

INVESTMENT POLICY

I. POLICY

It is the policy of the City of Bellmead that after allowing for the anticipated cash flow requirements of the City of Bellmead and giving due consideration to the safety and risk of investment, all available funds shall be invested in conformance with these legal and administrative guidelines, seeking to optimize interest earnings to the maximum extent possible.

Effective cash management is recognized as essential to good fiscal management. Investment interest is a source of revenue to City of Bellmead funds. The City of Bellmead's investment portfolio shall be designed and managed in a manner designed to maximize this revenue source, to be responsive to public trust, and to be in compliance with legal requirements and limitations.

Investments shall be made with the primary objectives of:

- * **Safety** and preservation of principal
- * Maintenance of sufficient **liquidity** to meet operating needs
- * **Public trust** from prudent investment activities
- * Optimization of **interest earnings** on the portfolio

The Investment Policy addresses the methods, procedures and practices that must be exercised to ensure effective and judicious fiscal management of the City of Bellmead's funds. This policy serves to satisfy the statutory requirements of defining and adopting a formal investment policy. The policy and strategy shall be reviewed by the Audit / Investment Committee and the City Council annually. Any modifications will be formally approved by the City Council. This investment policy, as approved, is in compliance with the provisions of the Public Funds Investment Act of the Texas Government Code Chapter 2256.

II. SCOPE

This Investment Policy shall govern the investment of all financial assets of the City of Bellmead. These funds are accounted for in the City of Bellmead's Annual Financial Report and include:

- General Fund
- Special Revenue Funds
- Capital Projects Funds
- Enterprise Funds

- Debt Service Funds, including reserves and sinking funds, to the extent not required by law or existing contract to be kept segregated and managed separately
- Bellmead Community Development Corporation Funds
- Any new fund created by the City of Bellmead, unless specifically exempted from this Policy by the City Council or by law.

The City of Bellmead may consolidate cash balances from all 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. The strategy developed for any pooled fund group will address the varying needs, goals, and objectives of each fund.

This Investment Policy shall apply to all transactions involving the financial assets and related activity for all the foregoing funds. However, this policy does not apply to the assets administered for the benefit of the City of Bellmead by outside agencies under deferred compensation programs.

III. INVESTMENT OBJECTIVES

The City of Bellmead shall manage and invest its cash with four primary objectives, listed in order of priority: **safety, liquidity, public trust, and yield, expressed as optimization of interest earnings.** The safety of the principal invested always remains the primary objective. All investments shall be designed and managed in a manner responsive to the public trust and consistent with state and local law.

The City of Bellmead shall maintain a comprehensive cash management program, which includes collection of account receivables, vendor payments in accordance with invoice terms, and prudent investment of available cash. Cash management is defined as the process of managing monies in order to ensure maximum cash availability and maximum earnings on short-term investment of idle cash.

Safety

Safety of principal is the foremost objective of the investment program. Investments of the City of Bellmead shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit and interest rate risk. Each investment transaction shall be conducted in a manner to control the risk of capital loss by investing in securities or other investments of high quality. All investment officers shall understand the suitability of the investment to the financial requirements of the City.

- Credit Risk – The Entity will minimize credit risk, the risk of loss due to the failure of the issuer or backer of the investment, by:
 - Limiting investments to the safest types of investments
 - Pre-qualifying the financial institutions and broker/dealers with which the City of Bellmead will do business
 - Diversifying the investment portfolio so that potential losses on individual issuers will be minimized.

- Interest Rate Risk – the Entity will minimize the risk that the interest earnings and the market value of investments in the portfolio will fall due to changes in general interest rates, by:
 - Structuring the investment portfolio so that investments mature to meet cash requirements for ongoing operations, thereby avoiding the need to liquidate investments prior to maturity.
 - Investing operating funds primarily in certificates of deposit, shorter-term securities, money market mutual funds, or local government investment pools functioning as money market mutual funds.
 - Diversifying maturities and staggering purchase dates to minimize the impact of market movements over time.

Liquidity

The City of Bellmead investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that investments mature concurrent with cash needs to meet anticipated demands. Because all possible cash demands cannot be anticipated, a portion of the portfolio will be invested in shares of money market mutual funds or local government investment pools that offer same-day liquidity. In addition, a portion of the portfolio will consist of securities with active secondary or resale markets.

Public Trust

All participants in the City of Bellmead's investment process shall seek to act responsibly as custodians of the public trust. Investment officers shall avoid any transaction that might impair public confidence in the City of Bellmead's ability to govern effectively.

