

ORDINANCE NO. 091-061

AN ORDINANCE PROVIDING FOR AMENDMENT OF THE EXISTING INVESTMENT POLICY TO ALLOW EMPLOYMENT OF INDEPENDENT INVESTMENT ADVISORS, RESTRICT THE SCOPE OF PERMITTED INVESTMENTS AND IMPROVE INTERNAL CONTROLS OF INVESTMENT ACTIVITIES.

WHEREAS, the Town of Addison intends to improve its investment management by employment of independent professional investment advisors;

WHEREAS, the use of independent investment advisors requires adoption of a definitive statement of permitted investment activities and controls to identify, prevent and control losses; and

WHEREAS, the following Ordinance is intended to address these objectives;

NOW THEREFORE, BE IT ORDAINED BY THE CITY COUNCIL OF THE TOWN OF ADDISON, TEXAS:

Section 1

REPEAL

1.1 Ordinance Nos. 086-046 and 089-029, as codified in Sections 2-61 through 2-67, inclusive, of the Code of Ordinances of the Town of Addison, Texas are hereby repealed in their entirety.

Section 2

SCOPE

2.1 The Investment of Local Funds Act, Article 4413(34c), Vernon's Texas Civil Statutes (V.T.C.S.) and the Public Funds Investment Act, Article 842a-2, V.T.C.S., prescribe that each city is to adopt rules governing its investment practices and to define the authority of the investment officer. The following Ordinances address the methods, procedures, and practices which must be exercised to ensure effective and judicious fiscal management of the Town's funds. This Ordinance shall not apply to the selection, retention or other issues concerning the

depositories of the Town's funds in demand and time deposits as provided under Chapter 105 of the Local Government Code.

2.2 This Ordinance shall apply to the investment and management of all funds of the Town under its control, other than those expressly excluded herein or by applicable law or valid agreement. This Ordinance shall not supercede the restrictions on investment and use applicable to any specific fund and, in the event of any conflict between this Ordinance and the requirements of any fund subject hereto, the specific requirement applicable to such fund shall be followed as well as all other provisions of this Ordinance other than those in conflict. The Employees Deferred Compensation Agency Fund and all of the Town's reserve funds are excluded from coverage under this Policy.

2.3 In order to make effective use of the Town's resources, all monies shall be pooled into one investment bank account, except for those monies required to be accounted for in other bank accounts as stipulated by applicable laws, bond covenants or contracts. The income derived from this pooled investment account shall be distributed in accordance with the Town's internal procedures.

Section 3

OBJECTIVES

3.1 The Town's principal investment objectives in order of priority are:

1. Conformance with all Federal regulations, State of Texas statutes and other legal requirements including the Town Charter and Town Ordinances, including this Policy.
2. Preservation of capital and the protection of investment principal.
3. Maintenance of sufficient liquidity to meet anticipated disbursements and cash flows.
4. Diversification to avoid incurring unreasonable risks regarding securities owned.
5. Attainment of a market rate of return equal to or higher than the performance measure established from time to time by the Finance Director of the Town.

Section 4

DELEGATION OF AUTHORITY

4.1 Management responsibility for the investment program is delegated by the City Council to the Finance Director (hereinafter referred to as the "Director"). The Director's authority will at all times be limited by all applicable laws and regulations in effect from time to time and this Policy.

4.2 The Director shall develop and maintain written administrative procedures for the operation of the investment program consistent with this Policy. The controls shall be designed to prevent, identify and control losses of public funds arising from deviation from this Policy, fraud, employee error, misrepresentation by third parties, or imprudent actions by employees and officers of the Town.

4.3 With written approval from the City Manager, the Director may delegate any phase of the investment management program to members of the Town staff. Such approval shall state specifically the functions such person is authorized to perform or that the person is authorized to perform all activities of the Director under this Policy. The Director shall obtain and maintain, at the Town's expense, fidelity bonds for himself and each of his designees in amounts determined adequate by the Director (which shall not be less than five percent of the amounts subject to this Policy) for each fiscal year as shown by the approved budget. No person may engage in an investment transaction except as provided under the terms of this Ordinance and the internal procedures established by the Director. A current list of persons authorized to transact investment business and wire funds on behalf of the Town shall be maintained by the Director.

