City of Hitchcock
Investment Policy
Adopted August 19, 2019

CITY OF HITCHCOCK, TEXAS

INVESTMENT POLICY

Adopted August ___, 2019

POLICY

It is the policy of the City of Hitchcock, Texas (City) after allowing for the anticipated cash flow requirements in its bank accounts to meet daily needs and after giving due consideration to the safety and risk of investments, providing protection for both principal and liquidity, to invest public funds in a manner which will provide the highest investment return while conforming to all state, federal and local statutes governing the investment of public funds. This Investment Policy is authorized by the City Commission in accordance with Texas Government Code, Chapter 2256-Public Funds Investment, also cited as the Public Funds Investment Act (Act), to satisfy the statutory requirements to define, adopt, and review a written investment policy regarding the investment of its funds and funds under its control. The City Commission shall review and adopt by resolution, its investment strategies and policy not less than annually. Such an investment must be written, emphasize safety, address investment management and include types of authorized investments, maximum allowable stated maturity, maximum dollar-weighted average maturity, method to monitor the market price, requirements for settlement of transactions, and procedures to monitor rating changes in investments and the liquidation of investments. The resolution shall state that the policy has been reviewed and include record of changes made to either the investment policy or strategy.

SCOPE

This policy applies to all funds or financial resources available for investment under the City's financial control and accounted for in the City of Hitchcock, Texas Comprehensive Annual Financial Report which includes the General Fund, Enterprise Fund, Special Revenue Funds, Capital Projects Funds, Debt Service Funds, and will include any new fund created by the City Commission, unless specifically exempt. In addition to this Policy, bond funds (as defined by the Internal Revenue Service) shall be managed by their governing ordinances and all applicable Texas and Federal laws. In some instances, these laws will limit permissible investment returns on bond proceeds.

The City will consolidate cash balances from all applicable funds to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles. Such earnings from investments will be used in a manner that best serves the public trust and interests of the City as deemed in the annual budget.

INVESTMENT OBJECTIVES

All investments shall be designed and managed in a manner responsive to the public trust and in compliance with all Federal, Texas and other legal requirements, including but not limited to the Act. The City shall manage and invest its available resources with four objectives, listed in order of priority: Safety, Liquidity, Public Trust, and Yield.

Safety

Safety of principal and the City's assets is the foremost objective of the investment program. Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To increase investment safety, the City strives to decrease or minimize credit and interest rate risk. Minimization of credit risk or the risk of loss due to the failure of a security issuer or guarantor shall be done by the City by limiting investments to safe types, pre-qualifying financial institutions and broker/dealers, and diversifying the portfolio in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

Minimization of interest rate risk or the decrease in market value of securities in the City's portfolio due to changes in interest rates shall be done by the City through strong cash flow projections so that market value losses are reduced and through investments in short-term securities.

Liquidity

The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements that might be reasonably anticipated. Liquidity shall be achieved by matching investment maturities with forecasted cash flow requirements and by investing in securities with active secondary markets. A portion of the portfolio will also be placed in short term investment pools and/or money market mutual funds, which offer daily liquidity and may be utilized as a competitive yield alternative to fixed maturity investments.

Public Trust

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 capital as well as the probable income to be derived. All participants in the City's investment process shall seek to act responsibly as custodians of the public trust. Investment officials shall avoid any transaction that might impair public confidence in the City's ability to govern effectively.

Yield

The City's investment portfolio shall be designed with the objective of attaining a rate of return throughout budgetary and economic cycles, commensurate with the City's investment risk constraints and the cash flow characteristics of the portfolio. Return on investment is of secondary importance compared to the safety, liquidity and public trust objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. The yield of an equally weighted, rolling six-month Treasury bill portfolio shall be the minimum yield objective or "benchmark". A secondary objective will be to obtain a yield equal to or in excess of a local government investment pool or money market mutual fund. The yield on the City's bond investments may be limited by certain bond ordinance covenant limitations.

