



\*\*\*\* PUBLIC NOTICE \*\*\*\*

**NOTICE OF A FINANCE AUDIT COMMITTEE  
OF THE CITY OF CORINTH  
REGULAR SESSION**

**Tuesday, December 17, 2019, 4:30 P.M.**

**City Hall**

**Conference Room - Suite 200**

**3300 Corinth Parkway**

**Corinth, Texas 76208**

\* Pursuant to Texas Government Code Section 551.002, a quorum of the City Council of Corinth may attend the following meeting and may participate in discussion on the agenda items listed below, but will not take any action.

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**CALL TO ORDER**

**CONSENT AGENDA**

1. Consider and act on minutes from the August 22, 2019 Regular Session.
2. Consider and act on the 2019-2020 Authorized Broker/Dealer List for the City of Corinth.
3. Review and approve the Investment Policy for the City of Corinth, Economic Development Corporation and Crime Control & Prevention District.

**BUSINESS AGENDA**

4. Discuss and provide staff direction on the annual external audit and the Comprehensive Annual Financial Report (CAFR).
5. Consider and act on the Fiscal Year 2018-2019 Annual Investment Report
6. Receive a report, hold a discussion and provide direction on the Debt Management and Continuing Disclosure Policy.
7. Review and discuss the Fiscal Year 2018-2019 Summary of Rebutable Arbitrage.

**CLOSED SESSION**

If, during the course of the meeting, any discussion of any item on the agenda should need to be held in executive or closed session for the Committee to seek advice from the City Attorney as to the posted subject matter of this Committee Meeting, the Committee will convene in such executive or closed session, in accordance with the provisions of the Government Code, Title 5, Subchapter D Chapter 551, to consider one or more matters pursuant to the following:

**Section 551.071.** Private consultation with its attorney to seek advice about pending or contemplated litigation; and/or settlement offer; (2) and/or a matter in which the duty of the attorney to the government body under the Texas Disciplinary Rules of Professional Conduct of the State of Texas clearly conflicts with chapter 551.

**Section 551.072.** To deliberate the purchase, exchange, lease or value of real property if deliberation in an open meeting would have a detrimental effect on the position of the governmental body in negotiations with a third person.

**Section 551.074.** To deliberate the appointment, employment, evaluation, reassignment, duties, discipline, or dismissal of a public officer or employee; or to hear a complaint or charge against an officer or employee.

**Section 551.087.** To deliberate or discuss regarding commercial or financial information that the governmental body has received from a business prospect that the governmental body seeks to have locate, stay, or expand in or near the territory of the governmental body and with which the governmental body is conducting economic development negotiations; or to deliberate the offer of a financial or other incentive to a business prospect.

After discussion of any matters in executive session, any final action or vote taken will be in public by the Committee. The Committee shall have the right at any time to seek legal advice in Executive Session from its Attorney on any agenda item, whether posted for Executive Session or not.

**RECONVENE IN OPEN SESSION TO TAKE ACTION, IF NECESSARY, ON EXECUTIVE SESSION ITEMS.**

**ADJOURN**

Posted this \_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_ at \_\_\_\_\_ on the bulletin board at Corinth City Hall.

\_\_\_\_\_  
Lee Ann Bunselmeyer, Finance Director  
City of Corinth, Texas

**CONSENT ITEM 1.**

**Finance Audit Committee Regular Session**

**Meeting Date:** 12/17/2019

**Title:** August 22, 2019 Regular Session Minutes

**Submitted By:** Chris Rodriguez, Financial Services Manager

**Finance Review:** N/A

**Legal Review:** N/A

**City Manager Review: Approval:** Bob Hart, City Manager

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**AGENDA ITEM**

Consider and act on minutes from the August 22, 2019 Regular Session.

**AGENDA ITEM SUMMARY/BACKGROUND**

Attached are minutes from the August 22, 2019 Regular Session. The minutes are in draft form and are not considered official until formally approved by the Finance Audit Committee.

**RECOMMENDATION**

Staff recommends approval of the August 22, 2019 Regular Session minutes.

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**Attachments**

August 2019 Minutes

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**STATE OF TEXAS  
COUNTY OF DENTON  
CITY OF CORINTH**

On this the 22nd day of August 2019 the Finance Audit Committee of the City of Corinth, Texas met in a Regular Meeting at 4:30 P.M. at the Corinth City Hall, located at 3300 Corinth Parkway, Corinth, Texas. The meeting date, time, place and purposes as required by Title 5, Subchapter A, Chapter 551, Subchapter C, Section 551.041, Government Code, with the following members to wit:

**Councilmembers Present:**

Mayor Heidemann  
Councilmember Scott Garber

**Councilmembers Absent:**

Councilmember Sam Burke

**Citizen Members Present:**

Dick Baker

**Staff Members Present:**

Bob Hart, City Manager  
Lee Ann Bunselmeyer, Director of Finance, Communication & Strategic Services  
Chris Rodriguez, Assistant Finance Director

**CALL TO ORDER**

Councilmember Scott Garber called the meeting to order at 4:30 pm

**CONCENT AGENDA**

- 1) Consider and act on minutes from the April 18, 2019 Regular Session.

**MOTION** made by Mayor Heidemann to approve the April 18th minutes. Councilmember Garber seconded the motion.

**AYES:** Heidemann, Garber

**NOES:** None

**MOTION CARRIED**

**BUSINESS AGENDA**

- 2) Discuss and provide staff direction on the annual external audit and the Comprehensive Annual Financial Report (CAFR)

**No action required.**

- 3) Consider and act on the June 2019 Financials.

**MOTION** made by Mayor Heidemann to accept the June 2019 Financials. Councilmember Garber seconded the motion.

**AYES:** Heidemann, Garber

**NOES:** None

**MOTION CARRIED**

4) Consider and act on the Fiscal Year 2018-2019 Third Quarter Investment Report.

**MOTION** made by Mayor Heidemann to approve the Fiscal Year 2018-2019 Third Quarter Investment Report.  
Councilmember Garber seconded the motion.

**AYES:** Heidemann, Garber

**NOES:**

**MOTION CARRIED**

**ADJOURN THE REGULAR MEETING**

Councilmember Garber adjourned the Regular Meeting at 5:10 pm.

**Finance Audit Committee Regular Session**

**Meeting Date:** 12/17/2019  
**Title:** Authorized Broker/Dealer List  
**Submitted For:** Lee Ann Bunselmeyer, Director  
**Submitted By:** Chris Rodriguez, Financial Services Manager  
**Finance Review:** N/A **Legal Review:** N/A

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**AGENDA ITEM**

Consider and act on the 2019-2020 Authorized Broker/Dealer List for the City of Corinth.

**AGENDA ITEM SUMMARY/BACKGROUND**

In accordance with Public Funds Investment Act, Chapter 2256, of the Texas Government Code, the governing body or the Finance Audit Committee must review, revise and adopt a list of qualified broker at least annually. There are no minimum or maximum number of dealers or brokers that may be used by the City.

The Investment Officer continually monitors the list of approved investment brokers to pursue a diverse and competitive list of bidders. *Potential* broker/dealers must complete and submit the Broker/Dealer Questionnaire and Certification Form. The Investment Officer then evaluates the broker/dealers response based on the criteria listed below. If a broker/dealer has successfully met the established requirements, the Investment Officer will forward the application to the Finance Audit Committee for review.

A review on *active* brokers is also conducted at least annually based on the criteria listed below. The competitiveness and responsiveness of the active brokers is also a major factor, as well. If a broker/dealer is considered to place the City's investment program at risk or is not effective, the Investment Officer will document and recommend to the Finance Audit Committee that the broker/dealer be removed from the approved list.

The Investment Officer may limit the number of investment brokers the City conducts business with upon approval of the Finance Audit Committee. In accordance with the City's Investment Policy, business with any broker/dealer is limited to 40% of the total portfolio at any point in time. The Finance Audit Committee must approve all brokers prior to conducting any investment transactions.

**EVALUATION CRITERIA**

The following criteria are used to evaluate both potential and active broker/dealers:

1. Delivery Process - Delivery vs Payment is required for the protection of the City's assets.
2. Registration - Broker must be registered with the Texas State Securities Commission.
3. Capitalization - Organization should be well capitalized and show profitability, and comply with SEC guidelines.
4. Law Suits - Must not be involved in any type of legal disputes, pending settlements, claims or losses, etc.
5. Worthiness - Must be capable of serving the City's needs as a governmental entity. Must be credible and reputable among other Texas governmental clients.
6. Reports/Research - Must provide daily market analysis. This information is valuable for planning investment strategies and budgeting.
7. Training - Valuable service especially for governments with newly implemented investment programs, investment officers, and for cross training.
8. Primary vs Secondary - Primary dealers are more likely to provide desired securities for purchases as they maintain their own inventory, whereas, secondary dealers must contact their primary dealer for availability of securities. However, depending on each firms' contact with their trading desk, this may not be an issue.

9. Certification - Must sign a written instrument acknowledging that it has received and reviewed our investment policy and that procedures and controls have been implemented to preclude unauthorized investments.

**RECOMMENDATION**

Staff recommends the acceptance of FHN Financial Capital Markets, SAMCO Capital Markets, and three overnight investment vehicles (TexPool, TexStar, and Independent Financial Money Market) as the City's 2019-2020 approved broker/dealer list.

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**Attachments**

Broker Dealer Evaluation

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**BROKER/DEALER EVALUATION**  
*Fiscal Year 2019-2020*

BROKER/DEALER EVALUATION						
Firm/ Representative	Primary Dealer	Texas Registered	SEC Compliance	References	Claims, Losses, Investigations	Comments
<b>FHN Financial Capital Markets (Bank Dealer)</b> Zach Brewer Houston, Texas <i>Approved Broker since 2007</i>	No	No	N/A	City of Carrollton City of Plano City of Alton City	Yes	Reliable. Competitive. Provides daily market updates.
<b>SAMCO Capital Markets</b> Robert Phillips Dallas, Texas <i>Approved Broker since 2007</i>	No	Yes	Yes	City of Grand Prairie City of Dallas City of Euless	No	Very Competitive. Provides daily market updates & responds quickly to staff requests.

All the brokers listed above have provided the necessary documentation.

MONEY MARKET/POOL EVALUATION						
Firm Name	Net Asset Value	Size	Operating Deadlines	Maximum WAM	2018 Average Monthly Yield*	Management Fee
<b>Independent Financial Bank</b> <i>Approved Since 2009</i>	\$1	Over \$13 billion	Before 4:00 p.m.		1.47%	0%
<b>TexPool</b> <i>Approved Pool Since 2007</i>	\$1	\$21.2 billion	Before 4:00 p.m.	Max- 60 days Avg- 39 days	2.31%	.045% basis points State Comptroller & Federated Investors
<b>TexStar</b> <i>Approved Pool Since 2007</i>	\$1	\$8.1 billion	Before 4:00 p.m.	Max -60 days Avg- 24 days	2.29%	.06% basis points JP Morgan Chase & Hilltop Securities

TexPool, and Texstar investments consist exclusively of U.S. Government securities, repurchase agreements collateralized by U.S. Government securities, and AAA-rated no-load money market mutual funds. Additionally, funds are restricted to a maximum weighted average maturity (WAM) of 60 days.