4.4 In the discretion of either the City Manager or the Director and in any event upon the termination or reassignment of any member of the Director's staff authorized to conduct transactions for the Town pursuant to this Policy, the authority of such person shall be revoked and such revocation of authority shall be immediately communicated by the Director orally and in writing to each and every depository, broker/dealer, investment advisor, custodian and other agency or entity with whom the Town has any existing or continuing relationship in the management of its investments.

Section 5

INVESTMENT ADVISORS

5.1 The Town may, in the discretion of the Director, appoint one or more Investment Advisors to assist the Town's financial staff in the management of the Town's funds. The Investment Advisor must be registered with the Securities and Exchange Commission under the Investment Advisors Act of 1940 and also be registered with the Texas State Securities Board as an Investment Advisor. To be eligible for consideration, an Investment Advisor shall demonstrate to the Director knowledge of and experience in the management of public funds. The Director will satisfy himself as to the Advisor's qualifications by all appropriate means, including reference checks with the Advisor's other clients, the State Securities Board and the Securities and Exchange Commission. An appointed Investment Advisor shall act solely in an advisory and administrative capacity, within the guidelines of this Ordinance and without any discretionary authority to transact business on behalf of the Town.

5.2 Each Investment Advisor appointed by the Town shall agree that its investment advice shall at all times be given with the judgment and care, under circumstances then prevailing, which persons paid for their special prudence, discretion and intelligence, in such matters exercise in the management of their client's affairs, not for speculation by the client or production of fee income by the advisor or broker, but for investment by the client with emphasis on the probable safety of the capital while considering the probable income to be derived.

5.3 Appointment of an Investment Advisor shall otherwise be according to the Town's normal purchasing procedures for selecting professional services. Any approved investment advisor may be terminated with the approval of the City Manager, if in the opinion of the Director, the advisor has not performed adequately.

Section 6

PRUDENCE

6.1 The standard of prudence to be used for managing the Town's assets is the "prudent investor" rule, which states, "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."

6.2 The overall investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. The Director and his staff shall recognize that the investment activities of the Town are a matter of public record.

6.3 The Director and authorized investment personnel acting in accordance with written procedures and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that this Ordinance and the Director's procedures were followed.

Section 7

AUTHORIZED SECURITIES INVESTMENTS

7.1 Subject to any limitations otherwise imposed by applicable law, regulations, bond indentures or other agreements, (including but not limited to Vernon's Texas Civil Statutes Article 842a-2, Public Funds Investment Act and Article 4413, Investment of Local Funds Act), the following securities and deposits are the only ones permitted as investments for the Town's funds:

a. Direct obligations of the United States government with a maturity not to exceed two years from the date of purchase; U.S. Treasury Bills, U.S. Treasury Notes, U.S. Treasury Bonds, and U.S. Treasury Strips (book entry U.S. Treasury securities whose coupon has been removed).

b. Debentures or discount notes with a maturity not to exceed two years from the date of purchase issued by, guaranteed by, or for which the credit of any of the following Federal Agencies and Instrumentalities is pledged for payment: Federal National Mortgage Association (FNMA), Federal Home Loan Bank (FHLB), Federal Farm Credit Bank (FFCB), Student Loan Marketing Association (SLMA), and Federal Home Loan Mortgage Corporation (FHLMC).

c. Bonds or other interest bearing obligations of which the principal and interest are guaranteed by the full faith and credit of the United States government with a stated maturity note to exceed two years from the date of purchase. A security's "average life" does not constitute a stated maturity.

d. Time Certificates of Deposit insured by the Federal Deposit Insurance Corporation (FDIC) in state or national banks or state or federally chartered savings and loan associations located within the State of Texas which have been approved by the Town in accordance with Section 11 of this Ordinance. Any deposits exceeding FDIC insurance limits shall be fully collateralized by securities listed in items a and b above, and the collateral shall be held by the Town's third party custodian bank.

e. Prime commercial paper with an original maturity of 180 days or less which, at the time of purchase, is rated at least:

A-1+ by Standard and Poors,
P-1 by Moodys or
D-1+ by Duff & Phelps.

