



CITY COUNCIL WORKSHOP
Tuesday, June 11, 2024, 5:00 PM

MPR EVENT CENTER – 60 MORGAN’S POINT BLVD

THE CITY COUNCIL OF THE CITY OF MORGAN’S POINT RESORT, TEXAS WILL CONVENE AT THE LOCATION AND TIMES STATED ABOVE TO HOLD A WORKSHOP TO ALLOW THE CITY COUNCILMEMBERS TO COMMUNICATE AND ASSESS THE ITEMS CONTAINED IN THIS AGENDA. THE ITEMS LISTED BELOW ARE FOR DISCUSSION PURPOSES ONLY AND NO FORMAL ACTION OR VOTES WILL BE TAKEN. AS A QUORUM OF THE MEMBERS OF THE CITY COUNCIL MAY BE PRESENT, THIS AGENDA IS BEING POSTED IN COMPLIANCE WITH CHAPTER 551 TEXAS GOVERNMENT CODE AND THE TEXAS OPEN MEETING ACT.

1. Call to Order

2. Announcement and Citizen Comments

This is an opportunity for members of the public to suggest the addition of topics for the discussion, or to address topics of interest, with the presentation limited to three (3) minutes. All speakers will conduct themselves in an orderly and lawful manner. All speakers will be recognized prior to speaking and will announce their name and address to be included in the minutes. State law prohibits the Mayor and Members of the City Council from commenting on any statement or engaging in dialogue without an appropriate agenda item being posted in accordance with the Texas Open Meetings Law.

3. Regular Agenda

- a. Discuss - Credit Card Processing Fee w/ New ERP
- [b.](#) Discuss - Investment Policy
- c. Discuss - Storm Recovery Update
- d. Discuss - Fiscal Year 2024/2025 Budget
- e. City Manager Performance Criteria

4. Adjournment

All items on the agenda are for discussion and/or action. The City Council reserves the right to adjourn into executive session at any time during the course of this meeting to discuss any of the matters listed above, as authorized by Texas Government Code Sections 551.071 (Consultation with Attorney), 551.072 (Deliberations about Real Property), 551.073 (Deliberations about Gifts and Donations), 551.074 (Personnel Matters), 551.076 (Deliberations about Security Devices,) and 551.086 (Economic Development).

I certify that a copy of the 6-11-24 agenda of items to be considered by the Morgan's Point Resort was posted and could be seen on the City Hall bulletin board and Morgan's Point Resort website on the 6-7-2024 at 4:00PM and remained posted continuously for at least 72 hours succeeding the scheduled time of the meeting. The meeting facility is wheelchair accessible and accessible parking spaces are available. Request for accommodations or interpretive services must be made 48 hours prior to this meeting. Please contact the City Secretary's office at 254-742-3206 for further information.

Camille Bowser, City Secretary

INVESTMENT POLICY**Effective Date: 01 October 2024****A. SCOPE**

The Investment Policy applies to the investment activities of the Government of the City of Morgan's Point Resort (the "City"). These policies serve to satisfy the statutory requirements of the Texas Government Code Chapters 2256 (the "Public Funds Investment Act" or the "Act") and 2257 (the "Collateral Act") to define and adopt a formal investment policy. This Policy will be reviewed and adopted by resolution of the City Council at least annually according to the Act.

1. FUNDS INCLUDED

All financial assets of all funds of the City, including the General Fund, Water and Sewer Utility Fund(s), Marina Fund, Capital Projects Funds, Special Revenue Funds, Debt Service Funds, and all other funds that may be created by the City from time to time, and any funds held in the City's custody, unless expressly prohibited by law or unless it is in contravention of any depository contract between the City and any depository bank are subject to this Policy. The Morgan's Point Resort Economic Development Corporation shall be incorporated as a component unit.

2. FUNDS EXCLUDED

This Policy does not apply to funds invested in a Deferred Compensation Plan, should the City choose to establish such a program.

B. INVESTMENT OBJECTIVES**1. SAFETY**

Safety of principal is the foremost objective of the City. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer or a specific class of investments. Diversification strategies shall be determined and revised periodically.