**Finance Audit Committee Regular Session**

**Meeting Date:** 12/17/2019  
**Title:** FY 2019-2020 Investment Policies  
**Submitted For:** Lee Ann Bunselmeyer, Director  
**Submitted By:** Chris Rodriguez, Financial Services Manager  
**Finance Review:** **Legal Review:**

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**AGENDA ITEM**

Review and approve the Investment Policy for the City of Corinth, Economic Development Corporation and Crime Control & Prevention District.

**AGENDA ITEM SUMMARY/BACKGROUND**

In accordance with Public Funds Investment Act, Chapter 2256 of the Texas Government Code, the city is required to annually adopt a formal written Investment Policy for the investment of public funds. The policy establishes investment parameters and guidelines for the investment program in order to achieve the goals of safety, liquidity, diversification, rate-of-return, and public trust, and designates the authorized investment officer responsible for the daily investment activity by the City.

As part of the annual process, staff reviews the policy and may recommend revisions to the existing policy, if needed.

There are no recommended revisions to the investment policies.

**RECOMMENDATION**

Staff recommends approval of the Investment Policies.

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**Attachments**

- 2020 CCD Investment Policy
  - 2020 Corinth Investment Policy
  - 2020 EDC Investment Policy
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**CORINTH, TEXAS  
CORINTH CRIME CONTROL AND PREVENTION DISTRICT  
INVESTMENT POLICY**

**PREFACE**

It is the policy of the City of Corinth (the "City") and the Corinth Crime Control and Prevention District (the "DISTRICT") that after allowing for the anticipated cash flow requirements and giving due consideration to the safety and risks of investments, all available funds shall be invested in conformance with these legal and administrative guidelines to obtain a market rate-of-return.

Effective cash management is recognized as essential to good fiscal management. An active cash management and investment policy will be pursued to take advantage of investment interest as a viable and material source of revenue for DISTRICT funds. The DISTRICT's portfolio shall be designed and managed in a manner responsive to the public trust and shall be invested in conformance with State and Federal Regulations, applicable Bond Resolution requirements, and adopted investment policy. The DISTRICT will invest public funds in a manner which will provide the maximum security and a market rate-of-return while meeting the daily cash flow demands of the DISTRICT.

Pursuant to Subchapter E of Chapter 363 of the Local Government Code, the DISTRICT designates the City of Corinth to invest its funds in accordance with the provisions and requirements of this policy and § 363.206(c) of the Texas Local Gov't Code.

## **I. PURPOSE**

The purpose of this investment policy (the “policy”) is to set forth specific investment policy and strategy guidelines for the DISTRICT in order to achieve the goals of safety, liquidity, rate-of-return, and public trust for all investment activities.

## **II. SCOPE**

The investment policy shall govern the investment of all financial assets considered to be part of the DISTRICT and includes the following separately invested funds or fund types: Operating, Reserve, and Bond Funds, although the DISTRICT has only operating funds. This policy does not include funds governed by approved trust agreements, or assets administered for the benefit of the DISTRICT by outside agencies under retirement or deferred compensation programs. The City shall and will maintain responsibility for these funds to the extent required by: Federal and State law; the City Charter; and donor stipulations.

## **III. INVESTMENT OBJECTIVES**

Funds of the DISTRICT shall be invested in accordance with all applicable Texas statutes, this policy and any other approved, written administrative procedures. The five objectives of the DISTRICT’s investment activities shall be as follows (in the order of priority):

- A. Safety** – Preservation and safety of Principal. Safety of principal invested is the foremost objective in the investment decisions of the DISTRICT. Each investment transaction shall seek to ensure the preservation of capital in the overall portfolio. The risk of loss shall be controlled by investing only in authorized securities as defined in this policy, by qualifying the financial institutions with which the DISTRICT will transact, and by portfolio diversification. Safety is defined as the undiminished return of the principal on the DISTRICT’s investments
- B. Liquidity** -The investment portfolio shall be managed to maintain liquidity to ensure that funds will be available to meet the DISTRICT’s cash flow requirements and by investing in securities with active secondary markets. Investments shall be structured in such a manner as to provide liquidity necessary to pay obligations as they become due. A security may be liquidated prior to its stated maturity to meet unanticipated cash requirements or to otherwise favorably adjust the DISTRICT’s portfolio.
- C. Diversification** - Investment maturities shall be staggered throughout the budget cycle to provide cash flow based on the anticipated needs of the DISTRICT. Diversifying the appropriate maturity structure will reduce market cycle risk.
- D. Market Rate-of-Return (Yield)** - The DISTRICT’s investment portfolio shall be designed to optimize a market rate-of-return on investments consistent with risk constraints and cash flow requirements of the portfolio. The investment portfolio shall be managed in a manner which seeks to attain a market rate-of-return throughout budgetary and economic cycles. The DISTRICT will not attempt to consistently attain an unrealistic above market rate-of-return as this objective will subject the overall portfolio to greater risk. Therefore, the DISTRICT’s rate-of-return objective is secondary to those of safety and liquidity. Rate-of-return (yield) is defined as the annual income returned on an investment, expressed as a percentage.

- E. Public Trust - The Investment Officer(s) shall avoid any transactions that might impair public confidence in the DISTRICT's ability to govern effectively. The governing body recognizes that in diversifying the portfolio, occasional measured losses due to market volatility are inevitable, and must be considered within the context of the overall portfolio's investment return, provided that adequate diversification has been implemented. The prudence of the investment decision shall be measured in accordance with the tests set forth in Section 2256.006(b) of the Act.

#### IV. INVESTMENT STRATEGY

The City maintains a comprehensive and proactive cash management program which is designed to monitor and control all DISTRICT funds to ensure maximum utilization and yield a market rate-of-return. The basic and underlying strategy of this program is that all of the DISTRICT's funds are earning interest. It is the responsibility and obligation of the City to maintain a flexible approach and be prepared to modify the investment strategy as market conditions dictate. The investment strategy described is predicated on conditions as they now exist and are subject to change. The investment strategy emphasizes low credit risk, diversification, and the management of maturities. The strategy also considers the expertise and time constraints of the Investment Officers. The allowable investments as defined in Section VII of this policy reflect the avoidance of credit risk. Diversification refers to dividing investments among a variety of securities offering independent returns. This strategy uses local government investment pools to achieve diversification. The active management of maturities refers to structuring the maturity dates of the direct investments so that, while funds are initially invested for a longer period of time, some investments mature as cash needs require. The strategies for the DISTRICT's investment activities shall be as follows:

##### **Strategy No. 1**

Diversifying the DISTRICT's investment opportunities through the use of local government investment pools and money market mutual funds as authorized by the City Council. An investment pool is a professionally managed portfolio of shared assets created to invest public funds jointly on behalf of the governmental entities that participate in the pool and whose investment objectives in order of priority match those objectives of the DISTRICT. Fund withdrawals are usually available from investment pools on a same-day basis, meaning the pools have a high degree of liquidity. Because of the size and expertise of their staff, investment pools are able to prudently invest in a variety of the investment types allowed by state law. In this manner, investment pools achieve desired diversification. The strategy of the DISTRICT calls for the use of investment pools as a primary source of diversification and a supplemental source of liquidity. Funds that may be needed on a short-term basis but are in excess of the amount maintained at the depository bank are available for deposit in investment pools.

##### **Strategy No. 2**

Building a ladder of authorized securities with staggered maturities for all or part of the longer-term investable funds. The benefits of this ladder approach include the following:

- A. It is straight-forward and easily understood;
- B. It will assure the DISTRICT that it will capture a reasonable portion of the yield curve; and,
- C. It provides predictable cash flow with scheduled maturities and reinvestment opportunities.

**Strategy No. 3**

Utilizing the services of a Professional Investment Advisor in order to maximize investment earnings and realize market opportunities when they become available. Other responsibilities of the Investment Advisor include, but are not limited to broker compliance, security selection, competitive bidding, investment reporting, and security documentation. The Investment Advisor must be registered with the Securities and Exchange Commission (SEC) under the Investment Advisor's Act of 1940 as well as with the Texas State Securities Board and shall adhere to the spirit and philosophy of this policy and avoid recommending or suggesting transactions outside the "Standard of Care" under this policy.

**Strategy No. 4**

The DISTRICT will utilize a general investment strategy designed to address the unique characteristics of specific fund-types (detailed strategies are presented in Attachment A):

- A. Investment strategies for operating funds and pooled funds containing operating funds have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. The secondary objective is to create a portfolio which will experience minimal volatility during economic cycles.
- B. Investment strategies for reserve funds shall have as the primary objective the ability to generate a dependable revenue stream to the appropriate reserve fund.
- C. Investment strategies for special projects and capital projects funds will have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity.
- D. The investment maturity of bond proceeds (excluding reserve and debt service funds) shall generally be limited to the anticipated cash flow requirement or the "temporary period," as defined by Federal tax law. During the temporary period, bond proceeds may be invested at an unrestricted yield. After the expiration of the temporary period, bond proceeds subject to yield restriction shall be invested considering the anticipated cash flow requirements of the funds and market conditions to achieve compliance with the applicable regulations.

**Strategy No. 5**

The DISTRICT generally intends to hold all of its securities until they mature and will accomplish this by maintaining sufficient liquidity in its portfolio so that it does not need to sell a security early. Should it become necessary to sell a security prior to maturity, where the sale proceeds are less than the current book value, the prior written consent of the City Manager must be obtained. Securities may be sold prior to maturity by the Director of Finance at or above their book value at any time, without the consent of the City Manager.

**Strategy No. 6**

All demand deposits of the DISTRICT will be concentrated with one central depository. The City's depository procedure will maximize the DISTRICT's ability to pool cash for investment purposes and provide more manageable banking relationships. In addition, depositories not holding demand deposits of the DISTRICT may be eligible to bid on DISTRICT investments.

**Strategy No. 7**

This policy shall further seek to maintain good depository bank relationships while minimizing the cost of banking services. The City will seek to maintain a depository contract which will be managed to a level that minimizes the cost of the banking relationship to the DISTRICT, while allowing the DISTRICT to earn an appropriate return on idle demand deposits.

**Strategy No. 8**

A single pooled fund group, as defined in this policy, may be utilized at the discretion of the Investment Officer. However, earnings from investments will be allocated on a pro-rata cash basis to the individual funds and used in a manner that will best service the interests of the DISTRICT.

