
- Chapter 40A amendment became effective on January 1, 2017.





# Life Expectancy Increases from Age 65



Since 2010, life expectancies continue to increase. The latest published rates (2012) are 20.5 years for females and 17.9 years for males, both from age 65.

Source: National Vital Statistics Reports



# Membership

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- Oldest employee born in 1934 (83 years old)
- Youngest employee born in 1999 (18 years old)
- 24 active employees with benefit multiplier capped at 100% over 36.3636 years of service
- Oldest service retiree born in 1916 (101 years old)
- 2 beneficiaries born in 1914 (103 years old)
- About a dozen members have been in payment status for more than 40 years (retired prior to 1977)

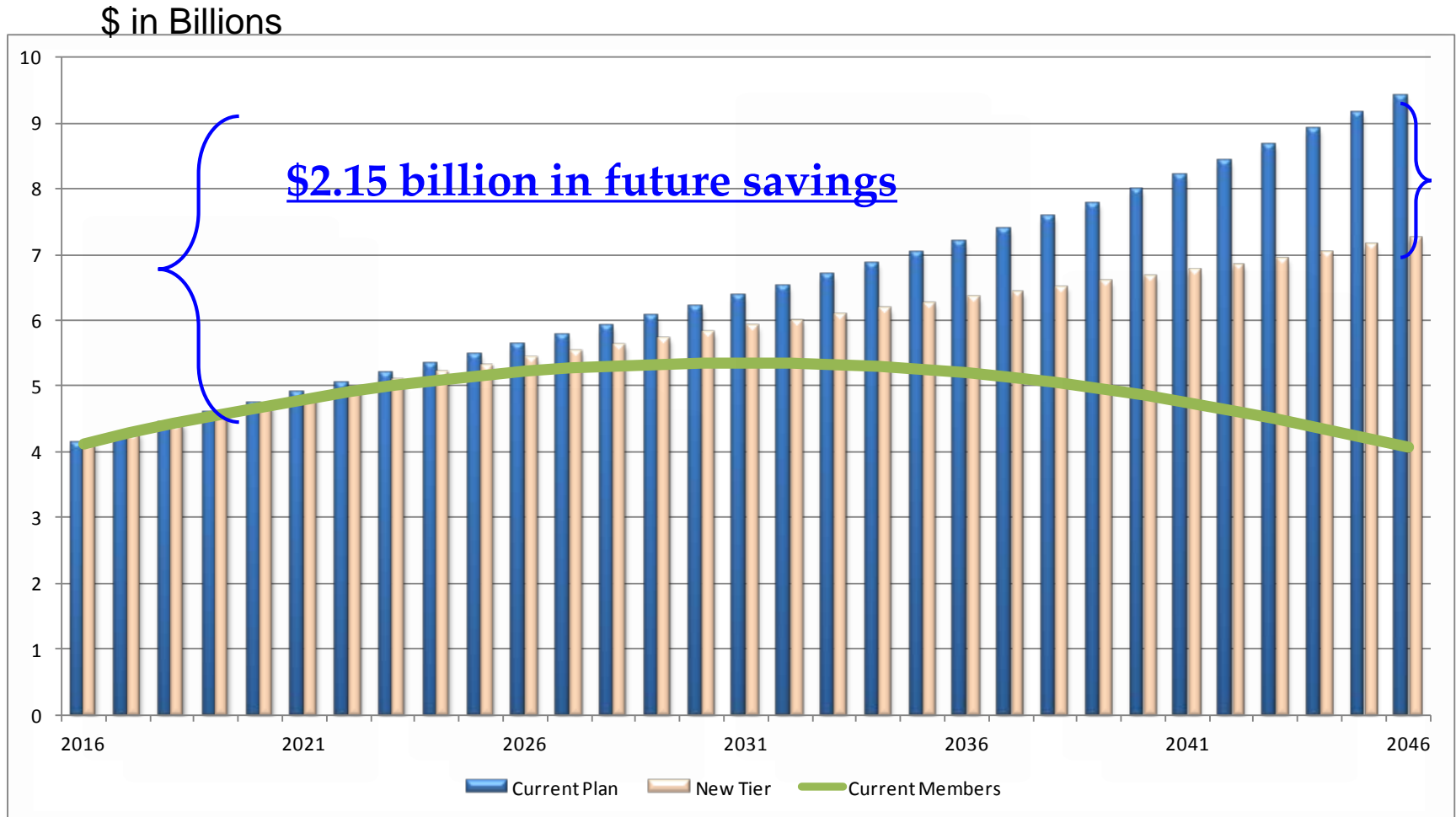


# Approved Changes to Chapter 40A reduced normal cost from 20.36% to 12.96%

Benefit Factors	Plan Changes for New Employees Hired on or after January 1, 2017
Retirement Eligibility	<ul style="list-style-type: none"><li>• Changed from Age 60 to 65 w/5 years of credited service</li><li>• From 30 years to 40 years of service (unreduced)</li><li>• Rule of 78 (unreduced <math>\geq 50</math> YOA ) to Rule of 80 (actuarially reduced <math>&lt; 65</math> years of age)</li><li>• <b>Restricted Prior Service Credit</b></li></ul>
Benefit Multiplier	<ul style="list-style-type: none"><li>• Reduced from 2.75% to 2.5%</li></ul>
CPI Cost of Living Adjustment (COLA)	<ul style="list-style-type: none"><li>• Reduced from a maximum of 5% to a maximum of 3%</li></ul>
Average Monthly Earnings	<ul style="list-style-type: none"><li>• Changed from 3 to 5 year average</li></ul>
Survivor Benefits	<ul style="list-style-type: none"><li>• Changed from Joint &amp; 50% survivor to Life Only as the normal form of retirement</li><li>• All survivor benefits continue to have a 10 year guarantee</li><li>• Now Joint &amp; 50% survivor benefits, like Joint &amp; 100% survivor benefits, will be actuarially reduced</li></ul>
Health Benefit Supplement	<ul style="list-style-type: none"><li>• Eliminated \$125 monthly Health Supplement</li></ul>



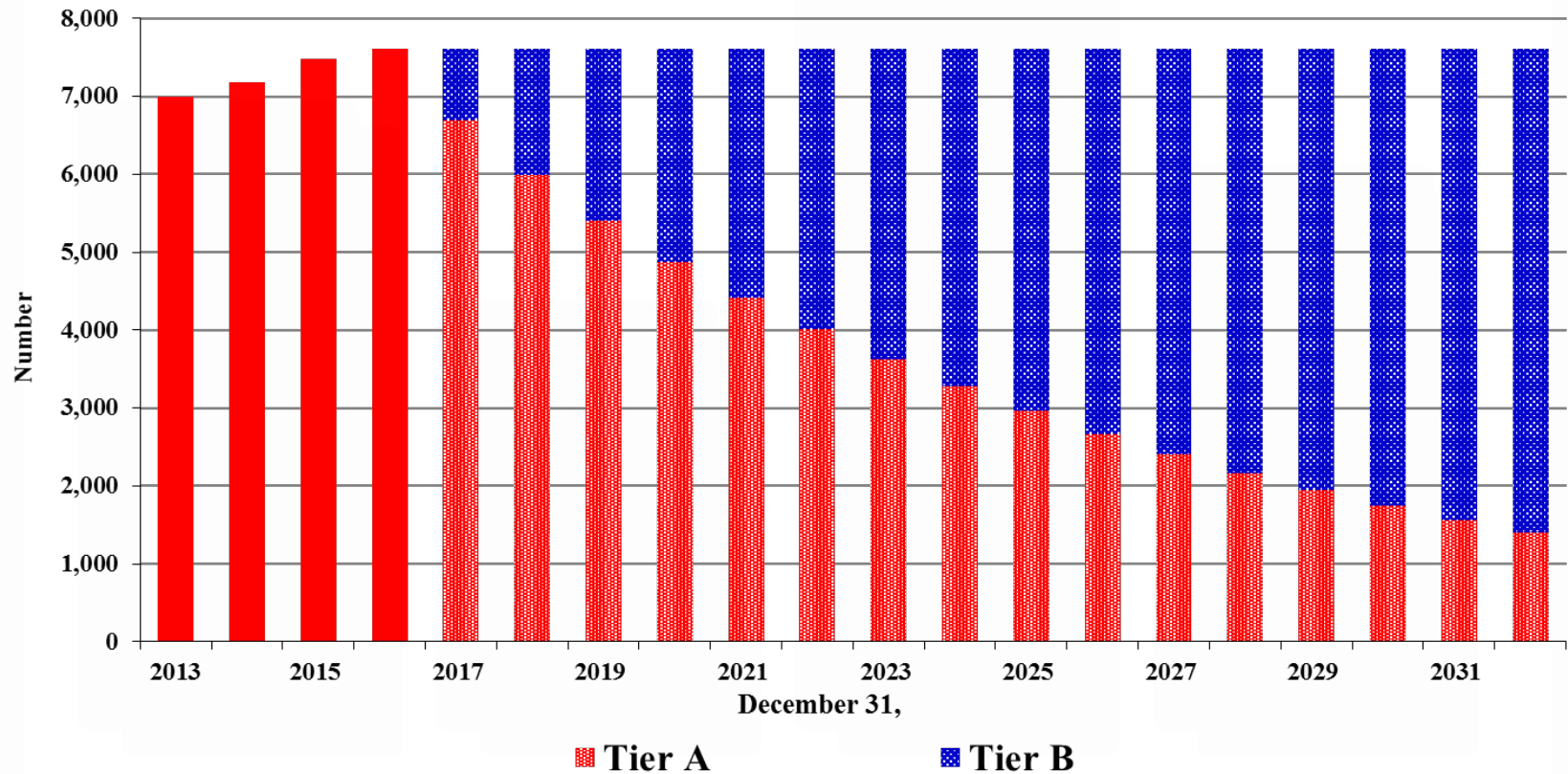
# Chapter 40A changes should reduce future liabilities by \$2.15 Billion and Reduces Normal Cost by 36.3%.





# Projected Active Membership

## Projected Number of Tier A and Tier B Employees



Note: The projected total number of employees is assumed to remain a constant 7,619.



# Conclusion

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Overall, 2017 is a positive year for Dallas ERF

- Implemented Tier B to address people living longer in retirement by lowering the Fund's normal cost by 36.3% (from 20.36% to 12.96%);
- Investment Performance is positive with 8.51% for CYTD and 10.03% for one year;
- Funded Ratio maintained at 80.4%;
- Unmodified clean audit opinion for 2016. No audit changes or recommendation; and
- Maintain a financially sound and sustainable retirement plan based on conservative economic, demographic and actuarial assumption.

# Memorandum



CITY OF DALLAS

DATE September 1, 2017

TO Honorable Members of the Government Performance & Financial Management Committee: Jennifer S. Gates (Chair), Scott Griggs (Vice Chair), Sandy Greyson, Lee M. Kleinman, Philip T. Kingston, Tennell Atkins, Kevin Felder

SUBJECT **Employee & Retiree Health Benefits**

On Tuesday, September 5, 2017, the Human Resources Office will brief the Government Performance & Financial Management Committee on Employee & Retiree Health Benefits. I have attached the briefing for your review.

Please let me know if you need additional information.

A handwritten signature in cursive script that reads "M. Elizabeth Reich".

M. Elizabeth Reich  
Chief Financial Officer

Attachment

c: Honorable Mayor and City Council  
T.C. Broadnax, City Manager  
Larry Casto, City Attorney  
Craig D. Kinton, City Auditor  
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Theresa O'Donnell, Chief of Resilience  
Directors and Assistant Directors

# Employee & Retiree Health Benefits

Government Performance and Financial  
Management  
September 5, 2017

Molly Carroll, CEBS  
Director, Human Resources Department  
City of Dallas





# Presentation Overview

- Background
- Proposed Action
- Next Steps



# Background

- Health Plans are either fully-insured or self-insured. The City of Dallas Benefits Plan is a **self-insured**.

Fully Insured	Self Insured
Plan purchased from insurance company	Plan is designed by the employer
Claims paid by insurance company	Claims paid with money set aside by employer
Plan managed by insurance company	Plan managed by Third Party Administrator (TPA)
More expensive	Less expensive

3

# Background

- Most large employers opt to self-insure and hire a TPA who provides two major services:
  - Access to a “network” of healthcare providers
  - Adjudication of claims
- Cigna is the City of Dallas’ TPA

# Background

- There are four major TPAs in the market
  - Aetna
  - Blue Cross Blue Shield
  - Cigna
  - UnitedHealthcare

# Background - Vendors

Products	FY17 Vendor	Contract Term	Contract Options	Funding
Medical	Cigna	Jan 1, 2017 – Dec 31, 2019	3 years; 2 – 1 year renewal options	City & Employee/Retiree Contributions
Pharmacy	CVS Caremark	Jan 1, 2017 – Dec 31, 2019	3 years; 2 – 1 year renewal options	City & Employee/Retiree Contributions
Dental	MetLife	Jan 1, 2017 – Dec 31, 2019	3 years; 2 – 1 year renewal options	Employee & Retiree Contributions
Vision	Davis Vision	Jan 1, 2017 – Dec 31, 2019	3 years; 2 – 1 year renewal options	Employee & Retiree Contributions
Retiree Solutions (Medicare)	UnitedHealthcare	Jan 1, 2017 – Dec 31, 2019	3 years; 2 – 1 year renewal options	Retiree Contributions (City provides subsidies)
Basic Life Insurance	Standard Life	Jan 1, 2016 – Dec 31, 2018	3 years; 2 – 1 year renewal options	City Contributions

# Background – Plan Participation

Employee Status	Plan	Lives Covered
Active	HRA	15,358
Active	EPO	4,069
Terminated	COBRA	20
Retiree Status	Plan	Lives Covered
Pre/Post-65	HRA	1,673
Pre/Post-65	EPO	886

- Two medical plan options – 75/25/HRA plan and 70/30/3000 plan
- 25,993 Lives Covered
  - 22,006 Lives Covered
    - 1,366 Employees have waived coverage
  - 3,987 Retirees enrolled in Medicare Supplemental Plans

# Background – Wellness Program

- Wellness Program through the years

Year(s)	How Wellness Program Evolved
2007	Benefits Specialist for Wellness hired
2008	Benefits Specialist position transitioned to Benefits
2010-2014	WellPoints Program launched
2015	Chief Wellness Coordinator position created and wellness program moved from HR
10/1/2016	Wellness Program transitioned back to Human Resources

# Background - Wellness Program

- Fitness Center is comprised of the following staff
  - Wellness Program Manager
  - Fitness Supervisor
  - Fitness Specialist
  - Nutritionist



# Background – Wellness Program

- There are 1850 Members at 2 locations (City Hall and OCMC)
- Human Resources manages the Fitness Center Staff
- Equipment and Building Services manages the Fitness Center budget

# Background – Benefits Rewards

- Benefits Rewards - members are being engaged in health
- Members earn points through the following:
  - Completing health assessment
  - Completing an annual physical – meet biometric targets (Blood pressure, BMI, Glucose, and Cholesterol)
  - Completing alternative activities

11



# Background – Benefits Rewards

- Members receive discounted benefit premiums and an additional allocation in HRA
- The City has received:
  - Fit Friendly Award – American Heart Association
  - Well Deserved Award – UnitedHealthcare

# Background - Financials

Products	FY17 City Contributions	FY17 Emp/Ret Contributions	FY18 City Contributions	FY18 Emp/Ret Contributions
Medical / Pharmacy	<b>\$80.5M</b>	<b>\$52.7M</b> \$24M – Emp. \$28.7M – Ret.	<b>\$86.1M</b>	<b>\$52.6M</b> \$23.5M – Emp. \$29.1M – Ret.
Voluntary Benefits	No City Contributions	<b>\$15.6M</b> \$14.7M – Emp. \$900K – Ret.	No City Contributions	<b>\$15.6M</b> \$14.7M – Emp. \$900K – Ret.
Basic Life Insurance	<b>\$320K</b>	No Emp. or Ret. Contributions	<b>\$317K</b>	No Emp. or Ret. Contributions

13

# Background – Other Cities’ Contributions

	Dallas	Houston	Fort Worth	San Antonio	Austin
FY 15/16 City Healthcare Contributions	\$78M	\$250M	\$75M	\$150M	\$161M
City’s Contributions per Employee	\$6,077	\$11,858	\$12,238	\$16,402	\$13,417

- Dallas’ contribution to healthcare is less than other large Texas cities

# Background – Recent Contract Changes

Year(s)	Contract	Savings
2015	Pharmacy contract renewal savings	(\$200,000)
2017-2019	Rx Plan – Formulary Changes and Improved Rebates	(\$2,000,000)
2017-2019	Medical TPA switched from United Healthcare (\$6,906,000) to Cigna (\$4,667,000) to improve in-network penetration and lower admin fees	(\$6.7M) (over three-year term of contract)

# Background – Recent Plan Design Changes

Year	Plan Change
2015	<ul style="list-style-type: none"> <li>• Reduced Out-Of-Pocket maximum on 70/30 plan from \$10,000 to \$6,350</li> <li>• ACA Temporary Employee Coverage</li> <li>• 1<sup>st</sup> Transitional Reinsurance Fee (\$1M)</li> <li>• Rx Plan – Formulary Changes</li> </ul>
2016	<ul style="list-style-type: none"> <li>• Advanced Control Specialty Formulary</li> <li>• Generic Step Therapy</li> <li>• Baylor/Methodist Enhanced Benefit tier with improved discounts</li> <li>• 2<sup>nd</sup> Transitional Reinsurance Fee (\$814k)</li> </ul>
2017	<ul style="list-style-type: none"> <li>• ER copay increase from \$100 to \$250</li> <li>• 3<sup>rd</sup> Transitional Reinsurance Fee (\$516k)</li> </ul>

16

# Background – Hospital Partnership

- City partnered with Baylor/Methodist to reduce the pricing for facility charges in exchange for plan design changes incentivizing use of their facilities
- Employees incentivized with a 90/10 cost share on facility charges



# Background – Hospital Partnership

- Baylor/Methodist agreement started 1/1/2016
  - Reduced pricing resulted in \$2.3M less in costs
  - Savings passed on to employees

# Background – Recent Premium Changes

Year	Premium Changes
2015	<p><u>Active Employees</u></p> <ul style="list-style-type: none"> <li>• \$25/mo. premium increase for “employee and spouse” and employee and family” tiers</li> </ul> <p><u>Pre-Medicare Retirees</u></p> <ul style="list-style-type: none"> <li>• \$25/mo. premium increase for all tiers of coverage</li> </ul>
2016	<p><u>Active Employees</u></p> <ul style="list-style-type: none"> <li>• \$25/mo. premium increase for “employee and spouse” and employee and family” tiers</li> <li>• Additional \$5/mo. premium increase for all 70/30 plan active tiers</li> </ul> <p><u>Pre-Medicare Retirees</u></p> <ul style="list-style-type: none"> <li>• \$25/mo. premium increase for all tiers of coverage</li> </ul>

# Background – Recent Premium Changes

Year	Premium Changes
2017	<p data-bbox="355 504 697 544"><u>Active Employees</u></p> <ul data-bbox="355 554 1707 646" style="list-style-type: none"><li data-bbox="355 554 1707 646">• \$25/mo. premium increase for “employee and spouse” and employee and family” tiers</li></ul> <p data-bbox="355 708 788 748"><u>Pre-Medicare Retirees</u></p> <ul data-bbox="355 758 1750 996" style="list-style-type: none"><li data-bbox="355 758 1242 798">• \$50/mo. premium increase for “Retiree Only”</li><li data-bbox="355 808 1750 901">• \$60/mo. premium increase for “Retiree + Spouse”, “Retiree + Children”, and “Retiree + Family” tiers</li><li data-bbox="355 911 1750 996">• \$100/mo. premium increase for “Spouse only” and “Spouse + Children” tiers</li></ul>

# Background – Current RFP

- **Request for Proposal - Clinic**
  - City currently has a contract with Concentra to run the clinic at City Hall
    - The contract also provides for discounted services at Concentra's other clinics in the metroplex
  - 15 vendors responded and participated in vendor presentations held in June
  - Proposal review is under way

21



# Background – Current RFP

- **Request for Proposal – Voluntary Products**
  - Voluntary products are insurance products funded completely by employee contributions including: Aflac, Abacus, Allstate and Legal Shield
  - Products offered include universal life, cancer insurance, long-term and short-term disability, etc.
  - Currently in procurement process

22



# Proposed Action – 2018 Premium & Plan Design Changes

Plan Change	Cost/(Savings)	Explanation
EE + Fam Premium Reduction (HRA plan only)	\$406,350	Premium reduction of \$50 per month for employees enrolled in the EE + Family tier to align with premiums offered by other cities
Retiree Premium Increase	(\$423,000)	Premium increase of \$25 per month for all tier levels for pre-65 retirees to partially offset increased cost
Pharmacy Change #1	(\$850,000)	<u>Diabetes &amp; Hypertension Support</u> Reduced copays for maintenance medications that treat diabetes and hypertension to promote better adherence

# Proposed Action – 2018 Premium & Plan Design Changes

Plan Change	Cost/(Savings)	Explanation
Diabetes Disease Management Program	(\$200,000)	Member assistance with testing supplies and an individualized coaching and care plan.
Pharmacy Change #2	TBD	<u>Generic Medication Incentives</u> Eliminate deductible for certain generic prescriptions and increased plan cost share to make certain generic medications less expensive for members
Telemedicine	(\$371,256)	Savings realized through reduction in the number of office visits

# Proposed Action - Plans for Expanding Wellness

- Wellness addresses health, fitness, and psychological components
- Health
  - Benefits Rewards
  - Onsite Clinic, Disease Management, and Weight Watchers
  - Health Seminars and Fair

13





# Proposed Action - Plans for Expanding Wellness

- Physical Components
  - Fitness Center challenges
  - Gym discounts
  - Onsite Bootcamps
  - Fitness classes



# Proposed Action - Plans for Expanding Wellness

- Stress Management
  - Onsite Yoga classes
  - Seminars through EAP
  - Discounts with local companies to promote work life balance



# Next Steps

- Approve Holmes Murphy contract
  - September 27, 2017 agenda
  - 1<sup>st</sup> of 2 one-year renewal options
  - \$225,000 (same as current year)



# Next Steps

- Holmes Murphy provides the following consulting services:
  - Conducts audits of medical and pharmacy vendors and annual plan evaluations
  - Develops funding strategies and projects plan costs
  - Reviews proposals and provide recommendations
  - Conducts benchmark studies and surveys

29



# Next Steps

- Clinic Vendor
  - Agenda date TBD, depending on RFP responses and contract negotiations
- Voluntary Products Vendor
  - Agenda date TBD, depending on RFP responses and contract negotiations

# Appendix



# City Subsidy – Active Employees

Plan & Tier	COBRA Rate (Monthly)	Plan Total Cost (Annual)	EE Cost (Monthly All Points)	City Subsidy (Monthly)	City Subsidy (Annual)	Count of EE's on Plan	Total City Subsidy (Annual)
70/30 EE Only	\$368	\$4,416	\$49	\$319	\$3,828	1602	\$6,132,456
70/30 EE + Spouse	\$797	\$9,564	\$431	\$366	\$4,392	95	\$417,240
70/30 EE + Child(ren)	\$689	\$8,268	\$124	\$565	\$6,780	522	\$3,539,160
70/30 EE + Family	\$1,040	\$12,480	\$539	\$501	\$6,012	182	\$1,094,184
75/25 EE Only	\$535	\$6,420	\$75	\$460	\$5,520	4956	\$27,357,120
75/25 EE + Spouse	\$1,066	\$12,792	\$518	\$548	\$6,576	377	\$2,479,152
75/25 EE + Child(ren)	\$978	\$11,736	\$221	\$757	\$9,084	1940	\$17,622,960
75/25 EE + Family	\$1,383	\$16,596	\$643	\$740	\$8,880	887	\$7,876,560
<b>Total</b>						10561	\$66,518,832
<b>PEPM Weighted Average</b>							<b>\$6,298.54</b>

# City Subsidy - Retirees

Plan & Tier	Count of EE's on Plan	100% Plan Cost (Monthly)	Plan Total Cost (Annual)	Ret Cost (Monthly All Points)	City Subsidy (Monthly)	City Subsidy (Annual)	Total City Subsidy (Annual)
70/30 RET Only	424	\$824	9,891	\$534	\$290	\$3,483	\$1,476,894
70/30 RET + Spouse	81	\$1,838	22,058	\$1,163	\$675	\$8,102	\$656,226
70/30 RET + Child(ren)	31	\$1,294	15,529	\$785	\$509	\$6,109	\$189,389
70/30 RET + Family	20	\$2,259	27,102	\$1,396	\$863	\$10,350	\$207,002
70/30 Spouse Only	51	\$1,253	15,035	\$922	\$331	\$3,971	\$202,505
70/30 Spouse + Child(ren)	6	\$1,673	20,079	\$1,163	\$510	\$6,123	\$36,739
75/25 RET Only	767	\$925	11,100	\$609	\$316	\$3,792	\$2,908,280
75/25 RET + Spouse	163	\$2,063	24,753	\$1,276	\$787	\$9,441	\$1,538,805
75/25 RET + Child(ren)	48	\$1,452	17,427	\$922	\$530	\$6,363	\$305,407
75/25 RET + Family	33	\$2,534	30,413	\$1,549	\$985	\$11,825	\$390,238
75/25 Spouse Only	85	\$1,406	16,872	\$935	\$471	\$5,652	\$480,389
75/25 Spouse + Child(ren)	12	\$1,878	22,533	\$1,208	\$670	\$8,037	\$96,438
<b>Total</b>	<b>1721</b>						<b>\$8,488,313</b>
<b>PEPM Weighted Average</b>							<b>\$4,932.20</b>



# Employee & Retiree

# Health Benefits

Government Performance and Financial  
Management

September 5, 2017

Molly Carroll, CEBS

Director, Human Resources Department

City of Dallas



# Memorandum



CITY OF DALLAS

DATE September 1, 2017

TO Honorable Members of the Government Performance & Financial Management Committee: Jennifer S. Gates (Chair), Scott Griggs (Vice Chair), Sandy Greyson, Lee M. Kleinman, Philip T. Kingston, Tennell Atkins, Kevin Felder

SUBJECT **Financial Management Performance Criteria**

On Tuesday, September 5, 2017, the Office of Budget will brief the Government Performance & Financial Management Committee on our proposed revisions to the Financial Management Performance Criteria. I have attached the briefing for your review.

In addition, Council Member Kleinman submitted the following suggestions, which we will discuss during the briefing:

- Budget development policy that states the City Manager will develop and present an effective tax rate budget and a clearly delineated set of budget enhancements for consideration by the Council. Or: The first budget briefing must be based on the effective tax rate.
- Debt Service Coverage Ratio: The percentage of property tax dedicated to debt service shall not exceed 20 percent.
- General obligation debt ceiling at three times the property tax revenue. With this policy, even authorized debt could not be sold if it exceeds the criteria. May need to adjust the multiplier.
- Public Safety Strategic Priority expenses should not exceed General Fund property tax revenues.

DATE September 1, 2017  
SUBJECT Financial Management Performance Criteria

Please let me or Jack Ireland know if you have any questions or would like to suggest additional revisions so that we may prepare information that will be helpful as the Committee considers our recommendations.



M. Elizabeth Reich  
Chief Financial Officer

#### Attachment

c: Honorable Mayor and City Council  
T.C. Broadnax, City Manager  
Larry Casto, City Attorney  
Craig D. Kinton, City Auditor  
Biliera Johnson, City Secretary (Interim)  
Daniel F. Solis, Administrative Judge  
Kimberly Bizzor Tolbert, Chief of Staff to the City Manager  
Majed A. Al-Ghafry, Assistant City Manager

Jon Fortune, Assistant City Manager  
Joey Zapata, Assistant City Manager  
Jo M. (Jody) Puckett, Assistant City Manager (Interim)  
Nadia Chandler Hardy, Chief of Community Services  
Raquel Favela, Chief of Economic Development & Neighborhood Services  
Theresa O'Donnell, Chief of Resilience  
Directors and Assistant Directors

# Financial Management Performance Criteria

September 5, 2017

Elizabeth Reich  
Chief Financial Officer

Jack Ireland, Director  
Office of Budget

Janette Weedon, Assistant Director  
Office of Budget



# Purpose

- Provide overview of Financial Management Performance Criteria (FMPC)
- Discuss proposed revisions to FMPC
- Review next steps



# Background

- City Council initially adopted FMPC in 1978 to set financial policies and standards and to guide decision making
- FMPC contains 52 criteria in 6 categories
  1. Operating Programs
  2. Capital and Debt Management
  3. Accounting, Auditing, and Financial Planning
  4. Budget
  5. Cash Management
  6. Grants and Trust
- Dallas Water Utilities has a separate set of 13 criteria



# Background

- FMPC is evaluated for compliance during budget preparation, at year-end, and for each debt issuance
- Council periodically reviews and updates criteria
  - Last FMPC update was approved by City Council in September 2014

# Overview of FMPC

- Proposed revisions are based on:
  - Government Finance Officers Association (GFOA) best practices
  - Recommendations from PFM Financial Advisors LLC
  - Feedback from departments
- Summary of revisions for committee consideration:
  - Change/add language – 10
  - Delete criteria – 3
  - Add new criteria – 4



# Review / Revisions FMPC #6

## Operating Program

- Each enterprise fund of the City will maintain revenues which support the full (direct and indirect) cost of the fund. In addition, each Enterprise Fund and Internal Service Fund should maintain at least 30 days of budgeted operations and maintenance expense in net working capital, and avoid cash deficits.
- Status – In compliance
- Recommendation – eliminate Internal Service Funds from this criteria
- “...In addition, each Enterprise Fund ~~and Internal Service Fund~~ should maintain at least 30 days of budgeted operating and maintenance expense in net working capital, and avoid cash deficits. **Enterprise Funds will maintain positive cash balances.**”

6



# Review / Revisions FMPC #7

## Operating Program

- The Emergency Reserve, a component of unassigned fund balance, shall be used to provide for temporary financing of unanticipated or unforeseen extraordinary needs of an emergency nature; for example, costs related to a natural disaster or calamity, a 5% decline in property values, or an unexpected liability created by Federal or State legislative action.
- Status – In compliance
- Recommendation – add language to specify the amount of this reserve
- “Management shall designate up to 20% of the General Fund’s projected unassigned fund balance but not less than \$25 million to the Emergency Reserve.”
- “Use of Emergency Reserve shall require a super-majority of City Council.”

# Review / Revisions FMPC #9

## Operating Program

- The unassigned fund balance of the General Fund, which includes the Emergency and Contingency Reserves, shall be maintained at a level not less than 30 days of the General Fund operating expenditures less debt service. (The Risk Reserve is not included in this calculation.)
- Status – In Compliance
- Recommendation – increase reserve minimum to 40 days and add language
- “The unassigned fund balance...shall be maintained at a level not less than 40 days of the General Fund operating expenditures less debt service. (The Risk Reserve is not included in this calculation.) Funds shall be allocated from unassigned fund balance only after the City Manager has prepared an analysis and presented it to the City Council.”

# Review / Revisions FMPC #11

## Operating Program

- A General Fund liability fund shall be budgeted annually to provide for outstanding and anticipated claims expense and resulting liabilities during the budget year. An individual judgement settlement cap is set at \$5,000,000. The Emergency Reserve will be accessed should the cap be exceeded. An independent actuarial analysis shall be conducted every two years to determine the appropriate level of this fund.
- Status – In Compliance
- Recommendation – add language to allow use of Liability Fund for affirmative litigation.
- “...Additionally, the liability fund will include an allocation for unanticipated affirmative litigation.”

9



# Review / Revisions FMPC #15

## Operating Program

- An annual review of selected fees and charges will be conducted to determine the extent to which the full cost of associated services is being recovered by revenues. All fees and charges will be reviewed at least once every four years.
- Status – In compliance
- Recommendation – add language
- “...Where feasible and desirable, the City shall set fees and charges to achieve full cost recovery. The City may subsidize the services funded by fees or charges based on other City objectives (examples include: to remain competitive, demand, use of services, etc.).”

10



# Review / Revisions FMPC #22

## Capital and Debt Management

- Per Capita General Obligation Debt including Certificates of Obligation, Equipment Acquisition Notes, and General Obligation Bonds will be managed to not exceed 10% of the latest authoritative computation of Dallas' per capita annual personal income.
- Status – In compliance
- Recommendation – add language for source of information
- "...authoritative computation of Dallas' per capita annual personal income **as determined by the US Department of Commerce Bureau of Economic Analysis.**"

11



# Review / Revisions FMPC #25 & #27

## Capital and Debt Management

- |  |   |
|--|---|
| <ul style="list-style-type: none"><li>• Certificates of Obligation should be used only to fund tax-supported projects previously approved by the voters; or for risk management funding as authorized by the City Council; or non-tax revenue-supported projects approved by City Council.</li></ul> | <ul style="list-style-type: none"><li>• Status – In compliance</li><li>• Recommendation – no change – see criteria #27</li></ul>                    |
| <ul style="list-style-type: none"><li>• Certificates of Obligation will be limited to projects consistent with Financial Management Performance Criteria for debt issuance.</li></ul>  | <ul style="list-style-type: none"><li>• Status – In compliance</li><li>• Recommendation – delete this criteria; redundant to criteria #25</li></ul> |

12



# Review / Revisions FMPC #33

## Capital and Debt Management

- Pursuant to the provisions of the Texas Tax Code, the City creates reinvestment zones both for tax increment financing (TIF RZ) and for the tax abatement (TA RZ). TA RZs are created for the purpose of granting tax abatement on real or business personal property or both located in the TA RZ. For the FMPC, TIF RZs and TA RZs shall be referred to as Reinvestment Zones (RZ)
- No RZ can be created if the total property tax base of certain TIF RZs plus the total real property and business personal property tax base (if there is business personal property tax being abated) of TA RZs exceeds 10% of the total tax base (all real and business personal property) of the City. Reinvestment zones that are no longer collecting tax increment or abating taxes (i.e. now contributing 100% to the City of Dallas property tax revenues) will be excluded from the calculation.
- Status – In compliance
- Recommendation – increase cap from 10% to 15%
- “No RZ can be created if the total property tax base of certain TIF RZs plus the total real property and business personal property tax base (if there is business personal property tax being abated) of TA RZs exceeds **15%** of the total tax base (all real and business personal property) of the City....”

13





# Review / Revisions FMPC #41

## Accounting, Auditing, and Financial Planning

- |  |   |
|--|---|
| <ul style="list-style-type: none"><li>• The City will establish and maintain a high degree of accounting practices; accounting practices will conform to generally accepted accounting principles as set forth by the authoritative standard setting body for units of local government.</li></ul> | <ul style="list-style-type: none"><li>• Status – In compliance</li><li>• Recommendation – replace language</li><li>• “The City will establish and maintain a high degree of accounting practices that will conform to generally accepted accounting principles (GAAP) as set forth by the Governmental Accounting Standards Board (GASB). The GASB is the independent organization that establishes and improves standards of accounting and financial reporting for U.S. state and local governments.”</li></ul> |
|--|---|

14



# Review / Revisions FMPC #42

## Accounting, Auditing, and Financial Planning

- |  |  |
|--|--|
| <ul style="list-style-type: none"><li>• An annual audit will be performed by an independent public accounting firm, with the subsequent issue of an official Comprehensive Annual Financial Report (CAFR) within 120 days of the City's fiscal year end.</li></ul> | <ul style="list-style-type: none"><li>• Status – Not in compliance</li><li>• Recommendation – replace language</li><li>• “Management will contract with an independent public accounting firm for an annual audit, with the subsequent issue of an official Comprehensive Annual Financial Report (CAFR) in conformity with GAAP and applicable State statutes.”</li></ul> |
|--|--|

15



# Review / Revisions FMPC #44

## Budget

- Revenues and expenditures will be projected annually for at least three years beyond the current budget projections.
- Status – In compliance
- Recommendation – extend period from three to five years and add Enterprise Funds to the criteria
- Management will project revenues and expenditures annually for at least five years beyond the current year for the General Fund and each Enterprise Fund of the City.”

16



# Review / Revisions FMPC #48

## Cash Management

- |  |   |
|--|---|
| <ul style="list-style-type: none"><li>• Investments will be made in conformance with the City's investment policy, with the primary objectives of preservation of capital, maintenance of sufficient liquidity, and maximization of return on the portfolio.</li></ul> | <ul style="list-style-type: none"><li>• Status – In compliance</li><li>• Recommendation – delete this criteria; guidance is provided in investment policy</li><li>• As required by State law, the City invests all funds under its control according to a City Council approved Investment Policy, which must be reviewed and reapproved annually by City Council</li></ul> |
|--|---|

17



# Review / Revisions FMPC #49

## Cash Management

- |   |   |
|---|---|
| <ul style="list-style-type: none"><li>• The accounting system and cash forecasting system will provide regular information concerning cash position and investment.</li></ul> | <ul style="list-style-type: none"><li>• Status – In compliance</li><li>• Recommendation – delete this criteria; objectives are included in procedures</li></ul> |
|---|---|



# New Criteria

*Government Performance and Financial Management*



City of Dallas

# Review / Revisions FMPC–New

## Budget

- Biennial budget – no current criteria
- Status – new
- Recommendation – add criteria
- Each year, the City Manager shall develop and present to the City Council a two-year balanced budget. City Council will adopt a one-year budget and set the property tax rate in accordance with State law annually. Expenditures shall be budgeted and controlled so as not to exceed current revenues in each year or City Council approved use of fund balance.

20



# Review / Revisions FMPC–New

## Operating Program

- Employee Benefits Fund reserve balance – no current criteria
- Status – new
- Recommendation – add criteria
- The Employee Benefits Fund will maintain a cash reserve of at least the anticipated end-of-year claims incurred but not paid, and other current liabilities. This does not include incurred but not reported claims (IBNR). The Employee Benefits Fund will maintain a positive cash balance.
- Effective beginning in FY 2018-19

21





# Review / Revisions FMPC–New

## Operating Program

- 65/over or disabled exemption – no current criteria
- Status – new
- Recommendation – add criteria
- The City will compare the current 65 and over or disabled exemption to the most recent annual Consumer Price Index (CPI) every two years, and provide the analysis to the City Council for consideration prior to June 30 for possible modification of this property tax exemption. Changes to property tax exemptions must be provided to the appraisal districts no later than June 30.

22



# Review / Revisions FMPC–New

## Capital and Debt Management

- |   |  |
|---|--|
| <ul style="list-style-type: none"><li>• GO Debt Service reserve – no current criteria</li></ul> | <ul style="list-style-type: none"><li>• Status – new</li><li>• Recommendation – add criteria</li><li>• The City shall maintain a reserve in the General Obligation Debt Service Fund equal to 5% of the following year's annual principal and interest debt service expense. The debt service fund tax rate and/or future debt will be structured to maintain this debt service reserve.</li></ul> |
|---|--|

23



# Next Steps

- Receive feedback from Government Performance and Financial Management Committee
- Seek City Council approval of revisions to FMPC on September 27
- Continue review of FMPC for compliance during annual budget development, at year-end, and with each debt issuance



# Financial Management Performance Criteria

**September 5, 2017**

**Elizabeth Reich  
Chief Financial Officer**

**Jack Ireland, Director  
Office of Budget**

**Janette Weedon, Assistant Director  
Office of Budget**



# Memorandum



CITY OF DALLAS

DATE September 1, 2017

Honorable Members of the Government Performance & Financial Management  
TO Committee: Jennifer S. Gates (Chair), Scott Griggs (Vice Chair), Sandy Greyson,  
Lee M. Kleinman, Philip T. Kingston, Tennell Atkins, Kevin Felder

SUBJECT **Annual Investment Policy Review**

On September 5, 2017, the City Controller's Office will brief the Government Performance & Financial Management Committee on the Annual Investment Policy Review. I have attached the briefing for your review.

