CITY OF PFLUGERVILLE, TEXAS
INVESTMENT POLICY

I. POLICY STATEMENT

It is the policy of the City of Pflugerville (the "City") that the administration of its funds and the investment of those funds shall be handled in a manner which will provide the maximum security of principal invested through limitations and diversification while meeting the daily cash flow needs of the City and conforming to all applicable state and City statutes and ordinances governing the investment of public funds. The receipt of a market rate of return will be secondary to the requirements for safety and liquidity. This Policy is adopted in accordance with the Public Funds Investment Act (the "PFIA"), Chapter 2256 of the Texas Government Code, as amended and establishes guidelines for periodic review and reporting of the investments.

II. SCOPE

This investment policy applies to all aspects of investing the financial assets and funds held by the City. These funds are defined in the City's Annual Comprehensive Financial Report and include:

General Fund
Special Revenue Fund
Utility Fund
Debt Service Fund
Capital Project Fund
Trust and Agency Fund
Any new fund created by the City unless specifically exempted by the City Council and this policy.

III. INVESTMENT OBJECTIVES AND STRATEGY

A. Objective

It is the policy of the City that all funds shall be managed and invested in conformance with State and Federal Regulations, applicable bond covenants and ordinances, and this adopted Investment Policy. The primary objectives for investment activities are listed below in priority order.

1. Suitability

Understanding the suitability of the investment to the financial requirements of the City is important. The needs and limitations of each group of funds must be considered. Any investment eligible in the Investment Policy should be suitable for all City funds.

2. Safety of Principal

The primary objective of all investment activity is the preservation of capital and the safety of principal in the overall portfolio. Each investment transaction shall seek to ensure first that capital losses are avoided, whether they have resulted from investment defaults or erosion of market value. All investments are to be of high-quality instruments with no perceived default risk. Market price fluctuations may, however, occur.

With foremost emphasis on safety of principal (i.e. avoidance of capital losses), the Investment Officers will ensure that preservation of capital and protection of principal in the overall portfolio is maintained. Speculation is prohibited.

3. Maintenance of Adequate Liquidity

The City's investment portfolio will remain sufficiently liquid to enable it to meet all operating requirements which might be reasonably anticipated. Liquidity shall be achieved by maintaining appropriate cash equivalent balances, matching investment maturities with anticipated cash flow requirements, investing in securities with active secondary markets, and maintaining appropriate portfolio diversification.

4. Marketability

Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash requirement. An efficient market is generally defined as having a bid-asked price relationship being no greater than 1/10 of 1 percent of principal value.

5. Diversification

Diversified investment maturities shall provide monthly cash flow based on anticipated operating needs of the City. Short term financial institution deposits, investment pools, money market mutual funds, and staggered investment maturities shall provide timely liquidity and may be utilized.

6. 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.

B. Strategy

The investment objectives above apply to all funds covered by this Policy. Investment strategies and guidelines by fund-type are as follows:

1. Pooled Funds

These Funds comprise the majority of the City's portfolio and include all operating funds and appropriate reserves. Investment strategies for these funds have as their primary objective to ensure that anticipated cash outflows are matched with adequate portfolio cash availability while providing competitive yields on City funds. Daily liquidity for operations is required first. Reserves established in accordance with the City's cash reserves policy or designated for specific purposes and time frames may be invested for longer terms.

Suitability - Any investment eligible in the Investment Policy is suitable for Pooled Funds.

Safety of Principal - All investments shall be of high quality with no perceived default risk. Market price fluctuations may occur. However, by managing the weighted average days to maturity for the Pooled Fund's portfolio to less than 365 days and restricting the maximum allowable maturity to three years, the price volatility of the overall portfolio will be minimized.

Marketability - Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash flow requirement.

Liquidity - The Pooled Funds require the greatest short-term liquidity of any of the Fund types. Cash equivalent investments will provide daily liquidity and may be utilized as a competitive yield alternative to fixed maturity investments.