**Strategy No. 9**

Procedures shall be established and implemented in order to maximize investable cash by decreasing the time between the actual collection and the deposit of receipts, and by the controlling of disbursements.

**V. FINANCE AUDIT COMMITTEE**

- A. Members - There is hereby created a Finance Audit Committee consisting of the Mayor, two members of the City Council and two citizens appointed by the City Council. The Mayor will be a permanent member of the Committee. The other four members of the Committee will be appointed by the City Council to serve a two-year term and shall not exceed two successive terms. The Mayor and the two members of the City Council shall be voting members of the committee. The Community Representative members shall be non-voting members of the Committee.
- B. Scope - The Finance Audit Committee shall meet at least once per calendar quarter to determine general strategies and to monitor results. Included in its deliberations will be such topics as: economic outlook, portfolio diversification, maturity structure, potential risk to the DISTRICT's funds, authorized brokers and dealers, and the target rate-of-return on the investment portfolio.
- C. Procedures - The Finance Audit Committee shall provide minutes of its meetings. Any two members of the Finance Audit Committee may request a special meeting, and a majority of the voting members shall constitute a quorum. The Finance Audit Committee shall abide by the Rules of Procedure and Policies as set forth in Resolution 09-05-01-11, as amended, and the Charter of the City of Corinth.

**VI. RESPONSIBILITY AND STANDARD OF CARE**

- A. The responsibility for the daily operation and management of the DISTRICT's

investments shall be outlined within this section.

1. Delegation of Authority - Management responsibility for the investment program is hereby delegated to the Director of Finance, who shall be authorized to deposit, withdraw, invest, transfer or manage the funds of the DISTRICT and shall establish written procedures for the operation of the investment program, consistent with this policy. Such procedures shall include explicit delegation of authority to other persons responsible for investment transactions. All persons involved in investment activities will be referred to in this policy as "Investment Officers." No persons may engage in investment transactions, except as provided under the terms of this policy and the procedures established by the Director of Finance.
  2. The Director of Finance shall assume responsibility for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate Investment Officers. The system of controls shall be designed to provide reasonable assurance that ensures the assets of the DISTRICT are protected from loss, theft or misuse. The concept of reasonable assurance recognizes that:
    - a. The cost of control should not exceed the benefits likely to be derived; and,
    - b. The valuation of costs and benefits requires estimates and judgments by management.
  3. The Director of Finance shall be designated as the primary Investment Officer for the DISTRICT and shall be responsible for investment decisions and activities under the direction of the City Manager. The Director of Finance may delegate any phase of the investment program to a secondary Investment Officer. Both the Director of Finance and the designated secondary Investment Officer are responsible for daily investment decisions and activities. However, ultimate responsibility for investment decisions will rest with the Director of Finance.
- B. Prudence** - The standard of prudence to be applied by the Investment Official shall be the "prudent investor" rule, which states, "investments shall be made with judgment and care, under prevailing circumstances, that a person of prudence, discretion and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." In determining whether the Investment Officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration the following:
1. The investment of all funds over which the Investment Officer had responsibility rather than a consideration as to the prudence of a single investment; and
  2. The investment decision was consistent with the written investment policy and procedures of the DISTRICT.
- C. Due Diligence** - The Director of Finance, designated secondary Investment Officer, Mayor, City Council, City Manager, other Finance employees and citizen committee members acting in accordance with written policies and procedures and exercising due diligence, shall not be held personally responsible for a specific security's credit risk or market price changes, provided that these deviations are reported in a timely

manner and that appropriate action is taken to control adverse developments.

**D. Ethical Standards and Conflicts of Interest**

1. All DISTRICT Investment Officers having a direct or indirect role in the investment of DISTRICT funds shall act as custodians of the public trust avoiding any transaction which might involve a conflict of interest, the appearance of a conflict of interest, or any activity which might otherwise discourage public confidence. Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair the ability to make impartial investment decisions.
  2. An Investment Officer who has a personal business relationship with the depository bank or with any entity seeking to sell an investment to the DISTRICT shall file a statement disclosing that personal business interest.
  3. An Investment Officer has a personal business relationship with a business organization if:
    - a. The Investment Officer or one related to the Investment Officer within the second degree of affinity or consanguinity owns 10% or more of the voting stock or shares of the business organization or owns \$5,000 or more of the fair market value of the business organization;
    - b. Funds received by the Investment Officer or one related to the Investment Officer within the second degree of affinity or consanguinity from the business organization exceed 10% of the Investment Official's gross income for the prior year; or
    - c. The Investment Officer or one related to the Investment Officer within the second degree of affinity or consanguinity has acquired from the business organization during the prior year investments with a book value of \$2,500 or more for the personal account of the Investment Officer.
    - d. An Investment Officer who is related within the second degree of affinity or consanguinity to an individual seeking to sell an investment to the DISTRICT shall file a statement disclosing that relationship. A statement required under this subsection must be filed with the Texas Ethics Commission and the City Council.
- E. Training** - The City shall provide periodic training in investments for the investment personnel through courses and seminars offered by professional organizations and associations in order to ensure the quality and capability of the DISTRICT'S investment personnel making investment decisions in compliance with the Public Funds Investment Act (PFIA). The Investment Officials and the Finance Audit Committee members shall attend at least one training session containing at least 10 hours of instruction relating to the officer's responsibility under the PFIA within 12 months after assuming duties, and thereafter shall attend at least 8 hours of additional investment training in subsequent two-year periods which begin on the first day of the fiscal year and consist of the two consecutive fiscal years after that date. The



Government Finance Officers Association of Texas, the Government Treasurers Organization of Texas, the Texas Municipal League, or the North Central Texas Council of Governments are approved as independent training sources by the City Council.

## VII. AUTHORIZED INVESTMENTS

- A. Generally - Safety of principal is the primary objective in investing public funds and can be accomplished by limiting credit risk and interest rate risk. Credit risk is the risk associated with the failure of a security issuer or backer to pay back principal and interest on a timely basis. Interest rate risk is the risk that the value of a portfolio will decline due to an increase in the general level of interest rates. In order to provide for safety of principal as the DISTRICT's primary objective, only certain investments are authorized as acceptable investments for the DISTRICT. The following list of authorized investments for the DISTRICT intentionally excludes some investments authorized by state law. These restrictions are intended to limit possible risk and provide the maximum measure of safety to DISTRICT funds. In the event an authorized investment loses its required minimum credit rating, all prudent measures will be taken to liquidate said investment. Additionally, the DISTRICT is not required to liquidate investments that were authorized at the time of purchase.
- B. Authorized and Acceptable Investments - The authorized list of investment instruments is as follows:
1. Obligations of the United States or its agencies and instrumentalities or any obligation fully guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC), *excluding mortgage-backed securities*.
  2. Direct obligations of the State of Texas, or its agencies and instrumentalities Other obligations, the principal of and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, excluding mortgage-related securities.
- C. Certificates of Deposit – A certificate of deposit issued by a depository institution that has its main office or branch office in this state and is secured in accordance with the specific collateralization requirements contained in section XI.B of this policy. In addition, an investment in “bundled” or “shared” CDs made in accordance with the following conditions is permitted:
1. The funds are invested through a broker that has its main office or a branch office in this state selected from a list adopted by the City as required by Section 2256.025; or through a depository institution that has its main office or a branch office in this state and that is selected by the City;
  2. The selected broker or depository institution arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City.
  3. The full amount of the principal and accrued interest of each of the CD is insured by the United States or an instrumentality of the United States; and

4. The City appoints the depository institution, a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to SEC Rule 15c3-3, or an entity described in the Public Funds Collateral Act, Section 2257.041(d), as custodian for the City with respect to those CDs issued for the City's account.
- D. Eligible Local Government Investment Pools – AAA-rated public funds investment pools, with a weighted average maturity of 60 days or less, individually approved by formal Council resolution, which invest in instruments and follow practices allowed by the current law as defined by Section 2256.016 of the Texas Government Code. The pool must be continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service. A public funds investment pool created to function as a money market mutual fund must mark to market daily and stabilize at a \$1 net asset value.
  - E. Repurchase Agreements – Fully collateralized repurchase agreements having a defined termination date, placed through a primary government securities dealer or a financial institution doing business in the State of Texas, and fully secured by cash and obligations of the United States or its agencies and instrumentalities. This collateral must be pledged to the DISTRICT and held in safekeeping with a third-party custodian approved by the City. All collateral must be maintained at a market value of no less than the principal amount of the outstanding funds disbursed. All transactions shall be governed by signed Security Industry and Financial Markets Association, (SIFMA) Master Repurchase Agreement. Repurchase agreements must also be collateralized in accordance with State law as described in Section XI of this policy. Authorization under this section includes flexible repurchase agreements which may be used for specific investment of bond proceeds *but shall not include reverse repurchase agreements*.
  - F. Bankers' Acceptances and Commercial Paper (LIMITED USE) – These investments are authorized for the DISTRICT to the extent that they are contained in the portfolios of approved public funds investment pools or money market funds in which the DISTRICT invests.
  - G. AAA-rated SEC-Regulated 2a7 No-Load Money Market Mutual Funds – An SEC-registered, no load money market mutual fund which has a dollar weighted average stated maturity of 60 days or less whose assets consist exclusively of the assets described in section VII.A and whose investment objectives includes the maintenance of a stable net asset value of \$1 for each share; furthermore, it provides the DISTRICT with a prospectus and other information required by the SEC act of 1934 or the Investment Advisor Act of 1940 and which provides the DISTRICT with a prospectus and other information required by the Securities Exchange Act of 1934 (15 USC Section 78a et. Seq.) of the Investment Company Act of 1990 (15 USC Section 80a-1 et. Seq.).
  - H. Unauthorized Securities – State law specifically prohibits investment in the following securities:
    1. An obligation whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security and pays no principal.

2. An obligation whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest.
3. Collateralized mortgage obligations that have a stated final maturity date of greater than 10 years.
4. Collateralized mortgage obligations, the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

## VIII. DIVERSIFICATION

- A. Generally** - Diversification of investment instruments shall be utilized to avoid incurring unreasonable risks resulting from over-concentration of investments in a specific maturity, a specific issue, or a specific class of securities. With the exception of U.S. Government securities (debt obligations issued by the U. S. Government, its agencies, or instrumentalities) as authorized in this policy, and authorized local government investment pools, no more than forty percent (40%) of the total investment portfolio will be invested in any one security type or with a single financial institution. Diversification of the portfolio considers diversification by maturity dates and diversification by investment instrument.
- B. Diversification by Maturities** - The longer the maturity of investments, the greater their price volatility. Therefore, it is the DISTRICT's policy to concentrate its investment portfolio in shorter-term securities in order to limit principal risks caused by change in interest rates. The DISTRICT will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow (including the anticipated cash flow requirements of bond proceeds within the temporary period), the DISTRICT will not directly invest in securities maturing more than two (2) years from the date of purchase. However, the above described obligations, certificates, or agreements may be collateralized using longer date instruments. The DISTRICT shall diversify the use of investment instruments to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions or maturities. Maturity scheduling shall be managed by the Investment Officer so that maturities of investments shall be timed to coincide with projected cash flow needs.