STANDARDS OF CARE

Delegation of Authority

The City Administrator and the Finance Manager are the Investment Officers of the City and are responsible for investment decisions and activities. The Investment Officer's may delegate the day-to-day administrative duties to other persons authorized to perform investment activities for the City, or he/she may perform the duties him or herself. The City Administrator will retain ultimate responsibility for investment decisions.

The Investment Officer(s) are responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft, or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived.

Training Requirements

The Investment Officer(s) are required to attend at least one training session relating to the officers' responsibility under the Act within twelve (12) months after taking office or assuming duties. Afterwards, the City shall provide eight (8) hours of investment training not less than once in a two-year period that begins on the first day of the fiscal year and consists of the two consecutive years after that date for the Investment Officer(s) and/or his/her delegate(s), through courses and seminars offered by independent professional organizations and associations (i.e. the *Government Finance Officers Association of Texas, the Government Treasurers Organization of Texas, or the Texas Municipal League,* etc.) in order to insure the equality and capability of the City's investment personnel making investment decisions in compliance with the Act. The training must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with the Act.

The City shall also encourage those who may perform daily activities with the City investments to attend such training although they are not listed specifically as Investment Officers of the City.

Prudent Person Rule

As set forth in the Act, Investment Officers shall use the standard of prudence with the "Prudent Person Rule". "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 (Public Funds Investment Act 2256.006(a))."

"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 (Public Funds Investment Act 2256.006(b))."

Investment officials acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibilities for an individual security's credit risk or market price change, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

Ethics and Conflict of Interest

Investment Officers and other employees involved in the investment process shall refrain from personal business activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. According to the Act, a personal business relationship with a business exists if one of the following three (3) items applies:

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.

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.

Investment Officer(s) must file a disclosure statement with the Texas Ethics Commission and the City Commission if an officer has a personal business relationship with a business organization offering to engage in an investment transaction with the City or the 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 entity.

AUTHORIZED FINANCIAL INSTITUTIONS AND DEALERS

A qualified depository shall be selected through the City's banking services procurement process, which shall include solicitation of proposals as required under Chapter 105 of the Texas Local Government Code. The centralization of depository services is designed to maximize investment capabilities while minimizing service costs. The selection of a depository shall be based on the financial institution offering the most favorable terms and conditions at the least possible cost, while adhering to the guidelines and provisions within the request for proposal. In selecting a depository, the City shall give consideration to the financial institution's credit characteristics, financial history, service capabilities, earnings potential, collateralization, location within City limits or within a ten (10) mile radius of the City limits, and costs for required services. The City's depository contract shall be for three (3) years with an option to extend for an additional two (2) years upon mutual agreement of the depository and the City. Specialized services may be contracted for by the City with another financial institution or company if the depository cannot provide such service or charges more than the same service with little or no appreciable benefit.

SELECTION OF INVESTMENT BROKER/DEALERS AND ADVISORS

Selection of Investment Advisors and Broker/Dealers will be performed by the Investment Officer(s), with ratification and approval by the City Commission. The selected firms shall provide timely transaction confirmations and monthly portfolio reports. Prospective Broker/Dealers shall provide financial and other information as requested by the Investment Officer(s) sufficient to evaluate their fiscal condition and ability to service the City. The Investment Officer(s) will establish criteria to evaluate Investment Advisors and Broker/Dealers, including:

1.) Adherence to the City's policies and strategies,
2.) Investment performance and transaction pricing within accepted risk constraints,
3.) Responsiveness to the City's request for services, information and open communication,
4.) Understanding of the inherent fiduciary responsibility of investing public funds,
5.) Similarity in philosophy and strategy with the City's objectives, and
6.) References from other public entities in Texas.

In addition to reviewing the financial condition of broker/dealers and advisors annually, the Investment Committee and/or the City Commission will annually review, revise, and adopt a list of those qualified broker/dealers and advisors authorized to engage in investment transactions with the City (Sec. 2256.025).

A current audited financial statement is required to be on file for each financial institution and broker/dealer in which the City invests.