(1) At the time of purchase, the commercial paper must be rated by at least two of the above stated ratings agencies at the above stated minimum credit rating.

(2) If more than two of the above stated agencies rates an issuer, all the rating agencies must rate the issuer in accordance with the above stated minimum credit criteria.

(3) If the commercial paper issuer has senior debt* outstanding, the senior debt must be rated by each service that publishes a rating of the issue at least:

A-1 by Moodys,
A+ by Standard and Poors, and
A+ by Duff and Phelps.

* Senior Debt is defined as the most senior secured or unsecured debt of an issuer with an original maturity exceeding one year.

f. Eligible Bankers Acceptances with original maturities not exceeding 180 days, issued on domestic banks operating under the banking laws of the United States, whose senior long term debt is rated, at the time of purchase, A-1 or higher by Moodys, A+ by Standard and Poors, or A+ by Duff & Phelps.

g. Repurchase Agreements with a defined termination date of 90 days or less on U.S. Treasury and Federal Agency securities listed in items a and c above, collateralized at a minimum market value of 102 percent of the dollar value of the transaction, with the accrued interest accumulated on the collateral included in the calculation.

Repurchase Agreements shall be entered into only with dealers who: 1) are recognized as primary reporting dealers with the Market Reports Division of the Federal Reserve Board of New York; and 2) have an executed, Town approved Master Repurchase Agreement. Collateral (purchased securities) shall be held by the Town's custodian bank as safekeeping agent, and the market value of the collateral securities shall be marked-to-the-market daily based on the bid price for the previous day as reported in the Wall Street Journal.

For the purpose of item g of this section the term "collateral" shall mean "purchased securities" under the terms of the Town approved Master Repurchase Agreement. Collateral bearing no coupon will have a maturity not to exceed five years. All other eligible collateral shall have a maturity limit of ten years.

h. Money Market Funds meeting each of the following criteria:

(1) Registered with the Securities and Exchange Commission;

(2) no commission fee shall be charged on purchases or sales of shares;

(3) have an objective of maintaining a constant daily net asset value of \$1.00 per share;

(4) limit assets of the fund to those securities listed in paragraphs a, b, c, and g above; and

(5) have a maximum stated maturity of 13 months and dollar weighted average portfolio maturity of not more than 90 days. A list of Town approved Money Market Funds shall be kept by the Director.

i. State or local investment pools organized under the Interlocal Cooperation Act that have been specifically approved by the Director.

7.2 In addition to all of the investments listed above, all proceeds from the sale of bonds and reserves and funds maintained for debt service purposes may be invested in common trust funds owned or administered by banks domiciled in Texas if the common trust fund meets all of the following requirements:

1. all of the assets of such fund consist of an appropriate combination of the securities listed above;
2. comply with the provisions of the Internal Revenue Code of 1986 and applicable federal regulations governing the investment of bond proceeds;
3. meet the cash flow requirements and investment needs of the Town; and
4. is owned or administered by a bank approved by the Town pursuant to Section 11 of this Ordinance.

Section 8

OTHER INVESTMENT GUIDELINES

8.1 The Town seeks active management of its portfolio assets. In the effort of meeting the objectives of this Policy, the Town may from time to time sell securities that it owns in order to better position its portfolio assets. Sales of securities prior to maturity shall be documented and approved by the Director before such a transaction is consummated. Sales of securities yielding net proceeds less than 98 percent of the book value of the securities must be approved in advance and in writing by the City Manager.

8.2 Each investment transaction must be based upon competitive quotations received from at least three broker/dealers who have been approved by the Town in accordance with Texas law.

