

ORDINANCE NO. 092-047

AN ORDINANCE OF THE TOWN OF ADDISON, TEXAS, AMENDING ARTICLE IV OF CHAPTER 2 OF THE CODE OF ORDINANCES OF THE TOWN, PROVIDING FOR STANDARD OF CARE; PROVIDING FOR ADDITIONAL AUTHORIZED SECURITIES INVESTMENTS; PROVIDING FOR MATURITY DATE FOR CALLABLE SECURITIES; PROVIDING FOR INVESTMENT LIMITS; PROVIDING FOR BROKERS/DEALERS AND FINANCIAL INSTITUTIONS AS COUNTERPARTIES; PROVING FOR SUBMISSION OF DEPOSITORIES' CONSOLIDATED REPORT OF CONDITIONS AND INCOME; PROVIDING FOR CERTAIN CHANGES IN SAFEKEEPING AND CUSTODY; PROVIDING FOR CERTAIN RECORD KEEPING AND REPORTING CHANGES; AND PROVIDING FOR ARTICLE REVISIONS.

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

SECTION 1. That the Code of Ordinances of the Town of Addison, Texas, is hereby amended to amend the following sections of Article IV of Chapter 2 to read as follows:

ARTICLE IV. INVESTMENT POLICY

Sec. 2-65. Standard of Care.

(a) As provided for in the Public Funds Investment Act of 1987, as amended, the standard of care for the Town's investments shall be that such "investments shall be made with judgment and care, under circumstances then prevailing, that 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 derived".

(b) 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.

(c) 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 Policy and the Director's procedures were followed.

Sec. 2-66. Authorized Securities Investments.

(a) 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:

(1) Direct obligations of the United States government with a maturity not to exceed two (2) 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).

(2) Debentures or discount notes with a maturity not to exceed two (2) 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).

(3) 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 not to exceed two (2) years from the date of purchase. A security's "average life" does not constitute a stated maturity.

(4) Time Certificates of Deposit, insured by the Federal Deposit Insurance Corporation (FDIC) or its successor, 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 2-69.2. Any deposits exceeding FDIC insurance limits shall be fully collateralized by securities listed in items (1) and (2) above, and the collateral shall be held by the Town's third party custodian bank.

(5) Prime commercial paper with an original maturity of one hundred eighty (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.

a. At the time of purchase, the commercial paper must be rated by at least two (2) of the above stated ratings agencies at the above stated minimum credit rating.

b. If more than two (2) 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.

c. 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 & Phelps.

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

(6) Eligible Bankers Acceptances with original maturities not exceeding one hundred eighty (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.

(7) Repurchase Agreements with a defined termination date of ninety (90) days or less on U.S. Treasury and Federal Agency securities listed in items (1) and (3) above, collateralized initially at a minimum market value of one hundred two (102) percent of the dollar value of the transaction, with the accrued interest accumulated on the collateral included in the calculation.

If the market value of the collateral falls below one hundred one (101) percent of the dollar value of the transaction, the collateral will be required to be brought up to the one hundred two (102) percent initial maintenance level.

A Repurchase Agreement is defined as a simultaneous agreement to buy, hold for ninety (90) days or less, and then sell back an obligation described in item (7) above, the principal and interest of which are guaranteed by the United States or any of its agencies.

Repurchase Agreements shall be entered into only with dealers who:

- a. Are recognized as primary reporting dealers with the Market Reports Division of the Federal Reserve Board of New York; and
- b. 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 (7) 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 (5) years. All other eligible collateral shall have a maturity limit of ten (10) years.

(8) Money Market Funds meeting each of the following criteria:

- a. Registered with the Securities and Exchange Commission;
- b. No commission fee shall be charged on purchases or sales of shares;

c. Have an objective of maintaining a constant daily net asset value of \$1.00 per share;

d. Limit assets of the fund to those securities listed in paragraphs (1), (2), (3) and (7) above; and

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

(9) State investment pools organized under the Interlocal Cooperation Act that have been specifically approved by the Director.

(10) Local investment pools organized under the Interlocal Cooperation Act that have been specifically approved by the Director and that meet the criteria outline in (8) above.

(11) Direct obligations of the State of Texas or its agencies.

(12) Other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States.

(b) 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 2-69.2.

Section 2-69. Portfolio maturities.

(a) Maturities shall be selected which provide for both stability of income and reasonable liquidity.

(b) At all times the Town shall maintain ten (10) percent of its total investment portfolio in instruments maturing in ninety (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 (1 1/2) years.

(c) In the case of callable securities, the first "call" date shall be used as the "maturity" date for investment purposes in this section if, in the opinion of the Director, there is little doubt that the security will be called prior to maturity.