Yield (Optimization of Interest Earnings)

The City of Bellmead investment portfolio shall be designed with the objective of attaining a reasonable rate of return throughout budgetary and economic cycles, taking into account 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 and liquidity objectives described above.

Given this strategy, the basis used by the City to determine whether reasonable yields are being achieved shall be the 90-day U.S. Treasury Bill or the average Federal Funds rate (whichever is higher).

IV. INVESTMENT STRATEGY

The City of Bellmead maintains portfolios which utilize four specific investment strategy considerations, designed to address the unique characteristics of the fund groups represented in the investment portfolios.

Operating Funds: Investment strategies for operating funds and commingled pools containing operating funds contain the primary objective to assure anticipated cash flows are matched with adequate investment liquidity. The secondary objective is to create a portfolio structure which will experience minimal volatility during economic cycles. This may be accomplished by purchasing quality, short to medium term securities which will complement each other in a laddered structure. The dollar weighted average maturity of 730 days or less will be calculated using the stated final maturity dates of each security.

Capital Project Funds: Funds for capital projects or special purposes should allow for flexibility and unanticipated project outlays by having a portion of their investments in highly liquid securities. The stated final maturity dates of securities held should not exceed the estimated project completion date.

Debt Service Funds: Investment strategies for debt service funds shall have as the primary objective the assurance of investment liquidity adequate to cover the debt service obligation on the required payment date. Surplus funds outside the debt service dates will be invested according to the investment guidelines for operating funds.

Debt Service Reserve Funds: Funds for Debt Service Reserve should assure the ability to generate a dependable revenue stream from securities with a low degree of volatility. Securities should be short to medium term maturities and of high quality.

V. RESPONSIBILITY AND CONTROL

Delegation of Authority

The Chief Financial Officer and the City Manager are hereby designated as "Investment Officers" pursuant to the City Charter Article IV, Section 60 and Public Funds Investment Act Section 2256.005 subsection f. An Investment Officer is authorized to execute investment transactions on behalf of the City of Bellmead. No person may engage in an investment transaction or the management of City of Bellmead funds except as provided under the terms of this Investment Policy as approved by the City Council. The investment authority granted to the investing officers is effective until rescinded by the City Council.

Quality and Capability of Investment Management

The City of Bellmead shall provide periodic training in investments for the designated investment officers and other investment personnel through courses and seminars offered by professional organizations, associations, and other independent sources in order to insure the quality and capability of investment management in compliance with the Public Funds Investment Act.

Training Requirement

In accordance with the Public Funds Investment Act, the designated Investment Officers shall attend an investment training session no less often than once every two years commencing September 1, 1997 and shall receive not less than 10 hours of instruction relating to investment responsibilities. A newly appointed Investment Officer must attend a training session of at least 10 hours of instruction within twelve months of the date the officer took office or assumed the officer's duties. The investment training session shall be provided by an independent source approved by the Audit / Investment Committee. For purposes of this policy, an "independent source" from which investment training shall be obtained shall include a professional organization, an institution of higher education or any other sponsor other than a business organization with whom the City of Bellmead may engage in an investment transaction.

Internal Controls

The Chief Financial Officer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City of Bellmead 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 (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Accordingly, the Chief Financial Officer shall establish a process for annual independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following points.

- Control of collusion.
- Separation of transactions authority from accounting and record keeping.
- Custodial safekeeping.
- Avoidance of physical delivery securities.
- Clear delegation of authority to subordinate staff members.
- Written confirmation for telephone (voice) transactions for investments and wire transfers.
- Development of a wire transfer agreement with the depository bank or third party custodian.

In conjunction with the annual audit, a review of compliance with significant requirements of the PFIA and this policy will be made.

Prudence

The standard of prudence to be applied by the Investment Officer shall be the "prudent investor rule". This rule states that "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." In determining whether an Investment Officer has exercised prudence with

respect to an investment decision, the determination shall be made taking into consideration:

- The investment of all funds, or funds under the City of Bellmead's control, over which the officer had responsibility rather than a consideration as to the prudence of a single investment.
- Whether the investment decision was consistent with the written approved investment policy of the City of Bellmead.

Indemnification

The Investment Officer, acting in accordance with written procedures and exercising due diligence, shall not be held personally responsible for a specific investment's credit risk or market price changes, provided that these deviations are reported immediately and the appropriate action is taken to control adverse developments.