The entire DISTRICT portfolio, or single pooled fund group if utilized, shall maintain a maximum average dollar-weighted maturity, based on the stated maturity date, of less than two hundred seventy (270) days. Investment maturities for debt service interest and sinking funds and/or other types of reserve funds, whose use is never anticipated, shall maintain a maximum average dollar-weighted maturity, based on the stated maturity date, of less than three hundred sixty-five (365) days.

- C. Diversification by Investment Instrument** - Diversification by investment instrument shall not exceed the following guidelines for each type of instrument:

	Maximum % of Portfolio
U.S. Treasury Obligations	100%
U.S. Government Agency Securities and Instrumentalities	100%
Authorized Local Government Investment Pool	100%

Local Government Obligations	10%
Fully Collateralized Certificates of Deposit	50%
Fully Collateralized Repurchase Agreements	25%
SEC-Regulated No-Load Money Market Mutual Fund	100%
U.S. Treasury & Agency Callables	30%

## **IX. SECURITY SWAPS**

Security swaps may be considered as an investment option for the DISTRICT. A swap out of one instrument into another is acceptable to increase yield, realign for disbursement dates, extend or shorten maturity dates and improve market sector diversification. Swaps may be initiated by brokers/dealers who are on the City's approved list. A horizon analysis is required for each swap proving benefit to the DISTRICT before the trade decision is made, which will accompany the investment file for record keeping.

## **X. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS.**

- A.** The Director of Finance will maintain a list of financial institutions authorized to provide investment services to the City. In addition, a list will also be maintained of approved broker/dealers authorized to provide investment services in the State of Texas. These will include financial institutions that qualify under Securities & Exchange Commission Rule 15-C3-1 (uniform net capital rule). No public deposit shall be made except in a qualified public depository as established by state laws.
- B.** All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Director of Finance with the following, as appropriate: audited financial statements, proof of Financial Industry Regulatory Authority certification, trading resolution, proof of State registration, completed broker/dealer questionnaire and certification of having read the DISTRICT's investment policy.
- C.** The Finance Audit Committee shall be responsible for adopting the list of brokers and dealers of government securities. Their selection shall be among only primary government securities dealers that report directly to the New York Federal Reserve Bank, unless a comprehensive credit and capitalization analysis reveals that other firms are adequately financed to conduct public business. The Finance Audit Committee shall base its evaluation of security dealers and financial institutions upon:
1. Financial conditions, strength and capability to fulfill commitments;
  2. Overall reputation with other dealers or investors;
  3. Regulatory status of the dealer;
  4. Background and expertise of the individual representatives.
- D.** Investment Officers shall only conduct business with securities dealers approved by the Finance Audit Committee and will not purchase investments from any financial organization until the organization's registered principal has executed a written instrument stating that he or she has thoroughly reviewed the DISTRICT's investment policy and acknowledges that reasonable procedures and controls have been

implemented to preclude imprudent investment activities arising out of transactions between the organization and the DISTRICT, except to the extent that this authorization is dependent on an analysis of the makeup of the DISTRICT's entire portfolio or requires an interpretation of subjective investment standards.

- E.** To guard against default possibilities under these conditions, and to assure diversification of bidders, business with any one issuer, or investment broker, should be limited to forty percent (40%) of the total portfolio at any point in time. In this way, bankruptcy, receivership or legal action would not immobilize the DISTRICT's ability to meet payroll or other expenses.
- F.** All investment (governments or bank C.D.'s) will be solicited on a competitive basis with at least three (3) institutions. The Finance Audit Committee can approve exceptions on a case by case basis or on a general basis in the form of guidelines. These guidelines shall take into consideration the investment type maturity date, amount, and potential disruptiveness to the DISTRICT's investment strategy. The investment will be made with the broker/dealer offering the best yield/quality to the DISTRICT. The quotes may be accepted orally, in writing, electronically, or any combination of these methods.
- G.** An annual review of the financial condition and registration of qualified financial organizations will be conducted by the Director of Finance.
- H.** A current audited financial statement is required to be on file for each financial institution and broker/dealer in which the DISTRICT invests.
- I.** If the City has contracted with a Registered Investment Advisor for the management of its funds, the advisor shall be responsible for performing due diligence on and maintaining a list of broker/dealers with which it shall transact business on behalf of the DISTRICT. The advisor shall determine selection criteria and shall annually present a list of its authorized broker/dealers to the CITY for review and likewise shall execute the aforementioned written instrument stating that the advisor has reviewed the DISTRICT's investment policy and has implemented reasonable procedures and controls in an effort to preclude imprudent investment activities with the DISTRICT. The advisor shall obtain and document competitive bids and offers on all transactions and present these to the City as part of its standard trade documentation.
- J.** It is the policy of the City that all security transactions entered into with the DISTRICT shall be conducted on a "Delivery-versus-Payment basis through the Federal Reserve System. By doing this, DISTRICT funds are not released until the City has received, through the Federal Reserve wire, the securities purchased. The City shall authorize the release of funds only after receiving notification from the safekeeping bank that a purchased security has been received in the safekeeping account of the DISTRICT. The notification may be oral, but shall be confirmed in writing.
  - 1. Financial conditions, strength and capability to fulfill commitments;
  - 2. Overall reputation with other dealers or investors;
  - 3. Regulatory status of the dealer;
  - 4. Background and expertise of the individual representatives.

## **XI. SAFEKEEPING AND COLLATERALIZATION**

- A. Safekeeping** - All securities owned by the DISTRICT shall be held by a third-party safekeeping agent selected by the City. The collateral for bank deposits will be held in the City's name in the bank's trust department, in a Federal Reserve Bank account in the City's name, or third-party financial institutions doing business in the state of Texas, in accordance with state law. Original safekeeping receipts shall be obtained and held by the City. The City shall contract with a bank or banks for the safekeeping of securities either owned by the City as part of its investment portfolio or held as collateral to secure time deposits.
- B. Collateralization** - Consistent with the requirements of the Public Funds Collateral Act, it is the policy of the City to require full collateralization of all City funds on deposit with a depository bank. The market value of the investments securing the deposit of funds shall be at least equal to 102% of the amount of the deposits of funds reduced to the extent that the deposits are insured by the Federal Deposit Insurance Corporation (FDIC). Securities pledged as collateral shall be held by an independent third party with whom the City has a current custodial agreement. The agreement is to specify the acceptable investment securities as collateral, including provisions relating to possession of the collateral, the substitution or release of investment securities, ownership of securities, and the method of valuation of securities. The safekeeping agreement must clearly state that the safekeeping bank is instructed to release purchased and collateral securities to the City in the event the City has determined that the depository bank has failed to pay on any matured investments in certificates of deposit, or has determined that the funds of the City are in jeopardy for whatever reason, including involuntary closure or change of ownership. A clearly marked evidence of ownership, e.g., safekeeping receipt, must be supplied to the City and retained by the City.
1. The City may accept the following to insure or collateralize bank deposits:
    - a. Guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor;
    - b. United States Treasuries & Agencies
    - c. Other securities as approved by the Finance Audit Committee
  2. For certificates of deposit and other evidences of deposit, collateral shall be at 102% of market value. The market value of collateral will always equal or exceed 102% of the principal plus accrued interest of deposits at financial institutions.
  3. Financial institutions with which the City invests or maintains other deposits shall provide monthly, and as requested by the Investment Officer, a listing of the collateral pledged to the City, marked to current market prices. The listing shall include total pledged securities itemized by name, type, description, par value, current market value, maturity date, and Moody's or Standard & Poor's rating, if applicable. The City and the financial institution shall jointly assume the responsibility for ensuring that the collateral is sufficient.

- C. Collateralized Deposits - Consistent with the requirements of State law, the City requires all bank deposits to be federally insured or collateralized with eligible securities. Financial institutions serving as City depositories will be required to sign a "Depository Agreement" with the City and the City's safekeeping agent. The collateralized deposit portion of the Agreement shall define the City's rights to the collateral in the event of default, bankruptcy, or closing and shall establish a perfected security interest in compliance with Federal and State regulations, including:
1. Agreement must be in writing;
  2. Agreement has to be executed by the Depository and the City contemporaneously with the acquisition of the asset;
  3. Agreement must be approved by the Board of Directors or designated committee of the Depository and a copy of the meeting minutes must be delivered to the City; and
  4. Agreement must be part of the Depository's "official record" continuously since its execution.

## **XII. INTERNAL CONTROL**

The Investment Officer shall establish a system of written internal controls, which shall be reviewed annually by independent auditors. The controls shall be designed to prevent loss of public funds due to fraud, error, misrepresentation, unanticipated market changes, or imprudent actions. The internal controls are to be reviewed annually in conjunction with an external independent audit. This review will provide assurance of compliance with policies and procedures as specified by this policy. The City, in conjunction with its annual financial audit, shall perform a compliance audit of management controls and adherence to the DISTRICT's established investment policy.

## **XIII. PERFORMANCE**

The DISTRICT's investment portfolio shall be designed to obtain a market rate-of-return on investments consistent with risk constraints and cash flow requirements of the DISTRICT. This investment policy establishes "weighted average yield to maturity" as the standard portfolio performance measurement.

## **XIV. REPORTING**

- A. Quarterly - The Director of Finance shall prepare and submit a signed quarterly investment report to the Corinth Crime Control and Prevention District Board and the Finance Audit Committee that summarizes current market conditions, economic developments, and anticipated investment conditions. The report shall summarize investment strategies employed in the most recent quarter and describe the portfolio in terms of investment securities, maturities, risk characteristics, and shall explain the total investment return for the quarter. The City shall also monitor the credit ratings on securities that require minimum ratings. This may be accomplished through staff research, or with the assistance of broker-dealers, investment advisors, banks or safekeeping agents.

