City of Portland, Texas
Investment Policy

I. Governing Authority

The investment program shall be operated in conformance with federal, state, and other legal requirements, including the Public Funds Investment Act (Chapter 2256 of the Texas Government Code).

II. Scope

This policy applies to the investment of all funds held by the City of Portland. The funds included are the General Fund, Special Revenue Funds, Capital Projects Funds, Enterprise Funds, Trust and Agency Funds and any new fund created by the City Council.

These funds are accounted for in the City of Portland Comprehensive Annual Financial Report. In the event the City gains control over other special funds restricted through contract or covenant, the investment policy will be amended to address those special funds or a separate policy written.

III. General Objectives

The primary objectives, in priority order, of investment activities shall be safety, liquidity, and yield:

1. *Safety*

Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate market, credit and interest rate risk.

a. Market Risk

The City of Portland will minimize market risk, which is the value of a security declining because of market changes, by using portfolio diversification.

b. Credit Risk

The City of Portland will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the highest credit quality and diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

c. Interest Rate Risk

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

- Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity
- Investing operating funds primarily in shorter-term securities, money market mutual funds, or

similar investment pools and limiting the average maturity of the portfolio in accordance with this policy.

2. *Liquidity*

The investment portfolio shall remain adequately liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (laddering). Furthermore, since not all possible cash demands can be anticipated, the portfolio should consist largely of securities with active secondary or resale markets and a cash buffer will be maintained.

3. *Yield*

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. Based on the City's cash flow requirements the maximum maturity of any investment shall be three (3) years to accommodate capital improvement projects and the maximum dollar weighted average maturity shall not exceed one (1) year. The core investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall generally be held until maturity with the following exceptions:

- A security with declining credit may be sold early to minimize loss of principal.
- Liquidity needs of the portfolio require that the security be sold.

IV. Standards of Care

1. *Prudence*

The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal liability for an individual security's credit risk or market price changes. The relief of personal liability is provided only if deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

The "prudent person" standard 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."

2. *Ethics and Conflicts of Interest*

Investment officers and employees involved in the investment process shall refrain from any personal or business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Investment officials shall disclose any material interests in any institution with which they conduct business on the investments. They shall further disclose 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 whom business is conducted on behalf of the City of Portland. For the purpose of applying this policy, the officers and employees to whom these restrictions apply include the mayor, the City Council, the City Manager, the Investment Officer and any Finance Department employees responsible for investing funds.

3. *Delegation of Authority*
The City Manager and Finance Director will be designated by City Council resolution as the Investment Officers with authority to manage the City of Portland's investment program and such authority is derived from the following: Section 4.04(a) (4) and Section 5.14 of the Portland City Charter. Daily responsibility for the operation of the investment program is hereby delegated to the Finance Director who shall be the City's Investment Officer. The Investment Officer(s) shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy. Procedures should include references to: safekeeping, delivery vs. payment (DVP), investment accounting, wire transfer agreements, and collateral/depository agreements. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Investment Officer. The Investment Officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials. Only designated Investment Officers are authorized to make and transact investment decisions.

No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Finance Director (Investment Officer).

V. Authorized Financial Institutions, Depositories, and Broker/Dealers

1. *Authorized Financial Institutions, Depositories, and Broker/Dealers*
A list of no less than three broker/dealers or financial institutions will be maintained to assure competitive bidding on all transactions. A list will be maintained of broker/dealers and financial institutions authorized to provide investment services which will be approved by Council no less than annually.

Broker/dealers will be selected by creditworthiness and the ability to fulfill City needs competitively.

All financial institutions and broker/dealers who desire to become qualified for investment transactions must supply the following as appropriate:

- Annual audited financial statements
- Proof of Financial Institutions Regulatory Authority (FINRA) certification (not applicable to financial institutions acting as depositories)
- Proof of state registration
- Completed broker/dealer questionnaire (Attachment A)
- Certification of having read and understood and agreeing to comply with the City's investment policy (Attachment B)

An annual review of the financial condition and registration of all qualified financial institutions and broker/dealers will be conducted by the investment officer. The list of broker/dealers will be approved annually by Council.

VI. Safekeeping and Custody

1. Delivery vs. Payment
All securities shall be settled into the City's independent safekeeping agent (depository) using the **delivery vs. payment**. The security shall be held in the name of the City. The Trustee'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 maintained by the Investment Officer.

2. Safekeeping

All securities will be held by the City's depository as an independent third-party custodian. Broker safekeeping will not be authorized.