Please let me know if you need additional information.

A handwritten signature in blue ink that reads "M. Elizabeth Reich".

M. Elizabeth Reich  
Chief Financial Officer

## Attachment

c: Honorable Mayor and Members of the City Council  
T.C. Broadnax, City Manager  
Larry Casto, City Attorney  
Craig D. Kinton, City Auditor  
Bilierae Johnson, City Secretary (Interim)  
Daniel F. Solis, Administrative Judge  
Kimberly Bizer Tolbert, Chief of Staff to the City Manager  
Majed A. Al-Ghafry, Assistant City Manager

Jo M. (Jody) Puckett, P.E., Assistant City Manager (Interim)  
Jon Fortune, Assistant City Manager  
Joey Zapata, Assistant City Manager  
Raquel Favela, Chief of Economic Development & Neighborhood Services  
Nadia Chandler Hardy, Chief of Community Services  
Theresa O'Donnell, Chief of Resilience  
Directors and Assistant Directors

# Annual Investment Policy Review

**Government  
Performance & Financial  
Management Committee**  
**September 5, 2017**

**Elizabeth Reich,  
Chief Financial Officer**

**Corrine Steeger,  
Assist. Director, Treasury Manager  
City Controller's office**



**City of Dallas**

# Investment Policy Overview

- Federal Regulations
- State Statutes
  - Public Funds Investment Act
  - Public Funds Collateral Act
  - Depositories for Municipal Funds
- City Charter and Code

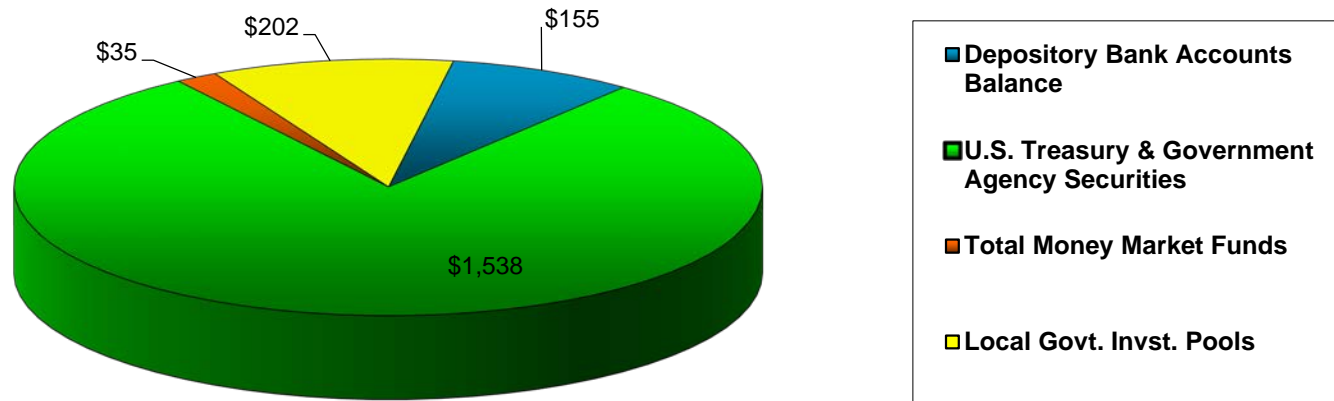
# Public Funds Investment Act

- Requires a written investment policy annually reviewed by the City Council
  - “the governing body of the investing entity retains ultimate responsibility as fiduciaries of the assets of the entity.” (Public Funds Investment Act)
- Requires the policy to address:
  - Safety, liquidity, yield, and diversification
  - Investment strategy
  - Authorized investments



# City of Dallas Investment Pool

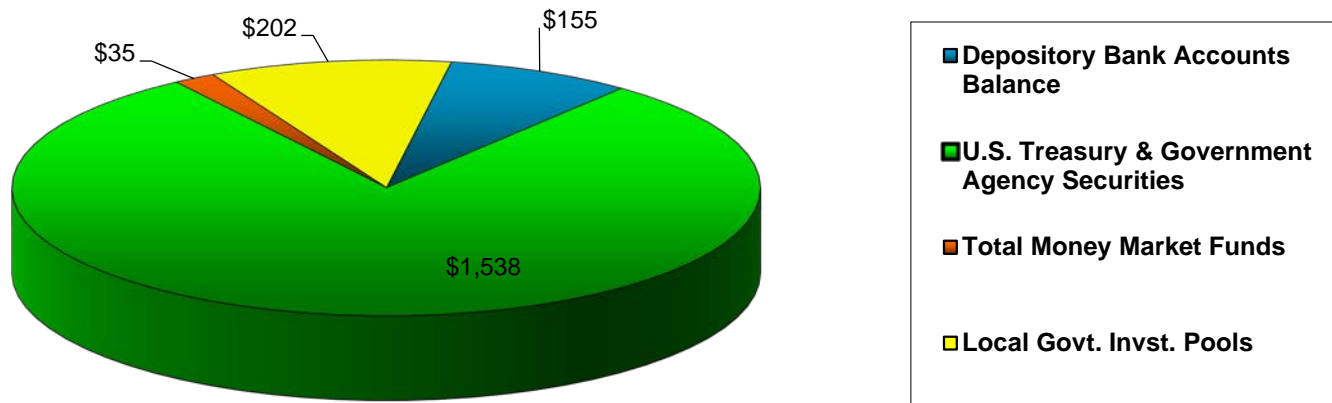
(\$ in Millions)



- The City's investment pool includes the following investment types:
  - U.S. Government Agency Securities
  - Money Market Funds
  - Local Government Investment Pools

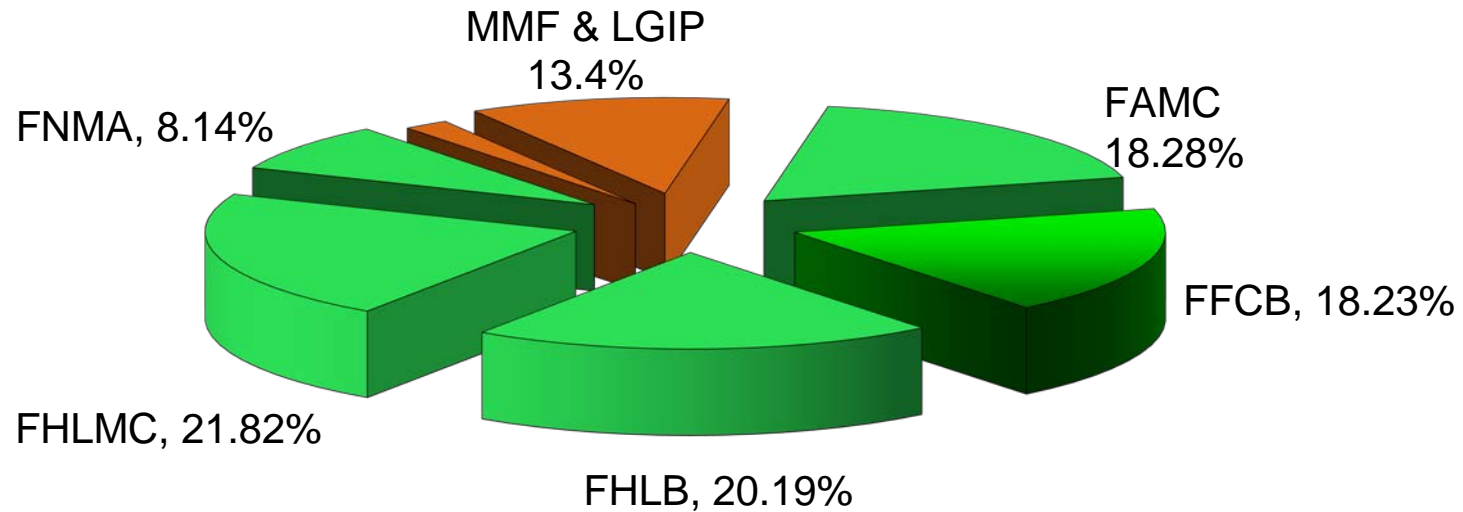
# City of Dallas Investment Pool

(\$ in Millions)



- The total market value of the City's investment pool as of June 30, 2017 was \$1.9 billion. City's total bank depository account balance as of June 30, 2017 was \$155 million. All cash balances in the depository are secured by collateral in excess of FDIC insurance.

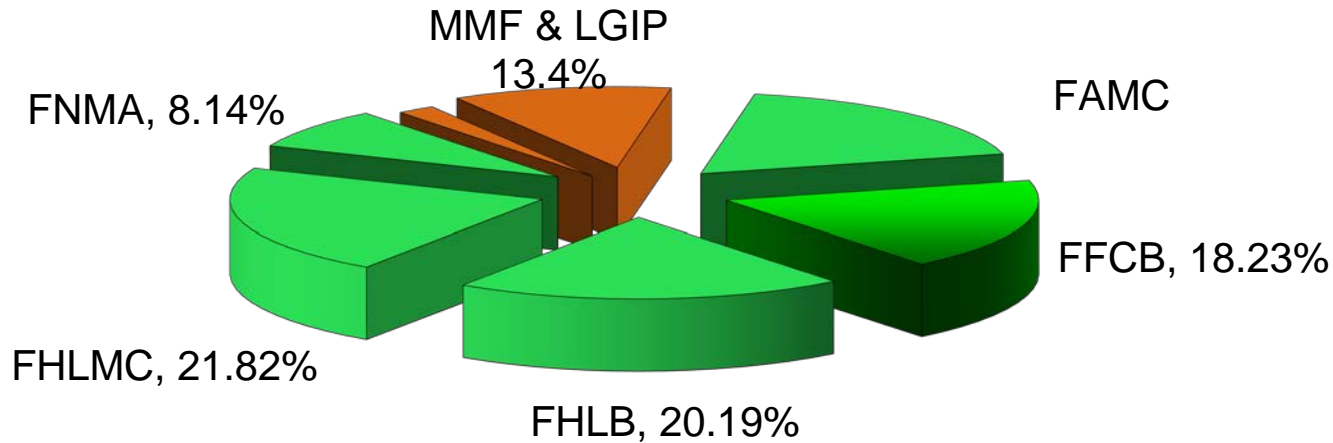
# U.S. Government Agency Securities



- Direct obligations of U.S. agencies
- Investment pool maximum percentage: 30 percent by agency (book value)

# U.S. Government Agency Securities

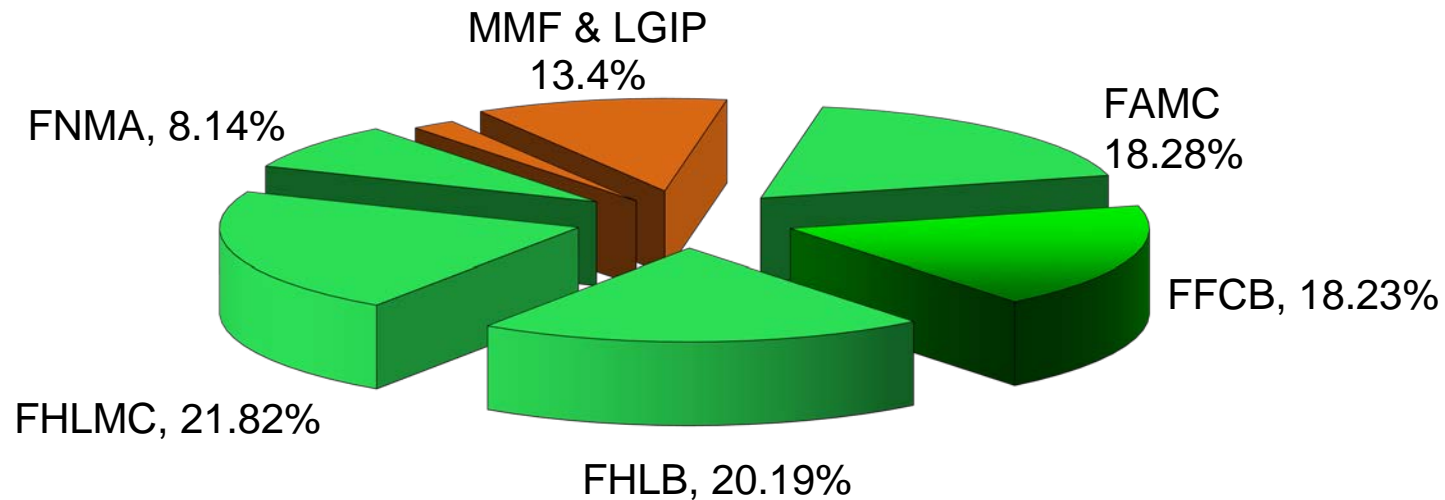
continued



- Market value as of June 30, 2017 by agency:
  - Federal Agricultural Mortgage Corporation (FAMC or Farmer Mac): \$324,534,957
  - Federal Farm Credit Bank (FFCB): \$323,639,753
  - Federal Home Loan Bank (FHLB): \$358,386,524

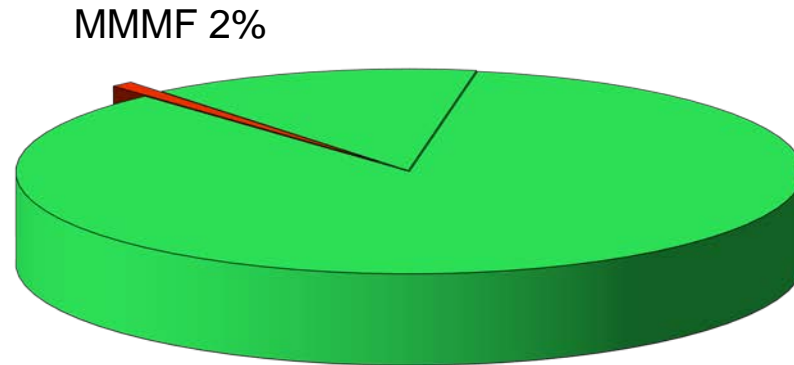
# U.S. Government Agency Securities

continued



- Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac): \$387,307,297
- Federal National Mortgage Association (FNMA or Fannie Mae): \$144,478,010

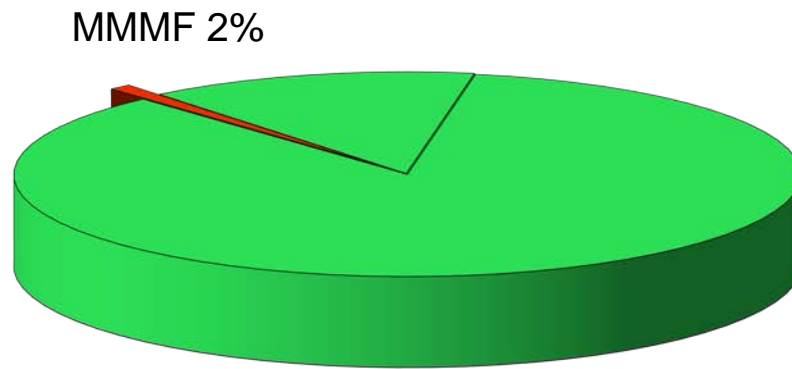
# Money Market Mutual Funds



- No-load money market mutual funds
  - Registered with and regulated by the Securities and Exchange Commission
  - Rated not less than Aaa or an equivalent rating by at least one nationally recognized rating service

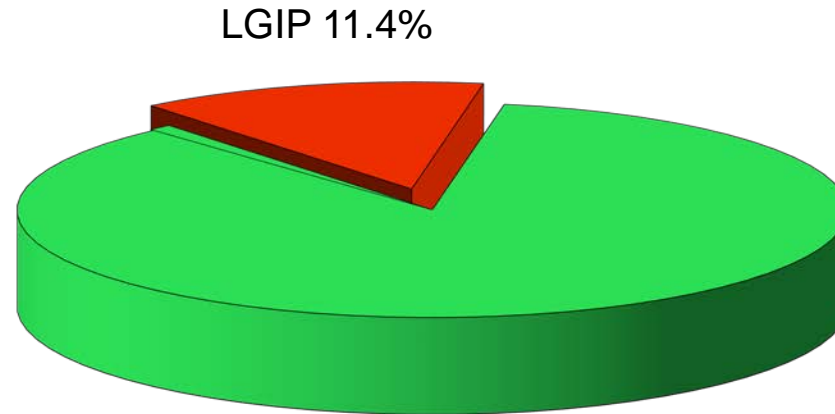
# Money Market Mutual Funds

## continued



- Investment pool maximum percentage: 15 percent
  - Limited by fund to lesser of \$100 million or 5 percent of the fund's total assets
- Market value as of June 30, 2017: \$35 million

# Local Government Investment Pools



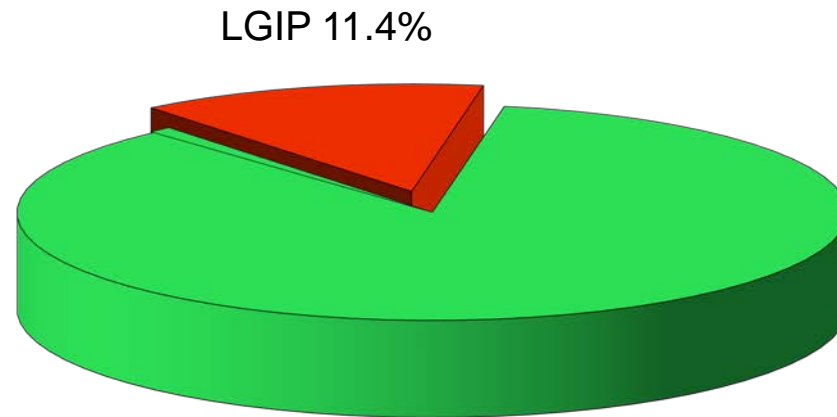
- Local government investment pools
  - Rated not less than Aaa or an equivalent rating by at least one nationally recognized rating service
- Investment pool maximum percentage: 45 percent
  - Limited by pool to lesser of \$400 million or 10 percent of the pool's total assets

11



# Local Government Investment Pools

continued



- Market value as of June 30, 2017: \$202 million

# Separately Managed Funds

- The City's investment policy also governs funds that are invested separately from the investment pool
  - Bond reserve funds and endowment funds are invested in U.S. Government agency securities
  - DWU commercial paper and GO commercial paper proceeds are invested in money market mutual funds
  - Trinity Parkway Escrow Fund is invested in money market mutual fund

# Annual Investment Policy Review

- City Council adopted the original investment policy in 1987 and approved the current policy on September 28, 2016
- Changes in the investment policy are typically made:
  - To incorporate amendments to State law and/or Federal regulatory changes
  - To improve management of the City's investments
  - To increase diversification and reduce risk
  - To reflect organizational changes within the City

# Annual Investment Policy Review

continued

- Characteristics of the City's investment policy:
  - Guides the investment process
  - Emphasizes safety, liquidity and yield in that order
  - Complies with all State and Federal laws governing management of public funds
- The Investment Committee recommends amendments to the Investment Policy
  - Chief Financial Officer
  - City Controller
  - Treasury Manager

15



# Investment Policy Amendments

## Sec. 8 – Authorized and Suitable Investments

- Proposed amendment adds no-load mutual funds that are registered with and regulated by the Securities and Exchange Commission and meet PFIA requirements
  - HB 1003, effective June 14, 2017
  - The term “money market mutual funds” has been modified to “mutual funds” in Sec. 13 (Diversification and Maximum Maturities)

# Investment Policy Amendments

continued

- Proposed amendment clarifies that a local government investment pool that meets PFIA requirements is not required to invest its funds according to its participants' approved investment policies and objectives
  - Eligible local government investment pools are recommended for City Council approval after a thorough investigation by the City's Investment Committee

17

# Investment Policy Amendments

## continued

### **Sec 9 – Authorized Broker/Dealers and Financial Institutions**

HB 1701, effective September 1, 2017, changed the requirement that had been in effect since PFIA was enacted in 1995, which required business organizations attempting to sell investments to an entity to certify in a signed statement that the entity's investment policy had been received and reviewed by the organization and that the organization had implemented reasonable procedures and controls in an attempt to preclude transactions with the entity that were not authorized by the investment policy. In response to this change, the proposed amendment to the City's policy is as follows:

18

# Investment Policy Amendments

## continued

### **Sec 9 – Authorized Broker/Dealers and Financial Institutions**

“A written copy of this Investment Policy shall be presented to any person offering to engage in an investment transaction with the City. Investments shall only be made with those business organizations (including money market mutual funds and local government investment pools) which have provided the City with a written instrument executed by a qualified representative of the firm, acknowledging that the business organization has received and reviewed the City’s Investment Policy in satisfaction of the business organization’s duties under Financial Industry Regulatory Authority (FINRA) Rule 2111 (Suitability).”



# Key Dates

- Investment Committee review and recommendation
  - July 28, 2017
- Government Performance & Financial Management Committee briefing
  - September 5, 2017
- Council consideration of the City's investment policy
  - September 13, 2017

# Recommendation

Forward to City Council with the recommendation for approval of the attached amended investment policy on the September 13, 2017 agenda

# Appendix

## Proposed 2017 City of Dallas Investment Policy (redline and clean copy with all appendices included)



# Annual Investment Policy Review

**Government  
Performance & Financial  
Management Committee**  
**September 5, 2017**

**Elizabeth Reich,  
Chief Financial Officer**

**Corrine Steeger,  
Assist. Director, Treasury Manager  
City Controller's office**



**City of Dallas**

# CITY OF DALLAS

## INVESTMENT POLICY

As adopted by City Council  
September ~~28, 2016~~13, 2017

## TABLE OF CONTENTS

	<u>Page</u>
1.0 Policy	3
2.0 Scope	3
3.0 Objective	4
4.0 Delegation of Authority	4
5.0 Prudence	5
6.0 Ethics and Conflicts of Interest	5
7.0 Training	5
8.0 Authorized and Suitable Investments	6
9.0 Authorized Broker/Dealers and Financial Institutions	7
10.0 Competitive Bidding	8
11.0 Collateralization of Deposits	8
12.0 Safekeeping and Custody	9
13.0 Diversification and Maximum Maturities	9
14.0 Sale of Securities	10
15.0 Investment Committee	10
16.0 Investment Advisor	10
17.0 Investment Strategies	10
18.0 Reporting	12
19.0 Annual Compliance Audit	12
20.0 Investment Policy Adoption	12
Glossary	13
Appendices	
A. Government Code – Chapter 2256 “Public Funds Investment Act”	
B. Council Resolution	

## **1.0 Policy**

It is the policy of the City of Dallas to invest public funds in a manner which will provide security and optimize interest earnings to the maximum extent possible while meeting the daily cash flow demands of the City and conforming to all federal, state and local statutes, rules and regulations governing the investment of public funds. This Policy sets forth the investment program of the City of Dallas and the guidelines to be followed in achieving its objectives.

Not less than annually, City Council shall adopt a written instrument by resolution stating that it has reviewed the Investment Policy and investment strategies and that the written instrument so adopted shall record any changes made to the Investment Policy or investment strategies.

This Policy is intended to satisfy the requirements of the Public Funds Investment Act, Chapter 2256, Texas Government Code (the "PFIA" or the "Act") that an investing entity such as the City of Dallas adopt and review an investment policy governing the investment by the investing entity of its funds and funds under its control.

## **2.0 Scope**

This Policy governs the investment of all funds of the City except those that are identified in Section 2.2 below. With respect to the funds of non-profit corporations that are established by City resolution and act on behalf of the City in accordance with State law, this Policy shall prevail in the absence of a specific investment policy adopted by the non-profit corporation. In addition to this Policy, the investment of bond proceeds and other bond funds (including debt service and reserve funds) of the City or of a non-profit corporation established by City resolution and acting on behalf of the City in accordance with State law shall be governed and controlled by their governing ordinance, resolution or trust indenture, including the authorization of eligible investments, and by the provisions of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"), including all regulations and rulings promulgated thereunder applicable to the issuance of tax-exempt obligations.

- 2.1 All funds are managed as a pooled fund group, referenced in this Policy as the City's investment pool, with the exception of the following, which are managed as separately invested assets:
  - 2.1.1 Bond Funds - funds established with the proceeds from specific bond issues when it is determined that segregating these funds from the City's investment pool will result in maximum interest earnings retention under the provisions of the Internal Revenue Code.
  - 2.1.2 Bond Reserve Funds - funds set at prescribed levels by certain bond ordinances to pay principal and/or interest if required to prevent default.
  - 2.1.3 Endowment Funds - funds given to the City with the instructions that the principal is to remain intact, unless otherwise agreed to, and the income generated by the investments will be used for specified purposes.
  - 2.1.4 Commercial Paper Funds - unexpended proceeds from the issuance of commercial paper notes.
- 2.2 Funds not governed by this Policy include:
  - 2.2.1 Employees' Retirement Fund
  - 2.2.2 Dallas Police and Fire Pension System
  - 2.2.3 Deferred Compensation Funds
  - 2.2.4 Private Donations – investments donated to the City are excluded from this Policy if separately managed under terms of use specified by the donor.

### 3.0 Objective

Investment of the funds covered by this Policy shall be governed by the following investment objectives, in order of priority:

- 3.1 **Safety:** Safety of principal is the primary objective of the Investment Policy. Investment of the City's funds shall be undertaken in a manner that seeks to ensure the preservation of capital for the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

The City will mitigate credit risk, which is the risk of loss due to the failure of the issuer or backer, by:

- Limiting investments to the types listed in Section 8.0 ("Authorized and Suitable Investments") of this Policy
- Qualifying the broker/dealers and financial institutions with which the City may engage in an investment transaction in accordance with Section 9.0 ("Authorized Broker/Dealers and Financial Institutions)
- Diversifying the investment portfolio so that the impact of potential losses from any one type of investment or from any one individual issuer will be minimized (see Section 13.0 "Diversification and Maximum Maturities").

The City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by:

- Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities prior to maturity
- Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar local government investment pools and limiting the weighted average maturity of the portfolio in accordance with this Policy (see Section 17.0 "Investment Strategies").

- 3.2 **Liquidity:** The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements that might be reasonably anticipated. This is accomplished by structuring the portfolio so that investments mature concurrent with cash needs to meet anticipated demands. A portion of the portfolio will be placed in money market mutual funds or local government investment pools offering same-day liquidity to meet unanticipated demands.

- 3.3 **Yield:** The City's investment portfolio shall be designed with the objective of attaining a market rate of return, throughout budgetary and economic cycles, commensurate with the City's investment risk constraints and the cash flow characteristics of the portfolio.

### 4.0 Delegation of Authority

The Chief Financial Officer, under the direction and authority of the City Manager, shall direct the cash management program of the City as defined in Section 2-134, "Duties of the Chief Financial Officer", Chapter 2 "Administration" of the Dallas City Code, as amended. City Council shall designate the Chief Financial Officer, City Controller, and the Assistant Director/Treasury Manager as Investment Officers responsible for the investment of its funds, under the direction and authority of the City Manager.

The City's Investment Officers shall establish written procedures for the operation of the investment program consistent with this Investment Policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this Policy and the written procedures. Authority granted to a person to invest the City's funds is effective until rescinded or until termination of the person's employment by the City. The Investment Officers shall be responsible for all transactions undertaken and shall establish a system of controls, to be reviewed by the City Auditor, to regulate the activities of subordinate officials. In order to assure quality and capability of investment management, the Investment Officers shall possess sufficient working knowledge of economics and securities markets, as well as the supervisory experience and judgment necessary to carry out the responsibilities outlined in this Policy.



## 5.0 Prudence

Investments shall be made with judgment and care - under circumstances then prevailing - which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

- 5.1 The standard of prudence to be used by investment officials shall be the “prudent person” standard and shall be applied in the context of managing an overall portfolio. Investment Officers acting in accordance with written procedures and the Investment Policy and exercising due diligence 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 fashion and appropriate action is taken to control adverse developments.
- 5.2 In determining whether an investment official has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration the investment of all funds over which the official had responsibility rather than consideration as to the prudence of a single investment and, whether the investment decision was consistent with the City’s Investment Policy and written investment procedures.

## 6.0 Ethics and Conflicts of Interest

Investment Officers who have a personal business relationship with a business organization offering to engage in an investment transaction with the City shall refrain from activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

- 6.1 Investment Officers shall sign annual statements agreeing to abide by this section of the Investment Policy and affirming no known conflicts of interest.
- 6.2 Investment Officers must file a disclosure statement with the Texas Ethics Commission and City Council if:
  - a) the Investment Officer has a personal business relationship with a business organization offering to engage in an investment transaction with the City; or
  - b) the Investment Officer is related within the second degree by affinity or consanguinity, as determined under Chapter 573 of the Texas Government Code, to an individual seeking to transact investment business with the City.
- 6.3 An Investment Officer has a personal business relationship with a business organization if:
  - a) the Investment Officer owns 10 percent 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;
  - b) funds received by the Investment Officer from the business organization exceed 10 percent of his/her gross income for the previous year; or
  - c) the Investment Officer has acquired from the business organization during the previous year investments with a book value of \$2,500 or more for his/her personal account.

## 7.0 Training

The Investment Officers and the persons authorized to execute investment transactions shall attend at least one 10 hour investment training session within 12 months after taking office or assuming duties and receive not less than 8 hours of instruction relating to investment responsibilities during a two-year period that begins on the first day of the City’s fiscal year following the initial 10 hours of instruction and consists of the two consecutive fiscal years after that date. Training must be received from an independent source approved by the City’s Investment Committee and must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio and compliance with the Act.

## 8.0 Authorized and Suitable Investments

City funds governed by this Policy may be invested in the instruments described below, all of which are authorized by Chapter 2256 of the Government Code (Public Funds Investment Act).

- 8.1 Direct obligations of the United States, its agencies or instrumentalities, and other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of the United States or its respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States.
- The City will restrict investments in eligible securities described in this section to discount notes and callable or non-callable fixed-rate securities with a fixed principal repayment amount.
- 8.2 Direct obligations of states and local governments rated not less than Aa3 or its equivalent (long-term rating) or an equivalent short-term rating by at least one nationally recognized investment rating firm.
- 8.3 Fully collateralized Certificates of Deposit/Share Certificates that are issued by a bank or credit union that has its main office or branch office within the City and are:
- guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor; or
  - secured by obligations in accordance with Section 11.0 herein.
- If the certificate of deposit is collateralized by pledged securities the City must have on file a signed Depository Agreement, approved as to form by the City Attorney, which details eligible collateral, collateralization ratios for pledged securities, standards for collateral custody and control of pledged securities, collateral valuation of pledged securities, and conditions for agreement termination.
- 8.4 Certificates of Deposit obtained through a depository institution or a broker approved by the City's Investment Committee under the provisions of Section 9.0 of this Policy that has its main office or branch office within the City and that contractually agrees to place the funds in federally insured depository institutions in accordance with the conditions prescribed in Section 2256.010(b) of the Act.
- 8.5 Fully collateralized repurchase agreements in accordance with the conditions prescribed in Section 2256.011 of the Act. Prior to investment in a repurchase agreement, the City must have on file a signed Master Repurchase Agreement, approved as to form by the City Attorney, which details eligible collateral, collateralization ratios, standards for collateral custody and control, collateral valuation, and conditions for agreement termination and provided the repurchase agreement:
- has a defined termination date;
  - is secured by a combination of cash and obligations of the United States or its agencies and instrumentalities described by Section 2256.009(a) (1) of the Act. Securities received for repurchase agreements must have a market value greater than or equal to 103% at the time the investment is made and throughout the terms of the repurchase agreement;
  - requires the securities being purchased by the City or cash held by the City to be assigned to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City; and
  - is placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in this state, and which is rated no less than A or its equivalent by two nationally recognized rating services.
- 8.6 A securities lending program is an authorized investment if it meets the following conditions:
- A loan made under the program must allow for termination at any time;
  - A loan made under the program must be placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in this state that is rated no less than A or its equivalent by two nationally recognized rating services. An agreement to lend securities must have a term of one year or less and shall comply with the provisions of section 1058 of the Internal Revenue Code;
  - A loan made under the program must be secured as prescribed in Section 2256.0115(b)(3) of the Act. Securities being held as collateral must be pledged to the City, held in the City's name, and deposited at the time the investment is made with a third party approved by the City;

- d) The amount of collateral must not be less than 100% of the market value of securities loaned, including accrued income. The market value of securities loaned shall be determined daily. Cash received as collateral shall not be invested for a term later than the expiration date of the securities lending agreement and may only be invested in investments as authorized by this Policy.

- 8.7 No-load money market mutual funds that are registered with and regulated by the Securities and Exchange Commission that meet the requirements of the PFIA, and, in addition:
- a) are rated not less than Aaa or an equivalent rating by at least one nationally recognized rating service. A rating is not required for a sweep account investment, which is part of the city's depository contract; and,
  - b) have provided the City with a prospectus and other information as may be required by law.

Investments will be made in a money market mutual fund only after a thorough investigation of the fund and approval by the Investment Committee which shall, at least annually, review, revise and adopt a list of approved funds.

8.8 No-load mutual funds that are registered with and regulated by the Securities and Exchange Commission that meet the requirements of the PFIA and have provided the City with an offering circular and other information required by the Act.

Investments will be made in a mutual fund only after a thorough investigation of the fund and approval by the Investment Committee which shall, at least annually, review, revise and adopt a list of approved funds.

- 8.89 Local government investment pools which are organized in conformity with Chapter 791 (Interlocal Cooperation Contracts Act) and meet the requirements of the PFIA that:
- a) are rated not less than Aaa or an equivalent rating by at least one nationally recognized rating service; and
  - b) have provided the City with an offering circular and other information required by the Act.

To become eligible, investment pools must be approved by City Council action. Investments will be made in a local government investment pool only after a thorough investigation of the pool and approval by the Investment Committee which shall, at least annually, review, revise and adopt a list of approved pools. A pool approved by the Investment Committee shall invest its funds in investment types consistent with the Act and the pool's own adopted investment policies and objectives. An approved pool is not required to invest its funds in investment types according to the investment policies and objectives adopted by its participants.

The Investment Officers may at times restrict or prohibit the purchase of specific issues due to current market conditions. An investment that requires a minimum rating under this section does not qualify as an authorized investment during the period the investment does not have the minimum rating. Ratings shall be monitored using nationally recognized financial information sources, including actions published on rating agency websites. The City shall take all prudent measures consistent with the Act to liquidate an investment that does not have the minimum rating required by the Act.

## 9.0 Authorized Broker/Dealers and Financial Institutions

The Investment Committee shall, at least annually, review, revise, and adopt a list of qualified broker/dealers and financial institutions authorized to engage in the purchase and sale of obligations of the U.S. Government, its agencies or instrumentalities with the City. In order to be considered, those firms that desire to become qualified bidders for securities transactions will be required to provide information regarding creditworthiness, experience and reputation. Authorized firms may include primary dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule).

A written copy of this Investment Policy shall be presented to any person offering to engage in an investment transaction with the City. Investments shall only be made with those business organizations (including money market mutual funds and local government investment pools) which have provided the City with a written instrument executed by a qualified representative of the firm, acknowledging that the business organization ~~has:~~

~~a) received~~has received and reviewed the City's Investment Policy;~~and in satisfaction of the business organization's duties under Financial Industry Regulatory Authority (FINRA) Rule 2111 (Suitability).~~

## 10.0 Competitive Bidding

It is the policy of the City to require competitive bidding for all individual security purchases and sales except for:

- a) transactions with money market mutual funds and local government investment pools (which are deemed to be made at prevailing market rates)
- b) treasury and agency securities purchased at issue through an approved broker/dealer or financial institution
- c) automatic overnight "sweep" transactions with the City Depository
- d) fully insured certificates of deposit placed in accordance with the conditions prescribed in Section 2256.010(b) of the Act or placed with the City's Depository if so authorized by the City Depository Contract.

At least three bids or offers must be solicited for all other transactions involving individual securities. The City's investment advisor is also required to solicit at least three bids or offers when transacting trades on the City's behalf. In situations where the exact security being offered is not offered by other dealers, offers on the closest comparable investment may be used to establish a fair market price for the security. Bids for certificates of deposit may be solicited in any manner permitted by the Act.

## 11.0 Collateralization of Deposits

The City requires that all uninsured collected balances plus accrued interest, if any, in depository accounts be secured in accordance with the requirements of this Policy and Chapter 2257, Government Code ("Public Funds Collateral Act") and the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA). Financial institutions serving as City depositories will be required to sign a Depository Agreement with the City which details securities that can serve as eligible collateral, collateralization ratios, standards for collateral custody and control, collateral valuation, rights of substitution and conditions for agreement termination.

Pledged securities serving as collateral will always be held by an independent third party with which the City has a current custodial agreement and shall be reviewed at least monthly to ensure that the market value of the pledged securities is at least 102%. Eligible collateral are as follows:

### Eligible Collateral

- 1) Direct obligations of the United States or other obligations of the United States or other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of the United States.
- 2) Direct debt obligations of an agency or instrumentality of the United States.
- 3) Mortgage-backed securities issued directly by an agency or instrumentality of the United States eligible under the Public Funds Collateral Act.
- 4) Direct debt 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.

The use of a letter of credit issued to the City by the Federal Home Loan Bank may be considered by the City to provide collateral for bank deposits and for certificates of deposit.

The City's Investment Officers reserve the right to accept or reject any form of collateral or enhancement at their sole discretion.

## 12.0 Safekeeping and Custody

Safekeeping and custody of investment securities shall be in accordance with applicable law and accounting standards. All securities transactions, except local government investment pool and money market mutual fund transactions, shall be conducted on a delivery versus payment (DVP) basis. Investment securities will be held by a third party custodian designated by the City, and be required to issue safekeeping receipts clearly detailing that the securities are owned by the City.

Safekeeping and custody of collateral shall be in accordance with applicable law and accounting standards. Pledged securities serving as collateral will be held by a third party custodian designated by the City, and pledged to the City as evidenced by safekeeping receipts of the institution with which the securities are deposited.

## 13.0 Diversification and Maximum Maturities

The City's Investment Pool will be diversified to limit market and credit risk by observing the limitations at the time of purchase as listed below. In order to ensure the ability of the City to meet obligations and to minimize potential liquidation losses, the dollar-weighted average stated maturity of the Investment Pool shall not exceed 1.5 years at the time investments are purchased for the Investment Pool. Funds managed as separately invested assets in Section 2.1 of the Policy are subject to all of the following with the exception of the Issuer Limitation on investment in U.S. Agencies and Instrumentalities. Funds managed as separately invested assets may be invested 100% in the obligations of any one U.S. Agency or Instrumentality.

	<b>Maximum Stated Maturity<sup>1</sup></b>	<b>Issuer Limitations</b>
U.S. Treasuries	5 Years	100% of the City's investment pool may be invested in obligations of the U.S. Treasury.
U.S. Agencies/Instrumentalities	5 Years	No more than 30% of the book value of the City's investment pool may be invested in the obligations of any one issuer.
Municipal Notes and Bonds	5 Years	The City may not own more than the lesser of \$5 million or 20% of any single issue.
Repurchase Agreements	30 Days	No more than 15% of the City's investment pool may be invested with one counterparty, excluding flexible repurchase agreements for investment of bond proceeds.
<del>Money Market</del> Mutual Funds	N/A	The City may not own more than the lesser of \$100 million or 5% of the total assets of any one fund, excluding <del>money market</del> mutual funds for investment of commercial paper proceeds.
Local Government Investment Pools	N/A	The City may not own more than the lesser of \$400 million or 10% of the total assets of any one pool.
Certificates of Deposit	5 Years	The City may not own more than \$50 million of any single financial institution's certificates of deposit at any one time, excluding certificates of deposit placed with the City's

Depository if so authorized by the City  
Depository Contract.