APPROVED BROKER/DEALERS AND INVESTMENT ADVISORS

Broker/Dealer and Investment Advisors eligible to transact investment business with the City shall be presented a written copy of this Investment Policy. Additionally, the qualified representative or equivalent of the business organization seeking to transact investment business shall execute a Certificate as shown in Appendix "A", or a Certification similar in form, to the effect that the registered principal has:

1.) received and thoroughly reviewed this Investment Policy, and

2.) acknowledged that their organization has implemented reasonable procedures and controls in an effort to preclude imprudent investment transactions between itself and the City that are not authorized by this 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.

The City may not engage in an investment transaction with a business organization prior to receiving this written acknowledgment completed by the organization.

Competitive Bidding

Competitive quotes must be sought from at least three (3) qualified institutions for all individual security purchases and sales. This excludes transactions with money market mutual funds and local government investment pools, which are deemed to be made at prevailing market rates. Investment transactions may be done orally, but followed by electronic or written confirmation. Funds will be authorized to be released after notification that the purchased security has been received. Written confirmation shall be received from the financial institution or broker/dealer. All investments purchased will be held in safekeeping at a third party custodial institution with a safekeeping receipt being sent to the City.

AUTHORIZED AND SUITABLE INVESTMENTS

Investments described below are authorized by Chapter 2256, Texas Government Code as eligible securities for the City. City funds governed by this Policy may be invested in the following types of securities:

1.) Obligations of the United States or its agencies and instrumentalities with stated maturity not to exceed two (2) years.

2.) Direct obligations of the State of Texas or its agencies with a stated maturity not to exceed two (2) years.

3.) Other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States or its 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 with stated maturity not to exceed two (2) years.

4.) Obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent along with a stated maturity not to exceed two (2) years.

5.) Certificates of deposit issued by state and national banks domiciled in Texas that are:

(a) guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor with a stated maturity not to exceed two (2) years, to include certificates of deposit purchased through the CDARS program with a Texas bank; or

(b) secured by obligations that are described by (1)-(4) above, which are intended to include all direct federal agency or instrumentality issued mortgage backed securities that have a market value of not less than the principal amount of the certificates and a stated maturity not to exceed two (2) years, but excluding those mortgage-backed securities described in Section 2256.009 (b); or

(c) secured in any other manner and amount provided by law for deposits of Participants with a stated maturity not to exceed two (2) years.

6.) Certificates of deposit issued by savings and loan associations domiciled in Texas that are:

(a) guaranteed or insured by the Federal Savings and Loan Insurance Corporation or its successor with a stated maturity not to exceed two (2) years, or

(b) secured by obligations that are described by (1)-(4) above, which are intended to include all direct federal agency or instrumentality issued mortgage backed securities that have a market value of not less than the principal amount of the certificates and a stated maturity of two (2) years or less, but excluding those mortgage-backed securities described in Section 2256.009 (b); or

(c) secured in any other manner and amount provided by law for deposits of Participants with a stated maturity not to exceed two (2) years.

7.) No-load money market mutual funds that are registered with the Securities and Exchange Commission, and no-load mutual funds which are rated AAA by at least one nationally recognized rating service and follow practices authorized by the Public Funds Investment Act, are authorized investments per the Act, if:

(a) the no-load money market mutual fund has a dollar-weighted average stated maturity of ninety (90) days or less, and the investment objectives require a stable net asset value of one dollar ($1) for each share;

(b) the no-load mutual fund has an average weighted maturity of less than two (2) years, and is invested exclusively in obligations approved by Section 2256.014 (a)-(c) of the Act;

(c) the City may not invest more than fifteen percent (15%) of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, in the mutual funds described above;

(d) it may not invest any portion of its bond proceeds and reserves and funds held for debt service, in mutual funds described above; and

(e) it may not invest funds under its control, including bond proceeds and reserves and other funds held for debt service, in any one mutual fund described above in an amount that exceeds ten percent (10%) of the total assets of the mutual fund.