3. *Internal Controls*

The investment officer shall establish a system of internal controls, which shall be documented in writing. The internal controls shall be reviewed by the investment committee, where present, and with the independent auditor. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the City of Portland.

The internal controls structure shall address the following points:

- Control of collusion
- Separation of transaction authority from accounting and recordkeeping
- Custodial safekeeping
- Clear delegation of authority to subordinate staff members
- Written confirmation of transactions for investments and wire transfers
- Dual authorizations of wire transfers
- Development of a wire transfer agreement with the lead bank and third-party custodian

Accordingly, the investment officer shall establish a process for an annual independent review by an external auditor to assure compliance with policies and procedures or alternatively, compliance should be assured through the City of Portland annual independent audit.

4. Monitoring Credit Quality

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

5. Monitoring FDIC Coverage

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

VII. Suitable and Authorized Investments

1. *Investment Types*

Consistent with the Public Funds Investment Act, only the following investments will be authorized for the City.

Investment Type	Restrictions/Qualifications
Obligations issued, guaranteed, or insured by the U. S. or its Agencies and Instrumentalities, *[Section 2256.009 (a)(1)(4)]*	Excluding all mortgage-backed securities. No security shall have a stated maturity date greater than three (3) years.
Obligations issued, guaranteed, or insured by the State of Texas or its Agencies and Instrumentalities *[Section 2256.009(a)(2)(4)]*	No security shall have a stated maturity date greater than three (3) years.
Obligations of States (other than Texas), Agencies, Counties, Cities and Other Political Subdivisions *[Section 2256.009 (a)(5)]*	Rated not less than A or its equivalent by at least one nationally recognized investment rating firm. No security shall have a stated maturity date greater than three (3) years.
Depository Certificates of Deposit *(Section 2256.010)*	• Issued by a depository institution that has its main office or a branch office in Texas. Must be guaranteed or insured by FDIC or National Credit Union Share Insurance Fund and secured in accordance with this Policy. • Issued by one or more federally insured depository institutions, wherever located, provided that the funds are invested through a depository institution that has its main office or a branch office in Texas and that the full amount of the principal and accrued interest of each certificate of deposit is insured by the U. S. or an instrumentality of the U. S. • The depository institution through which the City's funds are invested shall receive an amount of deposits from customers of other federally insured depository institutions that is equal to or greater than the amount of funds invested.
Brokered Certificates of Deposit	• Insured by the FDIC and not to exceed FDIC coverage in any one bank. • Settled Delivery vs. Payment (DVP) into the City's depository bank or independent custodian. • Monitored weekly for changes in mergers and acquisitions in which case one of the CDs must be immediately liquidated (sold).
Money Market Mutual Funds [*Section 2256.014(a) and (c)]*	• Must be AAA- rated and SEC registered. • Registered with and regulated by the Securities and Exchange Commission. • Provide a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940. • Must have dollar-weighted average stated maturity of 90 days or less. • Must include in its objectives maintenance of a stable net asset value of $1/share. • City may not own more than 10% of the fund's total assets.

Investment Type	Restrictions/Qualifications
Constant dollar Investment Pools *(Section 2256.016)*	• City Council must authorize investment in the pool. • Pool created to function as a money market mutual fund must mark its portfolio to market daily and stabilize at a $1 net asset value. • Rated not less than AAA or an equivalent rating by at least one nationally recognized rating service.

2. *Collateralization*
Full collateralization will be required on all time and demand deposit accounts, including checking accounts and non-negotiable certificates of deposit above the FDIC insurance coverage.

Authorized collateral for time and demand deposits will include only Obligations of the US Government, its agencies and instrumentalities and state and local obligations of any state rated A or better by one nationally recognized rating agency.

All collateral will be maintained with a market value of 102% and held in an independent safekeeping institution outside the holding company of the depository.

VIII. Investment Parameters

1. *Diversification*
The investments shall be diversified by:

- limiting investments to avoid overconcentration in securities from a specific issuer or business sector,
- limiting investment in securities that have higher credit risks,
- investing in securities with varying maturities, and
- continuously investing a portion of the portfolio in readily available funds such as local government investment pools (LGIPs) or money market funds to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

In establishing specific diversification strategies, the following general policies and constraints shall apply: Portfolio maturities shall be staggered to avoid undue concentration of assets in a specific maturity sector. Maturities selected shall provide for stability of income and reasonable liquidity.