- B. Annual Report** - Within 180 days of the end of the fiscal year, the Director of Finance shall present an annual report on the investment program and investment activity. This report may be presented as a component of the fourth quarter report to the Corinth Crime Control and Prevention District Board, City Manager and the City Council. The quarterly reports prepared by the Director of Finance shall be formally reviewed at least annually by an independent auditor, and the result of the review shall be reported to the City Council by that auditor.
- C. Methods** - The quarterly and annual investment reports shall include a succinct management summary that provides a clear picture of the status of the current investment portfolio and transactions made over the past quarter. This management summary will be prepared in a manner which will allow the DISTRICT to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report will be prepared in compliance with generally accepted accounting principles. The report will include the following:
1. A listing of individual securities held at the end of the reporting period. This list will include the name of the fund or pooled group fund for which each individual investment was acquired;
  2. Unrealized gains or losses resulting from appreciation or depreciation by listing the beginning and ending book and market value of securities for the period. Market values shall be obtained from financial institutions or portfolio reporting services independent from the broker/dealer from which the security was purchased;
  3. Additions and changes to the market value during the period;
  4. Fully accrued interest for the reporting period;
  5. Average weighted yield to maturity of portfolio on entity investments as compared to applicable benchmarks;
  6. Listing of investments by maturity date;
  7. The percentage of the total portfolio which each type of investment represents; and
  8. Statement of compliance of the DISTRICT's investment portfolio with State Law and the investment strategy and policy approved by the City Council.
  9. Market yield benchmark comparison of the average 90-day U. S. Treasury Bill auction yield during the reporting period.
  10. The guidelines of retaining records for seven years as recommended in the *Texas State Library Municipal Records Manual* should be followed. The Director of Finance shall oversee the filing and/or storing of investment records.

## **XV. INVESTMENT POLICY ADOPTION AND AMENDMENT**

The DISTRICT's investment policy shall be reviewed by the Corinth Crime Control and



Prevention District and formally adopted and amended by resolution by the City Council. The CITY's written policies and procedures for investments are subject to review not less than annually to stay current with changing laws, regulations and needs of the CITY. The City Council, not less than annually, shall adopt a written instrument stating that it has reviewed the investment policy and investment strategies and that the written instrument so adopted shall record any changes made to either the policy or strategies.

## **Attachment A**

CITY OF CORINTH, TEXAS  
Corinth Crime Control and Prevention District  
Investment Strategy Statement

### **Operating Funds**

1. Suitability - Any investment eligible in the investment policy is suitable for Operating Funds.
2. Safety of Principal - All investments shall be of high quality securities with no perceived default risk. Market price fluctuations will occur. However, by managing the weighted average days to maturity for the Operating Fund's portfolio to less than 270 days and restricting the maximum allowable maturity to two years, the price volatility of the overall portfolio will be minimized.
3. Marketability - Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash flow requirement. Historical market "spreads" between the bid and offer prices of a particular security-type of less than a quarter of a percentage point will define an efficient secondary market.
4. Liquidity - The Operating Fund requires the greatest short-term liquidity of any of the Fund types. Short-term investment pools and money market mutual funds will provide daily liquidity and may be utilized as a competitive yield alternative to fixed maturity investments.
5. Diversification - Investment maturities should be staggered throughout the budget cycle to provide cash flow based on the anticipated operating needs of the DISTRICT. Market cycle risk will be reduced by diversifying the appropriate maturity structure out through two years.
6. Yield - Attaining a competitive market yield for comparable security-types and portfolio restrictions is the desired objective. The yield of an equally weighted, rolling three-month treasury-bill portfolio will be the minimum yield objective.

### **Reserve Funds**

1. Suitability - Any investment eligible in the investment policy is suitable for Debt Service Reserve Funds. Bond resolution and loan documentation constraints and insurance company restrictions may create specific considerations in addition to the investment policy.
2. Safety of Principal - All investments shall be of high quality securities with no perceived default risk. Market price fluctuations will occur. However, managing Debt Service Reserve Fund maturities to not exceed the call provisions of the borrowing reduces the investment's market risk if the DISTRICT debt is redeemed and the Reserve Fund liquidated. The fund shall maintain a maximum average dollar-weighted maturity, based on the stated maturity date, of less than three hundred sixty-five (365) days. No stated final investment maturity shall exceed the shorter of the final maturity of the

borrowing or two years. Annual mark-to-market requirements or specific maturity and average life limitations within the borrowing's documentation will influence the attractiveness of market risk and reduce the opportunity for maturity extension.

3. Marketability - Securities with less active and efficient secondary markets are acceptable for Debt Service Reserve Funds.
4. Liquidity – Debt Service Reserve Funds have no anticipated expenditures. The Funds are deposited to provide annual debt service payment protection to the DISTRICT's debt holders. The funds are "returned" to the DISTRICT at the final debt service payment. Market conditions and arbitrage regulation compliance determine the advantage of security diversification and liquidity. Generally, if investment rates exceed the cost of borrowing, the DISTRICT is best served by locking in investment maturities and reducing liquidity. If the borrowing cost cannot be exceeded, then concurrent market conditions will determine the attractiveness of locking in maturities or investing shorter and anticipating future increased yields.
5. Diversification - Market conditions and the arbitrage regulations influence the attractiveness of staggering the maturity of fixed rate investments for Debt Service Reserve Funds. At no time shall the final debt service payment date of the bond issue be exceeded in an attempt to bolster yield.
6. Yield - Achieving a positive spread to the applicable borrowing cost is the desired objective. Debt Service Reserve Fund portfolio management shall at all times operate within the limits of the investment policy's risk constraints.

### **Bond Funds**

1. Suitability - Any investment eligible in the investment policy is suitable for Bond Funds.
2. Safety of Principal - All investments will be of high quality securities with no perceived default risk. Market price fluctuations will occur. However, by managing Bond Funds to not exceed the shorter of two years or the anticipated expenditure schedule and maintaining a maximum average dollar-weighted maturity, based on the stated maturity date, of less than three hundred sixty-five (365) days the market risk of the overall portfolio will be minimized.
3. Marketability - Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash flow requirement. Historical market "spreads" between the bid and offer prices of a particular security-type of less than a quarter of a percentage point will define an efficient secondary market.
4. Liquidity – Bond Funds used for capital improvements programs have reasonably predictable draw down schedules. Therefore investment maturities should generally follow the anticipated cash flow requirements. Investment pools and money market mutual funds will provide readily available funds generally equal to one month's anticipated cash flow needs, or a competitive yield alternative for short term fixed maturity investments. A singular repurchase agreement may be utilized if disbursements are allowed in the amount necessary to satisfy any expenditure request. This investment structure is commonly referred to as a flexible repurchase agreement.

5. Diversification - Market conditions and arbitrage regulations influence the attractiveness of staggering the maturity of fixed rate investments for construction, loan and bond proceeds. Generally, when investment rates exceed the applicable cost of borrowing, the DISTRICT is best served by locking in most investments. If the cost of borrowing cannot be exceeded, then concurrent market conditions will determine the attractiveness of diversifying maturities or investing in shorter and larger amounts. At no time shall the anticipated expenditure schedule be exceeded in an attempt to bolster yield.
  
6. Yield - Achieving a positive spread to the cost of borrowing is the desired objective, within the limits of the investment policy's risk constraints. The yield of an equally weighted, rolling six-month treasury-bill portfolio will be the minimum yield objective for non-borrowed funds.

**Attachment B**

CITY OF CORINTH, TEXAS  
Investment Policy

[SAMPLE]  
TEXAS PUBLIC FUNDS INVESTMENT ACT  
CERTIFICATION BY BUSINESS ORGANIZATION

This certification is executed on behalf of the CITY of Corinth, Texas (the "CITY") and \_\_\_\_\_ (the Business Organization), pursuant to the Public Funds Investment Act, Chapter 2256, Texas Government Code (the "Act") in connection with investment transactions conducted between the CITY and the Business Organization.

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

1. The undersigned is a Qualified Representative of the Business Organization offering to enter an investment transaction with the Investor as such terms are used in the Public Funds Investment Act, Chapter 2256, Texas Government Code; and
2. The Qualified Representative of the Business Organization has received and reviewed the investment policy furnished by the CITY; and
3. The Qualified Representative of the Business Organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the Business Organization and the CITY that are not authorized by the CITY's investment policy, except to the extent that this authorization is dependent on an analysis of the makeup of the CITY's entire portfolio or requires an interpretation of subjective investment standards.

Qualified Representative of Business Organization

Firm: \_\_\_\_\_

Signature \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

# **CITY OF CORINTH, TEXAS INVESTMENT POLICY**

## **PREFACE**

It is the policy of the City of Corinth (the "City") that after allowing for the anticipated cash flow requirements and giving due consideration to the safety and risks of investments, all available funds shall be invested in conformance with these legal and administrative guidelines to obtain a market rate-of-return.

Effective cash management is recognized as essential to good fiscal management. An active cash management and investment policy will be pursued to take advantage of investment interest as a viable and material source of revenue for City funds. The City's portfolio shall be designed and managed in a manner responsive to the public trust and shall be invested in conformance with State and Federal Regulations, applicable Bond Resolution requirements, and adopted investment policy. The City will invest public funds in a manner which will provide the maximum security and a market rate-of-return while meeting the daily cash flow demands of the City.

The City is required under the Public Funds Investment Act (Chapter 2256 of the Texas Government Code) to adopt a formal written investment policy for the investment of public funds. These policies serve to satisfy the statutory requirement (specifically the Public Funds Investment Act, Chapter 2256 of the Texas Government Code [the Act]) to define, adopt and review a formal investment strategy and policy.

## I. PURPOSE

The purpose of this investment policy (the “policy”) is to set forth specific investment policy and strategy guidelines for the City in order to achieve the goals of safety, liquidity, rate-of-return, and public trust for all investment activities.

## II. SCOPE

The investment policy shall govern the investment of all financial assets considered to be part of the City and includes the following separately invested funds or fund types: Operating, Reserve, Bond, Special and Capital Project Funds and any other funds which have been contractually delegated to the City for management purposes. The City may add or delete funds as may be required by law, or for proper accounting procedures. This policy does not include funds governed by approved trust agreements, or assets administered for the benefit of the City by outside agencies under retirement or deferred compensation programs. In addition to this policy, bond funds (including debt service and reserve funds) are governed by bond ordinances and are subject to the provisions of the Internal Revenue Code and applicable federal regulations governing the investment of bond proceeds. The City shall and will maintain responsibility for these funds to the extent required by: Federal and State law; the City Charter; and donor stipulations.

## III. INVESTMENT OBJECTIVES

Funds of the City shall be invested in accordance with all applicable Texas statutes, this policy and any other approved, written administrative procedures. The five objectives of the City’s investment activities shall be as follows (in the order of priority):

- A. Safety - Preservation and safety of Principal. Safety of principal invested is the foremost objective in the investment decisions of the City. Each investment transaction shall seek to ensure the preservation of capital in the overall portfolio. The risk of loss shall be controlled by investing only in authorized securities as defined in this policy, by qualifying the financial institutions with which the City will transact, and by portfolio diversification. Safety is defined as the undiminished return of the principal on the City’s investments.
- B. Liquidity - The investment portfolio shall be managed to maintain liquidity to ensure that funds will be available to meet the City’s cash flow requirements and by investing in securities with active secondary markets. Investments shall be structured in such a manner as to provide liquidity necessary to pay obligations as they become due. A security may be liquidated prior to its stated maturity to meet unanticipated cash requirements or to otherwise favorably adjust the City’s portfolio.
- C. Diversification - Investment maturities shall be staggered throughout the budget cycle to provide cash flow based on the anticipated needs of the City. Diversifying the appropriate maturity structure will reduce market cycle risk.
- D. Market Rate-of-Return (Yield) - The City’s investment portfolio shall be designed to optimize a market rate-of-return on investments consistent with risk constraints and cash flow requirements of the portfolio. The investment portfolio shall be managed in a manner which seeks to attain a market rate-of-return throughout budgetary and economic cycles. The City will not attempt to consistently attain an unrealistic above

market rate-of-return, as this objective will subject the overall portfolio to greater risk. Therefore, the City's rate-of-return objective is secondary to those of safety and liquidity. Rate-of-return (yield) is defined as the annual income returned on an investment, expressed as a percentage.