8.3 The purchase and sale of all securities shall be on a delivery versus payment or payment versus delivery basis (i.e., for securities purchases, monies will not be released by the Town's safekeeping bank until securities are received at the Federal Reserve Bank for further credit to the Town's safekeeping bank. In the case of securities sales, monies will be received by the Town's safekeeping bank via the Federal Reserve Bank as the securities are simultaneously released to the purchaser). In this manner the Town will always have possession of either its securities or its monies.

Section 9

PORTFOLIO MATURITIES

9.1 Maturities shall be selected which provide for both stability of income and reasonable liquidity.

9.2 At all times the Town shall maintain 10 percent of its total investment portfolio in instruments maturing in 90 days or less. The weighted average maturity of all securities and certificates of deposit in the Town's total investment portfolio at any given time (not including cash or demand deposits) shall not exceed one and one-half years.

Section 10

INVESTMENT LIMITS

10.1 It is the policy of the Town to avoid concentration of assets in a specific maturity, a specific issue, or a specific class of securities, with the exception of U.S. Treasury issues listed in Section 6(a). The asset allocation in the portfolio should, however, be flexible depending upon the outlook for the economy and the securities markets.

10.2 The Town will not exceed the following maximum limits as a percentage of the total portfolio for each of the categories listed below:

- 20 percent in Money Market Funds
- 30 percent in Certificates of Deposit
- 30 percent in Commercial Paper
- 30 percent in Bankers Acceptances
- 40 percent in State and Local Government Investment Pools
- 70 percent in Instrumentality securities described in Section 6(b)

10.3 In addition to the limitations set forth above, the Town's investment in any single money market fund shall never exceed 10 percent of the total assets of the money market fund.

10.4 The Director shall evaluate how each security purchased fits into the Town's overall investment strategy.

10.5 The amount of investments in U.S. Treasury and Agency Securities and Repurchase Agreements backed by those securities, as defined in sections 6(a), 6(c) and 6(g), shall at no time be less than 30 percent of the total portfolio. There shall be no maximum limits on these investments.

Section 11

SELECTION OF BROKER/DEALERS

11.1 The Town shall maintain a list of broker/dealers and financial institutions which have been approved for investment purposes. Securities may only be purchased from those authorized institutions and firms. To be eligible, a broker/dealer must meet at least one of the following

criteria: 1) be recognized as a Primary Dealer as defined by the New York Federal Reserve Market Reports Division; or 2) report voluntarily to the Market Reports Division of the Federal Reserve Bank of New York.

11.2 Broker/dealers and other financial institutions will be selected by the Director on the basis of their financial stability, expertise in cash management and their ability to service the Town's account. Each broker/dealer, bank, or savings and loan that has been authorized by the Town shall be required to submit and annually update a Broker/Dealer Information Request form which includes the firm's most recent financial statements. The Director shall maintain a file which includes the most recent Broker/Dealer Information Request forms submitted by each firm approved for investment purposes. A copy of the submitted Broker/Dealer Information Request forms as well as a list of those broker/dealers approved by the Town shall be maintained by the Director.

11.3 The Director shall review the quality of service and financial stability of each broker/dealer and financial institution approved under this Section at least annually. Any approved broker/dealer or financial institution may be removed from the list of approved broker/dealers with the approval of the Director, if in the opinion of the Director, the firm has not performed adequately or its financial position is considered inadequate.

Section 12

SELECTION OF DEPOSITORIES

12.1 The Town shall maintain a list of authorized banks and savings and loans which are approved to provide Certificates of Deposit. To be eligible for authorization, a bank or savings and loan must be members of the FDIC and meet the minimum credit criteria (described below) of a credit analysis provided by a commercially available bank rating service such as Prudent Man Analysis, Inc., or Sheshunoff Public Finance Bank Rating Service. Banks or savings and loans failing to meet the minimum criteria or, in the judgment of the Director, no longer offering adequate safety for the Town will be removed from the list.