For cash management funds:

- Liquidity shall be assured through practices ensuring that the next disbursement date and payroll date are covered through maturing investments or liquid funds.
- Positions in securities having potential default risk (e.g., commercial paper) shall be limited in size so that in case of default, the portfolio's annual investment income will exceed a loss on a single issuer's securities.
- Risks of market price volatility shall be controlled through maturity diversification such that aggregate price losses on instruments with maturities exceeding one year shall not be greater than coupon interest and investment income received from the balance of the portfolio.

2. *Maximum Maturities*
To the extent possible, the City of Portland shall attempt to match its investments with anticipated cash flow requirements in a laddered structure. Unless matched to a specific cash flow, the City of Portland will not directly invest in securities with a stated maturity more than three (3) years from the date of purchase. The City of Portland shall adopt weighted average maturity limitations of 12 months. The benchmark to measure risk will be the six-month and one year Treasury Bills.

Because of inherent difficulties in accurately forecasting cash flow requirements, at least 10% or a larger portion of the portfolio should be continuously invested in liquid funds such as local government investment pools or money market funds to ensure that appropriate liquidity is maintained to meet ongoing obligations.

6. Competitive Bids
The investment officer shall obtain competitive bids from at least two brokers or financial institutions on all purchases of investment instruments purchased.

IX. Reporting

1. *Methods*
The investment officer shall prepare an investment report monthly for internal reporting and at least quarterly for the City Council, including a management summary that provides an analysis of the status of the current investment portfolio and the individual transactions executed over the last quarter. This management summary will be prepared in a manner, which will allow the City of Portland to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the City Manager and the City Council. In compliance with the Public Funds Investment Act, the report will include the following:

- Listing of individual securities held at the end of the reporting period.
- Beginning and ending book and market values along with unrealized gains/losses.
- Average weighted yield to maturity of portfolio on investments as compared to the Policy benchmarks.
- Listing of each investment by stated maturity date.
- Percentage of the total portfolio that each type of investment represents.
- Earnings for the period.

2. *Performance Standards*
The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a yield, which is to be compared to the benchmark 6-month and 1-year Treasury Bill in accordance with its risk tolerance, and stated maximum weighted average maturity (WAM).

3. *Marking to Market*
The market value of the portfolio shall be calculated and reported to Council at least quarterly with the Council report. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed.

X. Training Requirements

All designated Investment Officers shall attend at least one ten-hour training session within twelve months of assuming duties and eight-hours every succeeding two years thereafter. The approved providers of this training include the Texas Municipal League and the Government Treasury Officers of Texas. This training shall include education in investment controls, security risks, strategy risks, market risks, and compliance with the Public Funds Investment Act.

XI. Policy Considerations

Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy. These investments shall be reviewed by the Investment Officers and may be sold. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.

XII. Approval of Investment Policy

Per the State law, this policy shall be reviewed and adopted by the City Council on no less than an annual basis. Any changes must be approved by the City Council by resolution and that resolution shall note any changes made in the Policy.

GLOSSARY OF COMMON TREASURY TERMINOLOGY

Accrued Interest: The accumulated interest due on a bond as of the last interest payment made by the issuer.

Agency: A debt security issued by a federal or federally sponsored agency. Federal agencies are backed by the full faith and credit of the U.S. Government. Federally sponsored agencies (FSAs) are backed by each particular agency with a market perception that there is an implicit government guarantee. An example of federal agency is the Government National Mortgage Association (GNMA). An example of a FSA is the Federal National Mortgage Association (FNMA).

Amortization: The systematic reduction of the amount owed on a debt issue through periodic payments of principal.

Asked: The price at which securities are offered.

Average Life: The average length of time that an issue of serial bonds and/or term bonds with a mandatory sinking fund feature is expected to be outstanding.

Basis Point: A unit of measurement used in the valuation of fixed-income securities equal to 1/100 of a percent of yield. E.g., "1/4" of 1 percent is equal to 25 basis points.

Bid: The indicated price at which a buyer is willing to purchase a security or commodity.

Book Value: The value at which a security is carried on the inventory lists or other financial records of an investor. The book value may differ significantly from the security's current value in the market.

Broker: A broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides; he does not position. In the money market, brokers are active in markets in which banks buy and sell money and in interdealer markets.

Callable Bond: A bond issue in which all or part of its outstanding principal amount may be redeemed before maturity by the issuer under specified conditions.