In addition to the above limitations, the City's investment pool shall be diversified by market sector as follows:

	<b>Maximum Percentage of Investment Pool</b>
U.S. Treasuries	100%
U.S. Agencies/Instrumentalities	100% (maximum 30% callable)
Municipal Notes and Bonds	15%
Repurchase Agreements	15%*
<del>Money Market</del> Mutual Funds	15%
Local Government Investment Pools	45%
Certificates of Deposit	20%**

\* Excluding flexible repurchase agreements for bond proceeds.

\*\*Excluding certificates of deposit placed with the City's Depository if so authorized by the City Depository Contract.

- (1) Purchases of securities with stated maturities greater than the maximum authorized under this section require prior City Council approval. With respect to bond proceeds and other bond funds, the City may, in the bond ordinance, specifically authorize investments in repurchase agreements with maturities in excess of 30 days subject to any required approvals from bond insurers.

#### **14.0 Sale of Securities**

The City's policy is to hold securities to maturity. However, securities may be sold:

- (a) in order to minimize the potential loss of principal on a security whose credit quality has declined;
- (b) in order to reposition the portfolio for the purpose of improving the quality, yield, or target duration of the portfolio; or
- (c) in order to meet unanticipated liquidity needs of the portfolio.

#### **15.0 Investment Committee**

An Investment Committee shall be established and meet quarterly to determine investment guidelines, general strategies, and monitor performance. Members of the Investment Committee will include the Investment Officers, the Cash and Investment Manager and the City's Investment Advisor if the City has contracted with an Advisor. The Investment Advisor is a non-voting member of the Investment Committee.

#### **16.0 Investment Advisor**

The City may retain the services of an Investment Advisor to assist in the review of cash flow requirements, the formulation of investment strategies, and the execution of security purchases, sales and deliveries.

#### **17.0 Investment Strategies**

The City of Dallas maintains separate portfolios for individual funds or groups of funds (as listed under Sec. 2.0 of this Policy) which are managed according to the terms of this Policy and the corresponding investment strategies listed below. The investment strategy for portfolios established after the annual Investment Policy adoption will be managed in accordance with the terms of this Policy and applicable agreements until the next annual review when a specific strategy will be adopted.

- 17.1 Investment Pool Strategy - The City's Investment Pool is an aggregation of the majority of City funds which includes tax receipts, enterprise fund revenues, fine and fee revenues, as well as some, but not all, bond proceeds, grants, gifts and endowments. This portfolio is maintained to meet anticipated daily cash needs for City of Dallas operations, capital projects and debt service. The objectives of this portfolio are to:
  - a) ensure safety of principal by investing only in high-quality securities for which a strong secondary market exists;
  - b) ensure that anticipated cash flows are matched with adequate investment liquidity;
  - c) limit market and credit risk through diversification; and

- d) attain a market rate of return commensurate with the objectives and restrictions set forth in this Policy by managing the portfolio to meet or exceed the 12 month moving average yield on treasury one-year constant maturities as reported by Federal Reserve Statistical Release H.15.
- 17.2 Bond Funds Strategy - Occasionally, separate non-pooled portfolios are established with the proceeds from bond sales in order to maximize earnings within the constraints of arbitrage regulations. The objectives of these portfolios are to:
- a) ensure safety of principal by investing only in high-quality securities for which a strong secondary market exists or by maintaining the security of the investment through collateralization according to the standards approved in Section 8.4 of this Policy;
  - b) ensure that anticipated cash flows are matched with adequate investment liquidity or that the terms of the secured investment agreement permit maximum flexibility for the City in making withdrawals;
  - c) manage market and credit risk through diversification and control of counterparty risk; and
  - d) attain a market rate of return commensurate with the objectives and restrictions set forth in this Policy and the bond ordinance by managing the portfolio to meet or exceed the bond yield
- 17.3 Bond Reserve Fund Strategy - Non-pooled reserve funds for outstanding revenue bonds are set at levels required by their respective bond ordinances. These funds will be used to pay the final principal and/or interest due on outstanding bonds that are similarly secured or to make up any shortfalls in debt service funds as required by the bond ordinance. The objectives of Bond Reserve Fund Portfolios are to:
- a) ensure safety of principal by investing only in high-quality securities for which a strong secondary market exists or by maintaining the security of the investment through collateralization according to the standards approved in Section 8.4 of this Policy;
  - b) ensure that anticipated cash flows are matched with adequate investment liquidity or that the terms of the secured investment agreement permit maximum flexibility for the City in making withdrawals;
  - c) manage market and credit risk through diversification and control of counterparty risk; and
  - d) attain a market rate of return commensurate with the objectives and the restrictions set forth in this Policy and the bond ordinance by managing the portfolio to meet or exceed the bond yield.
- 17.4 Endowment Funds Strategy - Funds received as gifts to the City with instructions that the income generated by the investment of said funds be used for specified purposes may be invested as separate non-pooled portfolios if required by the terms of the gift. The objectives of Endowment Portfolios are to:
- a) ensure safety of principal and sufficient liquidity by investing only in high-quality securities for which a strong secondary market exists;
  - b) manage market and credit risk through the use of a competitive process to place investments;
  - c) attain a market rate of return commensurate with the objectives and restrictions set forth in this Policy and the terms of the gift.
- 17.5 Commercial Paper Funds Strategy – The City issues tax-exempt commercial paper notes as an interim financing tool for construction projects. The investment of the proceeds from the issuance of commercial paper debt should have a high degree of liquidity in order to fund payments to contractors. The objectives of this portfolio are to:
- a) ensure safety of principal and sufficient liquidity by investing in money market mutual funds or short-term high-quality securities for which a strong secondary market exists;
  - b) manage market and credit risk through diversification of funds and/or securities. Funds must be rated AAA by at least one nationally recognized rating agency; and
  - c) attain a market rate of return commensurate with the objectives and restrictions set forth in this Policy and governing bond ordinances.
- 17.6 Trinity Parkway Escrow Strategy – This escrow was established pursuant to an Agreement dated as of January 1, 1999 with the North Texas Tollway Authority (“NTTA”) pertaining to development of the Trinity Parkway. These funds will be used to reimburse NTTA for specified payments related to project feasibility. Permitted investments for this portfolio are defined in the Escrow Agreement as those that are consistent with the Act. The objectives of this portfolio are to:

- a) ensure safety of principal and sufficient liquidity by investing only in high-quality securities for which a strong secondary market exists;
- b) ensure that anticipated cash flows are matched with adequate investment liquidity;
- c) manage market and credit risk through diversification of funds and requirement of AAA rating; and
- d) attain a market rate of return commensurate with the objectives and restrictions set forth in this Policy and the Agreement.

### **18.0 Reporting**

Investment performance is regularly monitored by investment staff and reported to the Investment Committee on a monthly basis. Month-end market prices on each security are obtained from nationally recognized securities databases including those provided by the City's depository bank through its safekeeping services and Bloomberg Professional Services. These prices are recorded in the City's portfolio database and included in all management reports as well as the City's Comprehensive Annual Financial Report.

Not less than quarterly the Investment Officers will submit to the city council finance committee described in Chapter III, Section 13 of the Dallas City Charter, the City Manager, and the Mayor and City Council a written report of the status of the current investment portfolio. The report must meet the requirements of the Act.

An independent auditor shall formally review the quarterly reports prepared under this section at least annually, and that auditor shall report the results of the review to City Council.

### **19.0 Annual Compliance Audit**

In conjunction with the annual financial audit, a compliance audit shall be performed which includes an audit of management controls on investments and adherence to the City's established investment policy.

### **20.0 Investment Policy Adoption**

The City's Investment Policy is hereby adopted by resolution of the City Council on September ~~28, 2016~~ 13, 2017 in accordance with the PFIA.



## GLOSSARY

**ACCRETION OF DISCOUNT:** Periodic straight-line increases in the book or carrying value of a security so the amount of the purchase price discount below face value is completely eliminated by the time the bond matures or by the call date, if applicable.

**ACCRUED INTEREST:** The interest accumulated on a security from its issue date or since the last payment of interest up to but not including the purchase date. The purchaser of the security pays to the seller the market price plus accrued interest.

**AMORTIZATION OF PREMIUM:** Periodic straight-line decreases in the book or carrying value of a security so the premium paid for a bond above its face value or call price is completely eliminated.

**ASK:** The price at which securities are offered by sellers.

**BARBELL MATURITY STRATEGY:** A maturity pattern within a portfolio in which maturities of the assets in the portfolio are concentrated in both the short and long ends of the maturity spectrum.

**BASIS POINT:** One one-hundredth (1/100) of one percent; 0.0001 in decimal form.

**BENCHMARK:** A comparative base for performance evaluation. A benchmark can be a broad-based bond index, a customized bond index, or a specific objective.

**BID:** The price offered for securities by purchasers. (When selling securities, one asks for a bid.)

**BOND EQUIVALENT YIELD:** Used to compare yields available from discounted securities that pay interest at maturity with yields available from securities that pay interest semi-annually.

**BOOK ENTRY SECURITIES:** Stocks, bonds, other securities, and some certificates of deposit that are purchased, sold, and held as electronic computer entries on the records of a central holder. These securities are not available for purchase in physical form; buyers get a receipt or confirmation as evidence of ownership.

**BOOK VALUE:** The original cost of the security as adjusted for amortization of any premium paid or accretion of discount since the date of purchase.

**BROKER:** A party who brings buyers and sellers together. Brokers do not take ownership of the property being traded. They are compensated by commissions. They are not the same as dealers; however, the same firms that act as brokers in some transactions may act as dealers in other transactions.

**CALLABLE BOND:** A bond that the issuer has the right to redeem prior to maturity at a specified price. Some callable bonds may be redeemed on one call date while others may have multiple call dates. Some callable bonds may be redeemed at par while others can be redeemed only at a premium. Some callable bonds are step-up bonds that pay an initial coupon rate for the first period, and then the coupon rate increases for the following periods if the bonds are not called by the issuer.

**CERTIFICATE OF DEPOSIT (CD):** A time deposit with a specific maturity evidenced by a certificate. Large-denomination (over \$100,000) CD's are typically negotiable.

**CODE:** The Internal Revenue Code of 1986, as amended.

**COLLATERAL:** Securities, evidence of deposit or other property which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

**COLLATERALIZED MORTGAGE OBLIGATION (CMO):** A type of mortgage-backed security created by dividing the rights to receive the principal and interest cash flows from an underlying pool of mortgages in separate classes or tiers.

**COMMERCIAL PAPER:** Short-term unsecured promissory notes issued by corporations for a maturity specified by the buyer. It is used primarily by corporations for short-term financing needs at a rate which is generally lower than the prime rate.

**CONFIRMATION:** The document used to state in writing the terms of the trade which had previously been agreed to verbally.

**COUPON RATE:** The stated annual rate of interest payable on a coupon bond expressed as a percentage of the bond's face value.

**CREDIT RISK:** The risk that (1) the issuer is downgraded to a lower quality category and/or (2) the issuer fails to make timely payments of interest or principal.

**CUSIP NUMBER:** A nine-digit number established by the Committee on Uniform Securities Identification Procedures that is used to identify publicly traded securities. Each publicly traded security receives a unique CUSIP number when the security is issued.

**CUSTODY:** The service of an organization, usually a financial institution, of holding (and reporting) a customer's securities for safekeeping. The financial institution is known as the custodian.

**DEALER:** A firm which buys and sells for its own account. Dealers have ownership, even if only for an instant, between a purchase from one party and a sale to another party. They are compensated by the spread between the price they pay and the price they receive. Dealers are not the same as brokers; however, the same firms which act as dealers in some transactions may act as brokers in other transactions.

**DELIVERY VERSUS PAYMENT (DVP):** The safest method of settling a trade involving a book entry security. In a DVP settlement, the funds are wired from the buyer's account and the security is delivered from the seller's account in simultaneous, interdependent wires.

**DEPOSITORY TRUST COMPANY (DTC):** An organization that holds physical certificates for stocks and bonds and issues receipts to owners. Securities held by DTC are immobilized so that they can be traded on a book entry basis.

**DERIVATIVE:** A security that derives its value from an underlying asset, group of assets, reference rate, or an index value. Some derivatives can be highly volatile and result in a loss of principal in changing interest rate environments.

**DISCOUNT:** The amount by which the price paid for a security is less than its face value.

**DISCOUNT SECURITIES:** Securities that do not pay periodic interest. Investors earn the difference between the discount issue price and the full face value paid at maturity.

**DIVERSIFICATION:** Dividing investment funds among a variety of securities offering independent returns, to reduce risk inherent in particular securities.

**DURATION:** A sophisticated measure of the weighted average maturity of a bond's cash flow stream, where the present values of the cash flows serve as the weights.

**ECONOMIC CYCLE (BUSINESS CYCLE):** As the economy moves through the business cycle, interest rates tend to follow the levels of production, output, and consumption - rising as the economy expands and moves out of recession and declining after the economy peaks, contracts, and heads once again into recession.

**EFFECTIVE MATURITY:** The average maturity of a bond, given the potential for early call. For a non-callable bond, the final maturity date serves as the effective maturity. For a callable bond, the effective maturity is bounded by the first call date and the final maturity date; the position within this continuum is a function of the call price, the current market price, and the reinvestment rate assumed.

**FACE VALUE:** The principal amount due and payable to a bondholder at maturity; par value. Also, the amount on which coupon interest is computed.

**FAIL:** The event of a securities purchase or sale transaction not settling as intended by the parties.

**FAIR VALUE:** The amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

**FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC):** A federal agency that insures bank deposits.

**FEDERAL FARM CREDIT BANKS (FFCB):** A government-sponsored corporation that was created in 1916 and is a nationwide system of banks and associations providing mortgage loans, credit, and related services to farmers, rural homeowners, and agricultural and rural cooperatives. The banks and associations are cooperatively owned, directly or indirectly, by their respective borrowers. The Federal Farm Credit System is supervised by the Farm Credit Administration, an independent agency of the U.S. government. (See Government Sponsored Enterprise)

**FEDERAL FUNDS:** Monies within the Federal Reserve System representing a member bank's surplus reserve funds. Banks with excess funds may sell their surplus to other banks whose funds are below required reserve levels. Normally, Federal funds are employed in settling all government securities transactions. The Federal Funds Rate is the rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

**FEDERAL HOME LOAN BANKS (FHLB):** Government-sponsored wholesale banks (currently twelve regional banks) which lend funds and provide correspondent banking services to member commercial bank, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district Bank. (See Government Sponsored Enterprises)

**FEDERAL HOME LOAN MORTGAGE CORPORATION (FHLMC or "Freddie Mac"):** A government-sponsored corporation that was created in July 1970, by the enactment of Title III of the Emergency Home Finance Act of 1970. Freddie Mac was established to help maintain the availability of mortgage credit for residential housing, primarily through developing and maintaining an active, nationwide secondary market in conventional residential mortgages. (See Government Sponsored Enterprises)

**FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA or Fannie Mae):** FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae is a private stockholder-owned corporation. FNMA securities are highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest. (See Government Sponsored Enterprises)

**FEDERAL OPEN MARKET COMMITTEE (FOMC):** Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank presidents. The president of the New York Federal Reserve Bank is a permanent member while the other presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of government securities in the open market as a means of influencing the volume of bank credit and money.

**FEDERAL RESERVE SYSTEM:** The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., twelve regional banks and about 5700 commercial banks that are members of the system.

**FINANCIAL INDUSTRY REGULATORY AUTHORITY (FINRA):** A not-for-profit organization authorized by Congress to ensure investor protection and market integrity through regulation of broker-dealers.

**FINRA RULE 2111 (SUITABILITY):** FINRA Rule 2111 requires, in part, that a broker-dealer or associated person "have a reasonable basis to believe that a recommended transaction or investment strategy involving a security or securities is suitable for the customer, based on the information obtained through the reasonable diligence of the [firm] or associated person to ascertain the customer's investment profile."

**FIXED-INCOME SECURITY:** A financial instrument promising a fixed amount of periodic income over a specified future time span.

**GOVERNMENT-SPONSORED ENTERPRISES (GSE's):** Payment of principal and interest on securities issued by these corporations is not guaranteed explicitly by the U.S. government, however, most investors consider these securities to carry an implicit U.S. government guarantee. The debt is fully guaranteed by the issuing corporations. GSE's include: Farm Credit System, Federal Home Loan Bank System, Federal Home Loan Mortgage Corporation, and Federal National Mortgage Association.

**INSTRUMENTALITIES:** See Government-Sponsored Enterprises

**INTEREST RATE RISK:** The risk that the general level of interest rates will change, causing unexpected price appreciations or depreciations.

**LADDERED MATURITY STRATEGY:** A maturity pattern within a portfolio in which maturities of the assets in the portfolio are equally spaced. Over time, the shortening of the remaining lives of the assets provides a steady source of liquidity or cash flow. Given a normal yield curve with a positive slope this passive strategy provides the benefit of being able to take advantage of the higher, longer-term yields without sacrificing safety or liquidity.

**LIQUIDITY:** An entity's capacity to meet future monetary outflows (whether they are required or optional) from available resources. Liquidity is often obtained from reductions of cash or by converting assets into cash.

**LIQUIDITY RISK:** The risk that an investment will be difficult to sell at a fair market price in a timely fashion.

**MARKET RISK:** The risk that the value of a security will rise or decline as a result of changes in market conditions. It is that part of a security's risk that is common to all securities of the same general class (stocks and bonds) and thus cannot be eliminated by diversification; also known as systematic risk.

**MARKET VALUE:** The price at which a security is trading and could presumably be purchased or sold.

**MARKING-TO-MARKET:** The practice of valuing a security or portfolio according to its market value, rather than its cost or book value.

**MASTER REPURCHASE AGREEMENT:** A written contract covering all future transactions between the parties to repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer to liquidate the underlying securities in the event of default by the seller.

**MATURITY DATE:** The date on which the principal or face value of an investment becomes due and payable.

**MONEY MARKET INSTRUMENT:** Generally, a short-term debt instrument that is purchased from a broker, dealer, or bank. Sometimes the term "money market" with "short-term", defines an instrument with no more than 12 months remaining from the purchase date until the maturity date. Sometimes the term "money market" is used more restrictively to mean only those instruments that have active secondary markets.

**MORTGAGE-BACKED SECURITIES (MBS):** Securities composed of, or collateralized by, loans that are themselves collateralized by liens on real property.

**OFFER:** The price asked by a seller of securities. (When purchasing securities, one asks for an offer.)

**OPEN MARKET OPERATIONS:** Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

**OPPORTUNITY COST:** The cost of pursuing one course of action measured in terms of the foregone return that could have been earned on an alternative course of action that was not undertaken.

**PAR:** See Face Value

**PFIA OR ACT:** The Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended.

**POOLED FUND GROUP:** An internally created fund of an investing entity in which one or more institutional accounts of the investing entity are invested (as defined by the Public Funds Investment Act).

**PREMIUM:** The amount by which the price paid for a security exceeds its face value.

**PRIMARY DEALER:** A group of government securities dealers that submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.

**PRINCIPAL:** The face or par value of an instrument, exclusive of accrued interest.

**PRUDENT PERSON RULE:** An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the state. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

**QUALIFIED REPRESENTATIVE:** A person who holds a position with - and is authorized to act on behalf of - a business organization (as defined by the Public Funds Investment Act).

**RATE OF RETURN:** The amount of income received from an investment, expressed as a percentage. A market rate of return is the yield that an investor can expect to receive in the current interest-rate environment utilizing a buy-and-hold to maturity investment strategy.

**REINVESTMENT RATE:** The interest rate earned on the reinvestment of coupon payments.

**REINVESTMENT RATE RISK:** The risk that the actual reinvestment rate falls short of the expected or assumed reinvestment rate.

**REPURCHASE AGREEMENT (RP or REPO):** An agreement of one party to sell securities at a specified price to a second party and a simultaneous agreement of the first party to repurchase the securities at a specified price on demand or at a specified later date. The difference between the selling price and the repurchase price provides the interest income to the party that provided the funds. Every transaction where a security is sold under an agreement to be repurchased is a repo from the seller/borrower's point of view and a reverse repo from the buyer/lender's point of view.

**REVERSE REPURCHASE AGREEMENT:** (See Repurchase Agreement)

**SAFEKEEPING:** A procedure where securities are held by a third party acting as custodian for a fee.

**SECONDARY MARKET:** A market made for the purchase and sale of outstanding issues following the initial distribution.

**SECURITIES AND EXCHANGE COMMISSION (SEC):** Agency created by Congress to protect investors in securities transactions by administering securities legislation.

**SECURITIES LENDING:** The temporary transfer of securities by one party, the lender, to another, the borrower. The securities borrower is required to provide acceptable assets as collateral to the securities lender in the form of cash or other securities. If the borrower provides securities as collateral to the lender, it pays a fee to borrow the lent securities. If it provides cash as collateral, the lender pays interest to the borrower and reinvests the cash at a higher rate.

**SEC RULE 15C3-1:** See Uniform Net Capital Rule

**STRUCTURED NOTES:** Debt obligations whose principal or interest payments are determined by an index or formula.

**SEPARATELY INVESTED ASSET:** An account or fund of a state agency or local government that is not invested in a pooled fund group (as defined by the Public Funds Investment Act).

**SPREAD:** Most commonly used when referring to the difference between the bid and asked prices in a quote. Additionally, it may also refer to additional basis points that a non-Treasury security earns over and above a Treasury with a comparable maturity date.

**STRIPS:** Separation of the principal and interest cash flows due from any interest-bearing securities into different financial instruments. Each coupon payment is separated from the underlying investment to create a separate security. Each individual cash flow is sold at a discount. The amount of the discount and the time until the cash flow is paid determine the investor's return.

**SWAP:** The trading of one asset for another. Sometimes used in active portfolio management to increase investment returns by "swapping" one type of security for another.

**TOTAL RETURN:** Interest income plus capital gains (or minus losses) on an investment.

**TREASURY BILLS:** A non-interest bearing discount security issued by the U.S. Treasury, generally having initial maturities of 3 months, 6 months, or 1 year.

**TREASURY BONDS:** Long-term, coupon bearing U.S. Treasury securities having initial maturities of more than 10 years.

**TREASURY NOTES:** Intermediate-term, coupon bearing U.S. Treasury securities having initial maturities of 2 - 10 years.

**UNIFORM NET CAPITAL RULE:** Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called *net capital rule* and *net capital ratio*. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

**YIELD TO MATURITY (YTM):** The promised return assuming all interest and principal payments are made and reinvested at the same rate taking into account price appreciation (if priced below par) or depreciation (if priced above par).

**APPENDIX A**  
**PUBLIC FUNDS INVESTMENT ACT**

GOVERNMENT CODE

TITLE 10. GENERAL GOVERNMENT

SUBTITLE F. STATE AND LOCAL CONTRACTS AND FUND MANAGEMENT

CHAPTER 2256. PUBLIC FUNDS INVESTMENT

SUBCHAPTER A. AUTHORIZED INVESTMENTS FOR GOVERNMENTAL ENTITIES

Sec. 2256.001. SHORT TITLE. This chapter may be cited as the Public Funds Investment Act.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.002. DEFINITIONS. In this chapter:

- (1) "Bond proceeds" means the proceeds from the sale of bonds, notes, and other obligations issued by an entity, and reserves and funds maintained by an entity for debt service purposes.
- (2) "Book value" means the original acquisition cost of an investment plus or minus the accrued amortization or accretion.
- (3) "Funds" means public funds in the custody of a state agency or local government that:
  - (A) are not required by law to be deposited in the state treasury; and
  - (B) the investing entity has authority to invest.
- (4) "Institution of higher education" has the meaning assigned by Section [61.003](#), Education Code.
- (5) "Investing entity" and "entity" mean an entity subject to this chapter and described by Section [2256.003](#).
- (6) "Investment pool" means an entity created under this code to invest public funds jointly on behalf of the entities that participate in the pool and whose investment objectives in order of priority are:
  - (A) preservation and safety of principal;
  - (B) liquidity; and
  - (C) yield.



(7) "Local government" means a municipality, a county, a school district, a district or authority created under Section [52](#)(b)(1) or (2), Article III, or Section [59](#), Article XVI, Texas Constitution, a fresh water supply district, a hospital district, and any political subdivision, authority, public corporation, body politic, or instrumentality of the State of Texas, and any nonprofit corporation acting on behalf of any of those entities.

(8) "Market value" means the current face or par value of an investment multiplied by the net selling price of the security as quoted by a recognized market pricing source quoted on the valuation date.

(9) "Pooled fund group" means an internally created fund of an investing entity in which one or more institutional accounts of the investing entity are invested.

(10) "Qualified representative" means a person who holds a position with a business organization, who is authorized to act on behalf of the business organization, and who is one of the following:

(A) for a business organization doing business that is regulated by or registered with a securities commission, a person who is registered under the rules of the National Association of Securities Dealers;

(B) for a state or federal bank, a savings bank, or a state or federal credit union, a member of the loan committee for the bank or branch of the bank or a person authorized by corporate resolution to act on behalf of and bind the banking institution;

(C) for an investment pool, the person authorized by the elected official or board with authority to administer the activities of the investment pool to sign the written instrument on behalf of the investment pool; or

(D) for an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or, if not subject to registration under that Act, registered with the State Securities Board, a person who is an officer or principal of the investment management firm.

(11) "School district" means a public school district.

(12) "Separately invested asset" means an account or fund of a state agency or local government that is not invested in a pooled fund group.

(13) "State agency" means an office, department, commission, board, or other agency that is part of any branch of state government, an institution of higher education, and any nonprofit corporation acting on behalf of any of those entities.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1421, Sec. 1, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 1454, Sec. 1, eff. Sept. 1, 1999.

Sec. 2256.003. AUTHORITY TO INVEST FUNDS; ENTITIES SUBJECT TO THIS CHAPTER. (a) Each governing body of the following entities may purchase, sell, and invest its funds and funds under its control in investments authorized under this subchapter in compliance with investment policies approved by the governing body and according to the standard of care prescribed by Section [2256.006](#):

- (1) a local government;
- (2) a state agency;
- (3) a nonprofit corporation acting on behalf of a local government or a state agency; or
- (4) an investment pool acting on behalf of two or more local governments, state agencies, or a combination of those entities.

(b) In the exercise of its powers under Subsection (a), the governing body of an investing entity may contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control. A contract made under authority of this subsection may not be for a term longer than two years. A renewal or extension of the contract must be made by the governing body of the investing entity by order, ordinance, or resolution.

(c) This chapter does not prohibit an investing entity or investment officer from using the entity's employees or the services of a contractor of the entity to aid the investment officer in the execution of the officer's duties under this chapter.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1999, 76th Leg., ch. 1454, Sec. 2, eff. Sept. 1, 1999.

This section was amended by the 85th Legislature. Pending publication of the current statutes, see H.B. [1003](#), 85th Legislature, Regular Session, for amendments affecting this section.

Sec. 2256.004. APPLICABILITY. (a) This subchapter does not apply to:

- (1) a public retirement system as defined by Section [802.001](#);
- (2) state funds invested as authorized by Section [404.024](#);
- (3) an institution of higher education having total endowments of at least \$95 million in book value on May 1, 1995;
- (4) funds invested by the Veterans' Land Board as authorized by Chapter [161](#), [162](#), or [164](#), Natural Resources Code;
- (5) registry funds deposited with the county or district clerk under Chapter [117](#), Local Government Code; or
- (6) a deferred compensation plan that qualifies under either Section 401(k) or 457 of the Internal Revenue Code of 1986 (26 U.S.C. Section 1 et seq.), as amended.

(b) This subchapter does not apply to an investment donated to an investing entity for a particular purpose or under terms of use specified by the donor.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 505, Sec. 24, eff. Sept. 1, 1997; Acts 1997, 75th Leg., ch. 1421, Sec. 2, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 62, Sec. 8.21, eff. Sept. 1, 1999; Acts 1999, 76th Leg., ch. 1454, Sec. 3, eff. Sept. 1, 1999.

This section was amended by the 85th Legislature. Pending publication of the current statutes, see H.B. [1701](#), 85th Legislature, Regular Session, for amendments affecting this section.

Sec. 2256.005. INVESTMENT POLICIES; INVESTMENT STRATEGIES; INVESTMENT OFFICER. (a) The governing body of an investing entity

shall adopt by rule, order, ordinance, or resolution, as appropriate, a written investment policy regarding the investment of its funds and funds under its control.

(b) The investment policies must:

(1) be written;

(2) primarily emphasize safety of principal and liquidity;

(3) address investment diversification, yield, and maturity and the quality and capability of investment management; and

(4) include:

(A) a list of the types of authorized investments in which the investing entity's funds may be invested;

(B) the maximum allowable stated maturity of any individual investment owned by the entity;

(C) for pooled fund groups, the maximum dollar-weighted average maturity allowed based on the stated maturity date for the portfolio;

(D) methods to monitor the market price of investments acquired with public funds;

(E) a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis; and

(F) procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the provisions of Section [2256.021](#).

(c) The investment policies may provide that bids for certificates of deposit be solicited:

(1) orally;

(2) in writing;

(3) electronically; or

(4) in any combination of those methods.

(d) As an integral part of an investment policy, the governing body shall adopt a separate written investment strategy for each of the funds or group of funds under its control. Each investment strategy must describe the investment objectives for the particular fund using the following priorities in order of importance:

(1) understanding of the suitability of the investment to the financial requirements of the entity;

- (2) preservation and safety of principal;
- (3) liquidity;
- (4) marketability of the investment if the need arises to liquidate the investment before maturity;
- (5) diversification of the investment portfolio; and
- (6) yield.

(e) The governing body of an investing entity shall review its investment policy and investment strategies not less than annually. The governing body shall adopt a written instrument by rule, order, ordinance, or resolution stating that it has reviewed the investment policy and investment strategies and that the written instrument so adopted shall record any changes made to either the investment policy or investment strategies.

(f) Each investing entity shall designate, by rule, order, ordinance, or resolution, as appropriate, one or more officers or employees of the state agency, local government, or investment pool as investment officer to be responsible for the investment of its funds consistent with the investment policy adopted by the entity. If the governing body of an investing entity has contracted with another investing entity to invest its funds, the investment officer of the other investing entity is considered to be the investment officer of the first investing entity for purposes of this chapter. Authority granted to a person to invest an entity's funds is effective until rescinded by the investing entity, until the expiration of the officer's term or the termination of the person's employment by the investing entity, or if an investment management firm, until the expiration of the contract with the investing entity. In the administration of the duties of an investment officer, the person designated as investment officer shall exercise the judgment and care, under prevailing circumstances, that a prudent person would exercise in the management of the person's own affairs, but the governing body of the investing entity retains ultimate responsibility as fiduciaries of the assets of the entity. Unless authorized by law, a person may not deposit, withdraw, transfer, or manage in any other manner the funds of the investing entity.

(g) Subsection (f) does not apply to a state agency, local government, or investment pool for which an officer of the entity is assigned by law the function of investing its funds.

Text of subsec. (h) as amended by Acts 1997, 75th Leg., ch. 685, Sec. 1

(h) An officer or employee of a commission created under Chapter [391](#), Local Government Code, is ineligible to be an investment officer for the commission under Subsection (f) if the officer or employee is an investment officer designated under Subsection (f) for another local government.

Text of subsec. (h) as amended by Acts 1997, 75th Leg., ch. 1421, Sec.

3

(h) An officer or employee of a commission created under Chapter [391](#), Local Government Code, is ineligible to be designated as an investment officer under Subsection (f) for any investing entity other than for that commission.

(i) An investment officer of an entity who has a personal business relationship with a business organization offering to engage in an investment transaction with the entity shall file a statement disclosing that personal business interest. An investment officer who is related within the second degree by affinity or consanguinity, as determined under Chapter [573](#), to an individual seeking to sell an investment to the investment officer's entity shall file a statement disclosing that relationship. A statement required under this subsection must be filed with the Texas Ethics Commission and the governing body of the entity. For purposes of this subsection, an investment officer has a personal business relationship with a business organization if:

(1) the investment officer owns 10 percent 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 percent of the investment officer's gross income for the previous year; or

(3) 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.

(j) The governing body of an investing entity may specify in its investment policy that any investment authorized by this chapter is not suitable.

(k) A written copy of the investment policy shall be presented to any person offering to engage in an investment transaction with an investing entity or to an investment management firm under contract with an investing entity to invest or manage the entity's investment portfolio. For purposes of this subsection, a business organization includes investment pools and an investment management firm under contract with an investing entity to invest or manage the entity's investment portfolio. Nothing in this subsection relieves the investing entity of the responsibility for monitoring the investments made by the investing entity to determine that they are in compliance with the investment policy. The qualified representative of the business organization offering to engage in an investment transaction with an investing entity shall execute a written instrument in a form acceptable to the investing entity and the business organization substantially to the effect that the business organization has:

(1) received and reviewed the investment policy of the entity; and

(2) acknowledged that the business organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the entity and the organization that are not authorized by the entity's investment policy, except to the extent that this authorization is dependent on an analysis of the makeup of the entity's entire portfolio or requires an interpretation of subjective investment standards.

(l) The investment officer of an entity may not acquire or otherwise obtain any authorized investment described in the investment policy of the investing entity from a person who has not delivered to the entity the instrument required by Subsection (k).

(m) An investing entity other than a state agency, in conjunction with its annual financial audit, shall perform a compliance audit of management controls on investments and adherence to the entity's established investment policies.

(n) Except as provided by Subsection (o), at least once every two years a state agency shall arrange for a compliance audit of management controls on investments and adherence to the agency's established investment policies. The compliance audit shall be performed by the agency's internal auditor or by a private auditor employed in the manner provided by Section [321.020](#). Not later than January 1 of each even-numbered year a state agency shall report the results of the most recent audit performed under this subsection to the state auditor. Subject to a risk assessment and to the legislative audit committee's approval of including a review by the state auditor in the audit plan under Section [321.013](#), the state auditor may review information provided under this section. If review by the state auditor is approved by the legislative audit committee, the state auditor may, based on its review, require a state agency to also report to the state auditor other information the state auditor determines necessary to assess compliance with laws and policies applicable to state agency investments. A report under this subsection shall be prepared in a manner the state auditor prescribes.

(o) The audit requirements of Subsection (n) do not apply to assets of a state agency that are invested by the comptroller under Section [404.024](#).

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 685, Sec. 1, eff. Sept. 1, 1997; Acts 1997, 75th Leg., ch. 1421, Sec. 3, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 1454, Sec. 4, eff. Sept. 1, 1999; Acts 2003, 78th Leg., ch. 785, Sec. 41, eff. Sept. 1, 2003.

Amended by:

Acts 2011, 82nd Leg., R.S., Ch. 1004 (H.B. [2226](#)), Sec. 1, eff. June 17, 2011.

Sec. 2256.006. STANDARD OF CARE. (a) 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 of funds shall be governed by the following investment objectives, in order of priority:

- (1) preservation and safety of principal;
- (2) liquidity; and
- (3) yield.

(b) In determining whether an investment officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration:

- (1) the investment of all funds, or funds under the entity's control, over which the officer had responsibility rather than a consideration as to the prudence of a single investment; and
- (2) whether the investment decision was consistent with the written investment policy of the entity.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.007. INVESTMENT TRAINING; STATE AGENCY BOARD MEMBERS AND OFFICERS. (a) Each member of the governing board of a state agency and its investment officer shall attend at least one training session relating to the person's responsibilities under this chapter within six months after taking office or assuming duties.

(b) The Texas Higher Education Coordinating Board shall provide the training under this section.

(c) Training under this section must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with this chapter.

(d) An investment officer shall attend a training session not less than once each state fiscal biennium and may receive training from any independent source approved by the governing body of the state agency. The investment officer shall prepare a report on this subchapter and deliver the report to the governing body of the state agency not later than the 180th day after the last day of each regular session of the legislature.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 73, Sec. 1, eff. May 9, 1997; Acts 1997, 75th Leg., ch. 1421, Sec. 4, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 1454, Sec. 5, eff. Sept. 1, 1999.

Amended by:

Acts 2011, 82nd Leg., R.S., Ch. 1004 (H.B. [2226](#)), Sec. 2, eff. June 17, 2011.

This section was amended by the 85th Legislature. Pending publication of the current statutes, see H.B. [1238](#) and S.B. [1488](#), 85th Legislature, Regular Session, for amendments affecting this section.

Sec. 2256.008. INVESTMENT TRAINING; LOCAL GOVERNMENTS.

Text of subsection as amended by Acts 2015, 84th Leg., R.S., Ch. 222 (H.B. [1148](#)), Sec. 1

(a) Except as provided by Subsections (b) and (e), the treasurer, the chief financial officer if the treasurer is not the chief financial officer, and the investment officer of a local government shall:

(1) attend at least one training session from an independent source approved by the governing body of the local government or a designated investment committee advising the investment officer as provided for in the investment policy of the local government and containing at least 10 hours of instruction relating to the treasurer's or officer's responsibilities under this subchapter within 12 months after taking office or assuming duties; and

(2) except as provided by Subsections (b), (e), and (f), attend an investment training session not less than once in a two-year period that begins on the first day of that local government's fiscal year and consists of the two consecutive fiscal years after that date, and receive not less than 10 hours of instruction relating to investment responsibilities under this subchapter from an independent source approved by the governing body of the local government or a

designated investment committee advising the investment officer as provided for in the investment policy of the local government.

Text of subsection as amended by Acts 2015, 84th Leg., R.S., Ch. 1248  
(H.B. [870](#)), Sec. 1

(a) Except as provided by Subsections (a-1), (b), and (e), the treasurer, the chief financial officer if the treasurer is not the chief financial officer, and the investment officer of a local government shall:

(1) attend at least one training session from an independent source approved by the governing body of the local government or a designated investment committee advising the investment officer as provided for in the investment policy of the local government and containing at least 10 hours of instruction relating to the treasurer's or officer's responsibilities under this subchapter within 12 months after taking office or assuming duties; and

(2) attend an investment training session not less than once in a two-year period that begins on the first day of that local government's fiscal year and consists of the two consecutive fiscal years after that date, and receive not less than 10 hours of instruction relating to investment responsibilities under this subchapter from an independent source approved by the governing body of the local government or a designated investment committee advising the investment officer as provided for in the investment policy of the local government.

(a-1) In addition to the requirements of Subsection (a)(1), the treasurer, or the chief financial officer if the treasurer is not the chief financial officer, and the investment officer of a school district or a municipality shall attend an investment training session not less than once in a two-year period that begins on the first day of the school district's or municipality's fiscal year and consists of the two consecutive fiscal years after that date, and receive not less than eight hours of instruction relating to investment responsibilities under this subchapter from an independent source approved by the governing body of the school district or municipality, or by a

designated investment committee advising the investment officer as provided for in the investment policy of the school district or municipality.

(b) An investing entity created under authority of Section [52\(b\)](#), Article III, or Section [59](#), Article XVI, Texas Constitution, that has contracted with an investment management firm under Section [2256.003\(b\)](#) and has fewer than five full-time employees or an investing entity that has contracted with another investing entity to invest the entity's funds may satisfy the training requirement provided by Subsection (a) (2) by having an officer of the governing body attend four hours of appropriate instruction in a two-year period that begins on the first day of that local government's fiscal year and consists of the two consecutive fiscal years after that date. The treasurer or chief financial officer of an investing entity created under authority of Section [52\(b\)](#), Article III, or Section [59](#), Article XVI, Texas Constitution, and that has fewer than five full-time employees is not required to attend training required by this section unless the person is also the investment officer of the entity.

(c) Training under this section must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with this chapter.

(d) Not later than December 31 each year, each individual, association, business, organization, governmental entity, or other person that provides training under this section shall report to the comptroller a list of the governmental entities for which the person provided required training under this section during that calendar year. An individual's reporting requirements under this subsection are satisfied by a report of the individual's employer or the sponsoring or organizing entity of a training program or seminar.