- E. Public Trust - The Investment Officer(s) shall avoid any transactions that might impair public confidence in the City's ability to govern effectively. The governing body recognizes that in diversifying the portfolio, occasional measured losses due to market volatility are inevitable, and must be considered within the context of the overall portfolio's investment return, provided that adequate diversification has been implemented. The prudence of the investment decision shall be measured in accordance with the tests set forth in Section 2256.006(b) of the Act.

#### **IV. INVESTMENT STRATEGY**

The City maintains a comprehensive and proactive cash management program which is designed to monitor and control all City funds to ensure maximum utilization and yield a market rate-of-return. The basic and underlying strategy of this program is that all of the City's funds are earning interest. It is the responsibility and obligation of the City to maintain a flexible approach and be prepared to modify the investment strategy as market conditions dictate. The investment strategy described is predicated on conditions as they now exist and are subject to change. The investment strategy emphasizes low credit risk, diversification, and the management of maturities. The strategy also considers the expertise and time constraints of the Investment Officers. The allowable investments as defined in Section VII of this policy reflect the avoidance of credit risk. Diversification refers to dividing investments among a variety of securities offering independent returns. This strategy uses local government investment pools to achieve diversification. The active management of maturities refers to structuring the maturity dates of the direct investments so that, while funds are initially invested for a longer period of time, some investments mature as cash needs require. The strategies for the City's investment activities shall be as follows:

##### **Strategy No. 1**

Diversifying the City's investment opportunities through the use of local government investment pools and money market mutual funds as authorized by the City Council. An investment pool is a professionally managed portfolio of shared assets created to invest public funds jointly on behalf of the governmental entities that participate in the pool and whose investment objectives in order of priority match those objectives of the City. Fund withdrawals are usually available from investment pools on a same-day basis, meaning the pools have a high degree of liquidity. Because of the size and expertise of their staff, investment pools are able to prudently invest in a variety of the investment types allowed by state law. In this manner, investment pools achieve desired diversification. The strategy of the City calls for the use of investment pools as a primary source of diversification and a supplemental source of liquidity. Funds that may be needed on a short-term basis but are in excess of the amount maintained at the depository bank are available for deposit in investment pools.



### **Strategy No. 2**

Building a ladder of authorized securities with staggered maturities for all or part of the longer-term investable funds. The benefits of this ladder approach include the following:

- A. It is straight-forward and easily understood;
- B. It will assure the City that it will capture a reasonable portion of the yield curve; and,
- C. It provides predictable cash flow with scheduled maturities and reinvestment opportunities.

### **Strategy No. 3**

Utilizing the services of a Professional Investment Advisor in order to maximize investment earnings and realize market opportunities when they become available. Other responsibilities of the Investment Advisor include, but are not limited to broker compliance, security selection, competitive bidding, investment reporting, and security documentation. The Investment Advisor must be registered with the Securities and Exchange Commission (SEC) under the Investment Advisor's Act of 1940, as well as, with the Texas State Securities Board and shall adhere to the spirit and philosophy of this policy and avoid recommending or suggesting transactions outside the "Standard of Care" under this policy.

### **Strategy No. 4**

The City will utilize five general investment strategies designed to address the unique characteristics of specific fund-types (detailed strategies are presented in Attachment A):

- A. Investment strategies for operating funds and pooled funds containing operating funds have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. The secondary objective is to create a portfolio which will experience minimal volatility during economic cycles.
- B. Investment strategies for debt service funds shall have as the primary objective the assurance of investment liquidity adequate to cover the debt service obligation on the required payment date(s).
- C. Investment strategies for debt service reserve funds shall have as the primary objective the ability to generate a dependable revenue stream to the appropriate debt service fund.
- D. Investment strategies for special projects and capital projects funds will have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity.
- E. The investment maturity of bond proceeds (excluding reserve and debt service funds) shall generally be limited to the anticipated cash flow requirement or the "temporary period," as defined by Federal tax law. During the temporary period, bond proceeds may be invested at an unrestricted yield. After the expiration of the temporary period, bond proceeds subject to yield restriction shall be invested considering the anticipated cash flow requirements of the funds and market conditions to achieve compliance with the applicable regulations.

**Strategy No. 5**

The City generally intends to hold all of its securities until they mature and will accomplish this by maintaining sufficient liquidity in its portfolio so that it does not need to sell a security early. Should it become necessary to sell a security prior to maturity, where the sale proceeds are less than the current book value, the prior written consent of the City Manager must be obtained. Securities may be sold prior to maturity by the Director of Finance at or above their book value at any time, without the consent of the City Manager.

**Strategy No. 6**

All demand deposits of the City will be concentrated with one central depository. The City's depository procedure will maximize the City's ability to pool cash for investment purposes and provide more manageable banking relationships. In addition, depositories not holding demand deposits of the City may be eligible to bid on City investments.

**Strategy No. 7**

This policy shall further seek to maintain good depository bank relationships while minimizing the cost of banking services. The City will seek to maintain a depository contract which will be managed to a level that minimizes the cost of the banking relationship to the City, while allowing the City to earn an appropriate return on idle demand deposits.

**Strategy No. 8**

A single pooled fund group, as defined in this policy, may be utilized at the discretion of the Investment Officer(s). However, earnings from investments will be allocated on a pro-rata cash basis to the individual funds and used in a manner that will best service the interests of the City.

**Strategy No. 9**

Procedures shall be established and implemented in order to maximize investable cash by decreasing the time between the actual collection and the deposit of receipts, and by the controlling of disbursements.

**V. FINANCE AUDIT COMMITTEE**

- A. Members** - There is hereby created a Finance Audit Committee consisting of the Mayor, two members of the City Council and two citizens appointed by the City Council. The Mayor will be a permanent member of the Committee. The other four members of the Committee will be appointed by the City Council to serve a two-year term and shall not exceed two successive terms. The Mayor and the two members of the City Council shall be voting members of the Committee. The Community Representative members shall be non-voting members of the Committee.
- B. Scope** - The Finance Audit Committee shall meet at least once per calendar quarter to determine general strategies and to monitor results. Included in its deliberations will be such topics as: economic outlook, portfolio diversification, maturity structure, potential risk to the City's funds, authorized brokers and dealers, and the target rate-of-return on the investment portfolio.
- C. Procedures** - The Finance Audit Committee shall provide minutes of its meetings. Any two members of the Finance Audit Committee may request a special meeting, and a majority of the voting members shall constitute a quorum. The Finance Audit

Committee shall abide by the Rules of Procedure and Policies as set forth in Resolution 09-05-01-11, as amended, and the Charter of the City of Corinth.

## **VI. RESPONSIBILITY AND STANDARD OF CARE**

- A.** The responsibility for the daily operation and management of the City's investments shall be outlined within this section.
1. Delegation of Authority - Management responsibility for the investment program is hereby delegated to the Director of Finance, who shall be authorized to deposit, withdraw, invest, transfer or manage the funds of the City and shall establish written procedures for the operation of the investment program, consistent with this policy. Such procedures shall include explicit delegation of authority to other persons responsible for investment transactions. All persons involved in investment activities will be referred to in this policy as "Investment Officers." No persons may engage in investment transactions, except as provided under the terms of this policy and the procedures established by the Director of Finance.
  2. The Director of Finance shall assume responsibility for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate Investment Officers. The system of controls shall be designed to provide reasonable assurance that ensures the assets of the City are protected from loss, theft or misuse. The concept of reasonable assurance recognizes that:
    - a. The cost of control should not exceed the benefits likely to be derived; and,
    - b. The valuation of costs and benefits requires estimates and judgments by management.
  3. The Director of Finance shall be designated as the primary Investment Officer for the City and shall be responsible for investment decisions and activities under the direction of the City Manager. The Director of Finance may delegate any phase of the investment program to a secondary Investment Officer. Both the Director of Finance and the designated secondary Investment Officer are responsible for daily investment decisions and activities. However, ultimate responsibility for investment decisions will rest with the Director of Finance.
- B.** Prudence - The standard of prudence to be applied by the Investment Officer shall be the "prudent investor" rule, which states, "investments shall be made with judgment and care, under prevailing circumstances, that a person of prudence, discretion and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." In determining whether the Investment Officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration the following:
1. The investment of all funds over which the Investment Officer had responsibility rather than a consideration as to the prudence of a single investment; and
  2. The investment decision was consistent with the written investment policy and procedures of the City.

**C. Due Diligence** - The Director of Finance, designated secondary Investment Officer, Mayor, City Council, City Manager, other Finance employees and citizen committee members acting in accordance with written policies and procedures and exercising due diligence, shall not be held personally responsible for a specific security's credit risk or market price changes, provided that these deviations are reported in a timely manner and that appropriate action is taken to control adverse developments.

**D. Ethical Standards and Conflicts of Interest**

1. All City Investment Officials having a direct or indirect role in the investment of City funds shall act as custodians of the public trust avoiding any transaction which might involve a conflict of interest, the appearance of a conflict of interest, or any activity which might otherwise discourage public confidence. Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair the ability to make impartial investment decisions.
  2. An Investment Officer who has a personal business relationship with the depository bank or with any entity seeking to sell an investment to the City shall file a statement disclosing that personal business interest.
  3. An Investment Officer has a personal business relationship with a business organization if:
    - a. The Investment Officer or one related to the Investment Officer within the second degree of affinity or consanguinity owns 10% or more of the voting stock or shares of the business organization or owns \$5,000 or more of the fair market value of the business organization;
    - b. Funds received by the Investment Officer or one related to the Investment Officer within the second degree of affinity or consanguinity from the business organization exceed 10% of the Investment Officers gross income for the prior year; or
    - c. The Investment Officer or one related to the Investment Officer within the second degree of affinity or consanguinity has acquired from the business organization during the prior year investments with a book value of \$2,500 or more for the personal account of the Investment Officer.
    - d. An Investment Officer who is related within the second degree of affinity or consanguinity to an individual seeking to sell an investment to the City shall file a statement disclosing that relationship. A statement required under this subsection must be filed with the Texas Ethics Commission and the City Council.
- E. Training** - The City shall provide periodic training in investments for the investment personnel through courses and seminars offered by professional organizations and associations in order to ensure the quality and capability of the City's investment personnel making investment decisions in compliance with the Public Funds Investment Act (PFIA). The Investment Officers and the Finance Audit Committee members shall attend at least one training session containing at least 10 hours of

instruction relating to the officer's responsibility under the PFI within 12 months after assuming duties, and thereafter shall attend at least 8 hours of additional investment training in subsequent two-year periods which begin on the first day of the fiscal year and consist of the two consecutive fiscal years after that date. The Government Finance Officers Association of Texas, the Government Treasurers Organization of Texas, the Texas Municipal League, or the North Central Texas Council of Governments are approved as independent training sources by the City Council.