Call Price: The price at which an issuer may redeem a bond prior to maturity. The price is usually at a slight premium to the bond's original issue price to compensate the holder for loss of income and ownership.

Call Risk: The risk to a bondholder that a bond may be redeemed prior to maturity.

Cash Sale/Purchase: A transaction that calls for delivery and payment of securities on the same day that the transaction is initiated.

Certificate of Deposit (CD): A time deposit with a specific maturity evidenced by a certificate. Large-denomination CD's are typically negotiable.

Collateralization: Process by which a borrower pledges securities, property, or other deposits for the purpose of securing the repayment of a loan and/or security.

Comprehensive Annual Financial Report (CAFR): The official annual report for the City of Portland. It includes combined statements and basic financial statements for each individual fund and account group prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provision, extensive introductory material, and a detailed statistical section.

Coupon Rate: The annual rate of interest received by an investor from the issuer of certain types of fixed-income securities. Also known as the "interest rate."

Credit Quality: The measurement of the financial strength of a bond issuer. This measurement helps an investor to understand an issuer's ability to make timely interest payments and repay the loan principal upon maturity. Generally, the higher the credit quality of a bond issuer, the lower the interest rate paid by the issuer because the risk of default is lower. Credit quality ratings are provided by nationally recognized rating agencies.

Credit Risk: The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

Current Yield (Current Return): A yield calculation determined by dividing the annual interest received on a security by the current market price of that security.

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

Delivery versus Payment: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt (also called free). Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is the delivery of securities with an exchange of a signed receipt for the securities.

Discount: The amount by which the par value of a security exceeds the price paid for the security.

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

Diversification: A process of investing assets among a range of security types by sector, maturity, and quality rating.

Duration: A measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security. This calculation is based on three variables: term to maturity, coupon rate, and yield to maturity. The duration of a security is a useful indicator of its price volatility for given changes in interest rates.

Fair Value: The amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Federal Funds (Fed Funds): Funds placed in Federal Reserve banks by depository institutions in excess of current reserve requirements. These institutions may lend fed funds to each other overnight or on a longer basis. They may also transfer funds among each other on a same-day basis through the Federal Reserve banking system. Fed funds are considered to be immediately available funds.

Federal Funds Rate: Interest rate charged by one institution lending federal funds to the other.

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

Federal Deposit Insurance Corporation (FDIC): A federal agency that insures bank deposits, currently up to $100,000 per deposit.

Federal Home Loan Banks (FHLB): The institutions that regulate and lend to savings and loan associations. The Federal Home Loan Banks play a role analogous to that played by the Federal Reserve Banks in relation to member commercial banks.

Federal National Mortgage Association (FNMA): FNMA, like GNMA, was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development, H.U.D. It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans in addition to fixed-rate mortgages. FNMA's securities are also liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

Federal Open Market Committee (FOMC): Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

Federal Reserve System: The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., 12 regional banks and about 5,700 commercial banks that are members of the system.

Government National Mortgage Association (GNMA or Ginnie Mae): Securities guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by FHA, VA or FMHM mortgages. The term pass through is often used to describe Ginnie Maes.

Government Securities: An obligation of the U.S. government, backed by the full faith and credit of the government. These securities are regarded as the highest quality of investment securities available in the U.S. securities market. See "Treasury Bills, Notes, and Bonds."

Interest Rate: See "Coupon Rate."

Interest Rate Risk: The risk associated with declines or rises in interest rates, which cause an investment in a fixed-income security to increase, or decrease in value.

Internal Controls: An internal control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse. The internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognized 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. Internal controls should address the following points:

- **Control of collusion –** Collusion is a situation where two or more employees are working in conjunction to defraud their employer.
- **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.
- **Custodial safekeeping –** Securities purchased from any bank or dealer including appropriate collateral (as defined by state law) shall be placed with an independent third party for custodial safekeeping.

Inverted Yield Curve: A chart formation that illustrates long-term securities having lower yields than short-term securities. This configuration usually occurs during periods of high inflation coupled with low levels of confidence in the economy and a restrictive monetary policy.

Investment Policy: A concise and clear statement of the objectives and parameters formulated by an investor or investment manager for a portfolio of investment securities.

Investment-grade Obligations: An investment instrument suitable for purchase by institutional investors under the prudent person rule. Investment-grade is restricted to those obligations rated BBB or higher by a rating agency.

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

Local Government Investment Pool (LGIP): An investment by local governments in which their money is pooled as a method for managing local funds.