(e) This section does not apply to a district governed by Chapter [36](#) or [49](#), Water Code.

(f) Subsection (a) (2) does not apply to an officer of a municipality if the municipality:

- (1) does not invest municipal funds; or
- (2) only deposits municipal funds in:
  - (A) interest-bearing deposit accounts; or

(B) certificates of deposit as authorized by Section [2256.010](#).

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1421, Sec. 5, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 1454, Sec. 6, eff. Sept. 1, 1999; Acts 2001, 77th Leg., ch. 69, Sec. 4, eff. May 14, 2001.

Amended by:

Acts 2011, 82nd Leg., R.S., Ch. 1004 (H.B. [2226](#)), Sec. 3, eff. June 17, 2011.

Acts 2015, 84th Leg., R.S., Ch. 222 (H.B. [1148](#)), Sec. 1, eff. September 1, 2015.

Acts 2015, 84th Leg., R.S., Ch. 1248 (H.B. [870](#)), Sec. 1, eff. September 1, 2015.

This section was amended by the 85th Legislature. Pending publication of the current statutes, see H.B. [1003](#), H.B. [2647](#) and H.B. [2928](#), 85th Legislature, Regular Session, for amendments affecting this section.

Sec. 2256.009. AUTHORIZED INVESTMENTS: OBLIGATIONS OF, OR GUARANTEED BY GOVERNMENTAL ENTITIES. (a) Except as provided by Subsection (b), the following are authorized investments under this subchapter:

(1) obligations, including letters of credit, of the United States or its agencies and instrumentalities;

(2) direct obligations of this state or its agencies and instrumentalities;

(3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States;

(4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, this state or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance

Corporation or by the explicit full faith and credit of the United States;

(5) 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; and

(6) bonds issued, assumed, or guaranteed by the State of Israel.

(b) The following are not authorized investments under this section:

(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; and

(4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1999, 76th Leg., ch. 1454, Sec. 7, eff. Sept. 1, 1999; Acts 2001, 77th Leg., ch. 558, Sec. 1, eff. Sept. 1, 2001.

Amended by:

Acts 2011, 82nd Leg., R.S., Ch. 1004 (H.B. [2226](#)), Sec. 4, eff. June 17, 2011.

This section was amended by the 85th Legislature. Pending publication of the current statutes, see H.B. [2928](#), 85th Legislature, Regular Session, for amendments affecting this section.

Sec. 2256.010. AUTHORIZED INVESTMENTS: CERTIFICATES OF DEPOSIT AND SHARE CERTIFICATES. (a) A certificate of deposit or share certificate is an authorized investment under this subchapter if the

certificate is issued by a depository institution that has its main office or a branch office in this state and is:

(1) guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor;

(2) secured by obligations that are described by Section [2256.009](#)(a), including mortgage backed securities directly issued by a federal agency or instrumentality that have a market value of not less than the principal amount of the certificates, but excluding those mortgage backed securities of the nature described by Section [2256.009](#)(b); or

(3) secured in any other manner and amount provided by law for deposits of the investing entity.

(b) In addition to the authority to invest funds in certificates of deposit under Subsection (a), an investment in certificates of deposit made in accordance with the following conditions is an authorized investment under this subchapter:

(1) the funds are invested by an investing entity through:

(A) a broker that has its main office or a branch office in this state and is selected from a list adopted by the investing entity as required by Section [2256.025](#); or

(B) a depository institution that has its main office or a branch office in this state and that is selected by the investing entity;

(2) the broker or the depository institution selected by the investing entity under Subdivision (1) arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the investing entity;

(3) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States; and

(4) the investing entity appoints the depository institution selected by the investing entity under Subdivision (1), an entity described by Section [2257.041](#)(d), or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R.

Section 240.15c3-3) as custodian for the investing entity with respect to the certificates of deposit issued for the account of the investing entity.

Amended by Acts 1995, 74th Leg., ch. 32, Sec. 1, eff. April 28, 1995; Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1421, Sec. 6, eff. Sept. 1, 1997.

Amended by:

Acts 2005, 79th Leg., Ch. 128 (H.B. [256](#)), Sec. 1, eff. September 1, 2005.

Acts 2011, 82nd Leg., R.S., Ch. 1004 (H.B. [2226](#)), Sec. 5, eff. June 17, 2011.

This section was amended by the 85th Legislature. Pending publication of the current statutes, see H.B. [1003](#), 85th Legislature, Regular Session, for amendments affecting this section.

Sec. 2256.011. AUTHORIZED INVESTMENTS: REPURCHASE AGREEMENTS.

(a) A fully collateralized repurchase agreement is an authorized investment under this subchapter if the repurchase agreement:

(1) has a defined termination date;

(2) is secured by a combination of cash and obligations described by Section [2256.009](#)(a)(1); and

(3) requires the securities being purchased by the entity or cash held by the entity to be pledged to the entity, held in the entity's name, and deposited at the time the investment is made with the entity or with a third party selected and approved by the entity; and

(4) is placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in this state.

(b) In this section, "repurchase agreement" means a simultaneous agreement to buy, hold for a specified time, and sell back at a future date obligations described by Section [2256.009](#)(a)(1), at a market value at the time the funds are disbursed of not less than the principal amount of the funds disbursed. The term includes a direct security repurchase agreement and a reverse security repurchase agreement.



(c) Notwithstanding any other law, the term of any reverse security repurchase agreement may not exceed 90 days after the date the reverse security repurchase agreement is delivered.

(d) Money received by an entity under the terms of a reverse security repurchase agreement shall be used to acquire additional authorized investments, but the term of the authorized investments acquired must mature not later than the expiration date stated in the reverse security repurchase agreement.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Amended by:

Acts 2011, 82nd Leg., R.S., Ch. 1004 (H.B. [2226](#)), Sec. 6, eff. June 17, 2011.

Sec. 2256.0115. AUTHORIZED INVESTMENTS: SECURITIES LENDING PROGRAM. (a) A securities lending program is an authorized investment under this subchapter if it meets the conditions provided by this section.

(b) To qualify as an authorized investment under this subchapter:

(1) the value of securities loaned under the program must be not less than 100 percent collateralized, including accrued income;

(2) a loan made under the program must allow for termination at any time;

(3) a loan made under the program must be secured by:

(A) pledged securities described by Section [2256.009](#);

(B) pledged irrevocable letters of credit issued by a bank that is:

(i) organized and existing under the laws of the United States or any other state; and

(ii) continuously rated by at least one nationally recognized investment rating firm at not less than A or its equivalent; or

(C) cash invested in accordance with Section:

(i) 2256.009;

(ii) 2256.013;

(iii) 2256.014; or

(iv) 2256.016;

(4) the terms of a loan made under the program must require that the securities being held as collateral be:

(A) pledged to the investing entity;

(B) held in the investing entity's name; and

(C) deposited at the time the investment is made with the entity or with a third party selected by or approved by the investing entity;

(5) a loan made under the program must be placed through:

(A) a primary government securities dealer, as defined by 5 C.F.R. Section 6801.102(f), as that regulation existed on September 1, 2003; or

(B) a financial institution doing business in this state; and

(6) an agreement to lend securities that is executed under this section must have a term of one year or less.

Added by Acts 2003, 78th Leg., ch. 1227, Sec. 1, eff. Sept. 1, 2003.

Sec. 2256.012. AUTHORIZED INVESTMENTS: BANKER'S ACCEPTANCES. A bankers' acceptance is an authorized investment under this subchapter if the bankers' acceptance:

(1) has a stated maturity of 270 days or fewer from the date of its issuance;

(2) will be, in accordance with its terms, liquidated in full at maturity;

(3) is eligible for collateral for borrowing from a Federal Reserve Bank; and

(4) is accepted by a bank organized and existing under the laws of the United States or any state, if the short-term obligations of the bank, or of a bank holding company of which the bank is the largest subsidiary, are rated not less than A-1 or P-1 or an equivalent rating by at least one nationally recognized credit rating agency.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.013. AUTHORIZED INVESTMENTS: COMMERCIAL PAPER.

Commercial paper is an authorized investment under this subchapter if the commercial paper:

(1) has a stated maturity of 270 days or fewer from the date of its issuance; and

(2) is rated not less than A-1 or P-1 or an equivalent rating by at least:

(A) two nationally recognized credit rating agencies;

or

(B) 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.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

This section was amended by the 85th Legislature. Pending publication of the current statutes, see H.B. [1003](#), 85th Legislature, Regular Session, for amendments affecting this section.

Sec. 2256.014. AUTHORIZED INVESTMENTS: MUTUAL FUNDS. (a) A no-load money market mutual fund is an authorized investment under this subchapter if the mutual fund:

(1) is registered with and regulated by the Securities and Exchange Commission;

(2) provides the investing entity with a prospectus and other information required by the Securities Exchange Act of 1934 (15 U.S.C. Section 78a et seq.) or the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.);

(3) has a dollar-weighted average stated maturity of 90 days or fewer; and

(4) includes in its investment objectives the maintenance of a stable net asset value of \$1 for each share.

(b) In addition to a no-load money market mutual fund permitted as an authorized investment in Subsection (a), a no-load mutual fund is an authorized investment under this subchapter if the mutual fund:

- (1) is registered with the Securities and Exchange Commission;
- (2) has an average weighted maturity of less than two years;
- (3) is invested exclusively in obligations approved by this subchapter;
- (4) is continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent; and
- (5) conforms to the requirements set forth in Sections [2256.016](#)(b) and (c) relating to the eligibility of investment pools to receive and invest funds of investing entities.

(c) An entity is not authorized by this section to:

- (1) invest in the aggregate more than 15 percent of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, in mutual funds described in Subsection (b);
- (2) invest any portion of bond proceeds, reserves and funds held for debt service, in mutual funds described in Subsection (b); or
- (3) invest its funds or funds under its control, including bond proceeds and reserves and other funds held for debt service, in any one mutual fund described in Subsection (a) or (b) in an amount that exceeds 10 percent of the total assets of the mutual fund.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1421, Sec. 7, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 1454, Sec. 8, eff. Sept. 1, 1999.

This section was amended by the 85th Legislature. Pending publication of the current statutes, see H.B. [1003](#), 85th Legislature, Regular Session, for amendments affecting this section.

Sec. 2256.015. AUTHORIZED INVESTMENTS: GUARANTEED INVESTMENT CONTRACTS. (a) A guaranteed investment contract is an authorized investment for bond proceeds under this subchapter if the guaranteed investment contract:

- (1) has a defined termination date;

(2) is secured by obligations described by Section [2256.009](#)(a)(1), excluding those obligations described by Section [2256.009](#)(b), in an amount at least equal to the amount of bond proceeds invested under the contract; and

(3) is pledged to the entity and deposited with the entity or with a third party selected and approved by the entity.

(b) Bond proceeds, other than bond proceeds representing reserves and funds maintained for debt service purposes, may not be invested under this subchapter in a guaranteed investment contract with a term of longer than five years from the date of issuance of the bonds.

(c) To be eligible as an authorized investment:

(1) the governing body of the entity must specifically authorize guaranteed investment contracts as an eligible investment in the order, ordinance, or resolution authorizing the issuance of bonds;

(2) the entity must receive bids from at least three separate providers with no material financial interest in the bonds from which proceeds were received;

(3) the entity must purchase the highest yielding guaranteed investment contract for which a qualifying bid is received;

(4) the price of the guaranteed investment contract must take into account the reasonably expected drawdown schedule for the bond proceeds to be invested; and

(5) the provider must certify the administrative costs reasonably expected to be paid to third parties in connection with the guaranteed investment contract.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1421, Sec. 8, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 1454, Sec. 9, 10, eff. Sept. 1, 1999.

This section was amended by the 85th Legislature. Pending publication of the current statutes, see H.B. [1003](#), 85th Legislature, Regular Session, for amendments affecting this section.

Sec. 2256.016. AUTHORIZED INVESTMENTS: INVESTMENT POOLS. (a) An entity may invest its funds and funds under its control through an

eligible investment pool if the governing body of the entity by rule, order, ordinance, or resolution, as appropriate, authorizes investment in the particular pool. An investment pool shall invest the funds it receives from entities in authorized investments permitted by this subchapter. An investment pool may invest its funds in money market mutual funds to the extent permitted by and consistent with this subchapter and the investment policies and objectives adopted by the investment pool.

(b) To be eligible to receive funds from and invest funds on behalf of an entity under this chapter, an investment pool must furnish to the investment officer or other authorized representative of the entity an offering circular or other similar disclosure instrument that contains, at a minimum, the following information:

- (1) the types of investments in which money is allowed to be invested;
- (2) the maximum average dollar-weighted maturity allowed, based on the stated maturity date, of the pool;
- (3) the maximum stated maturity date any investment security within the portfolio has;
- (4) the objectives of the pool;
- (5) the size of the pool;
- (6) the names of the members of the advisory board of the pool and the dates their terms expire;
- (7) the custodian bank that will safekeep the pool's assets;
- (8) whether the intent of the pool is to maintain a net asset value of one dollar and the risk of market price fluctuation;
- (9) whether the only source of payment is the assets of the pool at market value or whether there is a secondary source of payment, such as insurance or guarantees, and a description of the secondary source of payment;
- (10) the name and address of the independent auditor of the pool;
- (11) the requirements to be satisfied for an entity to deposit funds in and withdraw funds from the pool and any deadlines or other operating policies required for the entity to invest funds in and withdraw funds from the pool; and

(12) the performance history of the pool, including yield, average dollar-weighted maturities, and expense ratios.

(c) To maintain eligibility to receive funds from and invest funds on behalf of an entity under this chapter, an investment pool must furnish to the investment officer or other authorized representative of the entity:

(1) investment transaction confirmations; and

(2) a monthly report that contains, at a minimum, the following information:

(A) the types and percentage breakdown of securities in which the pool is invested;

(B) the current average dollar-weighted maturity, based on the stated maturity date, of the pool;

(C) the current percentage of the pool's portfolio in investments that have stated maturities of more than one year;

(D) the book value versus the market value of the pool's portfolio, using amortized cost valuation;

(E) the size of the pool;

(F) the number of participants in the pool;

(G) the custodian bank that is safekeeping the assets of the pool;

(H) a listing of daily transaction activity of the entity participating in the pool;

(I) the yield and expense ratio of the pool, including a statement regarding how yield is calculated;

(J) the portfolio managers of the pool; and

(K) any changes or addenda to the offering circular.

(d) An entity by contract may delegate to an investment pool the authority to hold legal title as custodian of investments purchased with its local funds.

(e) In this section, "yield" shall be calculated in accordance with regulations governing the registration of open-end management investment companies under the Investment Company Act of 1940, as promulgated from time to time by the federal Securities and Exchange Commission.

(f) To be eligible to receive funds from and invest funds on behalf of an entity under this chapter, a public funds investment pool

created to function as a money market mutual fund must mark its portfolio to market daily, and, to the extent reasonably possible, stabilize at a \$1 net asset value. If the ratio of the market value of the portfolio divided by the book value of the portfolio is less than 0.995 or greater than 1.005, portfolio holdings shall be sold as necessary to maintain the ratio between 0.995 and 1.005. In addition to the requirements of its investment policy and any other forms of reporting, a public funds investment pool created to function as a money market mutual fund shall report yield to its investors in accordance with regulations of the federal Securities and Exchange Commission applicable to reporting by money market funds.

(g) To be eligible to receive funds from and invest funds on behalf of an entity under this chapter, a public funds investment pool must have an advisory board composed:

(1) equally of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool, for a public funds investment pool created under Chapter [791](#) and managed by a state agency; or

(2) of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool, for other investment pools.

(h) To maintain eligibility to receive funds from and invest funds on behalf of an entity under this chapter, an investment pool must be continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service.

(i) If the investment pool operates an Internet website, the information in a disclosure instrument or report described in Subsections (b), (c) (2), and (f) must be posted on the website.

(j) To maintain eligibility to receive funds from and invest funds on behalf of an entity under this chapter, an investment pool must make available to the entity an annual audited financial statement of the investment pool in which the entity has funds invested.

(k) If an investment pool offers fee breakpoints based on fund balances invested, the investment pool in advertising investment rates must include either all levels of return based on the breakpoints provided or state the lowest possible level of return based on the smallest level of funds invested.



Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1421, Sec. 9, eff. Sept. 1, 1997.

Amended by:

Acts 2011, 82nd Leg., R.S., Ch. 1004 (H.B. [2226](#)), Sec. 7, eff. June 17, 2011.

This section was amended by the 85th Legislature. Pending publication of the current statutes, see S.B. [253](#), 85th Legislature, Regular Session, for amendments affecting this section.

Sec. 2256.017. EXISTING INVESTMENTS. An entity is not required to liquidate investments that were authorized investments at the time of purchase.

Added by Acts 1995, 74th Leg., ch. 76, Sec. 5.46(a), eff. Sept. 1, 1995; Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995. Amended by Acts 1997, 75th Leg., ch. 1421, Sec. 10, eff. Sept. 1, 1997.

Sec. 2256.019. RATING OF CERTAIN INVESTMENT POOLS. A public funds investment pool must be continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service.

Added by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995. Amended by Acts 1997, 75th Leg., ch. 1421, Sec. 11, eff. Sept. 1, 1997. Amended by:

Acts 2011, 82nd Leg., R.S., Ch. 1004 (H.B. [2226](#)), Sec. 8, eff. June 17, 2011.

Sec. 2256.020. AUTHORIZED INVESTMENTS: INSTITUTIONS OF HIGHER EDUCATION. In addition to the authorized investments permitted by this subchapter, an institution of higher education may purchase, sell, and invest its funds and funds under its control in the following:

(1) cash management and fixed income funds sponsored by organizations exempt from federal income taxation under Section 501(f), Internal Revenue Code of 1986 (26 U.S.C. Section 501(f));

(2) negotiable certificates of deposit issued by a bank that has a certificate of deposit rating of at least 1 or the equivalent by a nationally recognized credit rating agency or that is associated with a holding company having a commercial paper rating of at least A-1, P-1, or the equivalent by a nationally recognized credit rating agency; and

(3) corporate bonds, debentures, or similar debt obligations rated by a nationally recognized investment rating firm in one of the two highest long-term rating categories, without regard to gradations within those categories.

Added by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.0201. AUTHORIZED INVESTMENTS; MUNICIPAL UTILITY. (a) A municipality that owns a municipal electric utility that is engaged in the distribution and sale of electric energy or natural gas to the public may enter into a hedging contract and related security and insurance agreements in relation to fuel oil, natural gas, coal, nuclear fuel, and electric energy to protect against loss due to price fluctuations. A hedging transaction must comply with the regulations of the Commodity Futures Trading Commission and the Securities and Exchange Commission. If there is a conflict between the municipal charter of the municipality and this chapter, this chapter prevails.

(b) A payment by a municipally owned electric or gas utility under a hedging contract or related agreement in relation to fuel supplies or fuel reserves is a fuel expense, and the utility may credit any amounts it receives under the contract or agreement against fuel expenses.

(c) The governing body of a municipally owned electric or gas utility or the body vested with power to manage and operate the municipally owned electric or gas utility may set policy regarding hedging transactions.

(d) In this section, "hedging" means the buying and selling of fuel oil, natural gas, coal, nuclear fuel, and electric energy futures or options or similar contracts on those commodities and related transportation costs as a protection against loss due to price fluctuation.

Added by Acts 1999, 76th Leg., ch. 405, Sec. 48, eff. Sept. 1, 1999.

Amended by:

Acts 2007, 80th Leg., R.S., Ch. 7 (S.B. [495](#)), Sec. 1, eff. April 13, 2007.

Sec. 2256.0202. AUTHORIZED INVESTMENTS: MUNICIPAL FUNDS FROM MANAGEMENT AND DEVELOPMENT OF MINERAL RIGHTS. (a) In addition to other investments authorized under this subchapter, a municipality may invest funds received by the municipality from a lease or contract for the management and development of land owned by the municipality and leased for oil, gas, or other mineral development in any investment authorized to be made by a trustee under Subtitle B, Title 9, Property Code (Texas Trust Code).

(b) Funds invested by a municipality under this section shall be segregated and accounted for separately from other funds of the municipality.

Added by Acts 2009, 81st Leg., R.S., Ch. 1371 (S.B. [894](#)), Sec. 1, eff. September 1, 2009.

Sec. 2256.0203. AUTHORIZED INVESTMENTS: PORTS AND NAVIGATION DISTRICTS. (a) In this section, "district" means a navigation district organized under Section [52](#), Article III, or Section [59](#), Article XVI, Texas Constitution.

(b) In addition to the authorized investments permitted by this subchapter, a port or district may purchase, sell, and invest its funds and funds under its control in negotiable certificates of deposit issued by a bank that has a certificate of deposit rating of at least 1 or the equivalent by a nationally recognized credit rating agency or that is associated with a holding company having a commercial paper rating of at least A-1, P-1, or the equivalent by a nationally recognized credit rating agency.

Added by Acts 2011, 82nd Leg., R.S., Ch. 804 (H.B. [2346](#)), Sec. 1, eff. September 1, 2011.

Sec. 2256.0204. AUTHORIZED INVESTMENTS: INDEPENDENT SCHOOL DISTRICTS. (a) In this section, "corporate bond" means a senior secured debt obligation issued by a domestic business entity and rated not lower than "AA-" or the equivalent by a nationally recognized investment rating firm. The term does not include a debt obligation that:

(1) on conversion, would result in the holder becoming a stockholder or shareholder in the entity, or any affiliate or subsidiary of the entity, that issued the debt obligation; or

(2) is an unsecured debt obligation.

(b) This section applies only to an independent school district that qualifies as an issuer as defined by Section [1371.001](#).

(c) In addition to authorized investments permitted by this subchapter, an independent school district subject to this section may purchase, sell, and invest its funds and funds under its control in corporate bonds that, at the time of purchase, are rated by a nationally recognized investment rating firm "AA-" or the equivalent and have a stated final maturity that is not later than the third anniversary of the date the corporate bonds were purchased.

(d) An independent school district subject to this section is not authorized by this section to:

(1) invest in the aggregate more than 15 percent of its monthly average fund balance, excluding bond proceeds, reserves, and other funds held for the payment of debt service, in corporate bonds; or

(2) invest more than 25 percent of the funds invested in corporate bonds in any one domestic business entity, including subsidiaries and affiliates of the entity.

(e) An independent school district subject to this section may purchase, sell, and invest its funds and funds under its control in corporate bonds if the governing body of the district:

(1) amends its investment policy to authorize corporate bonds as an eligible investment;

(2) adopts procedures to provide for:

(A) monitoring rating changes in corporate bonds acquired with public funds; and

(B) liquidating the investment in corporate bonds; and

(3) identifies the funds eligible to be invested in corporate bonds.

(f) The investment officer of an independent school district, acting on behalf of the district, shall sell corporate bonds in which the district has invested its funds not later than the seventh day after the date a nationally recognized investment rating firm:

(1) issues a release that places the corporate bonds or the domestic business entity that issued the corporate bonds on negative credit watch or the equivalent, if the corporate bonds are rated "AA-" or the equivalent at the time the release is issued; or

(2) changes the rating on the corporate bonds to a rating lower than "AA-" or the equivalent.

(g) Corporate bonds are not an eligible investment for a public funds investment pool.

Added by Acts 2011, 82nd Leg., R.S., Ch. 1347 (S.B. [1543](#)), Sec. 1, eff. June 17, 2011.

Sec. 2256.0205. AUTHORIZED INVESTMENTS; DECOMMISSIONING TRUST.

(a) In this section:

(1) "Decommissioning trust" means a trust created to provide the Nuclear Regulatory Commission assurance that funds will be available for decommissioning purposes as required under 10 C.F.R. Part 50 or other similar regulation.

(2) "Funds" includes any money held in a decommissioning trust regardless of whether the money is considered to be public funds under this subchapter.

(b) In addition to other investments authorized under this subchapter, a municipality that owns a municipal electric utility that is engaged in the distribution and sale of electric energy or natural gas to the public may invest funds held in a decommissioning trust in any investment authorized by Subtitle B, Title 9, Property Code.

Added by Acts 2005, 79th Leg., Ch. 121 (S.B. [1464](#)), Sec. 1, eff. September 1, 2005.

Sec. 2256.021. EFFECT OF LOSS OF REQUIRED RATING. An investment that requires a minimum rating under this subchapter does not qualify as an authorized investment during the period the investment does not have the minimum rating. An entity shall take all prudent measures that are consistent with its investment policy to liquidate an investment that does not have the minimum rating.

Added by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.022. EXPANSION OF INVESTMENT AUTHORITY. Expansion of investment authority granted by this chapter shall require a risk assessment by the state auditor or performed at the direction of the state auditor, subject to the legislative audit committee's approval of including the review in the audit plan under Section [321.013](#).

Added by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Amended by Acts 2003, 78th Leg., ch. 785, Sec. 42, eff. Sept. 1, 2003.

Sec. 2256.023. INTERNAL MANAGEMENT REPORTS. (a) Not less than quarterly, the investment officer shall prepare and submit to the governing body of the entity a written report of investment transactions for all funds covered by this chapter for the preceding reporting period.

(b) The report must:

- (1) describe in detail the investment position of the entity on the date of the report;
- (2) be prepared jointly by all investment officers of the entity;
- (3) be signed by each investment officer of the entity;
- (4) contain a summary statement of each pooled fund group that states the:
  - (A) beginning market value for the reporting period;
  - (B) ending market value for the period; and
  - (C) fully accrued interest for the reporting period;
- (5) state the book value and market value of each separately invested asset at the end of the reporting period by the type of asset and fund type invested;

(6) state the maturity date of each separately invested asset that has a maturity date;

(7) state the account or fund or pooled group fund in the state agency or local government for which each individual investment was acquired; and

(8) state the compliance of the investment portfolio of the state agency or local government as it relates to:

(A) the investment strategy expressed in the agency's or local government's investment policy; and

(B) relevant provisions of this chapter.

(c) The report shall be presented not less than quarterly to the governing body and the chief executive officer of the entity within a reasonable time after the end of the period.

(d) 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.

Added by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Amended by Acts 1997, 75th Leg., ch. 1421, Sec. 12, eff. Sept. 1, 1997.

Amended by:

Acts 2011, 82nd Leg., R.S., Ch. 1004 (H.B. [2226](#)), Sec. 9, eff. June 17, 2011.

This section was amended by the 85th Legislature. Pending publication of the current statutes, see S.B. [253](#), 85th Legislature, Regular Session, for amendments affecting this section.

Sec. 2256.024. SUBCHAPTER CUMULATIVE. (a) The authority granted by this subchapter is in addition to that granted by other law. Except as provided by Subsection (b), this subchapter does not:

(1) prohibit an investment specifically authorized by other law; or

(2) authorize an investment specifically prohibited by other law.

(b) Except with respect to those investing entities described in Subsection (c), a security described in Section [2256.009](#)(b) is not an authorized investment for a state agency, a local government, or another investing entity, notwithstanding any other provision of this chapter or other law to the contrary.

(c) Mortgage pass-through certificates and individual mortgage loans that may constitute an investment described in Section [2256.009](#)(b) are authorized investments with respect to the housing bond programs operated by:

(1) the Texas Department of Housing and Community Affairs or a nonprofit corporation created to act on its behalf;

(2) an entity created under Chapter [392](#), Local Government Code; or

(3) an entity created under Chapter [394](#), Local Government Code.

Added by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.025. SELECTION OF AUTHORIZED BROKERS. The governing body of an entity subject to this subchapter or the designated investment committee of the entity shall, at least annually, review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the entity.

Added by Acts 1997, 75th Leg., ch. 1421, Sec. 13, eff. Sept. 1, 1997.

Sec. 2256.026. STATUTORY COMPLIANCE. All investments made by entities must comply with this subchapter and all federal, state, and local statutes, rules, or regulations.

Added by Acts 1997, 75th Leg., ch. 1421, Sec. 13, eff. Sept. 1, 1997.

#### SUBCHAPTER B. MISCELLANEOUS PROVISIONS



Sec. 2256.051. ELECTRONIC FUNDS TRANSFER. Any local government may use electronic means to transfer or invest all funds collected or controlled by the local government.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.052. PRIVATE AUDITOR. Notwithstanding any other law, a state agency shall employ a private auditor if authorized by the legislative audit committee either on the committee's initiative or on request of the governing body of the agency.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.053. PAYMENT FOR SECURITIES PURCHASED BY STATE. The comptroller or the disbursing officer of an agency that has the power to invest assets directly may pay for authorized securities purchased from or through a member in good standing of the National Association of Securities Dealers or from or through a national or state bank on receiving an invoice from the seller of the securities showing that the securities have been purchased by the board or agency and that the amount to be paid for the securities is just, due, and unpaid. A purchase of securities may not be made at a price that exceeds the existing market value of the securities.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1423, Sec. 8.67, eff. Sept. 1, 1997.

Sec. 2256.054. DELIVERY OF SECURITIES PURCHASED BY STATE. A security purchased under this chapter may be delivered to the comptroller, a bank, or the board or agency investing its funds. The delivery shall be made under normal and recognized practices in the securities and banking industries, including the book entry procedure of the Federal Reserve Bank.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1423, Sec. 8.68, eff. Sept. 1, 1997.

Sec. 2256.055. DEPOSIT OF SECURITIES PURCHASED BY STATE. At the direction of the comptroller or the agency, a security purchased under this chapter may be deposited in trust with a bank or federal reserve bank or branch designated by the comptroller, whether in or outside the state. The deposit shall be held in the entity's name as evidenced by a trust receipt of the bank with which the securities are deposited.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995;  
Acts 1997, 75th Leg., ch. 1423, Sec. 8.69, eff. Sept. 1, 1997.

**APPENDIX B**  
**COUNCIL RESOLUTION**  
**September ~~28~~13, ~~2016~~2017**

**WHEREAS**, in 1987 the City Council adopted the City's Investment Policy which was in compliance with the federal and state law and the City Charter; and

**WHEREAS**, in 1995 and 1997 through ~~2015~~ 2016, the City Council amended the City's Investment Policy to incorporate amendments to the Public Funds Investment Act, improve management of the City's investments and reflect organizational changes; and

**WHEREAS**, the Public Funds Investment Act requires that the investment shall be made in accordance with written policies approved, at least annually, by the governing body; and

**WHEREAS**, investment policies must address safety of principal, liquidity, yield, diversification and maturity, with primary emphasis on safety of principal. **Now, Therefore,**

**BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF DALLAS:**

**Section 1.** That the attached City of Dallas Investment Policy and investment strategies have ~~has~~ been reviewed by the City Council and shall be adopted as the guiding policy in the ongoing management of the specified funds in accordance with ~~federal~~ Federal and ~~state~~ State law and the City Charter.

**Section 2.** That this resolution shall ~~be~~ take effect immediately from and after its passage in accordance with the provisions of the Charter of the City of Dallas and it is accordingly so resolved.

# CITY OF DALLAS

## INVESTMENT POLICY

**As adopted by City Council  
September 13, 2017**

## TABLE OF CONTENTS

	<u>Page</u>
1.0 Policy	3
2.0 Scope	3
3.0 Objective	4
4.0 Delegation of Authority	4
5.0 Prudence	5
6.0 Ethics and Conflicts of Interest	5
7.0 Training	5
8.0 Authorized and Suitable Investments	6
9.0 Authorized Broker/Dealers and Financial Institutions	7
10.0 Competitive Bidding	8
11.0 Collateralization of Deposits	8
12.0 Safekeeping and Custody	9
13.0 Diversification and Maximum Maturities	9
14.0 Sale of Securities	10
15.0 Investment Committee	10
16.0 Investment Advisor	10
17.0 Investment Strategies	10
18.0 Reporting	12
19.0 Annual Compliance Audit	12
20.0 Investment Policy Adoption	12
Glossary	13
Appendices	
A. Government Code – Chapter 2256 “Public Funds Investment Act”	
B. Council Resolution	

## **1.0 Policy**

It is the policy of the City of Dallas to invest public funds in a manner which will provide security and optimize interest earnings to the maximum extent possible while meeting the daily cash flow demands of the City and conforming to all federal, state and local statutes, rules and regulations governing the investment of public funds. This Policy sets forth the investment program of the City of Dallas and the guidelines to be followed in achieving its objectives.

Not less than annually, City Council shall adopt a written instrument by resolution stating that it has reviewed the Investment Policy and investment strategies and that the written instrument so adopted shall record any changes made to the Investment Policy or investment strategies.

This Policy is intended to satisfy the requirements of the Public Funds Investment Act, Chapter 2256, Texas Government Code (the "PFIA" or the "Act") that an investing entity such as the City of Dallas adopt and review an investment policy governing the investment by the investing entity of its funds and funds under its control.

## **2.0 Scope**

This Policy governs the investment of all funds of the City except those that are identified in Section 2.2 below. With respect to the funds of non-profit corporations that are established by City resolution and act on behalf of the City in accordance with State law, this Policy shall prevail in the absence of a specific investment policy adopted by the non-profit corporation. In addition to this Policy, the investment of bond proceeds and other bond funds (including debt service and reserve funds) of the City or of a non-profit corporation established by City resolution and acting on behalf of the City in accordance with State law shall be governed and controlled by their governing ordinance, resolution or trust indenture, including the authorization of eligible investments, and by the provisions of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"), including all regulations and rulings promulgated thereunder applicable to the issuance of tax-exempt obligations.

- 2.1 All funds are managed as a pooled fund group, referenced in this Policy as the City's investment pool, with the exception of the following, which are managed as separately invested assets:
  - 2.1.1 Bond Funds - funds established with the proceeds from specific bond issues when it is determined that segregating these funds from the City's investment pool will result in maximum interest earnings retention under the provisions of the Internal Revenue Code.
  - 2.1.2 Bond Reserve Funds - funds set at prescribed levels by certain bond ordinances to pay principal and/or interest if required to prevent default.
  - 2.1.3 Endowment Funds - funds given to the City with the instructions that the principal is to remain intact, unless otherwise agreed to, and the income generated by the investments will be used for specified purposes.
  - 2.1.4 Commercial Paper Funds - unexpended proceeds from the issuance of commercial paper notes.
- 2.2 Funds not governed by this Policy include:
  - 2.2.1 Employees' Retirement Fund
  - 2.2.2 Dallas Police and Fire Pension System
  - 2.2.3 Deferred Compensation Funds
  - 2.2.4 Private Donations – investments donated to the City are excluded from this Policy if separately managed under terms of use specified by the donor.

### 3.0 Objective

Investment of the funds covered by this Policy shall be governed by the following investment objectives, in order of priority:

- 3.1 **Safety:** Safety of principal is the primary objective of the Investment Policy. Investment of the City's funds shall be undertaken in a manner that seeks to ensure the preservation of capital for the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

The City will mitigate credit risk, which is the risk of loss due to the failure of the issuer or backer, by:

- Limiting investments to the types listed in Section 8.0 ("Authorized and Suitable Investments") of this Policy
- Qualifying the broker/dealers and financial institutions with which the City may engage in an investment transaction in accordance with Section 9.0 ("Authorized Broker/Dealers and Financial Institutions)
- Diversifying the investment portfolio so that the impact of potential losses from any one type of investment or from any one individual issuer will be minimized (see Section 13.0 "Diversification and Maximum Maturities").

The City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by:

- Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities prior to maturity
- Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar local government investment pools and limiting the weighted average maturity of the portfolio in accordance with this Policy (see Section 17.0 "Investment Strategies").

- 3.2 **Liquidity:** The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements that might be reasonably anticipated. This is accomplished by structuring the portfolio so that investments mature concurrent with cash needs to meet anticipated demands. A portion of the portfolio will be placed in money market mutual funds or local government investment pools offering same-day liquidity to meet unanticipated demands.

- 3.3 **Yield:** The City's investment portfolio shall be designed with the objective of attaining a market rate of return, throughout budgetary and economic cycles, commensurate with the City's investment risk constraints and the cash flow characteristics of the portfolio.

### 4.0 Delegation of Authority

The Chief Financial Officer, under the direction and authority of the City Manager, shall direct the cash management program of the City as defined in Section 2-134, "Duties of the Chief Financial Officer", Chapter 2 "Administration" of the Dallas City Code, as amended. City Council shall designate the Chief Financial Officer, City Controller, and the Assistant Director/Treasury Manager as Investment Officers responsible for the investment of its funds, under the direction and authority of the City Manager.

The City's Investment Officers shall establish written procedures for the operation of the investment program consistent with this Investment Policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this Policy and the written procedures. Authority granted to a person to invest the City's funds is effective until rescinded or until termination of the person's employment by the City. The Investment Officers shall be responsible for all transactions undertaken and shall establish a system of controls, to be reviewed by the City Auditor, to regulate the activities of subordinate officials. In order to assure quality and capability of investment management, the Investment Officers shall possess sufficient working knowledge of economics and securities markets, as well as the supervisory experience and judgment necessary to carry out the responsibilities outlined in this Policy.



## 5.0 Prudence

Investments shall be made with judgment and care - under circumstances then prevailing - which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

- 5.1 The standard of prudence to be used by investment officials shall be the “prudent person” standard and shall be applied in the context of managing an overall portfolio. Investment Officers acting in accordance with written procedures and the Investment Policy and exercising due diligence 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 fashion and appropriate action is taken to control adverse developments.
- 5.2 In determining whether an investment official has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration the investment of all funds over which the official had responsibility rather than consideration as to the prudence of a single investment and, whether the investment decision was consistent with the City’s Investment Policy and written investment procedures.

## 6.0 Ethics and Conflicts of Interest

Investment Officers who have a personal business relationship with a business organization offering to engage in an investment transaction with the City shall refrain from activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

- 6.1 Investment Officers shall sign annual statements agreeing to abide by this section of the Investment Policy and affirming no known conflicts of interest.
- 6.2 Investment Officers must file a disclosure statement with the Texas Ethics Commission and City Council if:
  - a) the Investment Officer has a personal business relationship with a business organization offering to engage in an investment transaction with the City; or
  - b) the Investment Officer is related within the second degree by affinity or consanguinity, as determined under Chapter 573 of the Texas Government Code, to an individual seeking to transact investment business with the City.
- 6.3 An Investment Officer has a personal business relationship with a business organization if:
  - a) the Investment Officer owns 10 percent 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;
  - b) funds received by the Investment Officer from the business organization exceed 10 percent of his/her gross income for the previous year; or
  - c) the Investment Officer has acquired from the business organization during the previous year investments with a book value of \$2,500 or more for his/her personal account.

## 7.0 Training

The Investment Officers and the persons authorized to execute investment transactions shall attend at least one 10 hour investment training session within 12 months after taking office or assuming duties and receive not less than 8 hours of instruction relating to investment responsibilities during a two-year period that begins on the first day of the City’s fiscal year following the initial 10 hours of instruction and consists of the two consecutive fiscal years after that date. Training must be received from an independent source approved by the City’s Investment Committee and must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio and compliance with the Act.

## 8.0 Authorized and Suitable Investments

City funds governed by this Policy may be invested in the instruments described below, all of which are authorized by Chapter 2256 of the Government Code (Public Funds Investment Act).

- 8.1 Direct obligations of the United States, its agencies or instrumentalities, and other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of the United States or its respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States.  

The City will restrict investments in eligible securities described in this section to discount notes and callable or non-callable fixed-rate securities with a fixed principal repayment amount.
- 8.2 Direct obligations of states and local governments rated not less than Aa3 or its equivalent (long-term rating) or an equivalent short-term rating by at least one nationally recognized investment rating firm.
- 8.3 Fully collateralized Certificates of Deposit/Share Certificates that are issued by a bank or credit union that has its main office or branch office within the City and are:
  - a) guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor; or
  - b) secured by obligations in accordance with Section 11.0 herein.