Diversification - Investment maturities should be staggered throughout the budget cycle to provide cash flow based on the anticipated operating needs of the City. Market cycle risk will be reduced by diversifying the appropriate maturity structure out through two years.

Yield - Attaining a competitive market yield for comparable investment-types and portfolio restrictions is the desired objective. The yield of an equally weighted, rolling three-month Treasury Bill portfolio will be the minimum yield objective.

2. Debt Service Funds

Investment strategies for Debt Service Funds have as their primary objective the assurance of investment liquidity to cover the debt service obligations on the required dates. Surplus funds outside the debt service dates will be invested in longer term maturities within the overall guidelines of this Policy.

Suitability - Any investment eligible in the Investment Policy is suitable for the Debt Service Funds.

Safety of Principal - All investments shall be of high quality with no perceived default risk. Market price fluctuations may occur. However, by managing Debt Service Funds to not exceed the debt service payment schedule the market risk of the overall portfolio will be minimized.

Marketability - Securities with active and efficient secondary markets are not necessary as the event of an unanticipated cash flow requirement is not probable.

Liquidity - Debt Service Funds have predictable payment schedules. Therefore, investment maturities should not exceed the anticipated cash flow requirements. Cash equivalent investments may provide a competitive yield alternative for short-term fixed maturity investments. A singular repurchase agreement may be utilized if disbursements are allowed in the amount necessary to satisfy any debt service payment. This investment structure is commonly referred to as a flexible repurchase agreement.

Diversification - Market conditions influence the attractiveness of fully extending maturity to the next “unfunded” payment date. Generally, if investment rates are anticipated to decrease over time, the City is best served by locking in most investments. If the interest rates are potentially rising, then investing in shorter and larger amounts may provide an advantage. At no time shall the debt service schedule be exceeded in an attempt to bolster yield.

Yield - Attaining a competitive market yield for comparable investment-types and portfolio restrictions is the desired objective. The yield of an equally weighted, rolling three-month Treasury Bill portfolio shall be the minimum yield objective.

3. Debt Service Reserve Funds

Debt Service Reserve Funds are reserves required by bond covenant or other contractual requirements to be maintained through the life of the debt issuance. These funds generally do not have a need for liquidity and may be invested in longer-term maturities within the overall guidelines of this Policy.

Suitability - Any investment eligible in the Investment Policy is suitable for Debt Service Reserve Funds. Bond resolution and loan documentation constraints and insurance company restrictions may create specific considerations in addition to the Investment Policy.

Safety of Principal - All investments shall be of high quality with no perceived default risk. Market price fluctuations may occur. However, managing Debt Service Reserve Fund maturities to not exceed the call provisions of the borrowing reduces the investment’s market risk if the City’s debt is redeemed and the Reserve Fund liquidated. No stated final investment maturity shall exceed the shorter of the final maturity of the borrowing or three years. Annual mark-to-market requirements or specific maturity and average life limitations within the borrowing’s documentation will influence the attractiveness of market risk and reduce the opportunity for maturity extension.

Marketability - Securities with less active and efficient secondary markets are acceptable for Debt Service Reserve Funds.

Liquidity - Debt Service Reserve Funds have no anticipated expenditures. The Funds are deposited to provide annual debt service payment protection to the City’s debt holders. The funds are “returned” to the City at the final debt service payment. Market conditions and arbitrage regulation compliance determine the advantage of investment diversification and liquidity. Generally, if investment rates exceed the cost of borrowing, the City is best served by locking in investment maturities and reducing liquidity. If the borrowing cost cannot be exceeded, then concurrent market conditions will determine the attractiveness of locking in maturities or investing shorter and anticipating future increased yields.

Diversification - Market conditions and the arbitrage regulations influence the attractiveness of staggering the maturity of fixed rate investments for Debt Service Reserve Funds. At no time shall the final debt service payment date of the bond issue be exceeded in an attempt to bolster yield.

Yield - Achieving a positive spread to the applicable borrowing cost is the desired objective. Debt Service Reserve Fund portfolio management shall at all times operate within the limits of the Investment Policy's risk constraints.