Mark-to-market: The process whereby the book value or collateral value of a security is adjusted to reflect its current market value.

Market Risk: The risk that the value of a security will rise or decline as a result of changes in market conditions.

Market Value: Current market price of a security.

Maturity: The date on which payment of a financial obligation is due. The final stated maturity is the date on which the issuer must retire a bond and pay the face value to the bondholder. See "Weighted Average maturity."

Money market: The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

Money Market Mutual Fund: Mutual funds that invest solely in money market instruments.

Mutual Fund: An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments. Mutual funds are regulated by the Investment Company Act of 1940.

National Association of Securities Dealers (NASD): A self-regulatory organization (SRO) of brokers and dealers in the over-the-counter securities business. Its regulatory mandate includes authority over firms that distribute mutual fund shares as well as other securities.

Net Asset Value: The market value of one share of an investment company, such as a mutual fund. This figure is calculated by totaling a fund's assets, which includes securities, cash, and any accrued earnings, subtracting this from the fund's liabilities and dividing this total by the number of shares outstanding. This is calculated once a day based on the closing price for each security in the fund's portfolio.

Nominal Yield: the stated rate of interest that a bond pays its current owner, based on par value of the security. It is also known as the "coupon," coupon rate," or "interest rate."

Offer: An indicated price at which market participants are willing to sell a security or commodity. Also referred to as the "ask price."

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

Par: Face value or principal value of a bond, typically $1,000 per bond.

Portfolio: Collection of securities held by an investor.

Positive Yield Curve: A chart formation that illustrates short-term securities having lower yields than long-term securities.

Premium: The amount by which the price paid for a security exceeds the security's par value.

Prime Rate: A preferred interest rate charged by commercial banks to their most creditworthy customers. Many interest rates are keyed to this rate.

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

Principal: The face value or par value of a debt instrument. Also may refer to the amount of capital invested in a given security.

Prospectus: A legal document that must be provided to any prospective purchaser of a new securities offering registered with the SEC. This can include information on the issuer, the issuer's business, the proposed use of proceeds, the experience of the issuer's management, and certain certified financial statements.

Prudent Person Rule: An investment standard outlining the fiduciary responsibilities of public funds investors relating to investment practices. The Act 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."

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

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

Reinvestment Risk: The risk that a fixed income investor will be unable to reinvest income proceeds from a security holding at the same rate of return currently generated by that holding.

Safekeeping: Holding of assets (e.g. securities) by a financial institution.

SEC Rule 15C3-1: See uniform net capital rule.

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

Securities & Exchange Commission: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

Serial Bond: A bond issue, usually of a municipality, with various maturity dates scheduled at regular intervals until the entire issue is retired.

Sinking Fund: Money accumulated on a regular basis in a separate custodial account that is used to redeem debt securities or preferred stock issues.

Term Bond: Bonds comprising a large part of all of a particular issue, which come due in a single maturity. The issuer usually agrees to make periodic payments into a sinking fund for mandatory redemption of term bonds before maturity.

Total Return: The sum of all investment income plus changes in the capital value of the portfolio. For mutual funds, return on an investment is composed of share price appreciation plus any realized dividends or capital gains. This is calculated by taking the following components during a certain time period. (Price Appreciation)+ (Dividends paid) + (Capital gains) =Total Return

Treasury Bills: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months or one year in minimum denominations of $10,000.00. The yields on bills are monitored closely in the money markets for signs of interest rate trends.

Treasury Bond: Long-term U.S. Treasury securities having initial maturities of more than ten years.

Treasury Notes: Intermediate term coupon bearing U.S. Treasury securities having initial maturities from one to ten years. Currently, the longest outstanding maturity for such securities is 30 years.

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

Volatility: A degree of fluctuation in the price and valuation of securities.

Volatility Risk Rating: A rating system to indicate the level of volatility and other non-credit risks associated with securities and certain bond funds. The ratings for bond funds range from those that have extremely low sensitivity to changing market conditions and offer the greatest stability of the return ("aaa" by S&P; "V-1" by Fitch) to those that are highly sensitive with currently identifiable market volatility risk ("ccc" by S&P, "V-10" by Fitch).

Weighted Average Maturity (WAM): The average maturity of all the securities that comprise a portfolio. According to SEC rule 2A-7, the WAM for SEC registered money market mutual funds may not exceed 90 days and no one security may have a maturity that exceeds 397 days.