8.) Eligible Investment Pools as defined in Section 2256.016 of the Texas Government Code provided that:

a.) investment in the particular pool has been authorized by the City Commission;
b.) the pool shall have furnished the Investment Officer(s) an offering circular containing the information required by Section 2256.016(b) of the Texas Government Code;
c.) the pool shall furnish to the Investment Officer(s) investment transaction confirmations with respect to all investments made with it;
d.) the pool shall furnish to the Investment Officer(s) monthly reports that contain the information required by Section 2256.016(c) of the Texas Government Code;
e.) any pool that is created to function as a money market mutual fund must maintain a stable net asset value of one dollar ($1.00),
f.) whose investment philosophy and strategy are consistent with this Policy and the City's ongoing investment strategy,

g.) the pool provides evidence of credit rating no lower than "AAA" or "AAA-m" by at least one nationally recognized credit rating service,

h.) the pool must make available an annual financial statement of the investment pool in which the City has funds invested; and

i.) if the pool offers fee breakpoints based on fund balance invested must include either all levels of return based on breakpoints provided or state the lowest possible level of return based on the smallest level of funds invested.

9.) Fully collateralized direct repurchase agreements having a defined termination date that is no later than two hundred and seventy (270) days from the delivery date, secured by direct obligations of the U.S. or its agencies and instrumentalities, pledged with a third party selected or approved by the political entity, and placed through a primary government securities dealer, and as otherwise defined by the Public Funds Investment Act. Each issuer of repurchase agreements must sign a copy of a Master Repurchase Agreement.

10. Commercial paper as defined in Section 2256.013 of the Texas Government Code is allowed provided that paper has a stated maturity of two hundred seventy (270) days or less from the issuance date and is rated not less than A-1 or P-1 or an equivalent rating by at least two nationally recognized credit rating agencies or 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.

11. Fully FDIC-insured brokered certificates of deposit securities from banks in any state within the United States of America delivered versus payment to the City's safekeeping depository, not to exceed one (1) year to maturity. Investment Officers must verify the FDIC status of the bank on www.2fdic.gov/idasp/main_bankfind,asp to assure that the bank is FDIC insured.

The City shall take all prudent measures that are consistent with this investment policy to liquidate any investment that does not have or is down-graded to less than the minimum rating stated herein. However, as stated in Section 2256.017, the City is not required to liquidate investments that were authorized investments at the time of purchase.

UNAUTHORIZED INVESTMENTS

The following investments are specifically prohibited by the Act:

1.) Obligations whose payment represents the coupon payment 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 ten (10) years.

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

COLLATERALIZATION

Consistent with the requirements of Chapter 2257 of the Texas Government Code, the City requires all bank deposits to be federally insured or collateralized with eligible securities. Financial institutions serving as City Depositories will be required to sign a Depository Agreement with the City and the City's safekeeping agent. The safekeeping portion of the Agreement shall define the City's rights to the collateral in case of default, bankruptcy, or closing, and shall establish a perfected security interest in compliance with Federal and State regulations, including:

1. the Agreement must be in writing;

2. the Agreement has to be executed by the Depository and the City contemporaneously with the acquisition of the assets;

3. the Agreement must be approved by the Depository's Board of Directors or loan committee, and a copy of the meeting minutes must be delivered to the City; and,

4. the Agreement must be part of the Depository's "official record" continuously since its execution.

Repurchase agreements must also be secured in accordance with State Law. Each counter party to a repurchase transaction is required to sign a copy of **The Bond Market** Association Master Repurchase Agreement. An executed copy of the Agreement must be on file before the City will enter into any transactions with a counter party.

1.) Allowable Collateral

a.) Certificates of Deposit

Eligible securities for Collateralization of certificates of deposits are limited to U.S. Treasuries or agencies priced daily in the Wall Street Journal with a maximum maturity of five (5) years.

b.) Repurchase Agreements

Collateral underlying repurchase agreements is limited to U.S. government and agency obligations, which are eligible for wire transfer (i.e. book entry) to the City's designated safekeeping agent through the Federal Reserve System.