4. Capital Project and Special Purpose Funds

These funds include both bond proceeds and operating funds set aside for identified Capital Projects or Special Purposes. These funds should be invested to match projected cash flow requirements of projects with sufficient liquidity to meet unanticipated project outlays. In general, the final maturity dates of investments should not exceed the expected project completion date(s) and meet all underlying bond covenants, where applicable.

Suitability - Any investment eligible in the Investment Policy is suitable for Capital Project and Special Purpose Funds.

Safety of Principal - All investments will be of high quality with no perceived default risk. Market fluctuations may occur. However, by managing the Capital Project and Special Purpose Funds to balance the short term and long term anticipated cash flow requirements and by restricting the maximum maturity to three years, the market risk of the portfolio will be minimized.

Marketability - The balancing of short-term and long-term cash flow needs requires the short-term portion of the Capital Project and Special Purpose Funds to have securities with active and efficient secondary markets.

Liquidity - Selecting investment maturities that provide greater cash flow than the anticipated needs and maintaining appropriate cash-equivalent balances will reduce the liquidity risk of unanticipated expenditures.

Diversification - Investment maturities should blend the short-term and long-term cash flow needs to provide adequate liquidity, yield enhancement, and stability.

Yield - Attaining a competitive market yield for comparable investment types and portfolio structures is the desired objective, however this portfolio maintains an investment strategy is comply with any applicable arbitrage or yield restriction regulations.

IV. LEGAL LIMITATIONS, RESPONSIBILITIES AND AUTHORITY

Direct specific investment parameters for the investment of public funds in Texas are found in the PFIA. The Public Funds Collateral Act, Chapter 2257, Texas Government Code, as amended, specifies collateral requirements for all public fund' deposits.

The Interlocal Cooperation Act, Chapter 791, Texas Government Code, as amended, authorizes local governments in Texas to participate in an investment pool established thereunder. That statute and reference to authorized investment in investment pools in PFIA is primary authority for use of investment pools by political subdivisions of the State of Texas.

V. STANDARD OF CARE

A. Prudence

The standard of prudence to be used in the investment function shall be the "prudent person" standard and shall be applied in the context of managing the overall portfolio. This standard states: "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 their capital and probable income to be derived."

B. Limitation of Personal Liability

The Investment Officers and those delegated investment authority under this policy, when acting in accordance with the written procedures and this policy and in accord with the Prudent Person Rule, shall be relieved of personal responsibility and liability in the management of the portfolio, provided that deviations from expectations for a specific investment's credit risk or market price change or portfolio shifts are reported in a timely manner and then appropriate action is taken to control adverse market effects.

C. Delegation of Authority

The Deputy City Manager, Finance Director and Assistant Finance Director, acting on behalf of the City Council, are designated as the Investment Officers of the City and are responsible for investment management decisions and activities. The Council is also responsible for considering the quality and capability of staff, investment advisors, and consultants involved in investment management and procedures. All participants in the investment process shall seek to act responsibly as custodians of the public trust.

The Investment Officers shall develop and maintain written administrative procedures for the operation of the investment program which are consistent with this Policy. Procedures will include reference to safekeeping agreements, depository agreements, repurchase agreements, wire transfer agreements, banking services contracts, and other investment related activities.

The Investment Officers shall be responsible for all transactions and shall establish a system of controls to regulate the activities of designated staff.

No Investment Officer or designee may engage in an investment transaction except as provided under the terms of this Policy and the procedures established by the Investment Officers and approved by the City Manager.

D. Training

It is the City's policy to provide training required by the PFIA Section 2256.008(a) through courses and seminars offered in compliance with the PFIA to ensure the quality and capability of the Investment Officers in making investment decisions. In accordance with State Law, Investment Officers must accumulate ten hours of investment training within twelve months of attaining the position of Investment Officer. Thereafter, eight hours of training must be accumulated every two years within the period that begins on the first day of the City's fiscal year and ends on the last day of the next fiscal year.