2. LIQUIDITY

The investment portfolio will remain sufficiently liquid to enable the City to pay current obligations as they become due. Portfolio maturities will be structured to meet the obligations of the City first, and then to achieve the

highest return of interest consistent with the objectives of this Policy. When the City has funds that will not be needed to meet current-year obligations, maturity restraints will be imposed based upon the investment strategy for each fund.

3. PUBLIC TRUST

Investment Officers 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.

4. YIELD

It will be the objective of the City to earn the optimum rate of return allowed on its investments within the constraints imposed by its safety and liquidity objectives, investment strategies for each fund, and state and federal law governing investment of public funds.

C. INVESTMENT COMMITTEE

1. MEMBERS

The members of the City's Investment Committee shall be the Mayor of the City (or his/her designee), the City Manager (or his/her designee), the Chief Financial Officer, and the Senior Accountant. The Investment Committee shall receive quarterly reports, as outlined in this Policy, and monitor the results and performance of the investment portfolio.

2. SCOPE

The Investment Committee shall include in its deliberations such topics as: investment strategy, return on investments, economic outlook, portfolio diversification, maturity structure, potential risk to the City's funds, independent training sources, and authorized broker/dealers.

3. PROCEDURES

The Investment Committee shall provide the minutes of its meetings. Any member may request a special meeting, and three members shall constitute a quorum. The Investment Committee shall establish its own rules of procedure.

D. RESPONSIBILITY AND CONTROL

1. DELEGATION

Management responsibility for the investment program is hereby delegated to the Chief Financial Officer, who is responsible for all investment decisions and activities. The Chief Financial Officer and the Senior Accountant shall be the City's Investment Officers. Investment Officers are authorized to deposit, withdraw, invest, transfer, execute documentation, and otherwise manage City funds according to this Policy. The Chief Financial Officer may designate specific City personnel to assist with various investment-related activities. The Chief Financial Officer shall be responsible for all transactions and compliance with the internal controls to ensure that the safekeeping, custodial, and collateral duties are consistent with this Investment Policy.

2. MANAGEMENT AND INTERNAL CONTROLS

The Chief Financial Officer shall establish a system of internal controls, which shall be documented in writing. The internal controls shall be reviewed by the Investment Committee and with the independent auditor. The controls shall be designed to reasonably prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the City. Dual control of all investment activities will consistently be maintained by two of the following positions, the Chief Financial Officer and the Senior Accountant.

3. INVESTMENT MANAGEMENT FIRM

The City Council may contract with an investment management firm, registered under the Investment Advisor's Act of 1940 (15 U.S.C. Section 80b-1 et seq.) to provide for the investment and management of the funds of the City. The contract will be for a term no longer than two (2) years. Renewal or extension of the contract must be in compliance with the Act.

4. TRANSACTION AUTHORITY

Certain signatory responsibilities are required to transact investments. Positions authorized as depository signatories shall be the City Manager and the Investment Officers.

The persons holding these positions are also designated as authorized to transact wire transfers in accordance with the goals and objectives of the City's investment strategy.

Bonding of all those individuals authorized to place, purchase, or sell investment instruments shall be required.

5. PRUDENCE

In accordance with the Act, investments shall be made with the exercise of due care, 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 own capital as well as the probable income to be derived. Investment of funds shall be governed by the following investment objectives, in order of priority: preservation and safety of principal; maintenance of adequate liquidity; and achievement of risk-appropriate yield. This investment principle shall be applied in the context of managing the overall investment portfolio.

An Investment Officer, when acting in accordance with written procedures and exercising due diligence, shall be relieved of personal responsibility for an individual investment's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments. 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 control of the City, over which the Investment 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.

6. TRAINING, QUALITY AND CAPABILITY OF INVESTMENT MANAGEMENT

It is the City's policy to provide training as required by the Act for the Investment Officers. Authorized Investment Officers will be required to complete 10 hours of training within 12 months of assuming duties. To ensure the quality, capability and competency of all Investment Officers in making investment decisions, training shall be provided through courses and seminars offered by the independent sources approved by the Investment Committee. The training must include education in investment controls, security risks, strategy risks, market risks, diversification of investment, and compliance with the Act. After the initial training requirement, at a minimum, all Investment Officers must attend training at least every two years and accumulate 8 hours of training. The two-year period shall begin on the first day of the City's fiscal year and consist of the two consecutive fiscal years after that date.