2.) Collateral Levels

Collateral is valued at current market price plus interest accrued through the date of valuation.

a.) Certificates of Deposits

The market value of collateral pledged for certificates of deposit must at all times be equal to or greater than the par value of the certificate of deposit plus accrued interest, less the amount insured by the FDIC.

b.) Repurchase Agreements

The market value of collateral required to be pledged for repurchase agreements shall be at a percentage of the par value of the agreement plus accrued interest and shall be maintained at the following levels:

Collateral Maturity	U.S. Treasury Securities	U.S. Government Agency
1 year or less	101%	101%
1 year to 5 years	102%	102%
Over 5 years	103%	104%

Any collateral with a maturity of over five (5) years must be approved by the Investment Officer(s) in writing before the transaction is initiated.

3.) Monitoring Collateral Adequacy

a.) Certificates of Deposit

The City requires monthly reports with market values of pledged securities from all financial institutions with which the City has certificates of deposit. The Investment Officer(s) will at least monitor adequacy of collateralization monthly.

b.) Repurchase Agreements

Weekly monitoring by the Investment Officer(s) of all collateral underlying repurchase agreement is required. More frequent monitoring may be necessary during periods of market volatility.

4.) Margin Calls

a.) Certificates of Deposit

If the collateral pledged for a certificate of deposit falls below the par value of the deposit, plus accrued interest less FDIC insurance, the Institution will be notified by the Investment Officer(s) and will be required to pledge additional securities no later than the end of the next succeeding business day.

b.) Repurchase Agreements

If the value of the collateral underlying a repurchase agreement falls below the margin maintenance levels specified above, the City will make a margin call unless the repurchase agreement is scheduled to mature within five (5) business days and the amount is deemed to be immaterial.

5.) Collateral Substitution

Collateralized certificates of deposit and repurchase agreements often require substitution of collateral. Any broker, dealer, or financial institution requesting substitution must contact the Investment Officer(s) for approval and settlement. The substituted security's value will be calculated and substitution approved if its value is equal to or greater than the required security level. The Investment Officer(s), or a designee, must provide written notification of the decision to the bank or the safekeeping agent holding the security prior to any security release. Substitution is allowable for all transactions, but should be limited, if possible, to minimize potential administrative problems and transfer expense. The Investment Officer may limit substitution and assess appropriate fees if substitution becomes excessive or abusive.

6.) Collateral Reductions

Should the collateral's market value exceed the required amount, any broker or financial institution may request approval from the Investment Officer(s) to reduce collateral. Collateral reductions may be permitted only if the City's records indicate that the collateral's market value exceeds the required amount.

SAFEKEEPING AND CUSTODY

The City shall contract with a bank or banks for the safekeeping of securities either owned by the City as part of its investment portfolio or as part of its depository and repurchase agreements. All collateral securing bank deposits must be held by third-party banking institution acceptable to and under contract with the City, or by the Federal Reserve Bank. The securities purchased under a repurchase agreement must be delivered to a third-party custodian with whom the City has established a safekeeping agreement.

All security transactions, including collateral for repurchase agreements entered into by the City shall be conducted on a delivery-verses-payment (DVP) basis. By so doing, City funds are not released until the City has received, through the Safekeeping Agent, the securities purchased. The security shall be held in the name of the City or held on behalf of the City. The Safekeeping Agent's records shall assure the notation of the City's ownership of or explicit claim on the securities. The original copy of all safekeeping receipts shall be delivered to the City.