Section 2-69.1. Investment limits.

(a) 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 2-66(a). The asset allocation in the portfolio should, however, be flexible depending upon the outlook for the economy and the securities markets.

(b) 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 as outlined in Section 2-66(a)(8)
- 30 percent in Certificates of Deposit
- 30 percent in Commercial Paper
- 30 percent in Bankers Acceptances
- 40 percent in Local Government Investment Pools as authorized in Section 2-66(a)(8) and (a)(10)
- 70 percent in State Government Investment Pools as authorized in Section 2-66(a)(9)
- 70 percent in Instrumentality securities described in Section 2-66(a)(2)

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

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

(e) The amount of investments in U.S. Treasury and Agency Securities and Repurchase Agreements backed by those securities, as defined in section 2-66(a)(1), 2-66(a)(3), and 2-66(a)(7), shall at no time be less than thirty (30) percent of the total portfolio. There shall be no maximum limits on these investments.

Section 2-69.2. Selection of broker/dealers.

(a) The Town shall maintain a list of broker/dealers and financial institutions which have been approved as counterparties 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 (1) 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.

(b) 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 to the Town 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.

(c) 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 condition is considered inadequate.

Section 2-69.3. Selection of depositories.

(a) The Town shall maintain a list of authorized banks and saving and loans which are approved to provide Certificates of Deposit to the Town. To be eligible for authorization, a bank or savings and loan must be a member 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.

(b) 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 One Hundred Thousand Dollars (\$100,000.00) 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 (30) or better on a scale of zero (0) to one hundred (100) with one hundred (100) being the highest rating at the time of selection, or

(2) Have a Prudent Man Express Analysis overall rating of three (3) or better on a scale of one (1) to five (5) with one (1) being the highest quality for the most recent reporting quarter before the time of section; and

(3) Qualify as a depository of public funds in the State of Texas.

(c) The Director shall maintain a file of the credit rating analysis reports performed for each approved firm. Institutions that meet the above criteria and who wish to provide Certificates of Deposit to the Town are required to provide to the Director a copy of the institution's quarterly Consolidated Report of Conditions and Income (CALL Report). This report will be submitted to the Director within sixty (60) days following the end of each calendar quarter.

(d) 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 (3) banks located within the boundaries of the Town or if there are not three (3) banks available within the Town's boundaries that are willing and able to accept such deposits, then at least three (3) bids must be obtained from banks situated in Dallas County that are willing and able to accept such deposits.

Section 2-69.4. Safekeeping and custody.

(a) 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 (1) custodian bank. In no event will the Town's custodial or safekeeping institution also be a counterparty (broker or dealer) to the purchase or sale of those securities. The Town shall execute a written 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 perfected interest.

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

(c) 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.

(d) 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.

(e) 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.

(f) 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 2-69.5. Recordkeeping and reporting.

(a) 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.

(b) Each depository institution of the Town's funds and purchased securities 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.

(c) At least once each quarter, the Director shall verify that all securities, owned by the Town or pledged to the Town, are held in

safekeeping in the Town's custodial bank with proper documentation. 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.

(d) 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.

(e) 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 ninety-eight (98) percent of the book value of the securities must be approved by both the City Manager and the Director.

(f) 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 (5) business days following the close of the reporting month.

(g) 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.

(h) Within thirty (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 article 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 2-69.6. Ethics and conflicts of interest.

(a) 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 confidential all investment advice obtained on behalf of the Town and all transactions contemplated and completed by the Town except when disclosure is required by law.

Section 2-69.7. Article revisions.

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

Section 3.

That all ordinances of the City in conflict with the provisions of this ordinance be, and the same are hereby repealed and all other ordinances of the City not in conflict with the provisions of this ordinance shall remain in full force and effect.

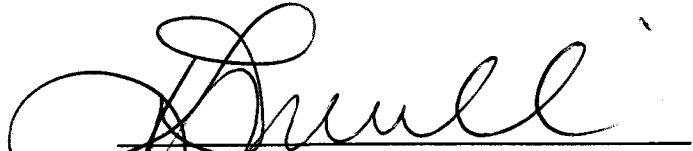
Section 4.

That should any paragraph, sentence, subdivision, clause, phrase or section of this ordinance be adjudged or be held to be unconstitutional, illegal or invalid, the same shall not affect the validity of this ordinance as a whole or any part or provision thereof other than the part so decided to be invalid, illegal, or unconstitutional.

Section 5.

This ordinance shall take effect and be in force from and after its adoption.

DULY PASSED BY THE CITY COUNCIL OF THE TOWN OF
ADDISON, TEXAS, this 28th day of July, 1992.


MAYOR

ATTEST:


CITY SECRETARY

Published
4/29/93