Ethics and Conflicts of Interest

All participants in the investment process shall seek to act responsibly as custodians of the public trust. Investment officers shall avoid any transaction that might impair public confidence in the City's ability to govern effectively. Officers and employees involved in the investment process shall refrain from personal business activity that would conflict with the proper execution and management of the investment program, or that would impair their ability to make impartial decisions. Employees and Investment Officers shall disclose to the Texas Ethics Commission and the City Manager, and the City Manager discloses to the City Council if:

- a) The officer has a personal business relationship with a business organization offering to engage in an investment transaction with the City; or
- b) The officer is related within the second degree by affinity of consanguinity, as determined under Chapter 573 of the Texas Government Code, to an individual seeking to transact investment business with the City; or
- c) The officer has any material interests in financial institutions with which they conduct business; or
- d) The officer has any personal financial/investment positions that could be related to the performance of the investment portfolio.

Employees and officers shall refrain from undertaking personal investment transactions with the same individual with which business is conducted on behalf of the City of Bellmead.

VI. SUITABLE AND AUTHORIZED INVESTMENTS

Portfolio Management

The City of Bellmead will have a "buy and hold" portfolio strategy. Maturity dates are matched with cash flow requirements and investments are purchased with the intent to be held until maturity. However, investments may be liquidated prior to maturity for the following reasons:

- An investment with declining credit may be liquidated early to minimize loss of principal.
- Cash flow needs of the Entity require that the investment be liquidated.
- Market conditions present an opportunity for the City to benefit from the trade.

Investments

City of Bellmead 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). Investment of City of Bellmead funds in any instrument or security not authorized for investment under the Act is prohibited. The City will not be required to liquidate an investment that becomes unauthorized subsequent to its purchase.

I. Authorized

1. Obligations of the United States of America, its agencies and instrumentalities with stated maturities not to exceed five (5) years and not to exceed 80% of the overall portfolio
2. Obligations of the States, agencies thereof, Counties, Cities, and other political subdivisions of any state having been rated as investment quality by a nationally recognized investment rating firm, and having received a rating of not less than "AA" or its equivalent with maturities not to exceed three (3) years and not to exceed 80% of the overall portfolio.
3. Fully insured or collateralized Certificates of Deposit issued by a bank organized under Texas law, the laws of another state, or federal law, that has its main office or a branch office in Texas, or by a savings and loan association or a savings bank organized under Texas law, the laws of another state, or federal law, that has its main office or a branch office in Texas and that is guaranteed or insured by the Federal Deposit Insurance or its successor or secured by obligations in a manner and amount provided by law for deposits of the City of Bellmead with stated maturities not to exceed three (3) years and not to exceed 50% of the overall portfolio.
4. Fully collateralized direct repurchase agreements with a defined termination date secured by obligations of the United States or its agencies and instrumentalities. These shall be pledged to the City of Bellmead, held in the City of Bellmead's name, and deposited at the time the investment is made with the City of Bellmead or with a third party selected and approved by the City.

Repurchase agreements must be purchased through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in Texas. A Master Repurchase Agreement must be signed by the bank/dealer prior to investment in a repurchase agreement. All repurchase agreement transactions will be on a delivery vs. payment basis. Securities received for repurchase agreements must have a market value greater than or equal to 102 percent at the time funds are disbursed. (Sweep Accounts and/or Bond Proceeds) The portfolio may not contain more than 80% repurchase agreement.

5. Money Market Mutual funds that are 1) registered and regulated by the Securities and Exchange Commission, 2) have a dollar weighted average stated maturity of 90 days or less, 3) rated AAA by at least one nationally recognized rating service, and 4) seek to maintain a net asset value of \$1.00 per share. Each fund must provide the City with a prospectus and any other information required by federal law. The portfolio may not contain more than 60% of money market mutual funds.

6. Local government investment pools, which 1) meet the requirements of Chapter 2256.016 of the Public Funds Investment Act, 2) are rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service, 3) seek to maintain a \$1.00 net asset value, and 4) are authorized by resolution or ordinance by the City Council. The pool must provide monthly reports that contain:
 - The types and percentage breakdown of securities in which the pool is invested;
 - The current average dollar-weighted maturity, based on the stated maturity date of the pool;
 - The current percentage of the pool's portfolio in investments that have stated maturities of more than one year;
 - The book value versus the market value of the pool's portfolio, using amortized cost valuation;
 - The size of the pool;
 - The number of participants in the pool;
 - The custodian bank that is safekeeping the assets of the pool;
 - A listing of daily transaction activity of the entity participating in the pool;
 - The yield and expense ratio of the pool;
 - The portfolio managers of the pool; and
 - Any changes or addenda to the offering circular.