## VII. AUTHORIZED INVESTMENTS

- A. Generally - Safety of principal is the primary objective in investing public funds and can be accomplished by limiting credit risk and interest rate risk. Credit risk is the risk associated with the failure of a security issuer or backer to pay back principal and interest on a timely basis. Interest rate risk is the risk that the value of a portfolio will decline due to an increase in the general level of interest rates. In order to provide for safety of principal as the City's primary objective, only certain investments are authorized as acceptable investments for the City. The following list of authorized investments for the City intentionally excludes some investments authorized by state law. These restrictions are intended to limit possible risk and provide the maximum measure of safety to City funds. In the event an authorized investment loses its required minimum credit rating, all prudent measures will be taken to liquidate said investment. Additionally, the City is not required to liquidate investments that were authorized at the time of purchase.
- B. Authorized and Acceptable Investments - The authorized list of investment instruments is as follows:
1. Obligations of the United States or its agencies and instrumentalities or any obligation fully guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC), *excluding mortgage-backed securities*.
  2. Direct obligations of the State of Texas, or its agencies and instrumentalities, other obligations, the principal of and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, excluding mortgage-related securities.
- C. Certificates of Deposit - A certificate of deposit issued by a depository institution that has its main office or branch office in this state and is secured in accordance with the specific collateralization requirements contained in section XI.B of this policy. In addition, an investment in "bundled" or "shared" CDs made in accordance with the following conditions is permitted:
1. The funds are invested through a broker that has its main office or a branch office in this state selected from a list adopted by the City as required by Section 2256.025; or through a depository institution that has its main office or a branch office in this state and that is selected by the City;
  2. The selected broker or depository institution arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City.

3. The full amount of the principal and accrued interest of each of the CD is insured by the United States or an instrumentality of the United States; and
  4. The City appoints the depository institution, a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to SEC Rule 15c3-3, or an entity described in the Public Funds Collateral Act, Section 2257.041(d), as custodian for the City with respect to those CDs issued for the City's account.
- D. Eligible Local Government Investment Pools - AAA-rated public funds investment pools, with a weighted average maturity of 60 days or less, individually approved by formal Council resolution, which invest in instruments and follow practices allowed by the current law as defined in Section 2256.016 of the Texas Government Code. The pool must be continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service. A public funds investment pool created to function as a money market mutual fund must mark to market daily and, stabilize at a \$1 net asset value.
- E. Repurchase Agreements - Fully collateralized repurchase agreements having a defined termination date, placed through a primary government securities dealer or a financial institution doing business in the State of Texas, and fully secured by cash and obligations of the United States or its agencies and instrumentalities. This collateral must be pledged to the City and held in safekeeping with a third-party custodian approved by the City of Corinth. All collateral must be maintained at a market value of no less than the principal amount of the outstanding funds disbursed. All transactions shall be governed by signed Security Industry and Financial Markets Association, (SIFMA) Master Repurchase Agreement. Repurchase agreements must also be collateralized in accordance with State law as described in Section XI of this policy. Authorization under this section includes flexible repurchase agreements which may be used for specific investment of bond proceeds *but shall not include reverse repurchase agreements*.
- F. Bankers' Acceptances, and Commercial Paper (LIMITED USE) - These investments are authorized for the City to the extent that they are contained in the portfolios of approved public funds investment pools or money market funds in which the City invests.
- G. AAA-rated SEC-Regulated 2a7 No-Load Money Market Mutual Funds - An SEC-registered, no load money market mutual fund which has a dollar weighted average stated maturity of 60 days or less whose assets consist exclusively of the assets described in section VII.A. and whose investment objectives includes the maintenance of a stable net asset value of \$1 for each share: furthermore, it provides the City with a prospectus and other information required by the SEC Act of 1934 or the Investment Advisor Act of 1940 and which provides the City with a prospectus and other information required by the Securities Exchange Act of 1934 (15 USC Section 78a et. Seq.) or the Investment Company Act of 1990 (15 USC Section 80a-1 et. Seq.).
- H. Unauthorized Securities - State law specifically prohibits investment in the following securities:
1. An obligation whose payment represents the coupon payments on the outstanding

principal balance of the underlying mortgage-backed security and pays no principal.

2. An obligation whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest.
3. Collateralized mortgage obligations that have a stated final maturity date of greater than 10 years.
4. Collateralized mortgage obligations, the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

## VIII. DIVERSIFICATION

- A. Generally - Diversification of investment instruments shall be utilized to avoid incurring unreasonable risks resulting from over-concentration of investments in a specific maturity, a specific issue, or a specific class of securities. With the exception of U.S. Government securities (debt obligations issued by the U. S. Government, its agencies, or instrumentalities) as authorized in this policy, and authorized local government investment pools, no more than forty percent (40%) of the total investment portfolio will be invested in any one security type or with a single financial institution. Diversification of the portfolio considers diversification by maturity dates and diversification by investment instrument.
- B. Diversification by Maturities - The longer the maturity of investments, the greater their price volatility. Therefore, it is the City's policy to concentrate its investment portfolio in shorter-term securities in order to limit principal risks caused by change in interest rates. The City will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow (including the anticipated cash flow requirements of bond proceeds within the temporary period), the City will not directly invest in securities maturing more than three (3) years from the date of purchase. However, the above described obligations, certificates, or agreements may be collateralized using longer date instruments. The City shall diversify the use of investment instruments to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions or maturities. Maturity scheduling shall be managed by the Investment Officer so that maturities of investments shall be timed to coincide with projected cash flow needs.

The entire City portfolio, or single pooled fund group if utilized, shall maintain a maximum average dollar-weighted maturity, based on the stated maturity date, of less than three hundred sixty five (365) days. Investment maturities for debt service interest and sinking funds and/or other types of reserve funds, whose use is never anticipated, shall maintain a maximum average dollar-weighted maturity, based on the stated maturity date, of less than three hundred sixty-five (365) days.

- C. Diversification by Investment Instrument** - Diversification by investment instrument shall not exceed the following guidelines for each type of instrument:

	Maximum % of Portfolio
U.S. Treasury Obligations	100%
U.S. Government Agency Securities and Instrumentalities	100%
Authorized Local Government Investment Pool	50%
Local Government Obligations	10%
Fully Collateralized Certificates of Deposit	50%
Fully Collateralized Repurchase Agreements	25%
SEC-Regulated No-Load Money Market Mutual Fund	50%
U.S. Treasury & Agency Callables	30%

**IX. SECURITY SWAPS**

Security swaps may be considered as an investment option for the City. A swap out of one instrument into another is acceptable to increase yield, realign for disbursement dates, extend or shorten maturity dates and to improve market sector diversification. Swaps may be initiated by brokers/dealers who are on the City's approved list. A horizon analysis is required for each swap proving benefit to the City before the trade decision is made, which will accompany the investment file for record keeping.

**X. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS**

- A.** The Director of Finance will maintain a list of financial institutions authorized to provide investment services to the City. In addition, a list will also be maintained of approved broker/dealers authorized to provide investment services in the State of Texas. These will include financial institutions that qualify under Securities & Exchange Commission Rule 15-C3-1 (uniform net capital rule). No public deposit shall be made except in a qualified public depository as established by state laws.
- B.** All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Director of Finance with the following, as appropriate: audited financial statements, proof of Financial Industry Regulatory Authority certification trading resolution, proof of State registration, completed broker/dealer questionnaire and certification of having read the City's investment policy.
- C.** The Finance Audit Committee shall be responsible for adopting the list of brokers and dealers of government securities. Their selection shall be among only primary government securities dealers that report directly to the New York Federal Reserve Bank, unless a comprehensive credit and capitalization analysis reveals that other firms are adequately financed to conduct public business. The Finance Audit Committee shall base its evaluation of security dealers and financial institutions upon:
  - 1. Financial conditions, strength and capability to fulfill commitments;
  - 2. Overall reputation with other dealers or investors;



3. Regulatory status of the dealer;
  4. Background and expertise of the individual representatives.
- D.** Investment Officers shall only conduct business with securities dealers approved by the Finance Audit Committee and will not purchase investments from any financial organization until the organization's registered principal has executed a written instrument stating that he or she has thoroughly reviewed the City's investment policy and acknowledges that reasonable procedures and controls have been implemented to preclude imprudent investment activities arising out of transactions between the organization and the City, except to the extent that this authorization is dependent on an analysis of the makeup of the City's entire portfolio or requires an interpretation of subjective investment standards.
- E.** To guard against default possibilities under these conditions, and to assure diversification of bidders, business with any one issuer, or investment broker, should be limited to forty percent (40%) of the total portfolio at any point in time. In this way, bankruptcy, receivership or legal action would not immobilize the City's ability to meet payroll or other expenses.
- F.** All investments (governments or bank C.D.'s) will be solicited on a competitive basis with at least three (3) institutions. The Finance Audit Committee can approve exceptions on a case by case basis or on a general basis in the form of guidelines. These guidelines shall take into consideration the investment type maturity date, amount, and potential disruptiveness to the City's investment strategy. The investment will be made with the broker/dealer offering the best yield/quality to the City. The quotes may be accepted orally, in writing, electronically, or any combination of these methods.
- G.** An annual review of the financial condition and registrations of qualified financial organizations will be conducted by the Director of Finance.
- H.** A current audited financial statement is required to be on file for each financial institution and broker/dealer in which the City invests.
- I.** If the City has contracted with a Registered Investment Advisor for the management of its funds, the advisor shall be responsible for performing due diligence on and maintaining a list of broker/dealers with which it shall transact business on behalf of the City. The advisor shall determine selection criteria and shall annually present a list of its authorized broker/dealers to the City for review and likewise shall execute the aforementioned written instrument stating that the advisor has reviewed the City's investment policy and has implemented reasonable procedures and controls in an effort to preclude imprudent investment activities with the City. The advisor shall obtain and document competitive bids and offers on all transactions and present these to the City as part of its standard trade documentation.