12.2 Bank rating guidelines will be calculated using publicly available information obtained from the Federal Reserve, the Comptroller of the Currency, or the banking

institution itself. Data obtained from bank rating services will include factors covering the following: overall rating, liquidity policy, credit risk policy, interest rate policy, profitability and capital policy. Financial institutions selected to issue certificates of deposit to the Town in excess of \$100,000 or that are selected as Safekeeping or Custodial agents for the Town shall meet the following criteria: 1) have a Sheshunoff Public Finance Peer Group Rating of thirty or better on a scale of zero to one hundred with one hundred being the highest rating at the time of selection or 2) have a Prudent Man Express Analysis overall rating of three or better on a scale of one to five with one being the highest quality for the most recent reporting quarter before the time of selection, and 3) qualify as a depository of public funds in the State of Texas.

12.3 The Director shall maintain a file of the credit rating analysis reports performed for each approved firm.

12.4 In addition to the foregoing requirements, with respect to bond proceeds and reserves or other funds maintained for debt service purposes, a depository of such funds must be selected by competitive bidding by three banks located within the boundaries of the Town or if there are not three banks available within the Town's boundaries that are willing and able to accept such deposits, then at least three bids must be obtained from banks situated in Dallas County that are willing and able to accept such deposits.

Section 13

SAFEKEEPING AND CUSTODY

13.1 Investment securities purchased for the Town will be delivered by either book entry or physical delivery and shall be held in third-party safekeeping by a Federal Reserve Member financial institution designated as the Town's safekeeping and custodian bank. The Town may designate more than one custodian bank, but the safekeeping banks shall not be a depository bank. The Town shall execute a Safekeeping Agreement with each bank prior to utilizing the custodian's safekeeping services. Only a state or national bank located within the State of Texas may be utilized as a custodian of securities pledged to secure certificates of deposit. The safekeeping agreement must provide that the safekeeping bank will immediately record the receipt of purchased or pledged securities in its books and promptly issue and deliver a signed safekeeping receipt

showing the receipt and the identification of the security, as well as the Town's interest.

13.2 The Director shall maintain a list of designated custodian banks and a copy of the Safekeeping Agreement executed with each custodian bank.

13.3 The Town must approve release of securities in writing prior to their removal from the custodial account. A telephonic facsimile of a written authorization shall be sufficient if the custodian orally confirms receipt of the transmission and an exact copy of the document is retained in the Town's files. In no event shall the custodial bank be an authorized depository bank, issuer of repurchase agreements or banker's acceptances in which the Town invests or broker/dealer of securities on behalf of the Town.

13.4 All securities shall be confirmed in the name of the Town and delivered to an approved custodial bank or carried at a Federal Reserve Bank in the name of the Town. The Custodian shall not otherwise deposit purchased or pledged securities. All book entry securities owned by the Town shall be evidenced by a safekeeping receipt issued to the Town and signed by the appropriate officer at the custodian bank stating that the securities are held in the Federal Reserve system in a CUSTOMER ACCOUNT naming the Town as the "customer." In addition, the custodian bank will, when requested, furnish a copy of the delivery advice received by the custodian bank from the Federal Reserve Bank.

13.5 All certificated securities (those transferred by physical delivery) shall: 1) be held by an approved custodian bank or any correspondent bank in New York City approved by the Director; and 2) the correspondent bank or the Town's safekeeping bank shall issue a safekeeping receipt to the Town evidencing that the securities are held by the correspondent bank for the Town.

13.6 The original safekeeping receipt for each transaction including purchased securities under a repurchase agreement and collateral securing deposits will be forwarded to the Director or his designee and held in a secured file by the Town.

Section 14

RECORD KEEPING AND REPORTING

14.1 A record shall be maintained of all bids and offerings for securities transactions in order to ensure that the Town receives competitive pricing. All transactions shall be documented by the person authorizing the transaction in a form that shows that person's name, the party instructed to execute the transaction, the date, a description of the transaction and a brief statement of the reason(s) for the transaction.