E. ETHICS

1. CONFLICTS OF INTEREST

Officers and employees directly involved in the investment process, including members of the Investment Committee and those authorized as depository signatories, 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.

2. DISCLOSURE

Such employees shall disclose to the City Manager any material financial interests they have in business organizations that conduct business with the City and shall further disclose any large personal financial or investment positions, as defined by the Public Funds Investment Act, that could be related to the performance of the City's portfolio. Disclosure items include:

1. the employee 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 employee from the business organization exceed 10 percent of the employee's gross income for the previous year; or

3. the employee 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 employee.

Such employees shall subordinate their personal investment transactions to those of the City, particularly with regard to the timing of purchases and sales.

If any Investment Officer has a personal business relationship with an entity or is related within the second degree by affinity or consanguinity to an individual seeking to sell an investment to the City, the Investment Officer must file a statement disclosing that personal business interest or relationship with the City Council and with the Texas Ethics Commission in accordance with the Act.

F. REPORTING INVESTMENT EARNING EVALUATION

1. QUARTERLY REPORTS

In accordance with the Act, not less than quarterly, the Investment Officers shall prepare and submit to the City Council a written report of investment transactions for all funds for the preceding reporting period within a reasonable time after the end of the period. The report must:

1. describe in detail the investment position of the City on the date of the report;
2. be prepared jointly by all Investment Officers;
3. be signed by each Investment Officer;
4. contain a summary statement of each pooled fund group that states the:
 - a.) beginning market value for the reporting period;
 - b.) ending market value for the period; and
 - c.) fully accrued interest for the reporting period.
5. state the book value and market value of each separately invested asset at the beginning and end of the reporting period by the type of asset and fund type invested;
6. state the maturity date of each separately invested asset that has a maturity date;
7. state the account or fund or pooled group fund in the City for which each individual investment was acquired;

8. state the compliance of the investment portfolio of the City as it relates to:
 - a.) the investment strategy expressed in the City's Investment Policy; and
 - b.) relevant provisions of the Act; and
9. state the rate of return on the investment portfolio calculated as the weighted average yield to maturity.

Market valuations obtained by the City shall be from sources believed to be accurate and representative of the investment's true value.

The quarterly investment reports shall be reviewed by the City's independent auditors as part of the City's annual audit and the result of this review shall be reported to the City Council.

2. ANNUAL REPORT

Within a reasonable time after the end of the fiscal year, the Chief Financial Officer shall present an annual report on the investment program activity. The annual report shall include 12-month performance information and shall suggest improvements that might be made in the investment program. The annual report may be a component of the fourth quarter investment report.

3. NOTIFICATION OF INVESTMENT CHANGES

It shall be the duty of the Chief Financial Officer to notify the City Council of any significant changes in current investment methods and procedures prior to their implementation, regardless of whether they are authorized by this Policy or not.

4. PERFORMANCE STANDARDS

The investment portfolio shall be designed with the objective of obtaining a competitive market rate of return throughout budgetary and economic cycles that is consistent with risk limitations and the cashflow needs of the City. Given this strategy, the basis used by Investment Officers to determine whether market yields are being achieved shall be the average return on 90-day or 180-day U.S. Treasury Bills. "Weighted average yield to maturity" shall be the portfolio performance measurement standard.

G. INVESTMENT TYPES

1. ACTIVE PORTFOLIO MANAGEMENT

The City intends to pursue an active vs. a passive portfolio management philosophy. That is investments may be sold before they mature if market conditions present an opportunity for the City to benefit from the trade.

2. ELIGIBLE INVESTMENTS

Financial assets of the City may be invested in:

1. Obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks;
2. Direct obligations of the State of Texas or its agencies and instrumentalities;
3. Financial institution deposits with a state or national bank, savings and loan association, or credit union, that meet the requirements of the Act and are fully insured or collateralized in accordance with Section I. SAFEKEEPING AND CUSTODY.
4. Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States;
5. Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm of not less than A or its equivalent;
6. A fully collateralized repurchase agreement, as defined in the Act, if it:
 - a.) has a defined termination date;
 - b.) is secured by cash and obligations described by Section 2256.009 (a) (1) of the Act; and
 - c.) requires the securities being purchased by the City to be pledged to the City, held in the City's account, and deposited at the time the investment is made with the City or with a third party selected and approved by the City; and

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

Notwithstanding any law, the term of any reverse security repurchase agreement may not exceed 90 days after the date the reverse security repurchase agreement is delivered. Money received by the City under the terms of a reverse security repurchase agreement shall be used to acquire additional authorized investments, but the term of the authorized investments acquired must mature not later than the expiration date stated in the reverse security repurchase agreement.