All investment training shall be from an independent source approved by the City Council. The following sponsors are hereby approved:

1) Government Finance Officers Association (GFOA and GFOAT);
2) Texas Society of Certified Public Accountants (TSCPA);
3) Texas Municipal League (TML);
4) Government Treasurers' Organization of Texas (GTOT);
5) Sponsors approved by the TSCPA and GFOA, GFOAT, GTOT, to provide CPE credits;
6) Center for Public Management at the University of North Texas;
7) Alliance of Texas Treasury Associations (ATTA); or
8) Council of Governments

E. Ethics

The Investment Officers involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Furthermore, in accordance with the PFIA, an Investment Officer who has a personal business relationship with a firm or is related within the second degree by consanguinity or affinity to individuals seeking to sell investments to the City must disclose such relationships in accordance with Section 2256.005(i). Such disclosure should be made to the Texas State Ethics Commission and to the City Council.

F. Internal Controls

The Investment Officers shall establish a system of written internal controls which will be reviewed annually with the independent auditor of the City in accordance with accepted industry practices. The controls shall be designed to prevent loss of public funds due to fraud, employee error, misrepresentation by third parties, unanticipated market changes, or imprudent actions by employees of the City.

The Investment Officers shall monitor the credit rating on all authorized investments in the portfolio based upon independent information from a nationally recognized rating agency. If any investment falls below the minimum rating required by this Policy, the Investment

Officers shall take all prudent measures that are consistent with this Policy to liquidate the investment that does not have the minimum rating.

G. Cash Flow Forecasting

Cash flow forecasting is designed to protect and sustain cash flow requirements of the City. Supplemental to the financial and budgetary systems, the Investment Officers will maintain a cash flow forecasting process designed to monitor and forecast cash positions for investment purposes. Cash flow will include the historical researching and monitoring of specific cash flow items, payables and receivables as well as overall cash positions and patterns.

VI. AUTHORIZED INVESTMENTS

Acceptable investments under this Policy shall be limited to the instruments listed below. The investments are to be chosen in a manner which promotes diversity of market sector and maturity.

A. Obligations, including letters of credit, of the United States Government, its agencies and instrumentalities, and government sponsoring enterprises, including the Federal Home Loan Banks;

B. Direct obligations of the State of Texas or its agencies.

C. Interest-bearing financial institution deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation (the "FDIC") or its successor, or the National Credit Union Share Insurance Fund (the "NCUSIF") or its successor, or that are collateralized or placed in compliance with this Policy, the PFIA and the Public Funds Collateral Act (the "PFCA").

D. Obligations of states, agencies, counties, cities, and other political subdivisions of the State of Texas 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.

E. Repurchase agreements and reverse repurchase agreements structured in compliance with the PFIA provided an executed PSA Master Repurchase Agreement, or similar agreement, is on file with the City and the counterparty financial institution or primary dealer.

F. Texas Local Government Investment Pools as defined by the PFIA. The pool must maintain a minimum rating of AAAm and seek to maintain a stable net share value of $1.00 per share.

G. No-load money market mutual funds if the fund: is compliant with the PFIA; regulated by the Securities and Exchange Commission; marks its portfolio to market daily; includes in its investment objectives the maintenance of a stable net asset value of $1.0000 for each share; and is continuously rated no lower than AAAm or at an equivalent rating by at least one nationally recognized rating service.

VII. AUTHORIZED BROKER/DEALERS

All security transactions will be made through Authorized Broker/Dealers firms (see Appendix A. Authorized Broker/Dealers). As requested by the City, all Broker/Dealers will provide provision of an audited financial statement for the most recent period, proof of certification by the Financial Industry Regulatory Authority (FINRA), and proof of current registration with the State Securities Commission.

VIII. DIVERSIFICATION AND MATURITY LIMITATIONS

It is the policy of the City to diversify its investment portfolio. Invested funds shall be diversified to minimize risk or loss resulting from over-concentration of assets in a specific maturity, specific issuer, or specific class of securities, when appropriate.