Any investment pool that is created to function as a money market mutual fund must maintain a maximum average dollar weighted maturity that does not exceed 90 days; and "Any investment pool that does not meet the requirements of one that is created to function as a money market mutual fund, must maintain a maximum average dollar weighted maturity that does not exceed 365 days (or 366 in the case of leap year) and must provide fixed interest rate and fixed maturity term for each pool position".

All prudent measures will be taken to liquidate an investment that is downgraded to less than the required minimum rating.

II. Not Authorized

The Investment Officer shall not knowingly permit City funds to be invested with any of the following investment instruments that are strictly prohibited:

- Obligations whose payment represents the coupon payments of the outstanding principal balance of the underlying mortgage-backed security collateral and pay no principal;
- Obligations whose payment represents the principal stream of cash flow from underlying mortgage-backed security collateral and bear no interest;
- Collateralized mortgage obligations that have a stated final maturity date of greater than 10 years;
- Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index; and
- Any other restricted instrument or limitation that involves speculation.

The practice of "leveraging" whereby funds are borrowed for the sole purpose of investing shall not be practiced.

VII. INVESTMENT PARAMETERS

Maximum Maturities

The longer the maturity of investments, the greater their price volatility; therefore, it is the City of Bellmead's policy to concentrate its investment portfolio in shorter-term securities in order to limit principal risk caused by changes in interest rates.

The City of Bellmead attempts to match its investments with anticipated cash flow requirements. The City of Bellmead will not directly invest in securities maturing more than five (5) years from the date of purchase; however, the above described obligations, certificates, or agreements may be collateralized using longer dated investments.

Because no secondary market exists for repurchase agreements, the maximum maturity shall be 120 days except in the case of a flexible repurchase agreement for bond proceeds. The maximum maturity for such an investment shall be determined in accordance with project cash flow projections and the requirements of the governing bond ordinance.

The composite portfolio will have a weighted average maturity of 730 days or less. This dollar-weighted average maturity will be calculated using the stated final maturity dates of each security. [PFIA 2256.005(b)(4)(C)]

Diversification

The City of Bellmead recognizes that investment risks can result from issuer defaults, market price changes or various technical complications leading to temporary illiquidity. Risk is controlled through portfolio diversification that shall be achieved by the following general guidelines:

- Limiting investments to avoid over concentration in investments from a specific issuer or business sector (excluding U.S. Treasury securities and certificates of deposit that are fully insured and collateralized in accordance with state and federal law),
- Limiting investment in investments that have higher credit risks (example: commercial paper),
- Investing in investments with varying maturities, and
- Continuously investing a portion of the portfolio in readily available funds such as local government investment pools (LGIPs), money market funds or overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

The following maximum limits, by instrument, are established for the City of Bellmead’s total portfolio:

1. U.S. Treasury Securities	100%
2. Agencies and Instrumentalities	80%
3. Certificates of Deposit	50%
4. Repurchase Agreements*	80%
5. Money Market Mutual Funds.....	60%
6. Authorized Pools	80%

*Excluding flexible repurchase agreements for bond proceeds investments

VIII. SELECTION OF BANKS AND DEALERS

Depository

At least every three (3) years a qualified Depository shall be selected through the Entity’s banking services procurement process, which shall include a formal request for proposal (RFP) and be consistent with state law. The selection of a depository will be determined by competitive bid and evaluation of bids will be based on the following selection criteria:

- The ability to qualify as a depository for public funds in accordance with state law.
- The ability to provide requested information or financial statements for the periods specified.
- The ability to meet all requirements in the banking RFP.
- Complete response to all required items on the bid form
- Lowest net banking service cost, consistent with the ability to provide an appropriate level of service.
- The credit worthiness and financial stability of the bank.

All banks will execute a depository agreement covering collateral issues for sale of time deposits if not covered by the competitively bid bank services agreement.

Authorized Brokers/Dealers

The City of Bellmead Audit/Investment Committee shall, at least annually, review, revise, and adopt a list of qualified broker/dealers and financial institutions authorized to engage in securities transactions with the City of Bellmead. Those firms that request to become qualified bidders for securities transactions will be required to provide a completed broker/dealer questionnaire that provides information regarding creditworthiness, experience and reputation; and 2) a certification stating the firm has received, read and understood the City of Bellmead's investment policy and agree to comply with the policy. Authorized firms may include primary dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (Uniform Net Capital Rule), and qualified depositories. All investment providers, including financial institutions, banks, money market mutual funds, and local government investment pools, must sign a certification acknowledging that the organization has received and reviewed the City of Bellmead's investment policy and that reasonable procedures and controls have been implemented to preclude investment transactions that are not authorized by the City of Bellmead's policy. [PFIA 2256.005(k-l)]

Competitive Bids

It is the policy of the City of Bellmead 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 and b) treasury and agency securities purchased at issue through an approved broker/dealer or financial institution. The Chief Financial Officer shall develop and maintain procedures for ensuring a competition in the investment of the City of Bellmead's funds.