7. Eligible investment pools if the City Council by resolution authorizes investment in the particular pool. An investment pool shall invest the funds it receives from the City in authorized investments permitted by the Act. Investment pools must be continuously rated AAAM or the equivalent by at least one nationally recognized rating service.
8. Money market mutual funds continuously rated AAA or the equivalent that are registered with and regulated by the Securities and Exchange Commission, whose investment objectives include seeking to maintain a stable net asset value of \$1.0000 per share. The money market mutual funds must provide the City with a prospectus and other information required by federal law. The City may not invest funds under its control in an amount that exceeds 10% of the total assets of any individual money market mutual fund.
9. Interest-bearing banking deposits that are guaranteed or insured by: (A) the Federal Deposit Insurance Corporation or its successor; or (B) the National Credit Union Share Insurance Fund or its successor.
10. Commercial paper if it's an authorized investment under this sub chapter that:
 - (1) has a stated maturity of 365 days or fewer from the date of its issuance; and
 - (2) is rated not less than A-1 or P-1 or an equivalent rating by at least:
 - (A) two nationally recognized credit rating agencies; or
 - (B) one nationally recognized credit rating agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state.

3. CREDIT RATINGS

Not less than quarterly, the Investment Officers will monitor the current credit rating of each held investment that has an Act required minimum rating. Any investment that requires a minimum rating does not qualify during the period the investment does not have the minimum rating. All prudent measures will be taken to liquidate an investment that is downgraded to less than the required minimum rating.

4. LENGTH OF INVESTMENTS

The City shall invest in instruments with scheduled maturity not to exceed the limitation of the specific investment strategy at the time of purchase.

5. DIVERSIFICATION

It shall be the policy of the City to diversify the investment portfolio. Diversification strategies shall be determined and revised periodically by the Investment Committee. In establishing specific diversification strategies, the following general constraints shall apply:

1. Limiting investments to avoid over concentration in investments from a specific issuer or business sector, where appropriate,
2. Limiting investments with higher credit risk,
3. Investing in instruments with varying maturities and in accordance with the City's cashflow projections, and
4. Continuously investing a portion of the portfolio in readily available funds such as local government investment pools, financial institution deposits, money market mutual funds, or overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

6. PROHIBITED INVESTMENTS

The following investment instruments are strictly prohibited:

1. Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal;
2. Obligations whose payment represents the principal stream of cashflow from the underlying mortgage-backed security collateral and bears no interest;

3. Collateralized Mortgage Obligations with a stated final maturity greater than ten 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;
5. The City will not invest in derivatives. For the purposes of this Policy, the definition of derivatives includes instruments which have embedded features that alter their character or income stream or allow holders to hedge or speculate on a market or spreads between markets that are external to the issuer or are not correlated on a one-to-one basis to the associated index or market.

H. SELECTION OF BANKS AND BROKER/DEALERS

1. SELECTION PROCESS

Primary Depositories shall be selected through the City's banking services procurement process, which shall include a formal request for application (RFA) as per State legislation and the City's purchasing policy. In selecting primary depositories, the credit worthiness of institutions shall be considered, and the Chief Financial Officer shall conduct a comprehensive review of prospective depositories' credit characteristics and financial history.

2. INSURABILITY

Financial institutions seeking to establish eligibility for the City's funds shall submit financial statements, evidence of Federal insurance and other information as required by the Chief Financial Officer.

3. COLLATERALIZED DEPOSITS

All financial institution 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 City deposits. Financial institutions serving as the City's 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 the 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.

The Morgan's Point Resort Economic Development Corporation, where applicable, shall also comply with these requirements.