When Issued (WI): A conditional transaction in which an authorized new security has not been issued. All "when issued" transactions are settled when the actual security is issued.

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

Yield-to-call (YTC): The rate of return an investor earns from a bond assuming the bond is redeemed (called) prior to its nominal maturity date.

Yield Curve: A graphic representation that depicts the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity. A normal yield curve may be alternatively referred to a positive yield curve.

Yield-to-maturity: The rate of return yielded by a debt security held to maturity when both interest payments and the investor's potential capital gain or loss are included in the calculation of return.

Zero-coupon Securities: Security that is issued at a discount and makes no periodic interest payments. The rate of return consists of a gradual accretion of the principal of the security and is payable at par upon maturity.

City of Portland
Investment Policy
Attachment A

BROKER/DEALER QUESTIONNAIRE AND CERTIFICATION

A. INSTRUCTIONS

In order for a firm to be consider or remain as a Broker/Dealer for the City of Portland, please follow the instructions listed below.

1. Complete each section of the questionnaire.

2. Do not leave any questions unanswered. If the question does not apply please mark it as N/A.

3. Provide all requested information.

4. All primary representatives must read the City's Investment Policy and sign the acknowledgement at the end of the questionnaire.

5. A Dealer Qualified Representative must sign the Texas Public Funds Investment Act Certification.

6. Submit the questionnaire and all required information to:

   Michel Sorrell
   Finance Director
   City of Portland
   Billy G Webb Drive
   Portland, Texas 78374

7. Contact Michel Sorrell at michel.sorrell@portlandtx.com or (361) 777-4520 if you have any questions.

B. EVALUATION

Broker/Dealers are evaluated based on the answers given on this questionnaire. Responses will be evaluated based on the following criteria:

25%	Financial and technical ability of the firm to perform as a broker/dealer for the City, including City staff's evaluation of the firm's performance based on any previous work experience with the City of Portland.
25%	Qualifications and experience of the key personnel assigned to work with the City particularly as it related to their experience with similar public sector clients in Texas and their familiarity with the Texas Public Funds Investment Act via education through or participation in local government organizations in the State.
25%	Thoroughness of the response as it relates to providing broker/dealer services relevant to the City.
25%	References

Once the selection process is complete, a notification letter will be mailed to all firms who submitted a questionnaire.

C. BASIC INFORMATION

Name of Firm: ______________________________

CRD Number: ______________________

National Address: ____

City: ________________ State: ______ Zip: _______

Telephone: ____________ Fax: ____________

Years Established: _______ Number of Employees: _________

PRIMARY REPRESENTATIVE/MANAGER/PARTNER-IN-CHARGE

Primary Representative(s)

Name: _________________________ Title: ________________
Local Address: ____
City: ____________ State: ______ Zip: _______
Telephone: __________________ Fax: __________________
Email Address: ____
CDR#: ____________________ Years with the Firm: _______

Will this person be trading with or quoting security offers to the City? ____________
Has this person read the City's Investment Policy? _________

Name: _________________________ Title: ________________
Local Address: ____
City: ____________ State: ______ Zip: _______
Telephone: __________________ Fax: __________________
Email Address: ____
CDR#: ____________________ Years with the Firm: _______

Will this person be trading with or quoting security offers to the City? _________ Has this person read the City's Investment Policy? _________

Manager/Partner-in-Charge

Name: _________________________ ________________
Local Address: ____
City: ____________ State: ______ Zip: _______
Telephone: __________________ Fax: __________________
Email Address: ____
CDR#: ____________________ Years with the Firm: _______

Will this person be trading with or quoting security offers to the City? _________ Has this person read the City's Investment Policy? _________

NOTE: Please attach a resume for all individual's listed above.

D. SPECIFIC QUESTIONS

1. Is the firm a primary dealer in U.S. Government Securities? ☐ Yes ☐ No

   If yes, for how long has the firm been a primary dealer? ______________________

2. What was the firm's total volume in U.S. Government and Agency Securities last years?

   Firm wide: Dollar Amount: ____________________ Number of Transactions: _______________
   Local Office: Dollar Amount: ____________________ Number of Transactions: ________________

3. Which instruments are offered regularly by the firm's local desk?
   ☐ T-Bills ☐ Treasury ☐ Notes/Bonds ☐ Instrumentality's ☐ Commercial Paper ☐ Bank CDs
   ☐ S & L CDs ☐ Agencies (Specify) ____________________ ☐ Other (Specify) __________________

4. Have any of the firm's public-sector clients ever sustained a loss on a securities transaction arising from a misunderstanding or misrepresentation of the risk characteristics of the instrument? ☐ Yes ☐ No

   If yes, please explain.