If the certificate of deposit is collateralized by pledged securities the City must have on file a signed Depository Agreement, approved as to form by the City Attorney, which details eligible collateral, collateralization ratios for pledged securities, standards for collateral custody and control of pledged securities, collateral valuation of pledged securities, and conditions for agreement termination.
- 8.4 Certificates of Deposit obtained through a depository institution or a broker approved by the City's Investment Committee under the provisions of Section 9.0 of this Policy that has its main office or branch office within the City and that contractually agrees to place the funds in federally insured depository institutions in accordance with the conditions prescribed in Section 2256.010(b) of the Act.
- 8.5 Fully collateralized repurchase agreements in accordance with the conditions prescribed in Section 2256.011 of the Act. Prior to investment in a repurchase agreement, the City must have on file a signed Master Repurchase Agreement, approved as to form by the City Attorney, which details eligible collateral, collateralization ratios, standards for collateral custody and control, collateral valuation, and conditions for agreement termination and provided the repurchase agreement:
  - a) has a defined termination date;
  - b) is secured by a combination of cash and obligations of the United States or its agencies and instrumentalities described by Section 2256.009(a) (1) of the Act. Securities received for repurchase agreements must have a market value greater than or equal to 103% at the time the investment is made and throughout the terms of the repurchase agreement;
  - c) requires the securities being purchased by the City or cash held by the City to be assigned to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City; and
  - d) is placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in this state, and which is rated no less than A or its equivalent by two nationally recognized rating services.
- 8.6 A securities lending program is an authorized investment if it meets the following conditions:
  - a) A loan made under the program must allow for termination at any time;
  - b) A loan made under the program must be placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in this state that is rated no less than A or its equivalent by two nationally recognized rating services. An agreement to lend securities must have a term of one year or less and shall comply with the provisions of section 1058 of the Internal Revenue Code;
  - c) A loan made under the program must be secured as prescribed in Section 2256.0115(b)(3) of the Act. Securities being held as collateral must be pledged to the City, held in the City's name, and deposited at the time the investment is made with a third party approved by the City;

- d) The amount of collateral must not be less than 100% of the market value of securities loaned, including accrued income. The market value of securities loaned shall be determined daily. Cash received as collateral shall not be invested for a term later than the expiration date of the securities lending agreement and may only be invested in investments as authorized by this Policy.

- 8.7 No-load money market mutual funds that are registered with and regulated by the Securities and Exchange Commission that meet the requirements of the PFIA, and, in addition:
  - a) are rated not less than Aaa or an equivalent rating by at least one nationally recognized rating service. A rating is not required for a sweep account investment, which is part of the city's depository contract; and,
  - b) have provided the City with a prospectus and other information as may be required by law.

Investments will be made in a money market mutual fund only after a thorough investigation of the fund and approval by the Investment Committee which shall, at least annually, review, revise and adopt a list of approved funds.

- 8.8 No-load mutual funds that are registered with and regulated by the Securities and Exchange Commission that meet the requirements of the PFIA and have provided the City with an offering circular and other information required by the Act.

Investments will be made in a mutual fund only after a thorough investigation of the fund and approval by the Investment Committee which shall, at least annually, review, revise and adopt a list of approved funds.

- 8.9 Local government investment pools which are organized in conformity with Chapter 791 (Interlocal Cooperation Contracts Act) and meet the requirements of the PFIA that:
  - a) are rated not less than Aaa or an equivalent rating by at least one nationally recognized rating service; and
  - b) have provided the City with an offering circular and other information required by the Act.

To become eligible, investment pools must be approved by City Council action. Investments will be made in a local government investment pool only after a thorough investigation of the pool and approval by the Investment Committee which shall, at least annually, review, revise and adopt a list of approved pools. A pool approved by the Investment Committee shall invest its funds in investment types consistent with the Act and the pool's own adopted investment policies and objectives. An approved pool is not required to invest its funds in investment types according to the investment policies and objectives adopted by its participants.

The Investment Officers may at times restrict or prohibit the purchase of specific issues due to current market conditions. An investment that requires a minimum rating under this section does not qualify as an authorized investment during the period the investment does not have the minimum rating. Ratings shall be monitored using nationally recognized financial information sources, including actions published on rating agency websites. The City shall take all prudent measures consistent with the Act to liquidate an investment that does not have the minimum rating required by the Act.

## **9.0 Authorized Broker/Dealers and Financial Institutions**

The Investment Committee shall, at least annually, review, revise, and adopt a list of qualified broker/dealers and financial institutions authorized to engage in the purchase and sale of obligations of the U.S. Government, its agencies or instrumentalities with the City. In order to be considered, those firms that desire to become qualified bidders for securities transactions will be required to provide information regarding creditworthiness, experience and reputation. Authorized firms may include primary dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule).

A written copy of this Investment Policy shall be presented to any person offering to engage in an investment transaction with the City. Investments shall only be made with those business organizations (including money market mutual funds and local government investment pools) which have provided the City with a written instrument executed by a qualified representative of the firm, acknowledging that the business organization has received and reviewed the City's Investment Policy in satisfaction of the business organization's duties under Financial Industry Regulatory Authority (FINRA) Rule 2111 (Suitability).

## 10.0 Competitive Bidding

It is the policy of the City to require competitive bidding for all individual security purchases and sales except for:

- a) transactions with money market mutual funds and local government investment pools (which are deemed to be made at prevailing market rates)
- b) treasury and agency securities purchased at issue through an approved broker/dealer or financial institution
- c) automatic overnight "sweep" transactions with the City Depository
- d) fully insured certificates of deposit placed in accordance with the conditions prescribed in Section 2256.010(b) of the Act or placed with the City's Depository if so authorized by the City Depository Contract.

At least three bids or offers must be solicited for all other transactions involving individual securities. The City's investment advisor is also required to solicit at least three bids or offers when transacting trades on the City's behalf. In situations where the exact security being offered is not offered by other dealers, offers on the closest comparable investment may be used to establish a fair market price for the security. Bids for certificates of deposit may be solicited in any manner permitted by the Act.

## 11.0 Collateralization of Deposits

The City requires that all uninsured collected balances plus accrued interest, if any, in depository accounts be secured in accordance with the requirements of this Policy and Chapter 2257, Government Code ("Public Funds Collateral Act") and the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA). Financial institutions serving as City depositories will be required to sign a Depository Agreement with the City which details securities that can serve as eligible collateral, collateralization ratios, standards for collateral custody and control, collateral valuation, rights of substitution and conditions for agreement termination.

Pledged securities serving as collateral will always be held by an independent third party with which the City has a current custodial agreement and shall be reviewed at least monthly to ensure that the market value of the pledged securities is at least 102%. Eligible collateral are as follows:

### Eligible Collateral

- 1) Direct obligations of the United States or other obligations of the United States or other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of the United States.
- 2) Direct debt obligations of an agency or instrumentality of the United States.
- 3) Mortgage-backed securities issued directly by an agency or instrumentality of the United States eligible under the Public Funds Collateral Act.
- 4) Direct debt 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.

The use of a letter of credit issued to the City by the Federal Home Loan Bank may be considered by the City to provide collateral for bank deposits and for certificates of deposit.

The City's Investment Officers reserve the right to accept or reject any form of collateral or enhancement at their sole discretion.

## 12.0 Safekeeping and Custody

Safekeeping and custody of investment securities shall be in accordance with applicable law and accounting standards. All securities transactions, except local government investment pool and money market mutual fund transactions, shall be conducted on a delivery versus payment (DVP) basis. Investment securities will be held by a third party custodian designated by the City, and be required to issue safekeeping receipts clearly detailing that the securities are owned by the City.

Safekeeping and custody of collateral shall be in accordance with applicable law and accounting standards. Pledged securities serving as collateral will be held by a third party custodian designated by the City, and pledged to the City as evidenced by safekeeping receipts of the institution with which the securities are deposited.

**13.0 Diversification and Maximum Maturities**

The City’s Investment Pool will be diversified to limit market and credit risk by observing the limitations at the time of purchase as listed below. In order to ensure the ability of the City to meet obligations and to minimize potential liquidation losses, the dollar-weighted average stated maturity of the Investment Pool shall not exceed 1.5 years at the time investments are purchased for the Investment Pool. Funds managed as separately invested assets in Section 2.1 of the Policy are subject to all of the following with the exception of the Issuer Limitation on investment in U.S. Agencies and Instrumentalities. Funds managed as separately invested assets may be invested 100% in the obligations of any one U.S. Agency or Instrumentality.

	<b>Maximum Stated Maturity<sup>1</sup></b>	<b>Issuer Limitations</b>
U.S. Treasuries	5 Years	100% of the City’s investment pool may be invested in obligations of the U.S. Treasury.
U.S. Agencies/Instrumentalities	5 Years	No more than 30% of the book value of the City’s investment pool may be invested in the obligations of any one issuer.
Municipal Notes and Bonds	5 Years	The City may not own more than the lesser of \$5 million or 20% of any single issue.
Repurchase Agreements	30 Days	No more than 15% of the City’s investment pool may be invested with one counterparty, excluding flexible repurchase agreements for investment of bond proceeds.
Mutual Funds	N/A	The City may not own more than the lesser of \$100 million or 5% of the total assets of any one fund, excluding mutual funds for investment of commercial paper proceeds.
Local Government Investment Pools	N/A	The City may not own more than the lesser of \$400 million or 10% of the total assets of any one pool.
Certificates of Deposit	5 Years	The City may not own more than \$50 million of any single financial institution’s certificates of deposit at any one time, excluding certificates of deposit placed with the City’s Depository if so authorized by the City Depository Contract.

In addition to the above limitations, the City's investment pool shall be diversified by market sector as follows:

	<b>Maximum Percentage of Investment Pool</b>
U.S. Treasuries	100%
U.S. Agencies/Instrumentalities	100% (maximum 30% callable)
Municipal Notes and Bonds	15%
Repurchase Agreements	15%*
Mutual Funds	15%
Local Government Investment Pools	45%
Certificates of Deposit	20%**

\* Excluding flexible repurchase agreements for bond proceeds.

\*\*Excluding certificates of deposit placed with the City's Depository if so authorized by the City Depository Contract.

- (1) Purchases of securities with stated maturities greater than the maximum authorized under this section require prior City Council approval. With respect to bond proceeds and other bond funds, the City may, in the bond ordinance, specifically authorize investments in repurchase agreements with maturities in excess of 30 days subject to any required approvals from bond insurers.

#### **14.0 Sale of Securities**

The City's policy is to hold securities to maturity. However, securities may be sold:

- (a) in order to minimize the potential loss of principal on a security whose credit quality has declined;
- (b) in order to reposition the portfolio for the purpose of improving the quality, yield, or target duration of the portfolio; or
- (c) in order to meet unanticipated liquidity needs of the portfolio.

#### **15.0 Investment Committee**

An Investment Committee shall be established and meet quarterly to determine investment guidelines, general strategies, and monitor performance. Members of the Investment Committee will include the Investment Officers, the Cash and Investment Manager and the City's Investment Advisor if the City has contracted with an Advisor. The Investment Advisor is a non-voting member of the Investment Committee.

#### **16.0 Investment Advisor**

The City may retain the services of an Investment Advisor to assist in the review of cash flow requirements, the formulation of investment strategies, and the execution of security purchases, sales and deliveries.

#### **17.0 Investment Strategies**

The City of Dallas maintains separate portfolios for individual funds or groups of funds (as listed under Sec. 2.0 of this Policy) which are managed according to the terms of this Policy and the corresponding investment strategies listed below. The investment strategy for portfolios established after the annual Investment Policy adoption will be managed in accordance with the terms of this Policy and applicable agreements until the next annual review when a specific strategy will be adopted.

- 17.1 Investment Pool Strategy - The City's Investment Pool is an aggregation of the majority of City funds which includes tax receipts, enterprise fund revenues, fine and fee revenues, as well as some, but not all, bond proceeds, grants, gifts and endowments. This portfolio is maintained to meet anticipated daily cash needs for City of Dallas operations, capital projects and debt service. The objectives of this portfolio are to:
  - a) ensure safety of principal by investing only in high-quality securities for which a strong secondary market exists;
  - b) ensure that anticipated cash flows are matched with adequate investment liquidity;
  - c) limit market and credit risk through diversification; and
  - d) attain a market rate of return commensurate with the objectives and restrictions set forth in this Policy by managing the portfolio to meet or exceed the 12 month moving average yield on treasury one-year constant maturities as reported by Federal Reserve Statistical Release H.15.

- 17.2 Bond Funds Strategy - Occasionally, separate non-pooled portfolios are established with the proceeds from bond sales in order to maximize earnings within the constraints of arbitrage regulations. The objectives of these portfolios are to:
- a) ensure safety of principal by investing only in high-quality securities for which a strong secondary market exists or by maintaining the security of the investment through collateralization according to the standards approved in Section 8.4 of this Policy;
  - b) ensure that anticipated cash flows are matched with adequate investment liquidity or that the terms of the secured investment agreement permit maximum flexibility for the City in making withdrawals;
  - c) manage market and credit risk through diversification and control of counterparty risk; and
  - d) attain a market rate of return commensurate with the objectives and restrictions set forth in this Policy and the bond ordinance by managing the portfolio to meet or exceed the bond yield
- 17.3 Bond Reserve Fund Strategy - Non-pooled reserve funds for outstanding revenue bonds are set at levels required by their respective bond ordinances. These funds will be used to pay the final principal and/or interest due on outstanding bonds that are similarly secured or to make up any shortfalls in debt service funds as required by the bond ordinance. The objectives of Bond Reserve Fund Portfolios are to:
- a) ensure safety of principal by investing only in high-quality securities for which a strong secondary market exists or by maintaining the security of the investment through collateralization according to the standards approved in Section 8.4 of this Policy;
  - b) ensure that anticipated cash flows are matched with adequate investment liquidity or that the terms of the secured investment agreement permit maximum flexibility for the City in making withdrawals;
  - c) manage market and credit risk through diversification and control of counterparty risk; and
  - d) attain a market rate of return commensurate with the objectives and the restrictions set forth in this Policy and the bond ordinance by managing the portfolio to meet or exceed the bond yield.
- 17.4 Endowment Funds Strategy - Funds received as gifts to the City with instructions that the income generated by the investment of said funds be used for specified purposes may be invested as separate non-pooled portfolios if required by the terms of the gift. The objectives of Endowment Portfolios are to:
- a) ensure safety of principal and sufficient liquidity by investing only in high-quality securities for which a strong secondary market exists;
  - b) manage market and credit risk through the use of a competitive process to place investments;
  - c) attain a market rate of return commensurate with the objectives and restrictions set forth in this Policy and the terms of the gift.
- 17.5 Commercial Paper Funds Strategy – The City issues tax-exempt commercial paper notes as an interim financing tool for construction projects. The investment of the proceeds from the issuance of commercial paper debt should have a high degree of liquidity in order to fund payments to contractors. The objectives of this portfolio are to:
- a) ensure safety of principal and sufficient liquidity by investing in money market mutual funds or short-term high-quality securities for which a strong secondary market exists;
  - b) manage market and credit risk through diversification of funds and/or securities. Funds must be rated AAA by at least one nationally recognized rating agency; and
  - c) attain a market rate of return commensurate with the objectives and restrictions set forth in this Policy and governing bond ordinances.
- 17.6 Trinity Parkway Escrow Strategy – This escrow was established pursuant to an Agreement dated as of January 1, 1999 with the North Texas Tollway Authority (“NTTA”) pertaining to development of the Trinity Parkway. These funds will be used to reimburse NTTA for specified payments related to project feasibility. Permitted investments for this portfolio are defined in the Escrow Agreement as those that are consistent with the Act. The objectives of this portfolio are to:
- a) ensure safety of principal and sufficient liquidity by investing only in high-quality securities for which a strong secondary market exists;
  - b) ensure that anticipated cash flows are matched with adequate investment liquidity;

- c) manage market and credit risk through diversification of funds and requirement of AAA rating; and
- d) attain a market rate of return commensurate with the objectives and restrictions set forth in this Policy and the Agreement.

### **18.0 Reporting**

Investment performance is regularly monitored by investment staff and reported to the Investment Committee on a monthly basis. Month-end market prices on each security are obtained from nationally recognized securities databases including those provided by the City's depository bank through its safekeeping services and Bloomberg Professional Services. These prices are recorded in the City's portfolio database and included in all management reports as well as the City's Comprehensive Annual Financial Report.

Not less than quarterly the Investment Officers will submit to the city council finance committee described in Chapter III, Section 13 of the Dallas City Charter, the City Manager, and the Mayor and City Council a written report of the status of the current investment portfolio. The report must meet the requirements of the Act.

An independent auditor shall formally review the quarterly reports prepared under this section at least annually, and that auditor shall report the results of the review to City Council.

### **19.0 Annual Compliance Audit**

In conjunction with the annual financial audit, a compliance audit shall be performed which includes an audit of management controls on investments and adherence to the City's established investment policy.

### **20.0 Investment Policy Adoption**

The City's Investment Policy is hereby adopted by resolution of the City Council on September 28, 2016 in accordance with the PFIA.



## GLOSSARY

**ACCRETION OF DISCOUNT:** Periodic straight-line increases in the book or carrying value of a security so the amount of the purchase price discount below face value is completely eliminated by the time the bond matures or by the call date, if applicable.

**ACCRUED INTEREST:** The interest accumulated on a security from its issue date or since the last payment of interest up to but not including the purchase date. The purchaser of the security pays to the seller the market price plus accrued interest.

**AMORTIZATION OF PREMIUM:** Periodic straight-line decreases in the book or carrying value of a security so the premium paid for a bond above its face value or call price is completely eliminated.

**ASK:** The price at which securities are offered by sellers.

**BARBELL MATURITY STRATEGY:** A maturity pattern within a portfolio in which maturities of the assets in the portfolio are concentrated in both the short and long ends of the maturity spectrum.

**BASIS POINT:** One one-hundredth (1/100) of one percent; 0.0001 in decimal form.

**BENCHMARK:** A comparative base for performance evaluation. A benchmark can be a broad-based bond index, a customized bond index, or a specific objective.

**BID:** The price offered for securities by purchasers. (When selling securities, one asks for a bid.)

**BOND EQUIVALENT YIELD:** Used to compare yields available from discounted securities that pay interest at maturity with yields available from securities that pay interest semi-annually.

**BOOK ENTRY SECURITIES:** Stocks, bonds, other securities, and some certificates of deposit that are purchased, sold, and held as electronic computer entries on the records of a central holder. These securities are not available for purchase in physical form; buyers get a receipt or confirmation as evidence of ownership.

**BOOK VALUE:** The original cost of the security as adjusted for amortization of any premium paid or accretion of discount since the date of purchase.

**BROKER:** A party who brings buyers and sellers together. Brokers do not take ownership of the property being traded. They are compensated by commissions. They are not the same as dealers; however, the same firms that act as brokers in some transactions may act as dealers in other transactions.

**CALLABLE BOND:** A bond that the issuer has the right to redeem prior to maturity at a specified price. Some callable bonds may be redeemed on one call date while others may have multiple call dates. Some callable bonds may be redeemed at par while others can be redeemed only at a premium. Some callable bonds are step-up bonds that pay an initial coupon rate for the first period, and then the coupon rate increases for the following periods if the bonds are not called by the issuer.

**CERTIFICATE OF DEPOSIT (CD):** A time deposit with a specific maturity evidenced by a certificate. Large-denomination (over \$100,000) CD's are typically negotiable.

**CODE:** The Internal Revenue Code of 1986, as amended.

**COLLATERAL:** Securities, evidence of deposit or other property which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

**COLLATERALIZED MORTGAGE OBLIGATION (CMO):** A type of mortgage-backed security created by dividing the rights to receive the principal and interest cash flows from an underlying pool of mortgages in separate classes or tiers.

**COMMERCIAL PAPER:** Short-term unsecured promissory notes issued by corporations for a maturity specified by the buyer. It is used primarily by corporations for short-term financing needs at a rate which is generally lower than the prime rate.

**CONFIRMATION:** The document used to state in writing the terms of the trade which had previously been agreed to verbally.

**COUPON RATE:** The stated annual rate of interest payable on a coupon bond expressed as a percentage of the bond's face value.

**CREDIT RISK:** The risk that (1) the issuer is downgraded to a lower quality category and/or (2) the issuer fails to make timely payments of interest or principal.

**CUSIP NUMBER:** A nine-digit number established by the Committee on Uniform Securities Identification Procedures that is used to identify publicly traded securities. Each publicly traded security receives a unique CUSIP number when the security is issued.

**CUSTODY:** The service of an organization, usually a financial institution, of holding (and reporting) a customer's securities for safekeeping. The financial institution is known as the custodian.

**DEALER:** A firm which buys and sells for its own account. Dealers have ownership, even if only for an instant, between a purchase from one party and a sale to another party. They are compensated by the spread between the price they pay and the price they receive. Dealers are not the same as brokers; however, the same firms which act as dealers in some transactions may act as brokers in other transactions.

**DELIVERY VERSUS PAYMENT (DVP):** The safest method of settling a trade involving a book entry security. In a DVP settlement, the funds are wired from the buyer's account and the security is delivered from the seller's account in simultaneous, interdependent wires.

**DEPOSITORY TRUST COMPANY (DTC):** An organization that holds physical certificates for stocks and bonds and issues receipts to owners. Securities held by DTC are immobilized so that they can be traded on a book entry basis.

**DERIVATIVE:** A security that derives its value from an underlying asset, group of assets, reference rate, or an index value. Some derivatives can be highly volatile and result in a loss of principal in changing interest rate environments.

**DISCOUNT:** The amount by which the price paid for a security is less than its face value.

**DISCOUNT SECURITIES:** Securities that do not pay periodic interest. Investors earn the difference between the discount issue price and the full face value paid at maturity.

**DIVERSIFICATION:** Dividing investment funds among a variety of securities offering independent returns, to reduce risk inherent in particular securities.

**DURATION:** A sophisticated measure of the weighted average maturity of a bond's cash flow stream, where the present values of the cash flows serve as the weights.

**ECONOMIC CYCLE (BUSINESS CYCLE):** As the economy moves through the business cycle, interest rates tend to follow the levels of production, output, and consumption - rising as the economy expands and moves out of recession and declining after the economy peaks, contracts, and heads once again into recession.

**EFFECTIVE MATURITY:** The average maturity of a bond, given the potential for early call. For a non-callable bond, the final maturity date serves as the effective maturity. For a callable bond, the effective maturity is bounded by the first call date and the final maturity date; the position within this continuum is a function of the call price, the current market price, and the reinvestment rate assumed.

**FACE VALUE:** The principal amount due and payable to a bondholder at maturity; par value. Also, the amount on which coupon interest is computed.

**FAIL:** The event of a securities purchase or sale transaction not settling as intended by the parties.

**FAIR VALUE:** The amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

**FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC):** A federal agency that insures bank deposits.

**FEDERAL FARM CREDIT BANKS (FFCB):** A government-sponsored corporation that was created in 1916 and is a nationwide system of banks and associations providing mortgage loans, credit, and related services to farmers, rural homeowners, and agricultural and rural cooperatives. The banks and associations are cooperatively owned, directly or indirectly, by their respective borrowers. The Federal Farm Credit System is supervised by the Farm Credit Administration, an independent agency of the U.S. government. (See Government Sponsored Enterprise)

**FEDERAL FUNDS:** Monies within the Federal Reserve System representing a member bank's surplus reserve funds. Banks with excess funds may sell their surplus to other banks whose funds are below required reserve levels. Normally, Federal funds are employed in settling all government securities transactions. The Federal Funds Rate is the rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

**FEDERAL HOME LOAN BANKS (FHLB):** Government-sponsored wholesale banks (currently twelve regional banks) which lend funds and provide correspondent banking services to member commercial bank, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district Bank. (See Government Sponsored Enterprises)

**FEDERAL HOME LOAN MORTGAGE CORPORATION (FHLMC or "Freddie Mac"):** A government-sponsored corporation that was created in July 1970, by the enactment of Title III of the Emergency Home Finance Act of 1970. Freddie Mac was established to help maintain the availability of mortgage credit for residential housing, primarily through developing and maintaining an active, nationwide secondary market in conventional residential mortgages. (See Government Sponsored Enterprises)

**FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA or Fannie Mae):** FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae is a private stockholder-owned corporation. FNMA securities are highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest. (See Government Sponsored Enterprises)

**FEDERAL OPEN MARKET COMMITTEE (FOMC):** Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank presidents. The president of the New York Federal Reserve Bank is a permanent member while the other presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of government securities in the open market as a means of influencing the volume of bank credit and money.

**FEDERAL RESERVE SYSTEM:** The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., twelve regional banks and about 5700 commercial banks that are members of the system.

**FINANCIAL INDUSTRY REGULATORY AUTHORITY (FINRA):** A not-for-profit organization authorized by Congress to ensure investor protection and market integrity through regulation of broker-dealers.

**FINRA RULE 2111 (SUITABILITY):** FINRA Rule 2111 requires, in part, that a broker-dealer or associated person "have a reasonable basis to believe that a recommended transaction or investment strategy involving a security or securities is suitable for the customer, based on the information obtained through the reasonable diligence of the [firm] or associated person to ascertain the customer's investment profile."

**FIXED-INCOME SECURITY:** A financial instrument promising a fixed amount of periodic income over a specified future time span.

**GOVERNMENT-SPONSORED ENTERPRISES (GSE's):** Payment of principal and interest on securities issued by these corporations is not guaranteed explicitly by the U.S. government, however, most investors consider these securities to carry an implicit U.S. government guarantee. The debt is fully guaranteed by the issuing corporations. GSE's include: Farm Credit System, Federal Home Loan Bank System, Federal Home Loan Mortgage Corporation, and Federal National Mortgage Association.

**INSTRUMENTALITIES:** See Government-Sponsored Enterprises

**INTEREST RATE RISK:** The risk that the general level of interest rates will change, causing unexpected price appreciations or depreciations.

**LADDERED MATURITY STRATEGY:** A maturity pattern within a portfolio in which maturities of the assets in the portfolio are equally spaced. Over time, the shortening of the remaining lives of the assets provides a steady source of liquidity or cash flow. Given a normal yield curve with a positive slope this passive strategy provides the benefit of being able to take advantage of the higher, longer-term yields without sacrificing safety or liquidity.

**LIQUIDITY:** An entity's capacity to meet future monetary outflows (whether they are required or optional) from available resources. Liquidity is often obtained from reductions of cash or by converting assets into cash.

**LIQUIDITY RISK:** The risk that an investment will be difficult to sell at a fair market price in a timely fashion.

**MARKET RISK:** The risk that the value of a security will rise or decline as a result of changes in market conditions. It is that part of a security's risk that is common to all securities of the same general class (stocks and bonds) and thus cannot be eliminated by diversification; also known as systematic risk.

**MARKET VALUE:** The price at which a security is trading and could presumably be purchased or sold.

**MARKING-TO-MARKET:** The practice of valuing a security or portfolio according to its market value, rather than its cost or book value.

**MASTER REPURCHASE AGREEMENT:** A written contract covering all future transactions between the parties to repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer to liquidate the underlying securities in the event of default by the seller.

**MATURITY DATE:** The date on which the principal or face value of an investment becomes due and payable.

**MONEY MARKET INSTRUMENT:** Generally, a short-term debt instrument that is purchased from a broker, dealer, or bank. Sometimes the term "money market" with "short-term", defines an instrument with no more than 12 months remaining from the purchase date until the maturity date. Sometimes the term "money market" is used more restrictively to mean only those instruments that have active secondary markets.

**MORTGAGE-BACKED SECURITIES (MBS):** Securities composed of, or collateralized by, loans that are themselves collateralized by liens on real property.

**OFFER:** The price asked by a seller of securities. (When purchasing securities, one asks for an offer.)

**OPEN MARKET OPERATIONS:** Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

**OPPORTUNITY COST:** The cost of pursuing one course of action measured in terms of the foregone return that could have been earned on an alternative course of action that was not undertaken.

**PAR:** See Face Value

**PPIA OR ACT:** The Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended.

**POOLED FUND GROUP:** An internally created fund of an investing entity in which one or more institutional accounts of the investing entity are invested (as defined by the Public Funds Investment Act).

**PREMIUM:** The amount by which the price paid for a security exceeds its face value.

**PRIMARY DEALER:** A group of government securities dealers that submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.

**PRINCIPAL:** The face or par value of an instrument, exclusive of accrued interest.

**PRUDENT PERSON RULE:** An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the state. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

**QUALIFIED REPRESENTATIVE:** A person who holds a position with - and is authorized to act on behalf of - a business organization (as defined by the Public Funds Investment Act).

**RATE OF RETURN:** The amount of income received from an investment, expressed as a percentage. A market rate of return is the yield that an investor can expect to receive in the current interest-rate environment utilizing a buy-and-hold to maturity investment strategy.

**REINVESTMENT RATE:** The interest rate earned on the reinvestment of coupon payments.

**REINVESTMENT RATE RISK:** The risk that the actual reinvestment rate falls short of the expected or assumed reinvestment rate.

**REPURCHASE AGREEMENT (RP or REPO):** An agreement of one party to sell securities at a specified price to a second party and a simultaneous agreement of the first party to repurchase the securities at a specified price on demand or at a specified later date. The difference between the selling price and the repurchase price provides the interest income to the party that provided the funds. Every transaction where a security is sold under an agreement to be repurchased is a repo from the seller/borrower's point of view and a reverse repo from the buyer/lender's point of view.

**REVERSE REPURCHASE AGREEMENT:** (See Repurchase Agreement)

**SAFEKEEPING:** A procedure where securities are held by a third party acting as custodian for a fee.

**SECONDARY MARKET:** A market made for the purchase and sale of outstanding issues following the initial distribution.

**SECURITIES AND EXCHANGE COMMISSION (SEC):** Agency created by Congress to protect investors in securities transactions by administering securities legislation.

**SECURITIES LENDING:** The temporary transfer of securities by one party, the lender, to another, the borrower. The securities borrower is required to provide acceptable assets as collateral to the securities lender in the form of cash or other securities. If the borrower provides securities as collateral to the lender, it pays a fee to borrow the lent securities. If it provides cash as collateral, the lender pays interest to the borrower and reinvests the cash at a higher rate.

**SEC RULE 15C3-1:** See Uniform Net Capital Rule

**STRUCTURED NOTES:** Debt obligations whose principal or interest payments are determined by an index or formula.

**SEPARATELY INVESTED ASSET:** An account or fund of a state agency or local government that is not invested in a pooled fund group (as defined by the Public Funds Investment Act).

**SPREAD:** Most commonly used when referring to the difference between the bid and asked prices in a quote. Additionally, it may also refer to additional basis points that a non-Treasury security earns over and above a Treasury with a comparable maturity date.

**STRIPS:** Separation of the principal and interest cash flows due from any interest-bearing securities into different financial instruments. Each coupon payment is separated from the underlying investment to create a separate security. Each individual cash flow is sold at a discount. The amount of the discount and the time until the cash flow is paid determine the investor's return.

**SWAP:** The trading of one asset for another. Sometimes used in active portfolio management to increase investment returns by "swapping" one type of security for another.

**TOTAL RETURN:** Interest income plus capital gains (or minus losses) on an investment.

**TREASURY BILLS:** A non-interest bearing discount security issued by the U.S. Treasury, generally having initial maturities of 3 months, 6 months, or 1 year.

**TREASURY BONDS:** Long-term, coupon bearing U.S. Treasury securities having initial maturities of more than 10 years.

**TREASURY NOTES:** Intermediate-term, coupon bearing U.S. Treasury securities having initial maturities of 2 - 10 years.

**UNIFORM NET CAPITAL RULE:** Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called *net capital rule* and *net capital ratio*. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

**YIELD TO MATURITY (YTM):** The promised return assuming all interest and principal payments are made and reinvested at the same rate taking into account price appreciation (if priced below par) or depreciation (if priced above par).

**APPENDIX A**  
**PUBLIC FUNDS INVESTMENT ACT**

GOVERNMENT CODE  
TITLE 10. GENERAL GOVERNMENT  
SUBTITLE F. STATE AND LOCAL CONTRACTS AND FUND MANAGEMENT  
CHAPTER 2256. PUBLIC FUNDS INVESTMENT

SUBCHAPTER A. AUTHORIZED INVESTMENTS FOR GOVERNMENTAL ENTITIES

Sec. 2256.001. SHORT TITLE. This chapter may be cited as the Public Funds Investment Act.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.002. DEFINITIONS. In this chapter:

(1) "Bond proceeds" means the proceeds from the sale of bonds, notes, and other obligations issued by an entity, and reserves and funds maintained by an entity for debt service purposes.

(2) "Book value" means the original acquisition cost of an investment plus or minus the accrued amortization or accretion.

(3) "Funds" means public funds in the custody of a state agency or local government that:

(A) are not required by law to be deposited in the state treasury; and

(B) the investing entity has authority to invest.

(4) "Institution of higher education" has the meaning assigned by Section 61.003, Education Code.

(5) "Investing entity" and "entity" mean an entity subject to this chapter and described by Section 2256.003.

(6) "Investment pool" means an entity created under this code to invest public funds jointly on behalf of the entities that participate in the pool and whose investment objectives in order of priority are:

(A) preservation and safety of principal;

(B) liquidity; and

(C) yield.

(7) "Local government" means a municipality, a county, a school district, a district or authority created under Section 52(b)(1) or (2), Article III, or Section 59, Article XVI, Texas Constitution, a fresh water supply district, a



hospital district, and any political subdivision, authority, public corporation, body politic, or instrumentality of the State of Texas, and any nonprofit corporation acting on behalf of any of those entities.

(8) "Market value" means the current face or par value of an investment multiplied by the net selling price of the security as quoted by a recognized market pricing source quoted on the valuation date.

(9) "Pooled fund group" means an internally created fund of an investing entity in which one or more institutional accounts of the investing entity are invested.

(10) "Qualified representative" means a person who holds a position with a business organization, who is authorized to act on behalf of the business organization, and who is one of the following:

(A) for a business organization doing business that is regulated by or registered with a securities commission, a person who is registered under the rules of the National Association of Securities Dealers;

(B) for a state or federal bank, a savings bank, or a state or federal credit union, a member of the loan committee for the bank or branch of the bank or a person authorized by corporate resolution to act on behalf of and bind the banking institution;

(C) for an investment pool, the person authorized by the elected official or board with authority to administer the activities of the investment pool to sign the written instrument on behalf of the investment pool; or

(D) for an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or, if not subject to registration under that Act, registered with the State Securities Board, a person who is an officer or principal of the investment management firm.

(11) "School district" means a public school district.

(12) "Separately invested asset" means an account or fund of a state agency or local government that is not invested in a pooled fund group.

(13) "State agency" means an office, department, commission, board, or other agency that is part of any branch of state government, an institution of higher education, and any nonprofit corporation acting on behalf of any of those entities.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1421, Sec. 1, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 1454, Sec. 1, eff. Sept. 1, 1999.

Sec. 2256.003. AUTHORITY TO INVEST FUNDS; ENTITIES SUBJECT TO THIS CHAPTER. (a) Each governing body of the following entities may purchase, sell, and invest its funds and funds under its control in investments authorized under this subchapter in compliance with investment policies approved by the governing body and according to the standard of care prescribed by Section 2256.006:

- (1) a local government;
- (2) a state agency;
- (3) a nonprofit corporation acting on behalf of a local government or a state agency; or
- (4) an investment pool acting on behalf of two or more local governments, state agencies, or a

combination of those entities.

(b) In the exercise of its powers under Subsection (a), the governing body of an investing entity may contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control. A contract made under authority of this subsection may not be for a term longer than two years. A renewal or extension of the contract must be made by the governing body of the investing entity by order, ordinance, or resolution.

(c) This chapter does not prohibit an investing entity or investment officer from using the entity's employees or the services of a contractor of the entity to aid the investment officer in the execution of the officer's duties under this chapter.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1999, 76th Leg., ch. 1454, Sec. 2, eff. Sept. 1, 1999.

Sec. 2256.004. APPLICABILITY. (a) This subchapter does not apply to:

- (1) a public retirement system as defined by Section 802.001;
- (2) state funds invested as authorized by Section 404.024;
- (3) an institution of higher education having total endowments of at least \$95 million in book value

on May 1, 1995;

(4) funds invested by the Veterans' Land Board as authorized by Chapter 161, 162, or 164, Natural Resources Code;

(5) registry funds deposited with the county or district clerk under Chapter 117, Local Government Code; or

(6) a deferred compensation plan that qualifies under either Section 401(k) or 457 of the Internal Revenue Code of 1986 (26 U.S.C. Section 1 et seq.), as amended.

(b) This subchapter does not apply to an investment donated to an investing entity for a particular purpose or under terms of use specified by the donor.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 505, Sec. 24, eff. Sept. 1, 1997; Acts 1997, 75th Leg., ch. 1421, Sec. 2, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 62, Sec. 8.21, eff. Sept. 1, 1999; Acts 1999, 76th Leg., ch. 1454, Sec. 3, eff. Sept. 1, 1999.

Sec. 2256.005. INVESTMENT POLICIES; INVESTMENT STRATEGIES; INVESTMENT OFFICER. (a) The governing body of an investing entity shall adopt by rule, order, ordinance, or resolution, as appropriate, a written investment policy regarding the investment of its funds and funds under its control.

(b) The investment policies must:

(1) be written;

(2) primarily emphasize safety of principal and liquidity;

(3) address investment diversification, yield, and maturity and the quality and capability of investment management; and

(4) include:

(A) a list of the types of authorized investments in which the investing entity's funds may be invested;

(B) the maximum allowable stated maturity of any individual investment owned by the entity;

(C) for pooled fund groups, the maximum dollar-weighted average maturity allowed based on the stated maturity date for the portfolio;

(D) methods to monitor the market price of investments acquired with public funds;

(E) a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis; and

(F) procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the provisions of Section 2256.021.

(c) The investment policies may provide that bids for certificates of deposit be solicited:

- (1) orally;
- (2) in writing;
- (3) electronically; or
- (4) in any combination of those methods.

(d) As an integral part of an investment policy, the governing body shall adopt a separate written investment strategy for each of the funds or group of funds under its control. Each investment strategy must describe the investment objectives for the particular fund using the following priorities in order of importance:

- (1) understanding of the suitability of the investment to the financial requirements of the entity;
- (2) preservation and safety of principal;
- (3) liquidity;
- (4) marketability of the investment if the need arises to liquidate the investment before maturity;
- (5) diversification of the investment portfolio; and
- (6) yield.

(e) The governing body of an investing entity shall review its investment policy and investment strategies not less than annually. The governing body shall adopt a written instrument by rule, order, ordinance, or resolution stating that it has reviewed the investment policy and investment strategies and that the written instrument so adopted shall record any changes made to either the investment policy or investment strategies.

(f) Each investing entity shall designate, by rule, order, ordinance, or resolution, as appropriate, one or more officers or employees of the state agency, local government, or investment pool as investment officer to be responsible for the investment of its funds consistent with the investment policy adopted by the entity. If the governing body of an investing entity has contracted with another investing entity to invest its funds, the investment officer of the other investing entity is considered to be the investment officer of the first investing entity for purposes of this chapter. Authority granted to a person to invest an entity's funds is effective until rescinded by the investing entity, until the expiration of the officer's term or the termination of the person's employment by the investing entity, or if an investment management firm, until the expiration of the contract with the investing entity. In the administration of the duties of an investment officer, the person designated as investment officer shall exercise the judgment and care, under prevailing circumstances, that a prudent person would exercise in the management of the person's own affairs, but the governing body of the investing entity retains ultimate responsibility as fiduciaries of the assets of the entity.

Unless authorized by law, a person may not deposit, withdraw, transfer, or manage in any other manner the funds of the investing entity.