4. BROKER/DEALERS AND APPROVED LIST

All broker/dealers who desire to become qualified for investment transactions with the City must be recommended by the Chief Financial Officer and approved by the Investment Committee. Applications will be reviewed on a periodic basis and submitted to the Investment Committee for approval. The Chief Financial Officer will maintain a list of broker/dealers authorized to provide investment services to the City. The authorized list of broker/dealers will, at a minimum, be reviewed and approved on an annual basis, and any broker/dealers who fail to meet the standards of this Policy shall be removed from the list. It is the policy of the City to purchase securities from the broker/dealers on the investment manager's approved list. The City authorizes the investment manager to engage in security transactions with broker/dealers on a carefully monitored broker/dealer list. The Investment Committee shall at least annually review the list of the broker/dealers with investment manager.

5. COMPETITIVE ENVIRONMENT

All trades, purchases and sales, executed for the City, excluding transactions with money market accounts, money market mutual funds and local government investment pools which are deemed to be made at prevailing market rates, will be done through a competitive solicitation process. Competitive quotes must be solicited from qualifying institutions for any investment transaction.

6. INVESTMENT POLICY

In accordance with the Act, a written copy of this Investment Policy shall be presented to any person seeking to sell to the City an authorized investment or act as Investment Advisor. A qualified representative of a local government investment pool or discretionary investment management firm (e.g. business organization) seeking to sell an authorized investment or perform investment advisory services shall execute a written instrument substantially to the effect that the qualified representative has:

1. Received and thoroughly reviewed the Investment Policy; and
2. Acknowledged that the organization has implemented reasonable procedures and controls in an effort to preclude imprudent investment activities arising out of investment transactions conducted between the City and the organization in accordance with the Act.

I. SAFEKEEPING AND CUSTODY

The City shall contract with a third party for the safekeeping and custody of securities either owned by the City as a part of its investment portfolio or held as collateral to secure financial institution deposits, share certificates or repurchase agreements. The securities will be held in an account in the name of the City as evidenced by safekeeping or pledge receipts of the institution with which the securities are deposited.

1. INSURANCE OR COLLATERAL

All deposits of City funds with financial institutions shall be secured by pledged collateral in accordance with Chapter 2257 of the Texas Government Code. Securities pledged as collateral for deposits must maintain a market value equal to no less than 102% of the uninsured deposits, including accrued interest. Federal Home Loan Bank Letters of Credit pledged as collateral must be equal to no less than 100% of the uninsured deposits, including accrued interest. Federal Home Loan Bank Letters of Credit pledged for certificates of deposit must expire at least two business days beyond the maturity date of the certificate of deposit. If rolling letters of credit are utilized, advance notice prior to any expiration must be provided along with a letter of credit extension. Any letter of credit extension issued to cover the expiration of an investment should expire no less than two business days beyond the final maturity date of the investment.

Repurchase agreements shall be documented by a specific agreement noting the collateral pledged in each agreement. Collateral shall be reviewed at least monthly to assure the market value equals or exceeds the collateralization requirement for the related bank balances.

2. PLEDGED COLLATERAL AGREEMENTS

All custodial arrangements shall be in accordance with a Custodial Agreement approved by the Investment Officers, which clearly defines the procedural steps for gaining access to the collateral should the City determine that the City's funds are in jeopardy. The custodian institution, or Custodian, shall be the Federal Reserve Bank or an institution not a branch of the firm pledging the collateral. A Depository Agreement shall include the signatures of the City and the firm pledging the collateral and may include the Custodian. The Custodial and Depository Agreements shall address acceptance, substitution, release and valuation of collateral.

3. COLLATERAL DEFINED

The City shall accept only the following as collateral:

1. Cash.
2. FDIC and NCUSIF insurance coverage.
3. A bond, certificate of indebtedness, or note of the United States or its agencies and instrumentalities, or other evidence of indebtedness that is guaranteed as to the principal and interest by the United States or its agencies and instrumentalities.
4. Obligations, the principal and interest of which are unconditionally guaranteed or insured by the State of Texas or its agencies and instrumentalities.
5. A bond of the State of Texas or of a county, city or other political subdivision of the State of Texas having been rated as investment grade (investment rating no less than "A" or its equivalent) by a nationally recognized rating agency, with a remaining maturity of ten (10) years or less.

The use of a letter of credit issued to the City by a Federal Home Loan Bank may be considered by the City to meet the required bank depository collateral requirements.