INVESTMENT PARAMETERS

Diversification

The City will diversify its investments by security type and investment maturity. Diversification by investment type shall be established by the following maximum percentages of investment type to the total investment portfolio:

a.) U.S. Government Securities	100%
b.) States, Agencies, Counties, Cities and Other	50%
c.) Repurchase Agreements	50%
d.) Certificates of Deposit	100%
e.) Money Market Mutual Funds	50%
f.) Eligible Investment Pools	100%
g.) Commercial Paper	10%

Maximum and Weighted Average Maturity

In order to minimize risk of loss due to interest rate fluctuations, investment maturities will not exceed the anticipated cash flow requirement of the funds. The City of Hitchcock intends to match the holding periods of investment funds with liquidity need of the City. The maximum final stated maturity of any investment shall not exceed five years. All long-term maturities will be intended to cover long-term liabilities. In addition, no less than ten percent (10%) of the funds in the portfolio will be liquid at all times. The entire portfolio will have a weighted average maturity of one (1) year or less. This weighted average will be calculated using the stated final maturity dates of each security.

By Fund Groups

Maturity guidelines by fund are as follows:

a.) Operating Funds - The weighted average days to maturity for the operating fund portfolio shall be three hundred and sixty–five (365) days or less and the maximum allowable maturity shall be two (2) years.

b.) Debt Service Funds - Debt Service Funds shall be invested to ensure adequate funding for each consecutive debt service payment and compliance with bond ordinance covenants. The Investment Officer shall invest in such a manner as not to exceed an "unfunded" debt service date with the maturity of any investment. Any unfunded debt service date is defined as a coupon or principal payment date that does not have cash or investment securities available to satisfy said payment.

c.) Debt Service Reserve Funds - Market conditions, Bond Ordinances constraints and Arbitrage compliance will be considered when formulating Reserve Fund strategy. Maturity limitation shall generally not exceed the call provisions of the Bond Ordinance and shall not exceed the final maturity of the bond issue. All Debt Service Reserve Fund investment maturities shall not exceed five (5) years.

d.) Special Project, Special Purpose, and Construction Funds - The investment maturity of bond proceeds shall generally be limited to the anticipated cash flow requirements and compliance with bond ordinance covenants. City funds that are considered "bond proceeds" for arbitrage purposes will be invested using a more conservative approach than the standard investment strategy when arbitrage rebate rules requiring refunding excess earnings. All earnings in excess of the allowable arbitrage earnings will be segregated and made available for any necessary payments to the U.S. Treasury.

INVESTMENT STRATEGY

The City maintains one portfolio in which all funds under the City's control are pooled for investment purposes. Within the pooled portfolio are fund components, each having an investment strategy as described below:

A. Investment strategies for operating funds are to assure that anticipated cash flows are matched with adequate investment liquidity. The secondary objective is to create a portfolio structure that will experience minimal volatility during economic cycles. This may be accomplished by purchasing quality, short-term securities or certificates of deposit in a laddered structure or utilizing authorized money market mutual funds or investment pools that function as money market mutual funds. The dollar weighted average maturity of three hundred and sixty-five (365) days or less will be calculated using the stated final maturity date of each security.

B. Investment strategies for the debt service funds shall have as the primary objective the assurance of investment liquidity to cover the debt service obligation on the required payment date. Securities purchased shall not have a stated maturity date that exceeds the debt service payment date.

C. Investment strategies for debt service reserve funds shall have as the primary objective the ability to generate a dependable revenue stream to the appropriate debt service fund from securities with a low degree of volatility. Securities should be of high quality and, except as may be required by the bond ordinance specific to an individual issue, of short to medium term maturities.

D. Investment strategies for special projects, special purpose, or construction fund portfolios will have as their primary objective the assurance that anticipated cash flows are matched with adequate investment liquidity. These portfolios should include highly liquid securities and investments to allow for flexibility and unanticipated project outlays. The stated final maturity dates of securities held should not exceed the estimated project completion date.

   Investment transactions must be settled on delivery versus payment basis with the exception of investment pools and mutual funds.

REPORTING

Not less than quarterly, the Investment Officer(s) shall prepare and submit to the City Commission, a written, signed, investment report demonstrating a list of investment transactions for the preceding reporting period, in accordance with the Act. Reports will include the following:

1.) For each pooled fund group: a beginning book value and market value, ending book and market value, and fully accrued interest .
2.) The book value and market value of each investment at the beginning and end of the period by type of asset and fund type invested.
3.) The maturity date of each investment.
4.) Statement of compliance of the portfolios as it relates to the investment strategy.