(g) Subsection (f) does not apply to a state agency, local government, or investment pool for which an officer of the entity is assigned by law the function of investing its funds.

Text of subsec. (h) as amended by Acts 1997, 75th Leg., ch. 685, Sec. 1

(h) An officer or employee of a commission created under Chapter 391, Local Government Code, is ineligible to be an investment officer for the commission under Subsection (f) if the officer or employee is an investment officer designated under Subsection (f) for another local government.

Text of subsec. (h) as amended by Acts 1997, 75th Leg., ch. 1421, Sec. 3

(h) An officer or employee of a commission created under Chapter 391, Local Government Code, is ineligible to be designated as an investment officer under Subsection (f) for any investing entity other than for that commission.

(i) An investment officer of an entity who has a personal business relationship with a business organization offering to engage in an investment transaction with the entity shall file a statement disclosing that personal business interest. An investment officer who is related within the second degree by affinity or consanguinity, as determined under Chapter 573, to an individual seeking to sell an investment to the investment officer's entity shall file a statement disclosing that relationship. A statement required under this subsection must be filed with the Texas Ethics Commission and the governing body of the entity. For purposes of this subsection, an investment officer has a personal business relationship with a business organization if:

(1) the investment officer owns 10 percent 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 percent of the investment officer's gross income for the previous year; or

(3) 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.

(j) The governing body of an investing entity may specify in its investment policy that any investment authorized by this chapter is not suitable.

(k) A written copy of the investment policy shall be presented to any person offering to engage in an investment transaction with an investing entity or to an investment management firm under contract with an investing entity to invest or manage the entity's investment portfolio. For purposes of this subsection, a business organization includes investment pools and an investment management firm under contract with an investing entity to invest or manage the entity's investment portfolio. Nothing in this subsection relieves the investing entity of the responsibility for monitoring the investments made by the investing entity to determine that they are in compliance with the investment policy. The qualified representative of the business organization offering to engage in an investment transaction with an investing entity shall execute a written instrument in a form acceptable to the investing entity and the business organization substantially to the effect that the business organization has:

(1) received and reviewed the investment policy of the entity; and

(2) acknowledged that the business organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the entity and the organization that are not authorized by the entity's investment policy, except to the extent that this authorization is dependent on an analysis of the makeup of the entity's entire portfolio or requires an interpretation of subjective investment standards.

(l) The investment officer of an entity may not acquire or otherwise obtain any authorized investment described in the investment policy of the investing entity from a person who has not delivered to the entity the instrument required by Subsection (k).

(m) An investing entity other than a state agency, in conjunction with its annual financial audit, shall perform a compliance audit of management controls on investments and adherence to the entity's established investment policies.

(n) Except as provided by Subsection (o), at least once every two years a state agency shall arrange for a compliance audit of management controls on investments and adherence to the agency's established investment policies. The compliance audit shall be performed by the agency's internal auditor or by a private auditor employed in the manner provided by Section 321.020. Not later than January 1 of each even-numbered year a state agency shall report the results of the most recent audit performed under this subsection to the state auditor. Subject to a risk assessment and to the legislative audit committee's approval of including a review by the state auditor in the audit plan under Section 321.013, the state auditor may review information provided under this section. If review by the

state auditor is approved by the legislative audit committee, the state auditor may, based on its review, require a state agency to also report to the state auditor other information the state auditor determines necessary to assess compliance with laws and policies applicable to state agency investments. A report under this subsection shall be prepared in a manner the state auditor prescribes.

(o) The audit requirements of Subsection (n) do not apply to assets of a state agency that are invested by the comptroller under Section 404.024.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 685, Sec. 1, eff. Sept. 1, 1997; Acts 1997, 75th Leg., ch. 1421, Sec. 3, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 1454, Sec. 4, eff. Sept. 1, 1999; Acts 2003, 78th Leg., ch. 785, Sec. 41, eff. Sept. 1, 2003.

Amended by:

Acts 2011, 82nd Leg., R.S., Ch. [1004](#), Sec. 1, eff. June 17, 2011.

Sec. 2256.006. STANDARD OF CARE. (a) 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 of funds shall be governed by the following investment objectives, in order of priority:

- (1) preservation and safety of principal;
- (2) liquidity; and
- (3) yield.

(b) In determining whether an investment officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration:

(1) the investment of all funds, or funds under the entity's control, over which the officer had responsibility rather than a consideration as to the prudence of a single investment; and

- (2) whether the investment decision was consistent with the written investment policy of the entity.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.007. INVESTMENT TRAINING; STATE AGENCY BOARD MEMBERS AND OFFICERS. (a) Each member of the governing board of a state agency and its investment officer shall attend at least one training

session relating to the person's responsibilities under this chapter within six months after taking office or assuming duties.

(b) The Texas Higher Education Coordinating Board shall provide the training under this section.

(c) Training under this section must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with this chapter.

(d) An investment officer shall attend a training session not less than once each state fiscal biennium and may receive training from any independent source approved by the governing body of the state agency. The investment officer shall prepare a report on this subchapter and deliver the report to the governing body of the state agency not later than the 180th day after the last day of each regular session of the legislature.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 73, Sec. 1, eff. May 9, 1997; Acts 1997, 75th Leg., ch. 1421, Sec. 4, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 1454, Sec. 5, eff. Sept. 1, 1999.

Amended by:

Acts 2011, 82nd Leg., R.S., Ch. [1004](#), Sec. 2, eff. June 17, 2011.

Sec. 2256.008. INVESTMENT TRAINING; LOCAL GOVERNMENTS. (a) Except as provided by Subsections (b) and (e), the treasurer, the chief financial officer if the treasurer is not the chief financial officer, and the investment officer of a local government shall:

(1) attend at least one training session from an independent source approved by the governing body of the local government or a designated investment committee advising the investment officer as provided for in the investment policy of the local government and containing at least 10 hours of instruction relating to the treasurer's or officer's responsibilities under this subchapter within 12 months after taking office or assuming duties; and

(2) except as provided by Subsections (b) and (e), attend an investment training session not less than once in a two-year period that begins on the first day of that local government's fiscal year and consists of the two consecutive fiscal years after that date, and receive not less than 10 hours of instruction relating to investment responsibilities under this subchapter from an independent source approved by the governing body of the local government or a designated investment committee advising the investment officer as provided for in the investment policy of the local government.



(b) An investing entity created under authority of Section 52(b), Article III, or Section 59, Article XVI, Texas Constitution, that has contracted with an investment management firm under Section 2256.003(b) and has fewer than five full-time employees or an investing entity that has contracted with another investing entity to invest the entity's funds may satisfy the training requirement provided by Subsection (a)(2) by having an officer of the governing body attend four hours of appropriate instruction in a two-year period that begins on the first day of that local government's fiscal year and consists of the two consecutive fiscal years after that date. The treasurer or chief financial officer of an investing entity created under authority of Section 52(b), Article III, or Section 59, Article XVI, Texas Constitution, and that has fewer than five full-time employees is not required to attend training required by this section unless the person is also the investment officer of the entity.

(c) Training under this section must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with this chapter.

(d) Not later than December 31 each year, each individual, association, business, organization, governmental entity, or other person that provides training under this section shall report to the comptroller a list of the governmental entities for which the person provided required training under this section during that calendar year. An individual's reporting requirements under this subsection are satisfied by a report of the individual's employer or the sponsoring or organizing entity of a training program or seminar.

(e) This section does not apply to a district governed by Chapter 36 or 49, Water Code.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1421, Sec. 5, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 1454, Sec. 6, eff. Sept. 1, 1999; Acts 2001, 77th Leg., ch. 69, Sec. 4, eff. May 14, 2001.

Amended by:

Acts 2011, 82nd Leg., R.S., Ch. [1004](#), Sec. 3, eff. June 17, 2011.

Sec. 2256.009. AUTHORIZED INVESTMENTS: OBLIGATIONS OF, OR GUARANTEED BY GOVERNMENTAL ENTITIES. (a) Except as provided by Subsection (b), the following are authorized investments under this subchapter:

- (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities;
- (2) direct obligations of this state or its agencies and instrumentalities;

(3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States;

(4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, this state or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States;

(5) 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; and

(6) bonds issued, assumed, or guaranteed by the State of Israel.

(b) The following are not authorized investments under this section:

(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; and

(4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1999, 76th Leg., ch. 1454, Sec. 7, eff. Sept. 1, 1999; Acts 2001, 77th Leg., ch. 558, Sec. 1, eff. Sept. 1, 2001.

Amended by:

Acts 2011, 82nd Leg., R.S., Ch. [1004](#), Sec. 4, eff. June 17, 2011.

Sec. 2256.010. AUTHORIZED INVESTMENTS: CERTIFICATES OF DEPOSIT AND SHARE CERTIFICATES. (a) A certificate of deposit or share certificate is an authorized investment under this subchapter if the certificate is issued by a depository institution that has its main office or a branch office in this state and is:

(1) guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor;

(2) secured by obligations that are described by Section 2256.009(a), including mortgage backed securities directly issued by a federal agency or instrumentality that have a market value of not less than the principal amount of the certificates, but excluding those mortgage backed securities of the nature described by Section 2256.009(b); or

(3) secured in any other manner and amount provided by law for deposits of the investing entity.

(b) In addition to the authority to invest funds in certificates of deposit under Subsection (a), an investment in certificates of deposit made in accordance with the following conditions is an authorized investment under this subchapter:

(1) the funds are invested by an investing entity through:

(A) a broker that has its main office or a branch office in this state and is selected from a list adopted by the investing entity as required by Section 2256.025; or

(B) a depository institution that has its main office or a branch office in this state and that is selected by the investing entity;

(2) the broker or the depository institution selected by the investing entity under Subdivision (1) arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the investing entity;

(3) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States; and

(4) the investing entity appoints the depository institution selected by the investing entity under Subdivision (1), an entity described by Section 2257.041(d), or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the investing entity with respect to the certificates of deposit issued for the account of the investing entity.

Amended by Acts 1995, 74th Leg., ch. 32, Sec. 1, eff. April 28, 1995; Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1421, Sec. 6, eff. Sept. 1, 1997.

Amended by:

Acts 2005, 79th Leg., Ch. [128](#), Sec. 1, eff. September 1, 2005.

Acts 2011, 82nd Leg., R.S., Ch. [1004](#), Sec. 5, eff. June 17, 2011.

Sec. 2256.011. AUTHORIZED INVESTMENTS: REPURCHASE AGREEMENTS. (a) A fully collateralized repurchase agreement is an authorized investment under this subchapter if the repurchase agreement:

- (1) has a defined termination date;
- (2) is secured by a combination of cash and obligations described by Section 2256.009(a)(1); and
- (3) requires the securities being purchased by the entity or cash held by the entity to be pledged to the entity, held in the entity's name, and deposited at the time the investment is made with the entity or with a third party selected and approved by the entity; and
- (4) is placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in this state.

(b) In this section, "repurchase agreement" means a simultaneous agreement to buy, hold for a specified time, and sell back at a future date obligations described by Section 2256.009(a)(1), at a market value at the time the funds are disbursed of not less than the principal amount of the funds disbursed. The term includes a direct security repurchase agreement and a reverse security repurchase agreement.

(c) Notwithstanding any other law, the term of any reverse security repurchase agreement may not exceed 90 days after the date the reverse security repurchase agreement is delivered.

(d) Money received by an entity under the terms of a reverse security repurchase agreement shall be used to acquire additional authorized investments, but the term of the authorized investments acquired must mature not later than the expiration date stated in the reverse security repurchase agreement.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Amended by:

Acts 2011, 82nd Leg., R.S., Ch. [1004](#), Sec. 6, eff. June 17, 2011.

Sec. 2256.0115. AUTHORIZED INVESTMENTS: SECURITIES LENDING PROGRAM. (a) A securities lending program is an authorized investment under this subchapter if it meets the conditions provided by this section.

- (b) To qualify as an authorized investment under this subchapter:
- (1) the value of securities loaned under the program must be not less than 100 percent collateralized, including accrued income;
  - (2) a loan made under the program must allow for termination at any time;
  - (3) a loan made under the program must be secured by:

(A) pledged securities described by Section 2256.009;

(B) pledged irrevocable letters of credit issued by a bank that is:

(i) organized and existing under the laws of the United States or any other state;

and

(ii) continuously rated by at least one nationally recognized investment rating firm at

not less than A or its equivalent; or

(C) cash invested in accordance with Section:

(i) 2256.009;

(ii) 2256.013;

(iii) 2256.014; or

(iv) 2256.016;

(4) the terms of a loan made under the program must require that the securities being held as collateral be:

(A) pledged to the investing entity;

(B) held in the investing entity's name; and

(C) deposited at the time the investment is made with the entity or with a third party selected by or approved by the investing entity;

(5) a loan made under the program must be placed through:

(A) a primary government securities dealer, as defined by 5 C.F.R. Section 6801.102(f), as that regulation existed on September 1, 2003; or

(B) a financial institution doing business in this state; and

(6) an agreement to lend securities that is executed under this section must have a term of one year or less.

Added by Acts 2003, 78th Leg., ch. 1227, Sec. 1, eff. Sept. 1, 2003.

Sec. 2256.012. AUTHORIZED INVESTMENTS: BANKER'S ACCEPTANCES. A bankers' acceptance is an authorized investment under this subchapter if the bankers' acceptance:

(1) has a stated maturity of 270 days or fewer from the date of its issuance;

(2) will be, in accordance with its terms, liquidated in full at maturity;

(3) is eligible for collateral for borrowing from a Federal Reserve Bank; and

(4) is accepted by a bank organized and existing under the laws of the United States or any state, if the short-term obligations of the bank, or of a bank holding company of which the bank is the largest subsidiary, are rated not less than A-1 or P-1 or an equivalent rating by at least one nationally recognized credit rating agency.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.013. AUTHORIZED INVESTMENTS: COMMERCIAL PAPER. Commercial paper is an authorized investment under this subchapter if the commercial paper:

(1) has a stated maturity of 270 days or fewer from the date of its issuance; and

(2) is rated not less than A-1 or P-1 or an equivalent rating by at least:

(A) two nationally recognized credit rating agencies; or

(B) 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.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.014. AUTHORIZED INVESTMENTS: MUTUAL FUNDS. (a) A no-load money market mutual fund is an authorized investment under this subchapter if the mutual fund:

(1) is registered with and regulated by the Securities and Exchange Commission;

(2) provides the investing entity with a prospectus and other information required by the Securities Exchange Act of 1934 (15 U.S.C. Section 78a et seq.) or the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.);

(3) has a dollar-weighted average stated maturity of 90 days or fewer; and

(4) includes in its investment objectives the maintenance of a stable net asset value of \$1 for each share.

(b) In addition to a no-load money market mutual fund permitted as an authorized investment in Subsection (a), a no-load mutual fund is an authorized investment under this subchapter if the mutual fund:

(1) is registered with the Securities and Exchange Commission;

(2) has an average weighted maturity of less than two years;

(3) is invested exclusively in obligations approved by this subchapter;

(4) is continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent; and

(5) conforms to the requirements set forth in Sections 2256.016(b) and (c) relating to the eligibility of investment pools to receive and invest funds of investing entities.

(c) An entity is not authorized by this section to:

(1) invest in the aggregate more than 15 percent of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, in mutual funds described in Subsection (b);

(2) invest any portion of bond proceeds, reserves and funds held for debt service, in mutual funds described in Subsection (b); or

(3) invest its funds or funds under its control, including bond proceeds and reserves and other funds held for debt service, in any one mutual fund described in Subsection (a) or (b) in an amount that exceeds 10 percent of the total assets of the mutual fund.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1421, Sec. 7, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 1454, Sec. 8, eff. Sept. 1, 1999.

Sec. 2256.015. AUTHORIZED INVESTMENTS: GUARANTEED INVESTMENT CONTRACTS. (a) A guaranteed investment contract is an authorized investment for bond proceeds under this subchapter if the guaranteed investment contract:

(1) has a defined termination date;

(2) is secured by obligations described by Section 2256.009(a)(1), excluding those obligations described by Section 2256.009(b), in an amount at least equal to the amount of bond proceeds invested under the contract; and

(3) is pledged to the entity and deposited with the entity or with a third party selected and approved by the entity.

(b) Bond proceeds, other than bond proceeds representing reserves and funds maintained for debt service purposes, may not be invested under this subchapter in a guaranteed investment contract with a term of longer than five years from the date of issuance of the bonds.

(c) To be eligible as an authorized investment:

(1) the governing body of the entity must specifically authorize guaranteed investment contracts as an eligible investment in the order, ordinance, or resolution authorizing the issuance of bonds;

(2) the entity must receive bids from at least three separate providers with no material financial interest in the bonds from which proceeds were received;

(3) the entity must purchase the highest yielding guaranteed investment contract for which a qualifying bid is received;

(4) the price of the guaranteed investment contract must take into account the reasonably expected drawdown schedule for the bond proceeds to be invested; and

(5) the provider must certify the administrative costs reasonably expected to be paid to third parties in connection with the guaranteed investment contract.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1421, Sec. 8, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 1454, Sec. 9, 10, eff. Sept. 1, 1999.

Sec. 2256.016. AUTHORIZED INVESTMENTS: INVESTMENT POOLS. (a) An entity may invest its funds and funds under its control through an eligible investment pool if the governing body of the entity by rule, order, ordinance, or resolution, as appropriate, authorizes investment in the particular pool. An investment pool shall invest the funds it receives from entities in authorized investments permitted by this subchapter. An investment pool may invest its funds in money market mutual funds to the extent permitted by and consistent with this subchapter and the investment policies and objectives adopted by the investment pool.

(b) To be eligible to receive funds from and invest funds on behalf of an entity under this chapter, an investment pool must furnish to the investment officer or other authorized representative of the entity an offering circular or other similar disclosure instrument that contains, at a minimum, the following information:

(1) the types of investments in which money is allowed to be invested;

(2) the maximum average dollar-weighted maturity allowed, based on the stated maturity date, of the pool;

(3) the maximum stated maturity date any investment security within the portfolio has;

(4) the objectives of the pool;

(5) the size of the pool;

(6) the names of the members of the advisory board of the pool and the dates their terms expire;



(7) the custodian bank that will safekeep the pool's assets;

(8) whether the intent of the pool is to maintain a net asset value of one dollar and the risk of market price fluctuation;

(9) whether the only source of payment is the assets of the pool at market value or whether there is a secondary source of payment, such as insurance or guarantees, and a description of the secondary source of payment;

(10) the name and address of the independent auditor of the pool;

(11) the requirements to be satisfied for an entity to deposit funds in and withdraw funds from the pool and any deadlines or other operating policies required for the entity to invest funds in and withdraw funds from the pool; and

(12) the performance history of the pool, including yield, average dollar-weighted maturities, and expense ratios.

(c) To maintain eligibility to receive funds from and invest funds on behalf of an entity under this chapter, an investment pool must furnish to the investment officer or other authorized representative of the entity:

(1) investment transaction confirmations; and

(2) a monthly report that contains, at a minimum, the following information:

(A) the types and percentage breakdown of securities in which the pool is invested;

(B) the current average dollar-weighted maturity, based on the stated maturity date, of the pool;

(C) the current percentage of the pool's portfolio in investments that have stated maturities of more than one year;

(D) the book value versus the market value of the pool's portfolio, using amortized cost valuation;

(E) the size of the pool;

(F) the number of participants in the pool;

(G) the custodian bank that is safekeeping the assets of the pool;

(H) a listing of daily transaction activity of the entity participating in the pool;

(I) the yield and expense ratio of the pool, including a statement regarding how yield is calculated;

(J) the portfolio managers of the pool; and

(K) any changes or addenda to the offering circular.

(d) An entity by contract may delegate to an investment pool the authority to hold legal title as custodian of investments purchased with its local funds.

(e) In this section, "yield" shall be calculated in accordance with regulations governing the registration of open-end management investment companies under the Investment Company Act of 1940, as promulgated from time to time by the federal Securities and Exchange Commission.

(f) To be eligible to receive funds from and invest funds on behalf of an entity under this chapter, a public funds investment pool created to function as a money market mutual fund must mark its portfolio to market daily, and, to the extent reasonably possible, stabilize at a \$1 net asset value. If the ratio of the market value of the portfolio divided by the book value of the portfolio is less than 0.995 or greater than 1.005, portfolio holdings shall be sold as necessary to maintain the ratio between 0.995 and 1.005. In addition to the requirements of its investment policy and any other forms of reporting, a public funds investment pool created to function as a money market mutual fund shall report yield to its investors in accordance with regulations of the federal Securities and Exchange Commission applicable to reporting by money market funds.

(g) To be eligible to receive funds from and invest funds on behalf of an entity under this chapter, a public funds investment pool must have an advisory board composed:

(1) equally of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool, for a public funds investment pool created under Chapter 791 and managed by a state agency; or

(2) of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool, for other investment pools.

(h) To maintain eligibility to receive funds from and invest funds on behalf of an entity under this chapter, an investment pool must be continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service.

(i) If the investment pool operates an Internet website, the information in a disclosure instrument or report described in Subsections (b), (c)(2), and (f) must be posted on the website.

(j) To maintain eligibility to receive funds from and invest funds on behalf of an entity under this chapter, an investment pool must make available to the entity an annual audited financial statement of the investment pool in which the entity has funds invested.

(k) If an investment pool offers fee breakpoints based on fund balances invested, the investment pool in advertising investment rates must include either all levels of return based on the breakpoints provided or state the lowest possible level of return based on the smallest level of funds invested.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1421, Sec. 9, eff. Sept. 1, 1997.

Amended by:

Acts 2011, 82nd Leg., R.S., Ch. [1004](#), Sec. 7, eff. June 17, 2011.

Sec. 2256.017. EXISTING INVESTMENTS. An entity is not required to liquidate investments that were authorized investments at the time of purchase.

Added by Acts 1995, 74th Leg., ch. 76, Sec. 5.46(a), eff. Sept. 1, 1995; Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995. Amended by Acts 1997, 75th Leg., ch. 1421, Sec. 10, eff. Sept. 1, 1997.

Sec. 2256.019. RATING OF CERTAIN INVESTMENT POOLS. A public funds investment pool must be continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service.

Added by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995. Amended by Acts 1997, 75th Leg., ch. 1421, Sec. 11, eff. Sept. 1, 1997.

Amended by:

Acts 2011, 82nd Leg., R.S., Ch. [1004](#), Sec. 8, eff. June 17, 2011.

Sec. 2256.020. AUTHORIZED INVESTMENTS: INSTITUTIONS OF HIGHER EDUCATION. In addition to the authorized investments permitted by this subchapter, an institution of higher education may purchase, sell, and invest its funds and funds under its control in the following:

(1) cash management and fixed income funds sponsored by organizations exempt from federal income taxation under Section 501(f), Internal Revenue Code of 1986 (26 U.S.C. Section 501(f));

(2) negotiable certificates of deposit issued by a bank that has a certificate of deposit rating of at least 1 or the equivalent by a nationally recognized credit rating agency or that is associated with a holding company having a commercial paper rating of at least A-1, P-1, or the equivalent by a nationally recognized credit rating agency; and

(3) corporate bonds, debentures, or similar debt obligations rated by a nationally recognized investment rating firm in one of the two highest long-term rating categories, without regard to gradations within those categories.

Added by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.0201. AUTHORIZED INVESTMENTS; MUNICIPAL UTILITY. (a) A municipality that owns a municipal electric utility that is engaged in the distribution and sale of electric energy or natural gas to the public may enter into a hedging contract and related security and insurance agreements in relation to fuel oil, natural gas, coal, nuclear fuel, and electric energy to protect against loss due to price fluctuations. A hedging transaction must comply with the regulations of the Commodity Futures Trading Commission and the Securities and Exchange Commission. If there is a conflict between the municipal charter of the municipality and this chapter, this chapter prevails.

(b) A payment by a municipally owned electric or gas utility under a hedging contract or related agreement in relation to fuel supplies or fuel reserves is a fuel expense, and the utility may credit any amounts it receives under the contract or agreement against fuel expenses.

(c) The governing body of a municipally owned electric or gas utility or the body vested with power to manage and operate the municipally owned electric or gas utility may set policy regarding hedging transactions.

(d) In this section, "hedging" means the buying and selling of fuel oil, natural gas, coal, nuclear fuel, and electric energy futures or options or similar contracts on those commodities and related transportation costs as a protection against loss due to price fluctuation.

Added by Acts 1999, 76th Leg., ch. 405, Sec. 48, eff. Sept. 1, 1999.

Amended by:

Acts 2007, 80th Leg., R.S., Ch. [Z](#), Sec. 1, eff. April 13, 2007.

Sec. 2256.0202. AUTHORIZED INVESTMENTS: MUNICIPAL FUNDS FROM MANAGEMENT AND DEVELOPMENT OF MINERAL RIGHTS. (a) In addition to other investments authorized under this subchapter, a

municipality may invest funds received by the municipality from a lease or contract for the management and development of land owned by the municipality and leased for oil, gas, or other mineral development in any investment authorized to be made by a trustee under Subtitle B, Title 9, Property Code (Texas Trust Code).

(b) Funds invested by a municipality under this section shall be segregated and accounted for separately from other funds of the municipality.

Added by Acts 2009, 81st Leg., R.S., Ch. [1371](#), Sec. 1, eff. September 1, 2009.

Sec. 2256.0203. AUTHORIZED INVESTMENTS: PORTS AND NAVIGATION DISTRICTS. (a) In this section, "district" means a navigation district organized under Section 52, Article III, or Section 59, Article XVI, Texas Constitution.

(b) In addition to the authorized investments permitted by this subchapter, a port or district may purchase, sell, and invest its funds and funds under its control in negotiable certificates of deposit issued by a bank that has a certificate of deposit rating of at least 1 or the equivalent by a nationally recognized credit rating agency or that is associated with a holding company having a commercial paper rating of at least A-1, P-1, or the equivalent by a nationally recognized credit rating agency.

Added by Acts 2011, 82nd Leg., R.S., Ch. [804](#), Sec. 1, eff. September 1, 2011.

Sec. 2256.0204. AUTHORIZED INVESTMENTS: INDEPENDENT SCHOOL DISTRICTS. (a) In this section, "corporate bond" means a senior secured debt obligation issued by a domestic business entity and rated not lower than "AA-" or the equivalent by a nationally recognized investment rating firm. The term does not include a debt obligation that:

(1) on conversion, would result in the holder becoming a stockholder or shareholder in the entity, or any affiliate or subsidiary of the entity, that issued the debt obligation; or

(2) is an unsecured debt obligation.

(b) This section applies only to an independent school district that qualifies as an issuer as defined by Section 1371.001.

(c) In addition to authorized investments permitted by this subchapter, an independent school district subject to this section may purchase, sell, and invest its funds and funds under its control in corporate bonds that, at the time

of purchase, are rated by a nationally recognized investment rating firm "AA-" or the equivalent and have a stated final maturity that is not later than the third anniversary of the date the corporate bonds were purchased.

(d) An independent school district subject to this section is not authorized by this section to:

(1) invest in the aggregate more than 15 percent of its monthly average fund balance, excluding bond proceeds, reserves, and other funds held for the payment of debt service, in corporate bonds; or

(2) invest more than 25 percent of the funds invested in corporate bonds in any one domestic business entity, including subsidiaries and affiliates of the entity.

(e) An independent school district subject to this section may purchase, sell, and invest its funds and funds under its control in corporate bonds if the governing body of the district:

(1) amends its investment policy to authorize corporate bonds as an eligible investment;

(2) adopts procedures to provide for:

(A) monitoring rating changes in corporate bonds acquired with public funds; and

(B) liquidating the investment in corporate bonds; and

(3) identifies the funds eligible to be invested in corporate bonds.

(f) The investment officer of an independent school district, acting on behalf of the district, shall sell corporate bonds in which the district has invested its funds not later than the seventh day after the date a nationally recognized investment rating firm:

(1) issues a release that places the corporate bonds or the domestic business entity that issued the corporate bonds on negative credit watch or the equivalent, if the corporate bonds are rated "AA-" or the equivalent at the time the release is issued; or

(2) changes the rating on the corporate bonds to a rating lower than "AA-" or the equivalent.

(g) Corporate bonds are not an eligible investment for a public funds investment pool.

Added by Acts 2011, 82nd Leg., R.S., Ch. [1347](#), Sec. 1, eff. June 17, 2011.

Sec. 2256.0205. AUTHORIZED INVESTMENTS; DECOMMISSIONING TRUST. (a) In this section:

(1) "Decommissioning trust" means a trust created to provide the Nuclear Regulatory Commission assurance that funds will be available for decommissioning purposes as required under 10 C.F.R. Part 50 or other similar regulation.

(2) "Funds" includes any money held in a decommissioning trust regardless of whether the money is considered to be public funds under this subchapter.

(b) In addition to other investments authorized under this subchapter, a municipality that owns a municipal electric utility that is engaged in the distribution and sale of electric energy or natural gas to the public may invest funds held in a decommissioning trust in any investment authorized by Subtitle B, Title 9, Property Code.

Added by Acts 2005, 79th Leg., Ch. [121](#), Sec. 1, eff. September 1, 2005.

Sec. 2256.021. EFFECT OF LOSS OF REQUIRED RATING. An investment that requires a minimum rating under this subchapter does not qualify as an authorized investment during the period the investment does not have the minimum rating. An entity shall take all prudent measures that are consistent with its investment policy to liquidate an investment that does not have the minimum rating.

Added by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.022. EXPANSION OF INVESTMENT AUTHORITY. Expansion of investment authority granted by this chapter shall require a risk assessment by the state auditor or performed at the direction of the state auditor, subject to the legislative audit committee's approval of including the review in the audit plan under Section 321.013.

Added by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995. Amended by Acts 2003, 78th Leg., ch. 785, Sec. 42, eff. Sept. 1, 2003.

Sec. 2256.023. INTERNAL MANAGEMENT REPORTS. (a) Not less than quarterly, the investment officer shall prepare and submit to the governing body of the entity a written report of investment transactions for all funds covered by this chapter for the preceding reporting period.

(b) The report must:

- (1) describe in detail the investment position of the entity on the date of the report;
- (2) be prepared jointly by all investment officers of the entity;
- (3) be signed by each investment officer of the entity;
- (4) contain a summary statement of each pooled fund group that states the:
  - (A) beginning market value for the reporting period;
  - (B) ending market value for the period; and

(C) fully accrued interest for the reporting period;

(5) state the book value and market value of each separately invested asset at the end of the reporting period by the type of asset and fund type invested;

(6) state the maturity date of each separately invested asset that has a maturity date;

(7) state the account or fund or pooled group fund in the state agency or local government for which each individual investment was acquired; and

(8) state the compliance of the investment portfolio of the state agency or local government as it relates to:

(A) the investment strategy expressed in the agency's or local government's investment policy; and

(B) relevant provisions of this chapter.

(c) The report shall be presented not less than quarterly to the governing body and the chief executive officer of the entity within a reasonable time after the end of the period.

(d) 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.

Added by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995. Amended by Acts 1997, 75th Leg., ch. 1421, Sec. 12, eff. Sept. 1, 1997.

Amended by:

Acts 2011, 82nd Leg., R.S., Ch. [1004](#), Sec. 9, eff. June 17, 2011.

Sec. 2256.024. SUBCHAPTER CUMULATIVE. (a) The authority granted by this subchapter is in addition to that granted by other law. Except as provided by Subsection (b), this subchapter does not:

(1) prohibit an investment specifically authorized by other law; or

(2) authorize an investment specifically prohibited by other law.

(b) Except with respect to those investing entities described in Subsection (c), a security described in Section 2256.009(b) is not an authorized investment for a state agency, a local government, or another investing entity, notwithstanding any other provision of this chapter or other law to the contrary.



(c) Mortgage pass-through certificates and individual mortgage loans that may constitute an investment described in Section 2256.009(b) are authorized investments with respect to the housing bond programs operated by:

- (1) the Texas Department of Housing and Community Affairs or a nonprofit corporation created to act on its behalf;
- (2) an entity created under Chapter 392, Local Government Code; or
- (3) an entity created under Chapter 394, Local Government Code.

Added by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.025. SELECTION OF AUTHORIZED BROKERS. The governing body of an entity subject to this subchapter or the designated investment committee of the entity shall, at least annually, review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the entity.

Added by Acts 1997, 75th Leg., ch. 1421, Sec. 13, eff. Sept. 1, 1997.

Sec. 2256.026. STATUTORY COMPLIANCE. All investments made by entities must comply with this subchapter and all federal, state, and local statutes, rules, or regulations.

Added by Acts 1997, 75th Leg., ch. 1421, Sec. 13, eff. Sept. 1, 1997.

#### SUBCHAPTER B. MISCELLANEOUS PROVISIONS

Sec. 2256.051. ELECTRONIC FUNDS TRANSFER. Any local government may use electronic means to transfer or invest all funds collected or controlled by the local government.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.052. PRIVATE AUDITOR. Notwithstanding any other law, a state agency shall employ a private auditor if authorized by the legislative audit committee either on the committee's initiative or on request of the governing body of the agency.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.053. PAYMENT FOR SECURITIES PURCHASED BY STATE. The comptroller or the disbursing officer of an agency that has the power to invest assets directly may pay for authorized securities purchased from or through a member in good standing of the National Association of Securities Dealers or from or through a national or state bank on receiving an invoice from the seller of the securities showing that the securities have been purchased by the board or agency and that the amount to be paid for the securities is just, due, and unpaid. A purchase of securities may not be made at a price that exceeds the existing market value of the securities.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1423, Sec. 8.67, eff. Sept. 1, 1997.

Sec. 2256.054. DELIVERY OF SECURITIES PURCHASED BY STATE. A security purchased under this chapter may be delivered to the comptroller, a bank, or the board or agency investing its funds. The delivery shall be made under normal and recognized practices in the securities and banking industries, including the book entry procedure of the Federal Reserve Bank.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1423, Sec. 8.68, eff. Sept. 1, 1997.

Sec. 2256.055. DEPOSIT OF SECURITIES PURCHASED BY STATE. At the direction of the comptroller or the agency, a security purchased under this chapter may be deposited in trust with a bank or federal reserve bank or branch designated by the comptroller, whether in or outside the state. The deposit shall be held in the entity's name as evidenced by a trust receipt of the bank with which the securities are deposited.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1423, Sec. 8.69, eff. Sept. 1, 1997.

**APPENDIX B**  
**COUNCIL RESOLUTION**  
**September 13, 2017**

**September 13, 2017**

**WHEREAS**, in 1987 the City Council adopted the City's Investment Policy which was in compliance with the federal and state law and the City Charter; and

**WHEREAS**, in 1995 and 1997 through 2016, the City Council amended the City's Investment Policy to incorporate amendments to the Public Funds Investment Act, improve management of the City's investments and reflect organizational changes; and

**WHEREAS**, the Public Funds Investment Act requires that the investment shall be made in accordance with written policies approved, at least annually, by the governing body; and

**WHEREAS**, investment policies must address safety of principal, liquidity, yield, diversification and maturity, with primary emphasis on safety of principal. **Now, Therefore,**

**BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF DALLAS:**

**Section 1.** That the attached City of Dallas Investment Policy and investment strategies have been reviewed by the City Council and shall be adopted as the guiding policy in the ongoing management of the specified funds in accordance with Federal and State law and the City Charter.

**Section 2.** That this resolution shall take effect immediately from and after its passage in accordance with the provisions of the Charter of the City of Dallas and it is accordingly so resolved.

# Memorandum



DATE September 1, 2017

CITY OF DALLAS

Honorable Members of the Government Performance & Financial Management  
Committee: Jennifer S. Gates (Chair), Scott Griggs (Vice Chair), Sandy Greyson,  
TO Lee M. Kleinman, Philip T. Kingston, Tennell Atkins, Kevin Felder

SUBJECT **Public Information Office and Open Records Request Overview**

On Tuesday, September 5, 2017, the City Manager's Office will present a Public Information and Open Records Requests Overview. The presentation will provide the Committee with a brief overview of current functions of the Public Information Office, and a summary of the analysis and proposed recommendations resulting from open records request working group. I have attached the briefing for your review.

Please let me know if you have any questions or should you require additional information at this time.

A handwritten signature in blue ink, appearing to read 'Kimberly Bizer Tolbert'.

Kimberly Bizer Tolbert  
Chief of Staff

## Attachment

C: Honorable Mayor and Members of the City Council  
T.C. Broadnax, City Manager  
Larry Casto, City Attorney  
Craig D. Kinton, City Auditor  
Biliera Johnson, City Secretary (Interim)  
Daniel F. Solis, Administrative Judge  
Majed A. Al-Ghafry, Assistant City Manager  
Jo M. (Jody) Puckett, Assistant City Manager (Interim)

Jon Fortune, Assistant City Manager  
Joey Zapata, Assistant City Manager  
M. Elizabeth Reich, Chief Financial Officer  
Nadia Chandler Hardy, Chief of Community Services  
Raquel Favela, Chief of Economic Development & Neighborhood Services  
Theresa O'Donnell, Chief of Resilience  
Directors and Assistant Directors

# Public Information Office and Open Records Requests Overview

Government Performance  
and Financial Management  
Committee

September 5, 2017

Kimberly Bizer Tolbert  
Chief of Staff



**City of Dallas**

# Overview

- Background
  - Current Public Information Office
  - New Public Affairs and Outreach
- Open Records Request Working Group
  - Challenges Identified
  - Opportunities for Improvement
- Best Practices
  - Public Information Offices
  - Open Records Requests
- Recommendations
- Next Steps

# Background: Public Information Office

## Primary Focus

Social media  
& media  
relations

Website  
management

Audio/Visual  
Production

Open  
Records  
Requests

3



# New Public Affairs and Outreach

Community outreach & civic engagement

Digital communications strategy

Social media & media relations

Web content, creative and graphic design

Audio/Visual Production

Open Records Requests

New Focus Areas

Existing Focus Areas

For Discussion

Internal communications program

Strategic and crisis communications

Speaker's Bureau

4

# Background: Open Records Requests

- Housed within current Public Information Office (PIO)
- Two dedicated FTEs
- Oversight for all ORRs with exception of DPD
- Each department or managing services division has an Open Records Coordinator

# Ways to Submit an ORR



Email



Postal Mail



Telephone



Online Form



In Person

# ORR Historical Data

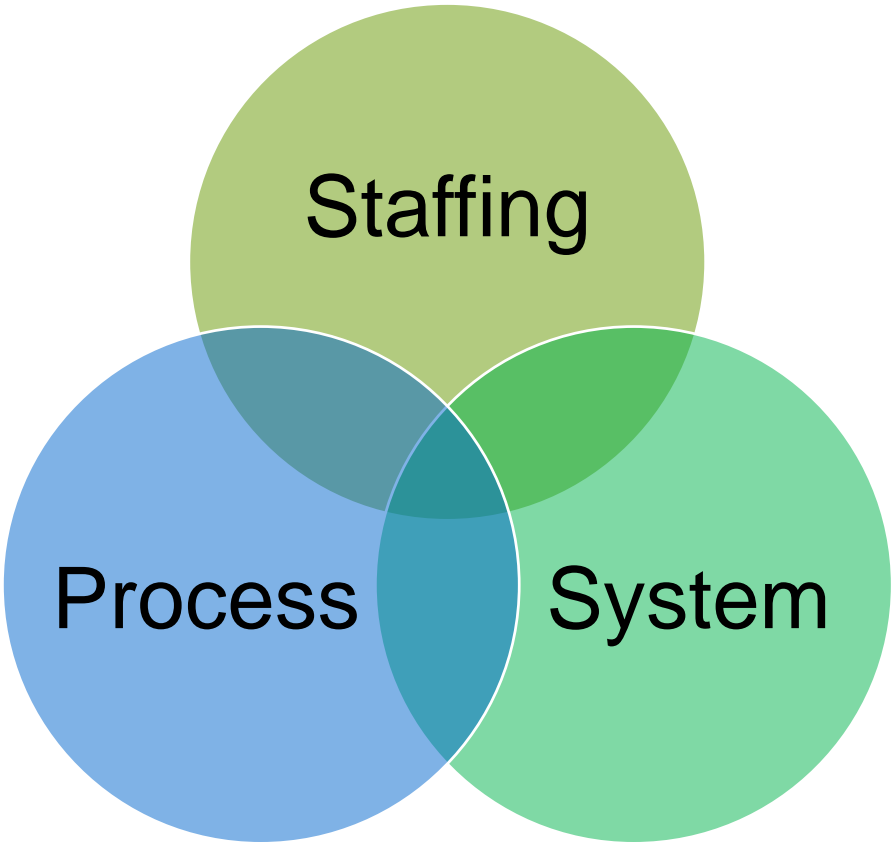
- Top 5 Departments with ORRs
  - Dallas Fire Rescue
  - Code Compliance
  - Sustainable Development and Construction
  - Trinity Watershed Management
  - Office of Environmental Quality

Time Period	Requests (est.)
January 1, 2017 – August 2017	11,964
January 2016 – December 2016	15,700

# ORR Working Group

- Formed in May 2017 comprised of representatives from:
  - City Attorney's Office
  - City Secretary's Office
  - Public Information Office (ORR Staff)
  - Communications and Information Services
  - Courts and Detention Services
  - Mayor and City Council Office
  - Dallas Police Department
- Analyze current staffing, system, process, and opportunities for improvement
- Develop alignment recommendation

# Challenges Identified:



# Challenges: Staffing

- Entry level staff serve as ORR Coordinator
- Time commitment is not reflected in Performance Management and Position Descriptions
- High turn-over
- Receipt and dissemination of ORR's to departments is limited to two dedicated staff housed in PIO

# Challenges: System

- Lack of an electronic document management system
- GovQA Web System
  - Implemented in October 2016
  - Not utilized by all departments
  - Inactive features
  - Additional cost for various features
  - Lack of training

The screenshot displays the 'Open Records Center' website. On the left, there is a navigation menu with links for HOME, SUBMIT A REQUEST, VIEW FAQs, VIEW MY REQUESTS, and OPEN RECORDS ARCHIVE. Below the menu is a 'FAQs' section with a search bar and several questions, such as 'Why does the City Attorney's Office receive a copy of my request?' and 'What will the charges be?'. The main content area features a 'Login' section with a message: 'If you have used this service previously, please log in. If this is your first online request, please create an account and provide as much contact information as possible. You will be able to track the progress of your request by logging in to your account.' Below this message are input fields for 'Email Address\*' and 'Password\*', a 'Login' button, and a link for 'Create an Account'. A 'New User?' section with a 'Create Account' button is also visible. The footer includes the 'Powered by GovQA' logo.