4. SUBJECT TO AUDIT

All collateral shall be subject to inspection and audit by the City or the City's independent auditors.

5. DELIVERY VS. PAYMENT

All security transactions shall be purchased using the delivery vs. payment method. That is, funds shall not be wired or paid until verification has been made that the security was received by the City's Safekeeping Agent or Trustee. The security shall be held in the account of the City. The Trustee's or 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.

6. STANDARDS OF OPERATION

The Chief Financial Officer shall develop and maintain written administrative procedures for the operation of the investment program, consistent with this Investment Policy.

J. INTERNAL CONTROLS

1. 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 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, as part of the annual audit, the Chief Financial Officer shall establish a process for independent review by the external auditor to assure compliance with policies and procedures. The internal controls shall address the following points:

1. Control of collusion - Collusion is a situation where two or more employees are working in conjunction to defraud their employer.

2. Separation of transaction authority from accounting and record keeping
- By separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction, a separation of duties is achieved.
3. Custodial safekeeping - Securities purchased from any bank or broker/dealer, including appropriate collateral shall be placed with an independent third party for custodial safekeeping.
4. Avoidance of physical delivery securities - Book entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities.
5. Clear delegation of authority to subordinate staff members - Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.
6. Written confirmation of telephone transactions for investments and wire transfers - Due to the potential for error and improprieties arising from telephone transactions, all telephone transactions should be supported by written communications and approved by the appropriate person. Written communications may be via fax or email if on letterhead and the custodial safekeeping institution has a list of authorized signatures.

K. INVESTMENT STRATEGIES

1. INVESTMENT STRATEGIES

In accordance with the Act, a separate written investment strategy will be developed for each of the fund-types under the City's control. Each investment strategy must describe the investment objectives for the particular fund-type using the following priorities of importance:

1. Understanding of the suitability of the investment to the financial requirements of the City;
2. Preservation and safety of principal;
3. Liquidity;
4. Marketability of the investment if the need arises to liquidate the investment before maturity;

5. Diversification of the investment portfolio; and
6. Yield.

2. FUND STRATEGIES

The investment strategies to be employed by the City are:

A) OPERATING FUNDS

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

Safety of Principal - All investments shall be of high quality with no perceived default risk. Market price fluctuations will occur. However, managing the weighted average years to maturity of each fund's portfolio to less than 3 years and restricting the maximum allowable maturity to five years will minimize the price volatility of the portfolio.

Liquidity - Operating Funds require the greatest short-term liquidity of any of the fund-types. Short-term financial institution deposits, investment pools and money market mutual funds will provide daily liquidity and may be utilized as a competitive yield alternative to fixed maturity investments.

Marketability - Securities with active and efficient secondary markets are necessary in the event of an unanticipated cashflow requirement. Historical market "spreads" between the bid and offer prices of a particular security-type of less than a tenth of a percentage point will define an efficient secondary market.

Diversification - Investment maturities should be staggered throughout the budget cycle to provide cashflow based on the anticipated operating needs of the City. Diversifying the appropriate maturity structure up to the five-year maximum will reduce interest rate risk.

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

B) DEBT SERVICE FUNDS

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

Safety of Principal - All investments shall be of high quality with no perceived default risk. Market price fluctuations will 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.

Liquidity - Debt Service Funds have predictable payment schedules. Therefore, investment maturities should not exceed the anticipated cashflow requirements. Short-term financial institution deposits, investments pools and money market mutual funds may provide a competitive yield alternative for short-term fixed maturity investments. A singular repurchase agreement, or similar structured investment, 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.

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

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 a rolling three-month Treasury Bill portfolio shall be the minimum yield objective.

C) SPECIAL REVENUE FUNDS

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

Safety of Principal - All investments will be of high quality with no perceived default risk. Market fluctuations will occur. However, by managing Special Revenue Funds to balance the short-term and long-term anticipated cashflow requirements of the specific revenue/expense plan, the market risk of the Fund's portfolio will be minimized. No stated final investment maturity shall exceed the shorter of the anticipated cashflow requirement or five years.