5. In the past five years, has the firm or any of the employees ever been subject to a regulatory or state or federal agency investigation for alleged improper, fraudulent, disputable or unfair activities related to the sale of government securities or money market instruments? ☐ Yes ☐ No

   If yes, please explain.

6. Has the firm ever been temporarily closed or prohibited from trading due to net capital? ☐ Yes ☐ No

   If yes, please explain.

7. The City of Portland's Investment Policy requires the use of delivery versus payment. Describe the firm's normal process, including a description of reports, transactions, confirmation schedules, timing, safekeeping arrangements and auditing procedures.

   Note: Please attach the firm's Delivery Instructions.

8. Will the firm provide a faxed or electronic copy of the trade ticket, no later than one business day after the trade is executed? ☐ Yes ☐ No

   The following information must be included:
   - **a.** Security Type and CUSIP Number
   - **b.** Issue Date, Maturity Date, Settlement Date, Trade Date, Call Date, Pay Date
   - **c.** Risk Class, Risk Factor
   - **d.** Rating
   - **e.** Coupon Rate
   - **f.** Par Value and Price

9. How many and what percentage of the firms transactions failed:

Last Month? _______________ Percentage ______________

Last Year? _______________ Percentage _______________

10. Describe any precautions taken by the firm to protect the interest of the public when dealing with government agencies as investors.

E. FINANCIAL INFORMATION

1. Have there been any changes in the firm's ownership in the past two years? ☐ Yes ☐ No

   If yes, please explain.

2. Has the firm received any federal aid (stimulus funds) in the past two years? ☐ Yes ☐ No

   If yes, please explain.

3. Does the firm consistently comply with the Federal Reserve Bank's capital adequacy guideline? ☐ Yes ☐ No

   Include certified documentation of your capital adequacy as measured by Federal Reserve standards.

4. Please provide **audited** financial statements for the most current year and other indicators regarding the firm's capitalization. Please do not use a website address to answer this question.

5. Please provide the following information for the most **current quarter** reports: (Note: Do not answer with "see financial report" as that will be construed as an unanswered question.)

   a. Debt/Equity (in Percent) ___________________

   b. Assets (in Millions) ___________________

   c. Net Capital (in Millions) ___________________

   d. Volume of Security Transactions (in Millions) ___________________

   e. Total Liabilities (in Millions) ___________________

   f. Total Stockholders' Equity (in Millions) ___________________

6. Is the firm representing a parent corporation or a subsidiary of another corporation? ☐ Yes ☐ No

   If yes, please furnish audited financial statements on the firm's parent corporation as well as the firm's subsidiary.

7. Provide a description of the capital line and trading limits that support/limit the office that would conduct business with our government.

F. GENERAL INFORMATION AND QUESTIONS

1. Please describe any training the firm is willing and able to provide City staff, including examples of current training opportunities.

2. Please describe the level of involvement the firm has with local government organizations in Texas such as GFOAT and GTOT (e.g. participation as a speaker or attendee). Also indicate the numbers of years the firm has been involved with these or other local government organizations in Texas.

3. **Attach** a copy of the Financial Industry Regulatory Authority (FIRA) Broker Check Report for each local representative listed and a copy of the FIRA summary report for the firm.

4. **Attach** a copy of the firm's State of Texas Securities Commission Registration.

5. Does the firm participate in the Securities Investors Protection Corporation (S.I.P.C)? If not, explain:

6. Enclose a complete schedule of fees and charges for various transactions.

7. Please identify (at least five for each trader included on this questionnaire and certification) their most directly comparable public sector clients preferably in our geographical area.

Trader Name: ____________________

Entity	Contact Person	Telephone	Client Since
1.			
2.			
3.			
4.			
5.			

Trader Name: ____________________

Entity	Contact Person	Telephone	Client Since
1.			
2.			
3.			
4.			
5.			

G. CHECKLIST

Resume for all primary representatives and manager/partner-in-charge enclosed.

Delivery Instructions enclosed.

Certified documentation of your capital adequacy enclosed.

Audited financial statement enclosed. (Parent and subsidiary if applicable)

Current quarter financial statement enclosed.

Copy of the Firms Financial Industry Regulatory Authority Summary sheet enclosed.