14.2 Each depository of the Town's funds shall maintain separate, accurate and complete records relating to all deposits of the Town's funds, the securities pledged to secure such deposits and all transactions relating to the pledged securities. Each approved custodian shall maintain separate, accurate and complete records relating to all securities received on behalf of the Town, whether pledged, purchased or subject to repurchase agreement, as well as all transactions related to such securities. In addition, each depository shall file all reports required by the Texas State Depository Board. Each depository and custodian shall agree to make all the records described in this paragraph available to the Director's designee and the Town's auditors at any reasonable time.

14.3 At least once each quarter, the Director shall verify that all securities purchased by or pledged to the Town are on hand in appropriate form. At least annually the Town's investment program, including the records of custodians and depositories, shall be audited by independent certified public accountants selected by the City Council.

14.4 All broker/dealers, custodians, depositories and investment advisors shall maintain complete records of all transactions that they conducted on behalf of the Town and shall make those records available for inspection by the Director or other representatives designated by the City Council or City Manager.

14.5 All sales of securities for less than the book value of the security shall be approved by the Director and reported to the City Council at the next regular meeting. Sales of securities for less than 98 percent of the book value of the securities must be approved by both the City Manager and the Director.

14.6 All contracted Investment Advisors shall report at least monthly on the straight-line book value, the market value of investment holdings, and total investment return and such other information required by the Director. Unrealized profits or losses in the Town's investment portfolio will be disclosed but will not be used in the calculation of income earned for the month. Contracted Investment Advisors shall postmark their monthly reports to the Director no later than five business days following the close of the reporting month.

14.7 An investment report shall be prepared by the Director on a quarterly basis listing all of the investments held by the Town, the current market valuation of the investments and transaction summaries, including a detailed list of the gains and losses recognized. The report shall explain the total investment return during the previous quarter and compare the portfolio's performance to other benchmarks of performance.

14.8 Within 30 days after the end of the Town's fiscal year, the Director shall prepare, sign and deliver to the City Manager and the Town Council an annual report on the Town's investment program and investment activity which has also been signed by each officer and employee of the Town authorized to conduct any of the Town's investment activity. The annual report shall include full year and separate monthly comparisons of investment return. Such annual report shall include an analysis of the compliance with this Ordinance as well as changes in applicable laws and regulations during the previous year and may include any other items of significance related to the investment program.

Section 15

ETHICS AND CONFLICTS OF INTEREST

15.1 Officers and employees of the Town involved in the investment process shall refrain from personal business activity that involves any of the Town's approved custodians, depositories, broker dealers or investment advisors and shall refrain from investing in any security issue held by the Town. Employees and officers shall not utilize investment advice concerning specific securities or classes of securities obtained in the transaction of the Town's business for personal investment decisions, shall in

all respects subordinate their personal investment transactions to those of the Town, particularly with regard to the timing of purchases and sales and shall keep all investment advice obtained on behalf of the Town and all transactions contemplated and completed by the Town confidential, except when disclosure is required by law.

Section 16

POLICY REVISIONS

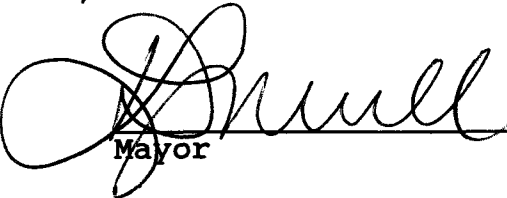
16.1 This Ordinance will be reviewed at least annually by the Director and may be amended as conditions warrant by the City Council.

Section 17

EFFECTIVE DATE

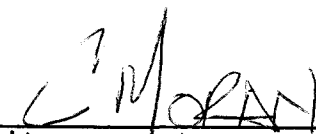
17.1 The foregoing Ordinance is hereby enacted by the Town of Addison, Texas effective in all respects on and after November 12, 1991.

DULY PASSED BY THE CITY COUNCIL OF THE TOWN OF ADDISON, TEXAS on the 12th day of November, 1991.



Mayor

ATTEST:



City Secretary

Published
12/26/91