Liquidity - A portion of the Special Revenue Funds are reasonably predictable. However, unanticipated needs or emergencies may arise. Selecting investment maturities that provide greater cashflow than the anticipated needs will reduce the liquidity risk of unanticipated expenditures. Short-term financial institution deposits, investment pools and money market mutual funds will provide daily liquidity and may be utilized as a competitive yield alternative to fixed maturity investments.

Marketability - Securities with active and efficient secondary markets are necessary in the event of an unanticipated cashflow requirement. Historical market "spreads" between the bid and offer prices of a particular security-type of less than a tenth of a percentage point will define an efficient secondary market.

Diversification - Investment maturities should be staggered throughout the budget cycle to provide cashflow based on the anticipated needs of the City. Diversifying the appropriate maturity structure up to the five-year maximum will reduce interest rate risk.

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

D) CAPITAL PROJECT FUNDS

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

Safety of Principal - All investments will be of high quality with no perceived default risk. Market price fluctuations will occur. However, by managing Capital Project Funds to not exceed the anticipated expenditure schedule the market risk of the overall portfolio will be minimized. No stated final investment maturity shall exceed the shorter of the anticipated expenditure schedule, the IRS temporary period for tax-exempt bond proceeds, or five years.

Liquidity - Most capital improvement programs have reasonably predictable draw down schedules. Therefore, investment maturities should generally follow the anticipated cashflow requirements. Short-term financial institution deposits, investment pools and money market mutual funds will provide readily available funds generally equal to at least one month's anticipated cashflow needs, or a competitive yield alternative for short-term fixed maturity investments. A singular repurchase agreement, or similar investment structure, may be utilized if disbursements are allowed in the amount necessary to satisfy any expenditure request. This investment structure is commonly referred to as a flexible repurchase agreement.

Marketability - Securities with active and efficient secondary markets are necessary in the event of an unanticipated cashflow requirement. Historical market "spreads" between the bid and offer prices of a particular security-type of less than a tenth of a percentage point will define an efficient secondary market.

Diversification - Market conditions and arbitrage regulations influence the attractiveness of staggering the maturity of fixed rate investments for bond proceeds. Generally, if investment rates exceed the applicable cost of borrowing, the City is best served by locking in most investments. If the cost of borrowing cannot be exceeded, then concurrent market conditions will determine the attractiveness of diversifying maturities or investing in shorter and larger amounts. At no time shall the anticipated expenditure schedule be exceeded in an attempt to bolster yield.

Yield - Achieving a positive spread to the cost of borrowing is the desired objective, within the limits of the Investment Policy's risk constraints. The yield of a rolling six-month Treasury Bill portfolio will be the minimum yield objective.

L. POLICY

1. EXEMPTION

The City is not required to liquidate investments that were authorized investments at the time of purchase. At maturity or liquidation, such monies shall be reinvested only as provided by this Policy.

2. AMENDMENT

The City Council shall review the Investment Policy, and incorporated investment strategies, annually. Amendments must be approved by the Investment Committee and adopted by the City Council. The City Council shall annually adopt a written instrument by rule, order, ordinance, or resolution stating that it has reviewed and approved the Investment Policy and investment strategies, even if there are no changes from the previous document.

M. APPENDIX A

Sample Investment Policy Certification

This certification is executed on behalf of the **City of Morgan's Point Resort** (the Investor) and _____ (the Business Organization) pursuant to the Public Funds Investment Act, Chapter 2256, Texas Government Code (the Act) in connection with investment transactions conducted between the Investor and the Business Organization.

The undersigned Qualified Representative of the Business Organization hereby certifies on behalf of the Business Organization that:

1. The undersigned is a Qualified Representative of the Business Organization offering to enter an investment transaction with the Investor as such terms are used in the Public Funds Investment Act, Chapter 2256, Texas Government Code, and
2. The Qualified Representative of the Business Organization has received and reviewed the Investment Policy furnished by the Investor, and
3. The Qualified Representative of the Business Organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the Business Organization and the Investor that are not authorized by the Investor's Investment Policy, except to the extent that this authorization is dependent on an analysis of the makeup of the Investor's entire portfolio or requires an interpretation of subjective investment standards or relates to investment transactions of the entity that are not made through accounts or other contractual arrangements over which the business organization has accepted discretionary investment authority.

(Firm)

Qualified Representative of the Business Organization

(Signature)

(Name)

(Title)

(Date)