# Challenges: Process

- City lacks a Standard Operating Procedure to process ORR's
- Documents redacted by hand
- Public is unaware of various methods to request records/documents
- Siloed interdepartmental coordination
- Lack of training for ORR process and Public Information Act
- Varying response times

12

# Opportunities for Improvement

- Develop and implement Administrative Directive and standard operating procedures manual
- Develop training materials and host mandatory GovQA training and annual refresher training
- Host Attorney General's Office to provide training specific to the Public Information Act (provide annually)
- Launch PSA materials to inform public on ORR process (In the Know)
- Conduct website audit

13

# ORR Alignment Best Practices

City	Oversight Department	Reports To
Phoenix, AZ	Communications Office	City Manager
San Antonio, TX	Government and Public Affairs	City Manager
Dallas, TX	Public Information Office	City Manager
San Jose, CA	City Clerk's Office	Mayor and City Council
Austin, TX	City Attorney's Office	City Manager
Charlotte, NC	Communications Office	City Manager
Fort Worth, TX	City Secretary's Office	Mayor and City Council
Houston, TX	City Secretary's Office	Mayor

# Public Information Office

## Best Practices (Council-Manager Form of Government)

City	Department Name	Reports To
Phoenix, AZ	Communications Office	City Manager
San Antonio, TX	Government and Public Affairs**	City Manager
Dallas, TX	Public Information Office	City Manager
San Jose, CA	Communication and Public Outreach	City Manager
Austin, TX	Communications and Public Information Office	City Manager
Charlotte, NC	Communications Office	City Manager

*\*\* Includes Intergovernmental and Military Affairs*

15

# Recommendations

- Create a centralized ORR Center
  - Serve as one-stop shop for internal and external users
  - Efficient coordination between CMO & CAO
  - Reduce barriers for communication
- Co-locate CIS and ORR staff in centralized ORR Center
  - CIS Staff: (7)
    - 5 Senior Security Analysts
    - 1 Senior IT Engineers
    - 1 Senior IT Manager
  - ORR Staff (2)
    - 1 Manager
    - 1 Coordinator

# Recommendations Cont'd

- Transfer oversight of ORR Center to City Secretary's Office
  - Better align with their role as official record keeper for the City
  - Greater coordination with CMO and CAO
  - Requires an ordinance change
- Maintain new Public Affairs and Outreach as Management Services division reporting to the City Manager

# Next Steps

- Receive feedback from Government Performance and Financial Management Committee
- Convene smaller working group to focus on transition plan in coordination with timeline for hiring of city secretary

# Public Information Office and Open Records Requests Overview

Government Performance  
and Financial Management

September 5, 2017

Kimberly Bizer Tolbert  
Chief of Staff



**City of Dallas**



# Memorandum



CITY OF DALLAS

DATE September 1, 2017

TO Honorable Mayor and Members of the City Council

SUBJECT Financial Forecast Report

Please find attached the Financial Forecast Report based on information through July 2017.

We currently forecast General Fund revenues will exceed expenses at the end of the fiscal year by \$2.5 million. Revenues are forecast to be \$4 million below budget primarily due to lower than budgeted gas and cable franchise revenues, municipal court fines, and red light camera fines. Expenses are forecast to be \$6.5 million below budget primarily due to savings in the master lease program and in the Police Department. We included details of the budget variances at the end of the report.

Please note that we adjusted this report to reflect City Council action on August 23, 2017 reallocating general fund appropriations in the following budgets: decreased Non-Departmental (\$2.1 million), increased Elections (\$1.25 million), increased Mayor and Council (\$50,000), increased Housing (\$120,000), and increased the Liability Reserve Fund (\$680,000). City Council also amended the following Enterprise and Internal Service Fund appropriations based on June 2017 projections: increased Aviation (\$845,000), increased Convention and Event Services (\$1.1 million), increased Equipment Services (\$1.6 million), increased Risk Management (\$80,000), increased Sanitation Services (\$4.6 million), and increased Storm Drainage Management (\$1.7 million).

We will continue to closely monitor revenues and expenditures and keep you informed.

A handwritten signature in blue ink that reads "M. Elizabeth Reich".

M. Elizabeth Reich  
Chief Financial Officer

c: T.C. Broadnax, City Manager  
Larry Casto, City Attorney  
Craig D. Kinton, City Auditor  
Billerae Johnson, City Secretary (Interim)  
Daniel F. Solis, Administrative Judge  
Kimberly Bizar Tolbert, Chief of Staff to the City Manager  
Majed A. Al-Ghafry, Assistant City Manager

Raquel Favela, Chief of Economic Development & Neighborhood Services  
Jo M. (Jody) Puckett, P.E., Assistant City Manager (Interim)  
Jon Fortune, Assistant City Manager  
Joey Zapata, Assistant City Manager  
Nadia Chandler Hardy, Chief of Community Services  
Theresa O' Donnell, Chief of Resilience  
Directors and Assistant Directors



FY 2016-17

# Financial Forecast Report

Information as of July 31, 2017



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# GENERAL FUND

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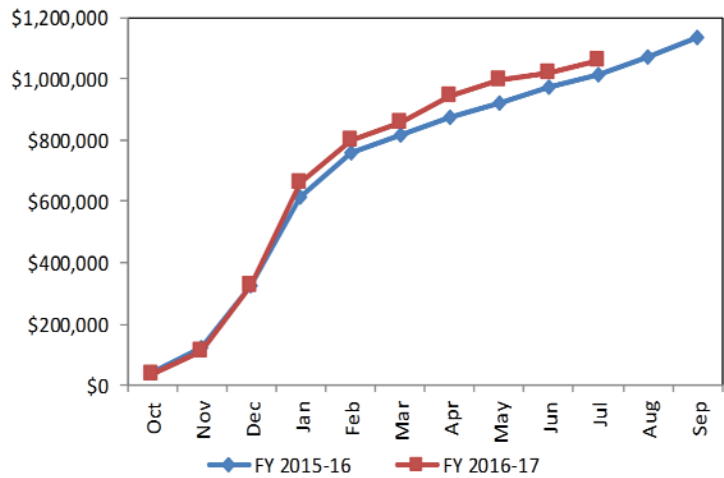
As of July 31, 2017  
(000s)

<b>ITEM</b>	<b>AMENDED BUDGET<sup>1</sup></b>	<b>YEAR TO DATE</b>	<b>YEAR-END FORECAST</b>	<b>BUDGET VS FORECAST VARIANCE</b>
Revenues	\$1,239,518	\$1,057,865	\$1,235,459	(\$4,059)
Expenditures	1,239,518	952,975	1,232,934	(6,583)
<b>Net Excess of Revenues Over Expenditures/Transfers</b>	<b>\$0</b>	<b>\$104,891</b>	<b>\$2,524</b>	<b>\$2,524</b>

# GENERAL FUND REVENUES

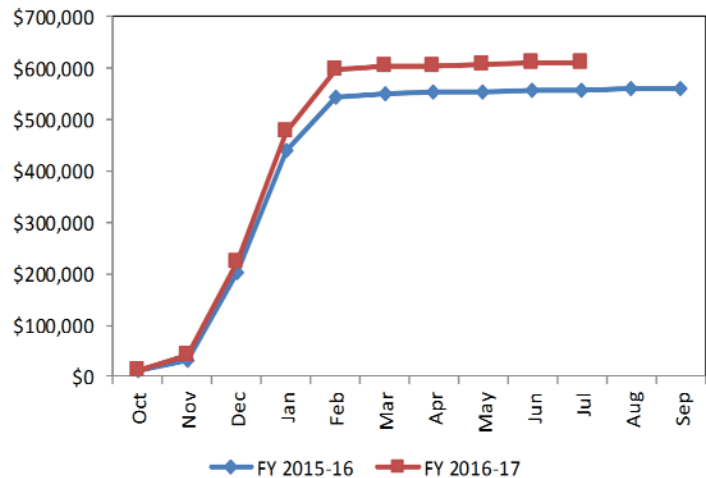
## ALL SOURCES

	<b>FY 2015-16</b>	<b>FY 2016-17</b>	<b>Variance</b>
Oct	\$41,660	\$36,761	(\$4,898)
Nov	77,665	75,718	(1,947)
Dec	203,876	210,273	6,397
Jan	288,996	336,924	47,928
Feb	147,975	139,749	(8,226)
Mar	53,193	57,692	4,499
Apr	58,776	85,640	26,864
May	49,762	55,258	5,496
Jun	47,660	21,176	(26,483)
Jul	45,379	38,674	(6,705)
Aug	56,960		
Sep	62,480		
<b>Total</b>	<b>\$1,134,380</b>	<b>\$1,057,865</b>	<b>\$42,925</b>



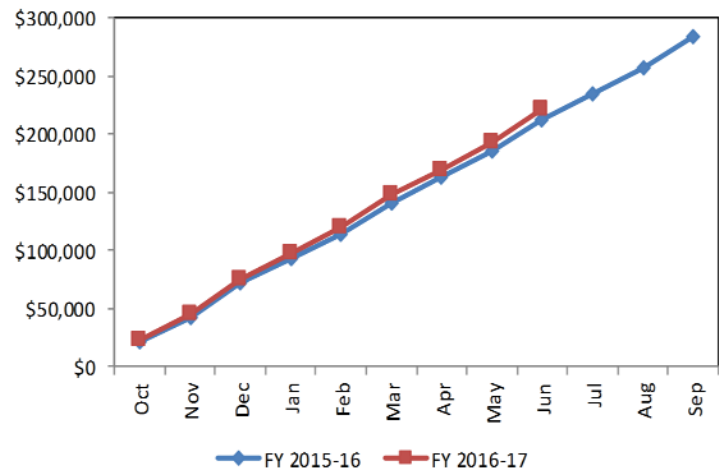
## PROPERTY TAX

	<b>FY 2015-16</b>	<b>FY 2016-17</b>	<b>Variance</b>
Oct	\$11,487	\$12,787	\$1,300
Nov	20,589	29,060	8,471
Dec	169,848	181,782	11,934
Jan	237,273	252,156	14,883
Feb	104,025	120,141	16,116
Mar	7,675	7,304	(371)
Apr	2,364	1,997	(367)
May	1,593	2,068	475
Jun	2,523	1,691	(832)
Jul	858	603	(255)
Aug	852		
Sep	891		
<b>Total</b>	<b>\$559,978</b>	<b>\$609,587</b>	<b>\$51,353</b>



## SALES TAX

	<b>FY 2015-16</b>	<b>FY 2016-17</b>	<b>Variance</b>
Oct	\$21,769	\$23,256	\$1,487
Nov	20,524	22,167	1,643
Dec	30,137	30,146	9
Jan	21,258	21,810	552
Feb	20,418	21,899	1,480
Mar	27,482	28,359	878
Apr	22,265	22,206	(59)
May	22,311	23,407	1,095
Jun	26,609	27,407	798
Jul	21,921		
Aug	22,670		
Sep	26,554		
<b>Total</b>	<b>\$283,918</b>	<b>\$220,657</b>	<b>\$7,884</b>



# GENERAL FUND REVENUES

As of July 31, 2017  
(000s)

	<b>AMENDED BUDGET<sup>1</sup></b>	<b>REVENUES YEAR TO DATE</b>	<b>YEAR-END FORECAST</b>	<b>BUDGET VS FORECAST VARIANCE</b>
<b>TAXES</b>				
Ad Valorem Tax <sup>2</sup>	\$610,219	\$609,587	\$611,725	\$1,505
Sales Tax <sup>3</sup>	292,189	193,250	293,770	1,581
<b>TOTAL TAXES</b>	<b>902,408</b>	<b>802,837</b>	<b>905,494</b>	<b>3,086</b>
<b>FRANCHISE REVENUES</b>				
Oncor Electric	51,078	40,314	52,121	1,043
AT&T	9,594	7,676	9,705	111
Atmos Energy <sup>4</sup>	17,157	12,599	15,729	(1,428)
Time Warner Cable	6,210	4,858	6,336	126
Other <sup>5</sup>	29,737	21,279	27,889	(1,848)
<b>TOTAL FRANCHISE REVENUES</b>	<b>113,775</b>	<b>86,726</b>	<b>111,780</b>	<b>(1,995)</b>
<b>LICENSES AND PERMITS</b>	<b>4,891</b>	<b>4,895</b>	<b>4,957</b>	<b>66</b>
<b>INTEREST EARNED<sup>6</sup></b>	<b>1,316</b>	<b>2,840</b>	<b>3,133</b>	<b>1,817</b>
<b>INTERGOVERNMENTAL<sup>7</sup></b>	<b>8,501</b>	<b>8,353</b>	<b>9,465</b>	<b>965</b>
<b>FINES AND FORFEITURES</b>				
Municipal Court <sup>8</sup>	18,701	15,167	17,736	(966)
Vehicle Towing & Storage <sup>9</sup>	7,146	6,286	7,640	494
Parking Fines	5,022	3,418	5,022	0
Red Light Camera Fines <sup>10</sup>	7,460	0	6,106	(1,354)
Public Library <sup>11</sup>	431	148	225	(206)
<b>TOTAL FINES</b>	<b>38,760</b>	<b>25,020</b>	<b>36,728</b>	<b>(2,031)</b>
<b>CHARGES FOR SERVICE</b>				
Parks	10,522	9,192	10,873	351
Emergency Ambulance	40,191	17,669	40,652	461
Security Alarm <sup>12</sup>	4,380	3,356	4,100	(280)
Street Lighting	648	525	648	0
Vital Statistics	1,600	1,514	1,616	16
Other <sup>13</sup>	28,311	20,552	22,880	(5,431)
<b>TOTAL CHARGES</b>	<b>85,652</b>	<b>52,807</b>	<b>80,768</b>	<b>(4,883)</b>
<b>INTERFUND REVENUE</b>	<b>76,601</b>	<b>40,272</b>	<b>75,369</b>	<b>(1,232)</b>
<b>MISCELLANEOUS</b>	<b>7,616</b>	<b>6,707</b>	<b>7,764</b>	<b>148</b>
<b>TOTAL REVENUES</b>	<b>\$1,239,518</b>	<b>\$1,030,458</b>	<b>\$1,235,459</b>	<b>(\$4,059)</b>

# GENERAL FUND EXPENDITURES

## ALL EXPENSES

	FY 2015-16	FY 2016-17	Variance
Oct	\$75,601	\$71,583	(\$4,018)
Nov	78,065	97,700	19,635
Dec	124,594	98,282	(26,312)
Jan	97,321	94,625	(2,696)
Feb	84,683	87,016	2,333
Mar	95,576	92,076	(3,500)
Apr	86,104	99,146	13,042
May	126,118	134,691	8,573
Jun	90,989	92,062	1,073
Jul	82,900	85,794	2,894
Aug	93,679		
Sep	85,148		

**Total \$1,120,778 \$952,975 \$11,024**

## POLICE

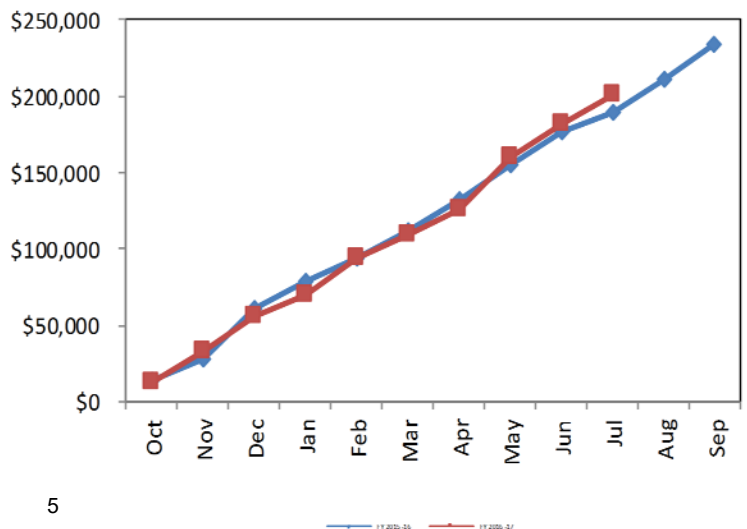
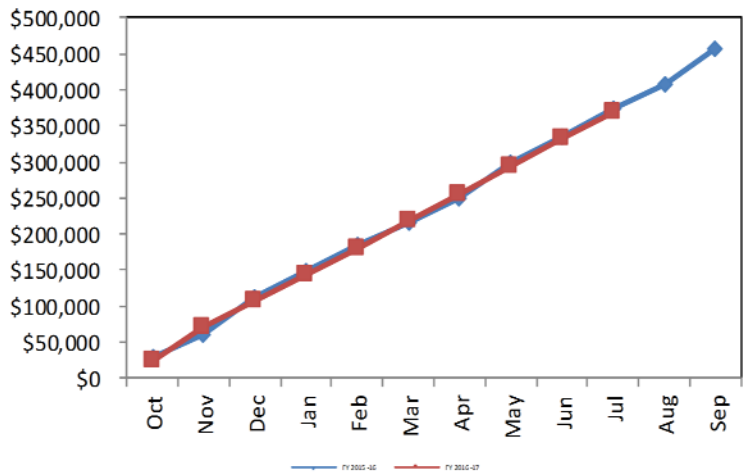
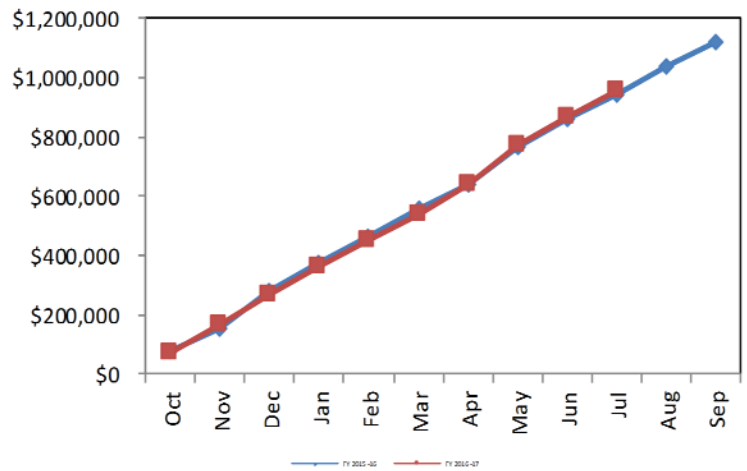
	FY 2015-16	FY 2016-17	Variance
Oct	\$28,488	\$25,289	(\$3,199)
Nov	31,370	46,089	14,719
Dec	52,490	35,634	(16,856)
Jan	35,550	37,304	1,754
Feb	37,126	36,295	(831)
Mar	30,058	37,745	7,687
Apr	34,931	35,609	678
May	48,649	40,709	(7,940)
Jun	37,058	37,219	161
Jul	38,075	36,412	(1,663)
Aug	32,689		
Sep	49,363		

**Total \$455,847 \$368,305 (\$87,542)**

## FIRE

	FY 2015-16	FY 2016-17	Variance
Oct	\$13,994	\$12,198	(\$1,796)
Nov	14,184	20,784	6,600
Dec	32,389	23,355	(9,034)
Jan	17,547	13,952	(3,595)
Feb	16,128	23,830	7,702
Mar	18,076	15,740	(2,336)
Apr	19,295	16,526	(2,769)
May	23,154	33,295	10,141
Jun	21,372	21,626	254
Jul	13,779	19,129	5,350
Aug	21,006		
Sep	23,230		

**Total \$234,154 \$200,434 \$33,720**



# GENERAL FUND EXPENDITURES

As of July 31, 2017  
(000s)

DEPARTMENT	AMENDED BUDGET <sup>1</sup>	EXPENDITURES YEAR TO DATE	YEAR-END FORECAST	BUDGET VS FORECAST VARIANCE
Building Services	\$25,312	\$22,068	\$25,312	\$0
Business Dev/Procurement Svcs	3,041	2,267	2,981	(60)
City Attorney's Office	16,660	12,514	16,660	0
City Auditor's Office <sup>14</sup>	3,194	2,234	2,864	(330)
City Controller's Office	5,441	3,681	5,429	(13)
City Manager's Office	2,468	2,047	2,468	0
City Secretary's Office	2,029	1,468	2,029	0
Civil Service	2,887	2,145	2,887	0
Code Compliance	42,386	31,805	41,576	(810)
Court Services	11,976	9,199	11,908	(67)
Elections	2,980	1,268	2,980	0
Fire	254,603	200,434	253,848	(754)
Housing	14,523	11,717	14,510	(13)
Human Resources	5,220	3,790	5,128	(91)
Independent Audit	865	865	865	0
Jail Contract - Lew Sterret	7,813	5,860	7,813	0
Judiciary	3,296	2,758	3,291	(5)
Library	29,984	23,104	29,984	0
Management Services	10,725	7,238	10,349	(376)
Mayor and Council	4,515	3,505	4,513	(2)
Mobility and Street Services <sup>15</sup>	97,677	66,000	97,677	0
Mobility and Street Services-Street Lighting	16,956	12,114	16,956	0
Non-Departmental <sup>16</sup>	64,312	52,050	62,107	(2,205)
Office of Cultural Affairs	19,605	18,678	19,605	0
Office of Economic Development	2,575	3,345	2,575	0
Office of Financial Services	2,957	2,165	2,947	(10)
Park and Recreation	94,673	76,085	94,671	(2)
Planning & Urban Design <sup>17</sup>	3,029	2,211	2,876	(153)
Police <sup>18</sup>	477,004	368,305	475,822	(1,182)
Sustainable Dev/Construction <sup>19</sup>	1,386	1,466	1,080	(306)
Trinity Watershed Management	1,318	588	1,113	(205)
<b>RESERVES AND TRANSFERS</b>				
Contingency Reserve	1,650	0	1,650	0
Liability/Claim Fund	4,963	0	4,963	0
Salary & Benefit Reserve <sup>20</sup>	1,498	0	1,498	0
<b>TOTAL EXPENDITURES</b>	<b>\$1,239,518</b>	<b>\$952,975</b>	<b>\$1,232,934</b>	<b>(\$6,583)</b>

# PROPRIETARY FUNDS

As of July 31, 2017  
(000s)

DEPARTMENT	BUDGET	YEAR TO DATE	YEAR-END FORECAST	BUDGET VS FORECAST VARIANCE
<b>AVIATION</b>				
BEGINNING FUND BALANCE	\$9,907	\$0	\$13,812	\$3,905
<b>REVENUES:</b>				
Parking	27,143	21,427	25,776	(1,367)
Terminal Concessions	25,416	19,805	25,104	(312)
Landing Fees	22,211	16,608	21,644	(567)
Rental on Airport - Terminal	15,634	18,158	24,759	0
Rental on Airport - Field	8,586	891	1,076	(7,511)
Fuel Flow Fees	1,225	1,014	1,213	(12)
All Remaining Revenues	7,657	4,059	4,988	(2,669)
<b>TOTAL REVENUES</b>	<b>107,872</b>	<b>81,962</b>	<b>104,559</b>	<b>(3,313)</b>
<b>TOTAL EXPENDITURES</b>	<b>108,886</b>	<b>76,925</b>	<b>108,551</b>	<b>(335)</b>
<b>ENDING FUND BALANCE</b>	<b>\$8,893</b>	<b>\$0</b>	<b>\$9,820</b>	<b>\$927</b>
<b>CONVENTION AND EVENT SERVICES</b>				
BEGINNING FUND BALANCE	\$29,150	\$0	\$32,258	\$3,108
<b>REVENUES:</b>				
Hotel Occupancy Tax	56,262	41,664	56,270	8
Alcoholic Beverage Tax	12,528	9,570	12,562	34
Operating Revenues	28,541	22,685	28,151	(391)
Office of Special Events	147	111	140	(8)
<b>TOTAL REVENUES</b>	<b>97,478</b>	<b>74,031</b>	<b>97,122</b>	<b>(356)</b>
<b>TOTAL EXPENDITURES</b>	<b>97,478</b>	<b>63,864</b>	<b>97,122</b>	<b>(356)</b>
<b>ENDING FUND BALANCE</b>	<b>\$29,150</b>	<b>\$0</b>	<b>\$32,258</b>	<b>\$3,108</b>



# PROPRIETARY FUNDS

As of July 31, 2017  
(000s)

DEPARTMENT	BUDGET	YEAR TO DATE	YEAR-END FORECAST	BUDGET VS FORECAST VARIANCE
<b>SUSTAINABLE DEVELOPMENT AND CONSTRUCTION</b>				
BEGINNING FUND BALANCE	\$36,856	\$0	\$42,208	\$5,352
<b>REVENUES:</b>				
Building Permits	19,240	18,228	19,603	363
Certificate of Occupancy	1,412	997	1,412	0
Plan Review	3,749	4,040	3,901	152
Registration/License	1,028	1,010	1,028	0
Special Plats	887	916	887	0
Private Development	1,010	1,209	1,313	303
Zoning	1,184	884	1,189	5
Interest Earnings	117	449	336	220
All Remaining Revenues	1,477	1,684	1,579	102
<b>TOTAL REVENUES</b>	<b>30,103</b>	<b>29,417</b>	<b>31,249</b>	<b>1,145</b>
<b>TOTAL EXPENDITURES</b>	<b>36,090</b>	<b>22,717</b>	<b>35,261</b>	<b>(829)</b>
<b>ENDING FUND BALANCE</b>	<b>\$30,869</b>	<b>\$0</b>	<b>\$38,195</b>	<b>\$7,326</b>
<b>MUNICIPAL RADIO</b>				
BEGINNING FUND BALANCE	\$1,288	\$0	\$1,155	(\$133)
<b>REVENUES:</b>				
Local and National Sales	1,980	1,473	2,000	20
All Remaining Revenues	75	11	15	(60)
<b>TOTAL REVENUES</b>	<b>2,055</b>	<b>1,484</b>	<b>2,015</b>	<b>(40)</b>
<b>TOTAL EXPENDITURES</b>	<b>2,032</b>	<b>1,486</b>	<b>1,959</b>	<b>(73)</b>
<b>ENDING FUND BALANCE</b>	<b>\$1,310</b>	<b>\$0</b>	<b>\$1,210</b>	<b>(\$100)</b>

# PROPRIETARY FUNDS

As of July 31, 2017

(000s)

DEPARTMENT	BUDGET	YEAR TO DATE	YEAR-END FORECAST	BUDGET VS FORECAST VARIANCE
<b>WATER UTILITIES</b>				
BEGINNING FUND BALANCE	\$87,038	\$0	\$84,788	(\$2,250)
<b>REVENUES:</b>				
Treated Water - Retail	294,427	223,849	288,291	(6,137)
Treated Water - Wholesale	84,700	67,572	82,747	(1,953)
Wastewater - Retail	236,075	185,889	228,139	(7,936)
Wastewater - Wholesale	10,554	8,355	10,153	(401)
All Remaining Revenues	31,708	25,365	31,432	(276)
<b>TOTAL REVENUES</b>	<b>657,465</b>	<b>511,030</b>	<b>640,762</b>	<b>(16,703)</b>
<b>TOTAL EXPENDITURES</b>	<b>657,465</b>	<b>460,239</b>	<b>640,762</b>	<b>(16,703)</b>
<b>ENDING FUND BALANCE</b>	<b>\$87,038</b>	<b>\$0</b>	<b>\$84,788</b>	<b>(\$2,250)</b>
<b>COMMUNICATION &amp; INFORMATION SERVICES</b>				
BEGINNING FUND BALANCE	\$11,178	\$0	\$12,859	\$1,681
<b>REVENUES:</b>				
Interdepartmental Charges	58,330	33,424	58,330	0
Telephones Leased	7,723	3,508	7,723	0
Circuits	1,449	3	1,449	0
Desktop Services	0	2	2	2
Interest	150	152	183	47
Equipment Rental	5,002	353	5,002	0
Miscellaneous	171	170	174	3
<b>TOTAL REVENUES</b>	<b>72,825</b>	<b>37,612</b>	<b>72,863</b>	<b>37</b>
<b>TOTAL EXPENDITURES</b>	<b>74,838</b>	<b>53,641</b>	<b>73,275</b>	<b>(1,563)</b>
<b>ENDING FUND BALANCE</b>	<b>\$9,165</b>	<b>\$0</b>	<b>\$12,446</b>	<b>\$3,281</b>

# PROPRIETARY FUNDS

As of July 31, 2017

(000s)

DEPARTMENT	BUDGET	YEAR TO DATE	YEAR-END FORECAST	BUDGET VS FORECAST VARIANCE
<b>EQUIPMENT SERVICES</b>				
BEGINNING FUND BALANCE	\$4,450	\$0	\$4,689	\$239
REVENUES:				
Rental/Wreck	35,091	26,965	36,152	1,061
Fuel	16,482	11,376	15,684	(798)
Auto Auction/Non-Taxable	418	368	418	0
Miscellaneous Revenue	391	878	1,118	727
Interest and Other	5	4	6	1
<b>TOTAL REVENUES</b>	<b>52,387</b>	<b>39,592</b>	<b>53,378</b>	<b>991</b>
<b>TOTAL EXPENDITURES</b>	<b>52,387</b>	<b>40,333</b>	<b>52,324</b>	<b>(64)</b>
<b>ENDING FUND BALANCE</b>	<b>\$4,450</b>	<b>\$0</b>	<b>\$5,743</b>	<b>\$1,294</b>
 <b>EXPRESS BUSINESS CENTER</b>				
BEGINNING FUND BALANCE	\$1,631	\$0	\$1,402	(\$229)
REVENUES:				
Postage Sales	2,703	1,955	2,703	0
All Other Revenues	1,278	1,378	1,492	214
<b>TOTAL REVENUES</b>	<b>3,981</b>	<b>3,332</b>	<b>4,196</b>	<b>214</b>
<b>TOTAL EXPENDITURES</b>	<b>3,780</b>	<b>3,138</b>	<b>3,627</b>	<b>(154)</b>
<b>ENDING FUND BALANCE</b>	<b>\$1,833</b>	<b>\$0</b>	<b>\$1,971</b>	<b>\$139</b>

# PROPRIETARY FUNDS

As of July 31, 2017  
(000s)

DEPARTMENT	BUDGET	YEAR TO DATE	YEAR-END FORECAST	BUDGET VS FORECAST VARIANCE
<b>SANITATION SERVICES</b>				
BEGINNING FUND BALANCE	\$14,681	\$0	\$17,520	\$2,839
<b>REVENUES:</b>				
Residential Collection	72,502	62,538	74,336	1,833
Cost Plus Bulk/Brush	122	128	170	49
Sale of Recyclables	695	1,105	1,267	572
City Facility Collection	737	647	776	39
Landfill Revenue	26,485	25,323	28,913	2,428
<b>TOTAL REVENUES</b>	<b>100,541</b>	<b>89,740</b>	<b>105,462</b>	<b>4,921</b>
<b>TOTAL EXPENDITURES</b>	<b>100,541</b>	<b>67,791</b>	<b>100,541</b>	<b>(0)</b>
<b>ENDING FUND BALANCE</b>	<b>\$14,681</b>	<b>\$0</b>	<b>\$22,441</b>	<b>\$7,760</b>

# OTHER FUNDS

As of July 31, 2017  
(000s)

DEPARTMENT	BUDGET	YEAR TO DATE	YEAR-END FORECAST	BUDGET VS FORECAST VARIANCE
<b>9-1-1 SYSTEM OPERATIONS</b>				
BEGINNING FUND BALANCE	\$5,494	\$0	\$9,593	\$4,099
REVENUES:				
9-1-1 Service Receipts - Wireless	6,374	4,944	6,351	(23)
9-1-1 Service Receipts - Wireline	6,450	5,043	6,080	(371)
Interest and Other	48	94	117	68
<b>TOTAL REVENUES</b>	<b>12,873</b>	<b>10,081</b>	<b>12,548</b>	<b>(326)</b>
<b>TOTAL EXPENDITURES</b>	<b>16,389</b>	<b>8,568</b>	<b>16,355</b>	<b>(34)</b>
<b>ENDING FUND BALANCE</b>	<b>\$1,978</b>	<b>\$0</b>	<b>\$5,786</b>	<b>\$3,807</b>
 <b>STORM DRAINAGE MANAGEMENT</b>				
BEGINNING FUND BALANCE	\$6,754	\$0	\$8,250	\$1,496
REVENUES:				
Storm Water Fees	50,856	40,200	48,819	(2,037)
Interest and Other	81	141	150	69
<b>TOTAL REVENUES</b>	<b>50,937</b>	<b>40,341</b>	<b>48,969</b>	<b>(1,968)</b>
<b>TOTAL EXPENDITURES</b>	<b>54,658</b>	<b>30,151</b>	<b>52,621</b>	<b>(2,036)</b>
<b>ENDING FUND BALANCE</b>	<b>\$3,033</b>	<b>\$0</b>	<b>\$4,598</b>	<b>\$1,565</b>

# OTHER FUNDS

As of July 31, 2017  
(000s)

DEPARTMENT	BUDGET	YEAR TO DATE	YEAR-END FORECAST	BUDGET VS FORECAST VARIANCE
<b>EMPLOYEE BENEFITS</b>				
<b>BENEFITS ADMINISTRATION</b>				
TOTAL EXPENDITURES	\$998	\$610	\$998	\$0
<b>WELLNESS PROGRAM</b>				
TOTAL EXPENDITURES	\$349	\$134	\$248	(\$101)
<b>RISK MANAGEMENT</b>				
TOTAL EXPENDITURES	\$2,710	\$2,222	\$2,705	(\$5)
<b>LIABILITY/CLAIMS FUND</b>				
<b>Beginning Balance October 1, 2016</b>				<b>\$3,158</b>
Budgeted Revenue			<u>9,453</u>	
<b>FY 2016-17 Available Funds</b>				<b>12,611</b>
Paid October 2016				(596)
Paid November 2016				(315)
Paid January 2017				(422)
Paid February 2017				(343)
Paid March 2017				(424)
Paid April 2017				(280)
Paid May 2017				(1,074)
Paid June 2017				(234)
Paid July 2017				<u>(1,502)</u>
<b>Balance as of July 31, 2017</b>				<b><u>7,421</u></b>

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# DEBT SERVICE FUND

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As of July 31, 2017  
(000s)

<b>DEPARTMENT</b>	<b>BUDGET</b>	<b>YEAR TO DATE</b>	<b>YEAR-END FORECAST</b>	<b>BUDGET VS FORECAST VARIANCE</b>
<b>DEBT SERVICE FUND</b>				
BEGINNING FUND BALANCE	\$10,777	\$0	\$11,079	\$303
REVENUES:				
Ad Valorem	242,487	242,210	242,984	497
Interest/Transfers/Other	19,799	11,649	19,799	0
TOTAL REVENUES	262,287	253,858	262,784	497
TOTAL EXPENDITURES	261,865	222,776	261,865	0
ENDING FUND BALANCE	\$11,198	\$0	\$11,998	\$800

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# NOTES

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(Dollars in 000s)

1. The General Fund budget was amended/increased based on Council's approved use of contingency reserve funds and excess revenues:
  - Increased by \$490 on December 14, 2016 by CR# 16-1987 for a Regional Assessment of Fair Housing collaboration with other entitlement jurisdictions in the North Texas region;
  - Increased by \$500 on February 22, 2017 by CR# 17-0438 for additional legal services necessary to continue representing four Dallas City Councilmembers with regard to the Dallas Police and Fire Pension System;
  - Increased by \$759 on March 22, 2017 by CR# 17-0483 for actuarial services related to the Dallas Police and Fire Pension System;
  - Increased by \$330 on May 24, 2017 by CR# 17-0889 for an increase in the joint elections agreement and election services contract between the City of Dallas, Dallas County and other jurisdictions;
  - Increased by \$8,100 on June 14, 2017 by CR# 17-0954 using surplus emergency ambulance revenue which was appropriated for street and alley improvements this fiscal year; and
  - Amended on August 23, 2017 by Ordinance Nos. 30594 and 30595 to reflect appropriation adjustments to the following budgets: decreased Non-Departmental (\$2,100), increased Elections (\$1,250), increased Mayor and Council (\$50), increased Housing (\$120), and increased Liability Reserve Fund (\$680). The following Enterprise and Internal Service Funds were amended: increased Aviation (\$845), increased Convention and Event Services (\$1,100), increased Equipment Services (\$1,600), increased Risk Management (\$80), increased Sanitation Services (\$4,600) and increased Storm Drainage Management (\$1,700).
2. Ad Valorem tax revenues are forecast to be \$1,505 over budget based on current year property tax receipts trending above average.
3. Sales tax revenues are forecast to be \$1,581 over budget based on current sales tax receipts. Sales tax receipts have increased by 4.3 percent over the most recent 12 months.
4. Atmos Energy revenues are forecast to be \$1,428 under budget due to approximately \$2,000 in prior year revenues related to an amended gas franchise agreement that were received in fall 2016 but accrued to FY 2015-16 at the request of the City Controller's Office and the City's independent auditor.
5. Other Franchise revenues are forecast to be \$1,848 below budget due to subscribers switching from cable to satellite services which is reducing cable franchise fees.