Delivery vs. Payment

Securities shall be purchased using the **delivery vs. payment** method with the exception of investment pools and mutual funds. Funds will be released after notification that the purchased security has been received by the Trustee or custodian.

IX. SAFEKEEPING OF SECURITIES AND COLLATERAL

Safekeeping and Custodian Agreements

The City of Bellmead shall contract with a bank or banks for the safekeeping of securities either owned by the City of Bellmead as part of its investment portfolio or held as collateral to secure demand or time deposits. Securities owned by the City of Bellmead shall be held in the City's name as evidenced by safekeeping receipts of the institution holding the securities.

Collateral for deposits will be held by a third party custodian designated by the City of Bellmead and pledged to the City as evidenced by safekeeping receipts of the institution

with which the collateral is deposited. Original safekeeping receipts shall be delivered to the City. Collateral may be held by the depository bank's trust department, a Federal Reserve Bank or branch of a Federal Reserve Bank, a Federal Home Loan Bank, or a third party bank approved by the City of Bellmead.

Collateral Policy

Consistent with the requirements of the Public Funds Collateral Act, it is the policy of the City of Bellmead to require full collateralization of all City funds on deposit with a depository bank, other than investments. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 102% of market value of principal and accrued interest on the deposits or investments less an amount insured by the FDIC. At its discretion, the City of Bellmead may require a higher level of collateralization for certain investment securities. Securities pledged as collateral shall be held by an independent third party with whom the City has a current custodial agreement. The Chief Financial Officer is responsible for entering into collateralization agreements with third party custodians in compliance with this Policy. The agreements are to specify the acceptable investment securities for collateral, including provisions relating to possession of the collateral, the substitution or release of investment securities, ownership of securities, and the method of valuation of securities. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the City of Bellmead and retained. Collateral shall be reviewed at least monthly to assure that the market value of the pledged securities is adequate.

Any financial institution requesting substitution of collateralized securities must contact the Chief Financial Officer for approval and settlement. The substituted security's value will be equal to or greater than the required security value. Written notification of the substitution must be provided to the bank or safekeeping agent prior to any security release.

Collateral Defined

The Entity shall accept only the following types of collateral:

- Obligations of the United States or its agencies and instrumentalities
- Direct obligations of the state of Texas or its agencies and instrumentalities
- Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized rating firm not less than A or its equivalent with a remaining maturity of ten (10) years or less

Subject to Audit

All collateral shall be subject to inspection and audit by the Chief Financial Officer or the City of Bellmead's independent auditors.

X. PERFORMANCE

Performance Standards

The City of Bellmead's investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow requirements of the City.

Performance Benchmark

It is the policy of the City of Bellmead to purchase investments with maturity dates coinciding with cash flow needs. Through this strategy, the City shall seek to optimize interest earnings utilizing allowable investments available on the market at that time. Market value will be calculated on a quarterly basis on all securities owned and compared to current book value. The City of Bellmead's portfolio shall be designed with the objective of regularly meeting or exceeding the average rate of return on U.S. Treasury Bills at a maturity level comparable to the City's weighted average maturity in days.

XI. REPORTING

Methods

The Investment Officer shall prepare an investment report on a quarterly basis that summarizes investment strategies employed in the most recent quarter and describes the portfolio in terms of investment securities, maturities, and shall explain the total investment return for the quarter.

The quarterly investment report shall include a summary statement of investment activity prepared in compliance with generally accepted accounting principals. This summary will be prepared in a manner that will allow the City of Bellmead Audit / Investment Committee to ascertain whether investment activities during the reporting period have conformed to the Investment Policy. The report will be provided to the City Council. The report will include the following:

- A listing of individual securities held at the end of the reporting period.
- Unrealized gains or losses resulting from appreciation or depreciation by listing the beginning and ending book and market value of securities for the period.
- Additions and changes to the market value during the period.
- Average weighted yield to maturity of portfolio as compared to applicable benchmark.
- Listing of investments by maturity date.
- Fully accrued interest for the reporting period
- The percentage of the total portfolio that each type of investment represents.
- Any additional reporting information as required by Section 2256.023 of the Texas Government Code.