Detailed and summary reports will be prepared jointly and presented to the City Commission and Mayor not less than quarterly. Reports will comply with Section 2256.023 of the Act at a minimum.

Quarterly reports will be formally reviewed at least annually by an independent auditor and reported to the City Commission once the City invests in items 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.

MONITORING OF THE MARKET VALUE OF INVESTMENTS AND COLLATERAL

The Investment Officer(s), with the help of City Commission, as needed, shall determine the market value of each investment and of all Collateral pledged to secure deposits of City funds at least quarterly and at a time as close as practicable to the closing of the reporting period for the investments. Such values shall be included in the investment report. The following methods shall be used:

1. Certificates of deposit shall be valued at their face value plus any accrued but unpaid interest.
2. Shares in money market mutual funds and investment pools shall be valued at par plus any accrued but unpaid interest.
3. Other investment securities with a remaining maturity of one year or less may be valued in any of the following ways:
    a. the lower of two (2) bids obtained from securities broker/dealers for such security;
    b. the average of the bid and asked prices for such investment security as published in The Wall Street Journal or The New York Times;

c. the bid price published by any nationally recognized security pricing service; or
d. the market value quoted by the seller of the security or the owner of such Collateral.

4. Other investment securities with a remaining maturity of greater than one (1) year shall be valued at the lower of two (2) bids obtained from securities broker/dealers for such security, unless two (2) bids are not available, in which case the securities may be valued in any manner provided in this section.

INTERNAL CONTROL

Investment Officers shall establish a system of internal controls, which shall be reviewed by an independent auditor. The controls shall be designed to prevent losses of public funds arising from fraud, employee error, unanticipated changes in financial markets, or imprudent actions by employees. Pertinent controls include custodian safekeeping receipts records management, documentation of investment bidding activities, written confirmations of oral transactions, reconciliation records, training requirement documentation, and compliance with investment policies. Where practical, the City should emphasize control of collusion, separation of duties, clear delegation of duties, accurate and timely reports, and staying informed about market conditions, changes and trends.

Changes in Ratings

The Investment Officer(s) shall monitor, on no less than a weekly basis, the credit rating on all authorized investments in the portfolio based upon independent information from a nationally-recognized rating agency. If any security falls below the minimum rating required by the Policy, the Investment Officer(s) shall notify the City Commission of the loss of the rating, conditions affecting the rating, and possible loss of principal with liquidation options available, within two (2) weeks after the loss of the required rating.

Monitoring Issuance Coverage

The Investment Officer(s) shall monitor, on no less than a weekly basis, the status and ownership of all banks issuing brokered certificates of deposits owned by the City based upon information from the FDIC. If any bank has been acquired or merged with another bank in which brokered certificate of deposits are owned, the Investment Officer(s) shall immediately liquidate any brokered certificate of deposits which place the City above the FDIC insurance level.

PERFORMANCE STANDARDS

The investment portfolio shall be designed with the objective of ensuring the safety of the City's assets and minimizing interest rate risk. In addition, it will remain sufficiently liquid to meet cash flow needs, while protecting the interests of the public, all while obtaining a rate of return throughout budgetary and economic cycles.

The City's overall investment strategy is conservative. Given this strategy, the basis used by the Treasury to determine whether market yields are being achieved shall be the six (6) month U.S. Treasury Bill.

INVESTMENT POLICY ADOPTION

The City's investment policy, which includes strategies for each fund, shall be adopted by resolution of the City Commission. The policy shall be reviewed annually and any modifications thereto must be approved by the City Commission.

APPENDIX "A"

I hereby certify that I have personally read and understand the investment policy and master repurchase agreement (if applicable), conditions of the City of Hitchcock, Texas. I further acknowledge that reasonable procedures and controls designed to fulfill those objectives and conditions have been implemented. Therefore, this firm will preclude investment transactions between itself and the City of Hitchcock that are not authorized by the City's investment policy, except to the extent that this authorization is dependent on an analysis of the makeup the City's entire portfolio or requires an interpretation of subjective investment standards, thus protecting the City's credit or market risk.