The Investment Officer shall be required to diversify maturities. The Investment Officer, to the extent possible, will attempt to match investment with anticipated cash flow requirements. Matching maturities with cash flow dates will reduce the need to sell securities prior to maturity, thus reducing market risk.

IX. SAFEKEEPING AND COLLATERALIZATION

All security transactions, including collateral for repurchase agreements, entered into by the City shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third party custodian designated by the Investment Officer and evidenced by safekeeping receipts.

The City has established a collateral policy in compliance with the PFCA. Deposits secured with irrevocable letters of credit shall have 100% of principal plus anticipated interest of the deposit, less any amount insured by the FDIC or NCUSIF. Deposits secured with pledged marketable securities shall have a market value equal to or greater than 102% of the principal plus accrued interest of the deposit, less any amount insured by the FDIC or NCUSIF. All deposits shall be insured or collateralized in compliance with applicable State law. The City reserves the right, in its sole discretion, to accept or reject any form of insurance or collateralization pledged towards financial institution deposits. Financial institutions serving as City Depositories will be required to sign a depository agreement with the City. The collateralized deposit 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:

- The agreement must be in writing;
- The agreement must be executed by the Depository and City contemporaneously with the acquisition of the asset;
- The agreement must be approved by the Board of Directors or designated committee of the Depository and a copy of the meeting minutes must be delivered to the City; and
- The agreement must be part of the Depository's "official record" continuously since its execution.

Acceptable forms of collateral are limited to those authorized in the PFCA. All collateral shall be subject to inspection and audit by the City or the City's independent auditors.

X. PERFORMANCE EVALUATION AND REPORTING

The Investment Officer shall submit quarterly reports to the City Manager and City Council containing sufficient information to permit an informed outside reader to evaluate the performance of the investment program. These reports will be reviewed and reported to the City Council at least annually by an independent auditor. This report shall contain:

- Beginning and ending market value of the portfolio by market sector and total portfolio;
- Beginning and ending carrying (Book) value of the portfolio by market sector and total portfolio;
- Transactions which change market and book value;
- Detail reporting on each asset (book, market, and maturity dates);
- Overall current yield of the portfolio;
- Overall weighted average maturity of the portfolio;
- Maximum maturities in the portfolio;
- Statement of compliance with this Policy, incorporated Strategies and PFIA; and
- The signature of the Investment Officers.

Weighted average yield to maturity shall be the portfolio's performance measurement standard.

The City will not be required to liquidate an investment that becomes unauthorized subsequent to its purchase.

The City requires a competitive environment for all individual security purchases and sales, financial institution time deposit and transaction accounts, and money market mutual fund and local government investment pool selections.

XI. PRIMARY DEPOSITORY

At least every five years a Primary Depository shall be selected through the City's banking services procurement process, which shall include a formal Request for Application (RFA). The selection of a primary depository will be determined by evaluation of criteria during the RFA process that is most advantageous to the City, and may include 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 the minimum required items in the banking RFA,
- Complete response to all required items on the RFA form, and
- Competitive net banking service cost, consistent with the ability to provide an appropriate level of service.

XII. INVESTMENT POLICY DISTRIBUTION

Every local government investment pool or discretionary investment management firm (e.g., business organization) with whom the City transacts business will be provided a copy of this Investment Policy to assure that they are familiar with the goals and objectives of the investment program. The business organization will be required to return a signed copy of a certification form certifying that the Policy has been received, reviewed, and appropriate procedures are implemented in compliance with the PFIA.

Additionally, all investment providers will be routinely provided the adopted Investment Policy.

XIII. INVESTMENT POLICY ADOPTION BY THE CITY COUNCIL

The City's investment policy shall be adopted by the City Council. Additionally, the City Council shall adopt a resolution stating that it has reviewed the Investment Policy (and incorporated strategies) at least annually, approving any changes or modifications.

AUTHORIZED BROKER/DEALERS

FHN Financial
Hilltop Securities
Multi-Bank Securities
RBC Capital Markets
Rice Financial
Stifel
Wells Fargo Securities