Copy of the Financial Industry Regulatory Authority Broker Check Report for each representative listed enclosed.

Copy of the firm's State of Texas Securities Commission Registration enclosed.

Delivery Instructions enclosed.

Schedule of fees and charges enclosed.

INVESTMENT POLICY ACKNOWLEDGEMENT

______________________________	______________________________
Signature	Printed Name & Title
______________________________	______________________________
Signature	Printed Name & Title
______________________________	______________________________
Signature	Printed Name & Title

Texas Public Funds Investment Act

This certification is executed on behalf of the City of Portland (the Investor) and

______________________________ (the Dealer) pursuant to the Public Funds Investment Act, Chapter 2256, Government Code, Texas Codes Annotated (the Act) in connection with the investment transactions conducted between the Investor and Dealer.

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

1. The Dealer Qualified Representative is duly authorized to execute this Certification on behalf of the Dealer, and
2. The Dealer Qualified Representative has received, read and understood the Investment Policy furnished by the Investor, and
3. The Dealer has implemented reasonable procedures and controls in an effort to preclude investment transaction conducted between the Dealer and the Investor that are not authorized by the investment policy, except to the extent that this authorization is dependent on an analysis of the makeup of the entity's entire portfolio or requires an interpretation of subjective investment standards.

Dealer Qualified Representative

____

Signature

____

Printed Name & Title

____

____

Date

City of Portland
Investment Policy
Attachment B

ACKNOWLEDGEMENT OF RECEIPT OF INVESTMENT POLICY
OF THE CITY OF PORTLAND, TEXAS

1. I am a registered principal of____(the "Seller").

2. The Seller proposes to sell certain investments to The City of Portland (the "Buyer").

3. I acknowledge that I have received and thoroughly reviewed the Buyer's investment policy.

4. I acknowledge that the Seller has implemented reasonable procedures and controls in an effort to preclude imprudent investment activities arising out of investment transactions conducted between the Seller and the Buyer.

____
Date

____
Signature

____
Printed Name

____
Title

____
Seller

City of Portland
Investment Policy
Attachment C

Approved List of Financial Institutions, Depositories, Brokers and Dealers
As of November 3, 2015

Name of Institution	Type of Institution
First Community Bank 1001 Wildcat Portland, Texas 78374 Contact: Teri Owen	Financial Depository
TexPool 1001 Texas Avenue, Suite 1400 Houston, Texas 77002 Contact: Diane Parker	An Investment Service for Public Funds - Pooled Investment Program
Texas Class 999 18th Street, Suite 1230 Denver, CO 80202 Contact: Bill Moritz	An Investment Service for Public Funds - Pooled Investment Program
Frost Bank P.O. 749 Corpus Christi, Texas 78403 Contact: Traci Arellano	CDARS Investment Program
Cantella & Co., Inc. 101 Federal Street, 13th Floor Boston, Massachusetts 02110 Contact: Mark Edelman	Brokered CD Program
Wells Fargo Bank, N.A. 608 Second Avenue South, 10th Floor Minneapolis, Minnesota 55402 Contact: Gil Ramon	Government Agency Investment Program

RESOLUTION NO. 706

A RESOLUTION AMENDING THE INVESTMENT POLICY OF THE CITY OF PORTLAND, TEXAS

WHEREAS, Chapter 2256 of the Texas Government Code, commonly known as the "Public Funds Investment Act," requires the City to adopt annually an investment policy by rule, order, ordinance, or resolution on an annual; and

WHEREAS, the Public Funds Investment Act requires the investment officer of the City to attend investment training every two years; and

WHEREAS, the City of Portland approves of the investment training courses sponsored by the Texas Municipal League and the Government Treasurer Officers of Texas; and

WHEREAS, the investment officer of the City attends these training sessions as required by the Public Funds Investment Act; and

WHEREAS, the attached investment policy and incorporated revisions comply with the Public Funds Investment Act, as amended, and authorize the investment of city funds in safe and prudent investments.

NOW THEREFORE BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF PORTLAND, TEXAS:

That the City of Portland has complied with the requirements of the Public Funds Investment Act, and that the Investment Policy, as amended and attached hereto, is hereby adopted as the investment policy of the City effective November 3, 2015.

PRESENTED AND PASSED by the City Council of the City of Portland this 3rd day of November, 2015.

CITY OF PORTLAND, TEXAS

David Krebs
Mayor

ATTEST:

Annette Hall
City Secretary