All sales personnel of this firm dealing with the City of Hitchcock's account(s) have been informed and will be routinely informed of the City's investment horizons, limitations, strategy and risk constraints, whenever we are so informed by the City.

This firm pledges due diligence in informing the City of foreseeable risks associated with financial transactions connected to this firm.

I further acknowledge that no investment transaction shall occur between this firm and the City, until the City of Hitchcock receives this consent form, completed by the firm's qualified representative.

____
FIRM

____
SIGNATURE OF QUALIFIED FIRM REPRESENTATIVE

____
PRIMARY REPRESENTATIVE: NAME/TITLE
(please print)

____
DATE

GLOSSARY

AGENCIES: Federal agency securities.

ASKED: The price at which securities are offered.

BANKERS' ACCEPTANCE (BA): A draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

BID: The price offered by a buyer of securities. (When you are selling securities, you ask for a bid.) See Offer.

BROKER: A broker brings buyers and sellers together for a commission.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specified maturity evidenced by a certificate. Large-denomination CD's are typically negotiable.

COLLATERAL: Securities, evidence of deposit or other property that a borrower pledges to secure repayment of a loan. Also refer to securities pledged by a bank to secure deposits of public moneys.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR): The official annual report for the City of Hitchcock. It includes five (5) combined statements for each individual fund and account group prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed Statistical Section.

COUPON: (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

DEBENTURE: A bond secured only by the general credit of the issuer.

DELIVERY VERSES PAYMENT: There are two (2) methods of delivery of securities: delivery verses payment and delivery verses receipt. Delivery verses payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

DISCOUNT: The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below offering price shortly after sale also is considered to be at a discount.

DISCOUNT SECURITIES: Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value, e.g. U.S. Treasury Bills.

DIVERSIFICATION: Dividing investment funds amount a variety of securities offering independent returns.

FEDERAL CREDIT AGENCIES: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., S&L's, small business firms, students, farmers, farm cooperatives, and exporters.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, currently up to $100,000 per deposit.

FEDERAL FUNDS RATE: 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): The institutions that regulate and lend to savings and loan associations. The Federal Home Loan Banks play a role analogous to that played by the Federal Reserve Banks with member commercial banks.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): 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, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable rate mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

FEDERAL OPEN MARKET COMMITTEE (FOMC): Consists of seven members of the Federal Reserve Bank 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, DC regional banks and about 5,700 commercial banks that are members of the system.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae): Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the FHA, VA, or FMHM mortgages. The term "passthroughs" is often used to describe "Ginnie Mae".

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

LOCAL GOVERNMENT INVESTMENT POOL (LGIP): The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

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

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase –reverse 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-lender to liquidate the underlying securities in the event of default by the seller-borrower.

MONEY MARKET: The date upon which the principal or stated value of an investment becomes due and payable.

OFFER: The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See Asked and Bid.

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.

PORTFOLIO: Collection of securities held by an investor.

PRIMARY DEALER: A group of government securities dealers who 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.

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 custody state—the so—called legal list. In other states the trustee may invest in security if it is one that would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

QUALIFIED PUBLIC DEPOSITORIES: A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its purchase price or its current market price. This may be the amortized yield to maturity on a bond the current income return.

REPURCHASE AGREEMENT (RP OR REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Dealer use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money that is, increasing bank reserves.

SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

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

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

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

TREASURY BILLS: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

TREASURY NOTES: A non-interest bearing security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

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: The rate of annual income return on an investment, expressed as a percentage. (a) **Income Yield** is obtained by dividing the current dollar income by the current market price for the security. (b) **Net Yield to Yield to Maturity** is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

This Public Funds Investment Policy for the City of Hitchcock was amended and re-adopted by City Commission action on August 19, 2019.

Randy H. Stricklin

RANDY STRICKLIND
Mayor

Lucy Dieringer

LUCY DIERINGER
City Secretary