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# NOTES

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(Dollars in 000s)

6. Interest earned revenues are forecast to be \$1,817 above budget due to an increase in the market interest rate.
7. Intergovernmental revenues are projected to be \$965 above budget primarily due to a refund check received from the Dallas County Elections Department and a Dallas Fire Rescue deployment reimbursement received from the State.
8. Municipal Court revenues are forecast to be \$966 below budget primarily as a result of a decrease in the volume of citations being issued.
9. Vehicle Towing and Storage fines are forecast to be \$494 over budget due to an increase in tows as well as vehicles staying on the auto pound property longer than anticipated.
10. Red Light Camera fines are forecast to be \$1,354 below budget due to construction lag time resulting from changing red light camera vendors. The revenue loss is offset by \$2.1m in reduced expenses related to not paying for camera activity during construction.
11. Public Library revenues are projected to be \$206 below budget due to implementation of automatic renewal on materials that have been checked out at library locations and an increase in the usage of e-materials. Fines and late fees are not collected on e-materials as they are electronically recalled on the due date.
12. Security Alarm revenues are projected to be \$280 below budget due to a decrease in the number of permits issued compared to the same period last fiscal year.
13. Other Charges for Services are projected to be \$5,431 below budget primarily due to the reduction of fire watch fees, contract delays for the Mobile Community Health Program, a change in the inter-local agreement with Parkland Health System for Biotel services whereby government entities that would formerly reimburse the City for Biotel services now contract directly with Parkland, and lower than budgeted multi-tenant registration and multi-tenant re-inspection fees.
14. City Auditor's Office expenditures are forecast to be \$330 below budget due vacancies and salary savings.
15. Mobility and Street Services budget was increased by \$13.1m from \$8.1m surplus in revenue and \$5m reallocation from Police Department and Non-Departmental.
16. Non-Departmental expenditures are forecast to be \$2,205 below due to savings in the master lease program.
17. Planning and Urban Design expenditures are forecast to be \$153 below budget due to salary savings.

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# NOTES

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(Dollars in 000s)

18. Police Department expenditures are forecast to be \$1,182 below budget primarily as a result of reduced costs as the city transitions to a new red light camera vendor. There is a reduction in revenue of \$1,354 during the transition to the new vendor as well. The expense savings are offset by a \$3.5M transfer to Fleet Capital Purchase Fund for squad cars.

19. Sustainable Development and Construction is forecast to be \$306 below budget primarily due to greater than budgeted abandonments and tax foreclosed property sale transactions, and corresponding reimbursements.

20. Salary and Benefit Reserve funds were allocated to City Manager's Office (\$502) to offset vacation/sick termination payments.

# Memorandum



CITY OF DALLAS

DATE September 1, 2017

TO Honorable Members of the Government Performance & Financial Management Committee: Jennifer S. Gates (Chair), Scott Griggs (Vice Chair), Sandy Greyson, Lee M. Kleinman, Philip T. Kingston, Tennell Atkins, Kevin Felder

SUBJECT **Dallas Water Utilities Commercial Paper Program – Amendment and Extension of Credit Agreement**

The City Council agenda for September 13, 2017 includes a resolution for your consideration amending the revolving credit agreement and associated fee letter agreement that support Dallas Water Utilities' (DWU) \$300 million Series E Commercial Paper Program. The current revolving credit agreement for this series expires on September 30, 2017.

## BACKGROUND

Established in 1987 at \$100 million, DWU's program consists of Series D and E with each series authorized at \$300 million. DWU uses its commercial paper program to provide interim financing for capital projects. Contracts are awarded using commercial paper as a funding source. Notes are issued to pay project costs as invoices are received. Notes are typically sold at lower interest rates than longer term bonds. Outstanding commercial paper is periodically reduced by refinancing with long-term bonds.

Commercial paper issuance is backed by lines of credit from highly rated banks. These lines of credit assure investors that the commercial paper notes will be paid in the event that a note cannot be sold to another investor at maturity. The rating agencies rate commercial paper programs based on the rating of the banks providing the credit lines, although the credit rating and outlook of the commercial paper issuer affects the marketability of the notes as well as the rating of the credit bank.

## SERIES E CREDIT AGREEMENT EXTENSION

JPMorgan Chase Bank, N.A., has offered to continue providing the credit facility supporting DWU's \$300 million Series E Commercial Paper Program with no material changes in terms and conditions for an additional two-year period. The annual fee for the line of credit facility backing the existing program is 30 basis points, or 0.30 percent, which would remain the same. DWU's co-financial advisors, Hilltop Securities and Estrada Hinojosa, recommend acceptance of the bank's offer. Current quotes for comparable facilities from other banks are in the range of 0.40 – 0.45 percent. In addition, the co-financial advisors recommend continuation of JPMorgan Chase as credit provider

DATE September 1, 2017

SUBJECT **Dallas Water Utilities Commercial Paper Program – Amendment and Extension of Credit Agreement**

due to strong market acceptance of commercial paper notes supported by its credit lines. Attached is a schedule of the estimated costs associated with this extension.

Please let me know if you need additional information.



M. Elizabeth Reich  
Chief Financial Officer

Attachment

c: Honorable Mayor and Members of the City Council  
T.C. Broadnax, City Manager  
Larry Casto, City Attorney  
Craig D. Kinton, City Auditor  
Billierae Johnson, City Secretary (Interim)  
Daniel F. Solis, Administrative Judge  
Kimberly Bizzor Tolbert, Chief of Staff to the City Manager  
Majed A. Al-Ghafry, Assistant City Manager

Jo M. (Jody) Puckett, P.E., Assistant City Manager (Interim)  
Jon Fortune, Assistant City Manager  
Joey Zapata, Assistant City Manager  
Raquel Favela, Chief of Economic Development & Neighborhood Services  
Nadia Chandler Hardy, Chief of Community Services  
Theresa O'Donnell, Chief of Resilience  
Directors and Assistant Directors

## Schedule I

### Dallas Water Utilities Commercial Paper Program Series E

#### COST OF ISSUANCE/ CLOSING COST

##### Rating Agency (Closing Cost)

Fitch Rating	\$ 19,000
S&P Global	5,000

##### Co-Bond Counsel

McCall, Parkhurst, and Horton	\$ 10,000
Escamilla & Poneck	4,750

##### Co-Financial Advisors

First Southwest Company	\$ 24,000
Estrada Hinojosa	16,000

##### Disclosure Counsel

Andrews Kurth	\$ 4,500
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##### Liquidity Facility Bank Attorney Fees

Locke Lord	\$ 10,000
Printing Fees	2,500

<b>Total Estimated Upfront Closing Cost</b>	<b>\$ 95,750</b>
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#### ANNUAL FEES

##### Liquidity Facility Fees

JPMorgan Chase	\$ 980,000
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##### Rating Agencies (Annual Surveillance)

FitchRatings	\$ 18,000
S & P Global	34,000

<b>Total Estimated Annual Fees</b>	<b>\$1,032,000</b>
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<b>Total (Annual Fees plus Closing Cost)</b>	<b>\$1,127,750</b>
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<b>Grand Total (Two-Year Agreement plus Closing Cost)</b>	<b>\$2,159,750</b>
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# Memorandum



CITY OF DALLAS

DATE **September 1, 2017**

Honorable Members of the Government Performance & Financial Management  
Committee: Jennifer S. Gates (Chair), Scott Griggs (Vice Chair), Sandy Greyson,  
TO Lee M. Kleinman, Philip T. Kingston, Tennell Atkins, Kevin Felder

SUBJECT **Quarterly Investment Report**

The City of Dallas Investment Policy, in accordance with the Texas Public Funds Investment Act, requires that the City Council and City Manager receive quarterly investment reports. The purpose of this report is to provide a means for Council members, Council committee members, and staff to regularly review and monitor the City's investment position, and to demonstrate compliance with the City's Investment Policy and the Public Funds Investment Act. We have included summary reports on each of the City's individual portfolios, as well as summary information on the combined portfolio.

For the quarter ended June 30, 2017, the City's individual portfolios and the combined portfolio are in compliance with the relevant provisions of the Public Funds Investment Act and the investment strategies adopted in Sec. 17.0 of the City's Investment Policy.

Please let me know if you need additional information.

A handwritten signature in blue ink that reads "M. Elizabeth Reich".

**M. Elizabeth Reich**  
**Chief Financial Officer**

#### Attachment

c: Honorable Mayor and City Council  
T.C. Broadnax, City Manager  
Larry Casto, City Attorney  
Craig D. Kinton, City Auditor  
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Raquel Favela, Chief of Economic Development & Neighborhood Services  
Theresa O'Donnell, Chief of Resilience  
Directors and Assistant Directors



CITY OF DALLAS

**June 30, 2017**

**QUARTERLY INVESTMENT REPORT**

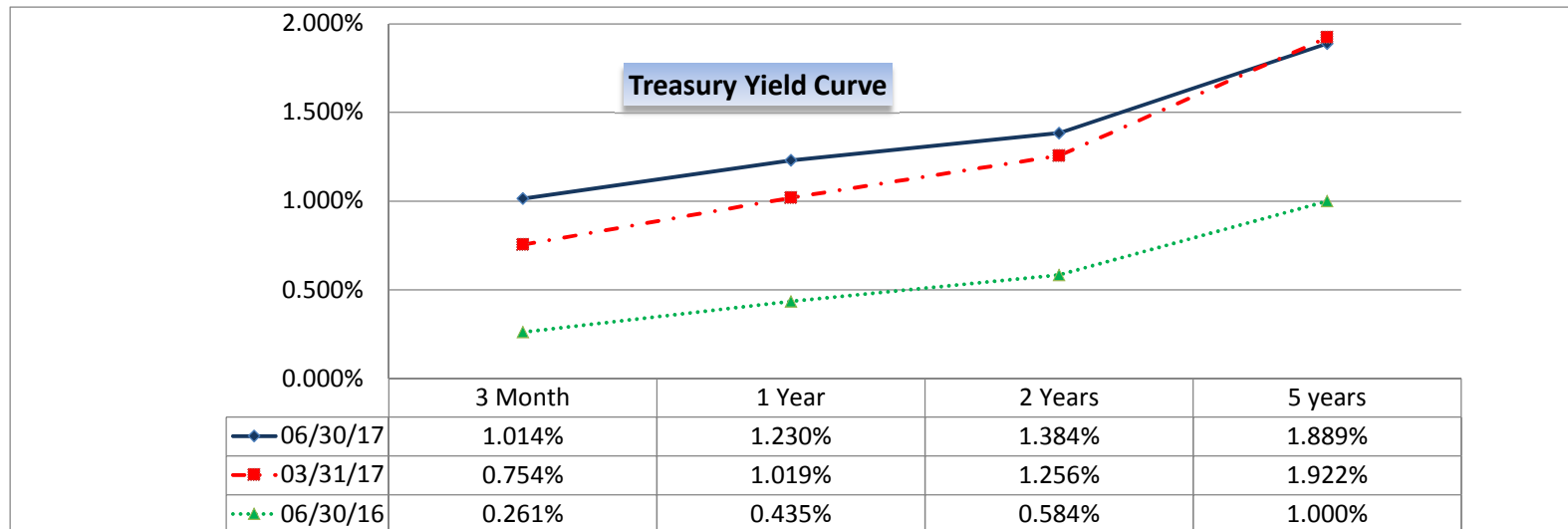
Quarterly National Economic and Market Update  
 Quarter Ended June 30, 2017

- Labor market had continued to strengthen and economic activity had been rising moderately for 2017
- Job gains had moderated but had been solid since the beginning of the year, and the unemployment rate had declined
- Household spending had picked up in recent months, and business fixed investment had continued to expand
- The Federal Open Market Committee (FOMC) decided to raise the top of the target range for the federal funds rate from 0.75% - 1% to 1.00% - 1.25%.

Source: FOMC June 14, 2017 Statement

National Economic Data	6/30/2016	6/30/2017
Fed Funds Effective Rate Target Range	0.25% - 0.50%	1.00% - 1.25%
2 Years Treasury Note Yield	0.584%	1.384%
10 Years Treasury Note Yield	1.471%	2.305%
Monthly Unemployment Rate	4.90%	4.40%
Weekly Initial Jobless Claims	270,000	250,000
Monthly Change in Nonfarm Payrolls	292,000	222,000
Monthly New Housing Starts	1,186,000	1,215,000

Source: Bloomberg



Source: Bloomberg



City of Dallas  
 Portfolio Holdings  
 Combined Investment Summary  
 As of 06/30/2017

Portfolio Description	Face Amount	Book Value	Market Value	Accrued Interest	Market Value + Accrued Interest	*Unrealized Gain/(Loss)	Weighted Average Yield To Maturity
01 The City's Investment Pool	1,777,745,000	1,777,766,722	1,775,366,543	3,472,543	1,778,839,086	(2,400,180)	1.21%
02 Convention Center Reserve	23,000,000	23,000,000	22,528,467	8,117	22,536,584	(471,533)	1.34%
03 Water Reserve	90,000,000	89,982,196	89,047,390	255,528	89,302,918	(934,806)	1.23%
04 Art Endowment	2,235,000	2,235,000	2,208,886	10,572	2,219,458	(26,114)	1.32%
05 Ida Green Library Fund	1,000,000	1,000,000	989,954	799	990,753	(10,046)	1.25%
10 DWU Commercial Paper Program	13,960	13,960	13,960	0	13,960	-	0.85%
14 Trinity Parkway Escrow	550,239	550,239	550,239	0	550,239	-	0.86%

\*Unrealized gain/loss is the difference between the market value and book value and does not represent an actual gain or loss. Gains and losses are realized only when a security is sold prior to maturity. Since it is the City's practice to hold investments until they mature, the temporary gains and losses are unlikely to be realized.

City of Dallas  
Trade Activity by Portfolio  
As of: 03/31/2017 - 06/30/2017

Portfolio Description	Beginning Face Amount	Beginning Weighted Average Yield To Maturity	Purchased/Deposited	Matured/Called/ Redeemed	Ending Face Amount	Ending Weighted Average Yield To Maturity
<b>City's Investment Pool*</b>						
Federal Agricultural Mortgage Corp.	219,770,000	1.18%	105,000,000	-	324,770,000	1.26%
Federal Farm Credit Bank	319,275,000	1.00%	25,000,000	20,000,000	324,275,000	1.04%
Federal Home Loan Bank	274,850,000	1.24%	109,000,000	25,000,000	358,850,000	1.33%
Federal Home Loan Mortgage Corp.	379,000,000	1.26%	34,000,000	25,000,000	388,000,000	1.25%
Federal National Mortgage Assoc.	154,830,000	1.15%	-	10,000,000	144,830,000	1.18%
<b>Total Portfolio</b>	<b>1,347,725,000</b>	<b>1.17%</b>	<b>273,000,000</b>	<b>80,000,000</b>	<b>1,540,725,000</b>	<b>1.22%</b>

\*Trade activity excludes local government investment pools and money market mutual funds.

<b>Convention Center Reserve</b>						
Federal Home Loan Mortgage Corp.	4,000,000	1.25%	-	-	4,000,000	1.25%
Federal National Mortgage Assoc.	19,000,000	1.36%	-	-	19,000,000	1.36%
<b>Total Portfolio</b>	<b>23,000,000</b>	<b>1.34%</b>	<b>-</b>	<b>-</b>	<b>23,000,000</b>	<b>1.34%</b>

<b>Water Reserve</b>						
Federal Farm Credit Bank	-	0.00%	10,000,000	-	10,000,000	1.31%
Federal Home Loan Bank	5,000,000	1.50%	-	-	5,000,000	1.50%
Federal Home Loan Mortgage Corp.	30,000,000	1.22%	-	-	30,000,000	1.22%
Federal National Mortgage Assoc.	55,000,000	1.26%	-	10,000,000	45,000,000	1.20%
<b>Total Portfolio</b>	<b>90,000,000</b>	<b>1.26%</b>	<b>10,000,000</b>	<b>10,000,000</b>	<b>90,000,000</b>	<b>1.23%</b>

<b>Art Endowment</b>						
Federal Home Loan Mortgage Corp.	2,235,000	1.32%	-	-	2,235,000	1.32%
<b>Total Portfolio</b>	<b>2,235,000</b>	<b>1.32%</b>	<b>-</b>	<b>-</b>	<b>2,235,000</b>	<b>1.32%</b>

<b>Ida Green Library Endowment</b>						
Federal Agricultural Mortgage Corp.	1,000,000	1.25%	-	-	1,000,000	1.25%
<b>Total Portfolio</b>	<b>1,000,000</b>	<b>1.25%</b>	<b>-</b>	<b>-</b>	<b>1,000,000</b>	<b>1.25%</b>

<b>DWU Commercial Paper</b>						
Money Market	13,960	0.59%	-	-	13,960	0.85%
<b>Total Portfolio</b>	<b>13,960</b>	<b>0.59%</b>	<b>-</b>	<b>-</b>	<b>13,960</b>	<b>0.85%</b>

<b>Trinity Parkway Escrow</b>						
Money Market	549,384	0.59%	855	-	550,239	0.86%
<b>Total Portfolio</b>	<b>549,384</b>	<b>0.59%</b>	<b>855</b>	<b>-</b>	<b>550,239</b>	<b>0.86%</b>

City of Dallas  
 Summary Statement by Portfolio  
 As of: 03/31/2017 - 06/30/2017

Portfolio Description	Beginning Face Amount	Ending Face Amount	Beginning Book Value	Ending Book Value	Beginning Market Value	Ending Market Value	Deposits/ (Redemptions)	Change in Market Value	Accrued Interest	Ending Weighted Average Yield To Maturity
<b>City's Investment Pool<sup>1</sup></b>										
Local Govt. Investment Pool	458,020,000	202,020,000	458,020,000	202,020,000	458,020,000	202,020,000	(256,000,000)	-	-	1.20%
Money Market	51,000,000	35,000,000	51,000,000	35,000,000	51,000,000	35,000,000	(16,000,000)	-	-	0.86%
US Agency	1,347,725,000	1,540,725,000	1,347,714,282	1,540,746,722	1,346,667,041	1,538,346,543	193,000,000	(1,324,842)	3,472,543	1.22%
<b>*Total Portfolio</b>	<b>1,856,745,000</b>	<b>1,777,745,000</b>	<b>1,856,734,282</b>	<b>1,777,766,722</b>	<b>1,855,687,041</b>	<b>1,775,366,543</b>	<b>(79,000,000)</b>	<b>(1,324,842)</b>	<b>3,472,543</b>	<b>1.21%</b>
<b>Convention Center Reserve<sup>2</sup></b>										
US Agency	23,000,000	23,000,000	23,000,000	23,000,000	22,500,694	22,528,467	-	27,773	8,117	1.34%
<b>Total Portfolio</b>	<b>23,000,000</b>	<b>23,000,000</b>	<b>23,000,000</b>	<b>23,000,000</b>	<b>22,500,694</b>	<b>22,528,467</b>	<b>-</b>	<b>27,773</b>	<b>8,117</b>	<b>1.34%</b>
<b>Water Reserve<sup>2</sup></b>										
US Agency	90,000,000	90,000,000	89,979,878	89,982,196	89,006,765	89,047,390	-	48,475	255,528	1.23%
<b>Total Portfolio</b>	<b>90,000,000</b>	<b>90,000,000</b>	<b>89,979,878</b>	<b>89,982,196</b>	<b>89,006,765</b>	<b>89,047,390</b>	<b>-</b>	<b>48,475</b>	<b>255,528</b>	<b>1.23%</b>
<b>Art Endowment<sup>3</sup></b>										
US Agency	2,235,000	2,235,000	2,235,000	2,235,000	2,198,963	2,208,886	-	9,923	10,572	1.32%
<b>Total Portfolio</b>	<b>2,235,000</b>	<b>2,235,000</b>	<b>2,235,000</b>	<b>2,235,000</b>	<b>2,198,963</b>	<b>2,208,886</b>	<b>-</b>	<b>9,923</b>	<b>10,572</b>	<b>1.32%</b>
<b>Ida Green Library Endowment<sup>4</sup></b>										
US Agency	1,000,000	1,000,000	1,000,000	1,000,000	990,628	989,954	-	(674)	799	1.25%
<b>Total Portfolio</b>	<b>1,000,000</b>	<b>1,000,000</b>	<b>1,000,000</b>	<b>1,000,000</b>	<b>990,628</b>	<b>989,954</b>	<b>-</b>	<b>(674)</b>	<b>799</b>	<b>1.25%</b>
<b>DWU Commercial Paper<sup>5</sup></b>										
Money Market	13,960	13,960	13,960	13,960	13,960	13,960	-	-	-	0.85%
<b>Total Portfolio</b>	<b>13,960</b>	<b>13,960</b>	<b>13,960</b>	<b>13,960</b>	<b>13,960</b>	<b>13,960</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.85%</b>
<b>Trinity Parkway Escrow<sup>6</sup></b>										
Money Market	549,384	550,239	549,384	550,239	549,384	550,239	855	-	-	0.86%
<b>Total Portfolio</b>	<b>549,384</b>	<b>550,239</b>	<b>549,384</b>	<b>550,239</b>	<b>549,384</b>	<b>550,239</b>	<b>855</b>	<b>-</b>	<b>-</b>	<b>0.86%</b>

Notes 1-6: See Page 6 for Strategy Statement by Portfolio.

\*Numbers may not sum due to rounding

**City of Dallas**  
**Strategy Statement and Compliance by Portfolio**  
**As of: 03/31/2017 - 06/30/2017**

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**STRATEGY COMPLIANCE STATEMENT**

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For the quarter ended June 30, 2017 the portfolios are in compliance with the relevant provisions of the Public Fund Investment Act and the investment strategies adopted in Sec. 17.0 of the City's Investment Policy.

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**STRATEGY STATEMENT BY PORTFOLIO**

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**1) City's Investment Pool**

The City's Investment Pool is an aggregation of the majority of City funds that includes tax receipts, enterprise fund revenues, fine and fee revenues, as well as some, but not all, bond proceeds, grants, gifts and endowments. This portfolio is maintained to meet anticipated daily cash needs for City of Dallas operations, capital projects and debt service. In order to ensure the ability of the City to meet obligations and to minimize potential liquidation losses, the dollar-weighted average stated maturity of the Investment Pool shall not exceed 1.5 years.

**2) Convention Center Bond Reserve and Water Bond Reserve**

Non-pooled reserve funds for outstanding revenue bonds (Convention Center and Water) are set at levels required by their respective bond ordinances. These funds will be used to pay principal and/or interest at final maturity or if called prior to final maturity.

**3) Art Endowment**

The Art Endowment Fund was created by the City from a \$1,285,026 repayment to the General Fund from the Convention Center. Pursuant to Resolution No. 84-311 dated September 26, 1984, this endowment fund was created to provide additional monies for the arts, not to replace the current level of support. Funds received as gifts to the City with instructions that the income generated by the investment of said funds be used for specified purposes are invested as separate non-pooled portfolios in order to maximize return.

**4) Ida Green Library Endowment**

The Ida M. Green Endowment Fund was created with the proceeds from the sale of stock from the estate of Ms. Green pursuant to Resolution No. 87-0836. Its purpose is to provide funds for the operating and capital expenses of the library's Texas Center for the Book and Children's Center. Funds received as gifts to the City with instructions that the income generated by the investment of said funds be used for specified purposes are invested as separate non-pooled portfolios in order to maximize return.

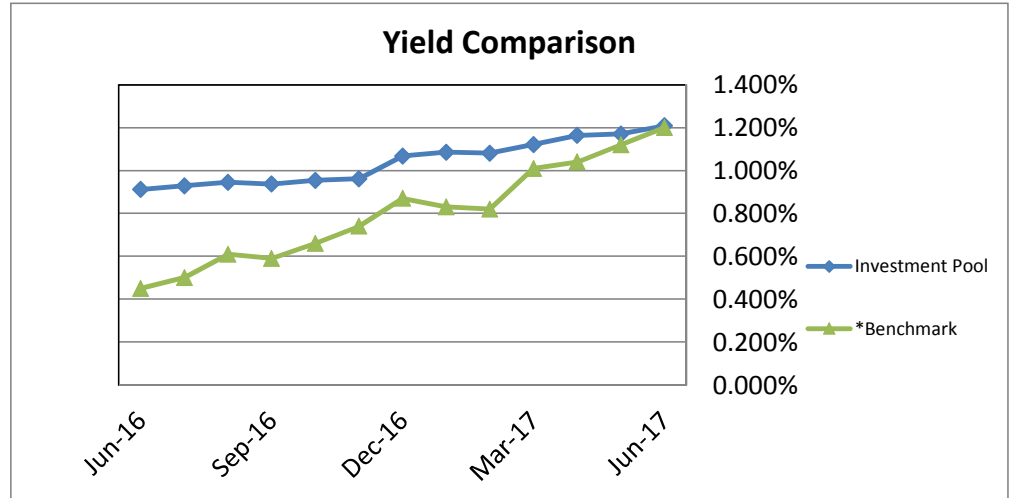
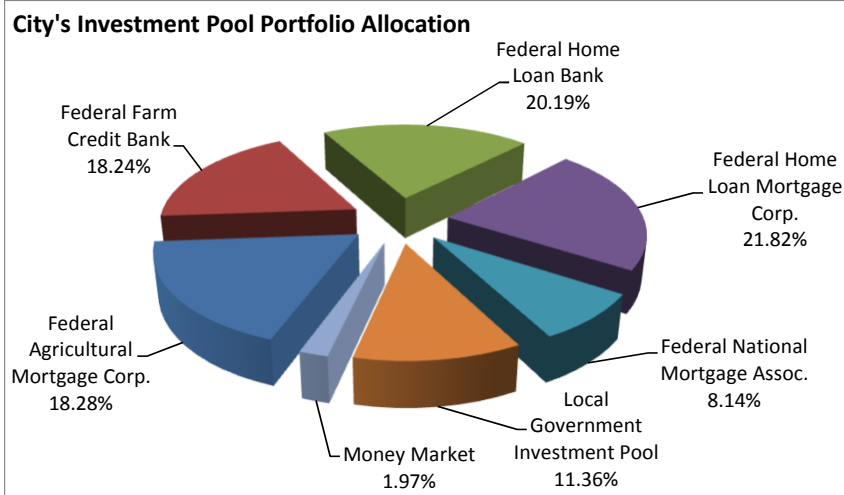
**5) DWU Commercial Paper Program and GO Commercial Paper Program**

The City issues tax-exempt commercial paper notes as an interim financing tool for construction of capital projects. The investment of the proceeds from the issuance of commercial paper debt should have a high degree of liquidity in order to fund payments to contractors.

**6) Trinity Parkway Escrow**

The Trinity Parkway Escrow portfolio was created with the deposit of \$5,000,000 on November 16, 1999 in an escrow account in accordance with an agreement dated as of January 1, 1999 between the City, North Texas Tollway Authority ("NTTA"), and TxDOT pertaining to development of the Trinity Parkway. These funds will be used to share costs for the studies and design efforts related to the Trinity Parkway project. Permitted investments for this account are defined in the Escrow Agreement as those that are consistent with the Public Funds Investment Act.

**City of Dallas**  
**City's Investment Pool Portfolio Allocation**  
**Investment Summary**  
**As of 06/30/2017**



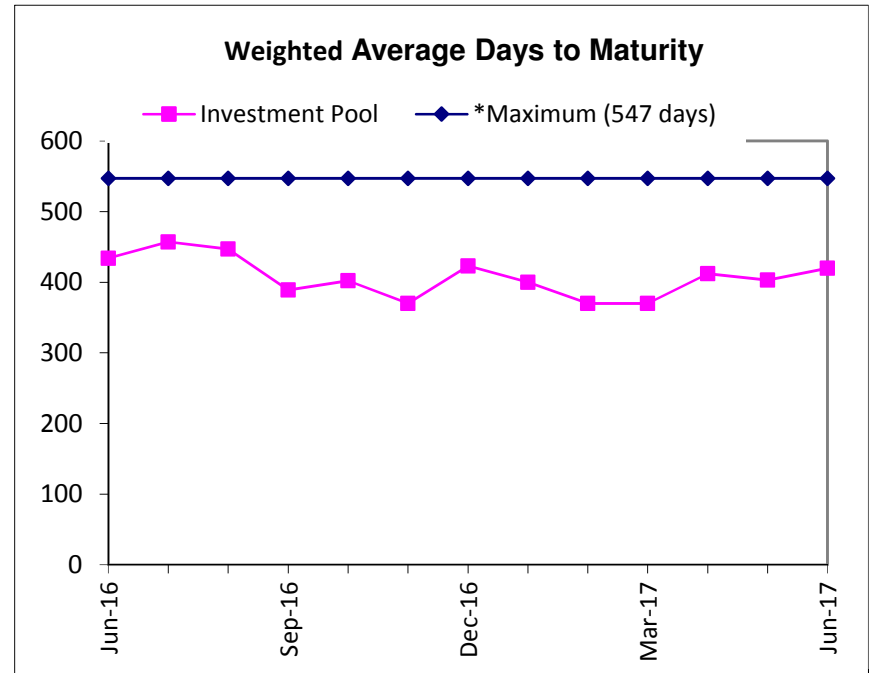
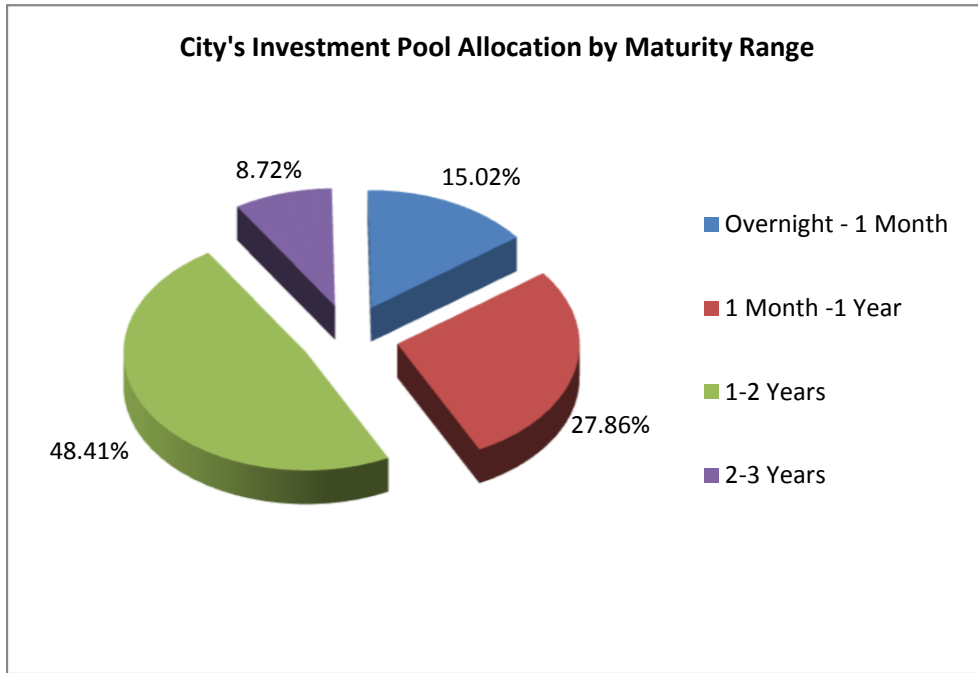
Description	Face Amount	Book Value	Market Value	**Unrealized Gain/(Loss)	Weighted Average Days To Maturity	Weighted Average Yield To Maturity	% of Portfolio
Federal Agricultural Mortgage Corp.	324,770,000	324,892,821	324,534,957	(357,863)	487	1.26%	18.28%
Federal Farm Credit Bank	324,275,000	324,240,192	323,639,754	(600,438)	380	1.04%	18.24%
Federal Home Loan Bank	358,850,000	358,868,339	358,386,524	(481,815)	614	1.33%	20.19%
Federal Home Loan Mortgage Corp.	388,000,000	387,970,947	387,307,297	(663,650)	500	1.25%	21.82%
Federal National Mortgage Assoc.	144,830,000	144,774,423	144,478,010	(296,413)	346	1.18%	8.14%
Local Government Investment Pool	202,020,000	202,020,000	202,020,000	-	1	1.20%	11.36%
Money Market	35,000,000	35,000,000	35,000,000	-	1	0.86%	1.97%
<b>***Total Portfolio</b>	<b>1,777,745,000</b>	<b>1,777,766,722</b>	<b>1,775,366,543</b>	<b>(2,400,180)</b>	<b>420</b>	<b>1.21%</b>	<b>100.00%</b>

\*As per Section 17.1 of the City's Investment Policy, the benchmark for the Investment Pool is the 12-month moving average yield on treasury 1-year constant maturities as reported by Federal Reserve Statistical Release H.15.

\*\* Unrealized gain/loss is the difference between the market value and book value and does not represent an actual gain or loss. Gains and losses are realized only when a security is sold prior to maturity. Since it is the City's strategy to hold investments until they mature, the temporary gains and losses are unlikely to be realized.

\*\*\* Numbers may not sum due to rounding

**City of Dallas**  
**City's Investment Pool Allocation by Maturity Range**  
**As of 06/30/2017**



Description	Face Amount/Shares	Book Value	Market Value	Weighted Average Yield To Maturity	Weighted Average Days To Maturity	% of Portfolio
Overnight - 1 Month	267,020,000	267,019,570	267,017,660	1.12%	4	15.02%
1 Month - 1 Year	495,150,000	495,205,905	494,966,361	1.01%	194	27.86%
1-2 Years	860,575,000	860,566,600	858,676,308	1.30%	600	48.41%
2-3 Years	155,000,000	154,974,647	154,706,214	1.51%	856	8.72%
<b>**Total Portfolio</b>	<b>1,777,745,000</b>	<b>1,777,766,722</b>	<b>1,775,366,543</b>	<b>1.21%</b>	<b>420</b>	<b>100%</b>

\*As per Section 13.0 of the City's Investment Policy, the dollar-weighted average stated maturity of the Investment Pool shall not exceed 1.5 years (547 days).

\*\* Numbers may not sum due to rounding

**City of Dallas**  
**Date To Date**  
**Broker/Dealer Activity**  
**As of: FY 16-17 Year to Date**

FY 16-17 Year to Date		
Description	Awarded	%
<b>Primary Dealers</b>		
Bank of America	\$48,000,000	6.73%
Jefferies & Co.	27,000,000	3.79%
Morgan Stanley	15,000,000	2.10%
RBC Capital Markets, LLC	14,000,000	1.96%
Wells Fargo	0	0.00%
<b>Secondary Dealers</b>		
FTN Financials	95,000,000	13.32%
Hilltop Securities Inc.	60,000,000	8.41%
Intl Fcstone Financial Inc.	29,275,000	4.10%
Multi Bank Securities	46,000,000	6.45%
Piper Jaffray & Co.	54,000,000	7.57%
Samco Capital Market	75,000,000	10.51%
SunTrust Robinson Humphrey, Inc.	50,000,000	7.01%
Vining Sparks	72,000,000	10.09%
<b>Secondary Dealers - M/WBE</b>		
Capital Institutional Services, Inc.	40,000,000	5.61%
Loop Capital	20,000,000	2.80%
Rice Financial	23,000,000	3.22%
Stern Brothers & Co.	45,000,000	6.31%
<b>Total</b>	<b>\$713,275,000</b>	<b>100.00%</b>

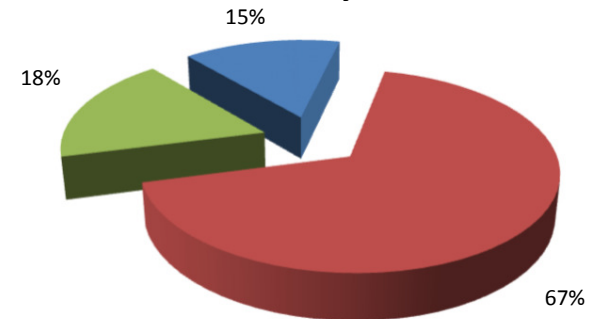
**Notes:**

Section 9 of the City's investment Policy requires the investment committee to annually review and adopt a list of qualified broker/dealers. These firms represent the broker dealer firms that are currently approved by the Investment Committee as of February 2017.

It is the City's policy to solicit three or more competitive bids/offers each trade except for agency securities purchased at issue.

Q3 FY 16-17		
Description	Awarded	%
Bank of America	\$18,000,000	6.36%
Capital Institutional Services, Inc.-M/WBE	30,000,000	10.60%
FTN Financials	25,000,000	8.83%
Hilltop Securities Inc.	20,000,000	7.07%
Intl Fcstone Financial Inc.	10,000,000	3.53%
Jefferies & Co.	12,000,000	4.24%
Morgan Stanley	15,000,000	5.30%
Multi Bank Securities	36,000,000	12.72%
Piper Jaffray & Co.	14,000,000	4.95%
RBC Capital Markets, LLC.	14,000,000	4.95%
Rice Financial - Minority Dealers	13,000,000	4.59%
Samco Capital Market	25,000,000	8.83%
SunTrust Robinson Humphrey, Inc.	35,000,000	12.37%
Vining Sparks	16,000,000	5.65%
<b>Total</b>	<b>\$283,000,000</b>	<b>100.00%</b>

**Broker/Dealer Activity FY16-17 to Date**



■ Primary Dealers \$104,000,000  
 ■ Secondary Dealers \$481,275,000

# CITY OF DALLAS

June 30, 2017

## QUARTERLY INVESTMENT REPORT

For the quarter ended June 30, 2017 the portfolios are in compliance with the relevant provisions of the Public Funds Investment Act and the investment strategies adopted in Sec. 17.0 of the City's Investment Policy.

Chief Financial Officer:

M. Elizabeth Reich

City Controller:

David V. Scott

Treasury Manager:

Connie Keese



# Memorandum



CITY OF DALLAS

DATE September 1, 2017

Honorable Members of the Government Performance and Financial Management  
TO Committee: Jennifer S. Gates (Chair), Scott Griggs (Vice Chair), Tennell Atkins,  
Kevin Felder, Sandy Greyson, Phillip T. Kingston, Lee M. Kleinman

SUBJECT **Atmos Statement of Intent to Increase Rates**

On August 18, 2017, Atmos Energy Corporation (Atmos) filed a Notice of Intent to increase residential, commercial, industrial, and transportation rates for natural gas service within the City of Dallas. This rate case was filed in response to the City's June 14, 2017 order for Atmos to show good cause why its rates should not be reduced (Resolution #17-0933). Atmos is requesting an increase in annual revenue of \$16.2 million for the City of Dallas.

Under Section 5.08 of the Texas Gas Utilities Regulatory Act, these rates automatically go into effect on the effective date, unless the City Council extends the decision deadline for an additional 90 days by official action. An item has been placed on the September 13, 2017 agenda to consider a resolution to suspend the effective date from September 22, 2017 until December 21, 2017. The additional time is required to conduct an adequate investigation of the request and determine if the proposed new rates are fair and reasonable.

Please contact me if you have further questions.

*for* M. Elizabeth Reich  
Chief Financial Officer

c: Honorable Mayor and City Council  
T.C. Broadnax, City Manager  
Larry Casto, City Attorney  
Craig D. Kinton, City Auditor  
Billierae Johnson, City Secretary (Interim)  
Daniel F. Solis, Administrative Judge  
Kimberly Bizer Tolbert, Chief of Staff to the City Manager  
Majed A. Al-Ghafry, Assistant City Manager

Jo M. (Jody) Puckett, Assistant City Manager (Interim)  
Jon Fortune, Assistant City Manager  
Joey Zapata, Assistant City Manager  
Nadia Chandler Hardy, Chief of Community Services  
Raquel Favela, Chief of Economic Development & Neighborhood Services  
Theresa O'Donnell, Chief of Resilience  
Directors and Assistant Directors