- J. It is the policy of the City that all security transactions entered into with the City shall be conducted on a “Delivery-versus-Payment” basis through the Federal Reserve System. By doing this, City funds are not released until the City has received, through the Federal Reserve wire, the securities purchased. The City shall authorize the release of funds only after receiving notification from the safekeeping bank that a purchased security has been received in the safekeeping account of the City. The notification may be oral but shall be confirmed in writing.

## XI. SAFEKEEPING AND COLLATERALIZATION

- A. Safekeeping - All securities owned by the City shall be held by a third-party safekeeping agent selected by the City. The collateral for bank deposits will be held in the City’s name in the bank’s trust department, in a Federal Reserve Bank account in the City’s name, or third-party financial institutions doing business in the state of Texas, in accordance with state law. Original safekeeping receipts shall be obtained and held by the City. The City shall contract with a bank or banks for the safekeeping of securities either owned by the City as part of its investment portfolio or held as collateral to secure time deposits.
- B. Collateralization - Consistent with the requirements of the Public Funds Collateral Act, it is the policy of the City to require full collateralization of all City funds on deposit with a depository bank. The market value of the investments securing the deposit of funds shall be at least equal to 102% of the amount of the deposits of funds reduced to the extent that the deposits are insured by the Federal Deposit Insurance Corporation (FDIC). Securities pledged as collateral shall be held by an independent third party with whom the City has a current custodial agreement. The agreement is to specify the acceptable investment securities as collateral, including provisions relating to possession of the collateral, the substitution or release of investment securities, ownership of securities, and the method of valuation of securities. The safekeeping agreement must clearly state that the safekeeping bank is instructed to release purchased and collateral securities to the City in the event the City has determined that the depository bank has failed to pay on any matured investments in certificates of deposit, or has determined that the funds of the City are in jeopardy for whatever reason, including involuntary closure or change of ownership. A clearly marked evidence of ownership, e.g., safekeeping receipt, must be supplied to the City and retained by the City.
1. The City may accept the following to insure or collateralize bank deposits:
    - a. Guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor;
    - b. United States Treasuries & Agencies
    - c. Other securities as approved by the Finance Audit Committee
  2. For certificates of deposit and other evidences of deposit, collateral shall be at 102% of market value. The market value of collateral will always equal or exceed 102% of the principal plus accrued interest of deposits at financial institutions.
  3. Financial institutions with which the City invests or maintains other deposits shall provide monthly, and as requested by the Investment Officer, a listing of the

collateral pledged to the City, marked to current market prices. The listing shall include total pledged securities itemized by name, type, description, par value, current market value, maturity date, and Moody's or Standard & Poor's rating, if applicable. The City and the financial institution shall jointly assume the responsibility for ensuring that the collateral is sufficient.

**C. Collateralized Deposits** - Consistent with the requirements of State law, the City requires all bank deposits to be federally insured or collateralized with eligible securities. Financial institutions serving as City depositories will be required to sign a "Depository Agreement" with the City and the City's safekeeping agent. The collateralized deposit portion of the Agreement shall define the City's rights to the collateral in the event of default, bankruptcy, or closing and shall establish a perfected security interest in compliance with Federal and State regulations, including:

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

## **XII. INTERNAL CONTROL**

The Investment Officer shall establish a system of written internal controls, which shall be reviewed annually by independent auditors. The controls shall be designed to prevent loss of public funds due to fraud, error, misrepresentation, unanticipated market changes, or imprudent actions. The internal controls are to be reviewed annually in conjunction with an external independent audit. This review will provide assurance of compliance with policies and procedures as specified by this policy. The City, in conjunction with its annual financial audit, shall perform a compliance audit of management controls and adherence to the City's established investment policy.

## **XIII. PERFORMANCE**

The City's investment portfolio shall be designed to obtain a market rate-of-return on investments consistent with risk constraints and cash flow requirements of the City. This investment policy establishes "weighted average yield to maturity" as the standard portfolio performance measurement.

## **XIV. REPORTING**

**A. Quarterly** - The Director of Finance shall prepare and submit a signed quarterly investment report to the Finance Audit Committee that summarizes current market conditions, economic developments, and anticipated investment conditions. The report shall summarize investment strategies employed in the most recent quarter and describe the portfolio in terms of investment securities, maturities, risk characteristics,

and shall explain the total investment return for the quarter. The City shall also monitor the credit ratings on securities that require minimum ratings. This may be accomplished through staff research, or with the assistance of broker-dealers, investment advisors, banks or safekeeping agents.

- B. Annual Report** - Within 180 days of the end of the fiscal year, the Director of Finance shall present an annual report on the investment program and investment activity. This report may be presented as a component of the fourth quarter report to the City Manager and City Council. The quarterly reports prepared by the Director of Finance shall be formally reviewed at least annually by an independent auditor, and the result of the review shall be reported to the City Council by that auditor.
- C. Methods** - The quarterly and annual investment reports shall include a succinct management summary that provides a clear picture of the status of the current investment portfolio and transactions made over the past quarter. This management summary will be prepared in a manner which will allow the City to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report will be prepared in compliance with generally accepted accounting principles. The report will be provided to the City Council. The report will include the following:
1. A listing of individual securities held at the end of the reporting period. This list will include the name of the fund or pooled group fund for which each individual investment was acquired;
  2. Unrealized gains or losses resulting from appreciation or depreciation by listing the beginning and ending book and market value of securities for the period. Market values shall be obtained from financial institutions or portfolio reporting services independent from the broker/dealer from which the security was purchased;
  3. Additions and changes to the market value during the period;
  4. Fully accrued interest for the reporting period;
  5. Average weighted yield to maturity of portfolio on entity investments as compared to applicable benchmarks;
  6. Listing of investments by maturity date;
  7. The percentage of the total portfolio which each type of investment represents; and
  8. Statement of compliance of the City's investment portfolio with State Law and the investment strategy and policy approved by the City Council.
  9. Market yield benchmark comparison of the average 90-day U. S. Treasury Bill auction yield during the reporting period.
  10. The guidelines of retaining records for seven years as recommended in the *Texas State Library Municipal Records Manual* should be followed. The Director of Finance shall oversee the filing and/or storing of investment records.

## **XV. INVESTMENT POLICY ADOPTION AND AMENDMENT**

The City's investment policy shall be adopted and amended by resolution of the City Council only. The City's written policies and procedures for investments are subject to review not less than annually to stay current with changing laws, regulations and needs of the City. The City Council, not less than annually, shall adopt a written instrument stating that it has reviewed the investment policy and investment strategies and that the written instrument so adopted shall record any changes made to either the policy or strategies.

## Attachment A

### CITY OF CORINTH, TEXAS Investment Strategy Statement

#### **Operating Funds**

1. Suitability - Any investment eligible in the investment policy is suitable for Operating Funds.
2. Safety of Principal - All investments shall be of high quality securities with no perceived default risk. Market price fluctuations will occur. However, by managing the weighted average days to maturity for the Operating Fund's portfolio to less than 270 days and restricting the maximum allowable maturity to three years, the price volatility of the overall portfolio will be minimized.
3. Marketability - Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash flow requirement. Historical market "spreads" between the bid and offer prices of a particular security-type of less than a quarter of a percentage point will define an efficient secondary market.
4. Liquidity - The Operating Fund requires the greatest short-term liquidity of any of the Fund types. Short-term investment pools and money market mutual funds will provide daily liquidity and may be utilized as a competitive yield alternative to fixed maturity investments.
5. Diversification - Investment maturities should be staggered throughout the budget cycle to provide cash flow based on the anticipated operating needs of the City. Market cycle risk will be reduced by diversifying the appropriate maturity structure out through two years.
6. Yield - Attaining a competitive market yield for comparable security-types and portfolio restrictions is the desired objective. The yield of an equally weighted, rolling three-month treasury-bill portfolio will be the minimum yield objective.

#### **Reserve Funds**

1. Suitability - Any investment eligible in the investment policy is suitable for Debt Service Reserve Funds. Bond resolution and loan documentation constraints and insurance company restrictions may create specific considerations in addition to the investment policy.
2. Safety of Principal - All investments shall be of high quality securities with no perceived default risk. Market price fluctuations will occur. However, managing Debt Service Reserve Fund maturities to not exceed the call provisions of the borrowing reduces the investment's market risk if the City's debt is redeemed and the Reserve Fund liquidated. The fund shall maintain a maximum average dollar-weighted maturity, based on the stated maturity date, of less than three hundred sixty-five (365) days. No stated final investment maturity shall exceed the shorter of the final maturity of the borrowing or three years. Annual mark-to-market requirements or specific maturity and average life limitations within the borrowing's documentation will influence the

attractiveness of market risk and reduce the opportunity for maturity extension.

3. Marketability - Securities with less active and efficient secondary markets are acceptable for Debt Service Reserve Funds.
4. Liquidity - Debt Service Reserve Funds have no anticipated expenditures. The Funds are deposited to provide annual debt service payment protection to the City's debt holders. The funds are "returned" to the City at the final debt service payment. Market conditions and arbitrage regulation compliance determine the advantage of security diversification and liquidity. Generally, if investment rates exceed the cost of borrowing, the City is best served by locking in investment maturities and reducing liquidity. If the borrowing cost cannot be exceeded, then concurrent market conditions will determine the attractiveness of locking in maturities or investing shorter and anticipating future increased yields.
5. Diversification - Market conditions and the arbitrage regulations influence the attractiveness of staggering the maturity of fixed rate investments for Debt Service Reserve Funds. At no time shall the final debt service payment date of the bond issue be exceeded in an attempt to bolster yield.
6. Yield - Achieving a positive spread to the applicable borrowing cost is the desired objective. Debt Service Reserve Fund portfolio management shall at all times operate within the limits of the investment policy's risk constraints.

### **Special Project and Capital Project Funds**

1. Suitability - Any investment eligible in the investment policy is suitable for Special Project and Capital Project Funds.
2. Safety of Principal - All investments will be of high quality securities with no perceived default risk. Market fluctuations will however occur, by restricting the maximum maturity to three years, managing the weighted average days to less than 270 days, restricting the maximum allowable maturity to two years, and by managing Special Project and Capital Project Funds to balance the short term and long term anticipated cash flow requirements of the plant or equipment being depreciated, replaced or repaired, the market risk of the Fund portfolio will be minimized.
3. Marketability - The balancing of short-term and long-term cash flow needs requires the short-term portion of the Special Project and Capital Project Funds portfolio to have securities with active and efficient secondary markets. Historical market "spreads" between the bid and offer prices of a particular security-type of less than a quarter of a percentage point will define an efficient secondary market. Securities with less active and efficient secondary markets are acceptable for the long-term portion of the portfolio.
4. Liquidity - Special Project and Capital Project Funds used as part of a CIP plan or scheduled repair and replacement program are reasonably predictable. However unanticipated needs or emergencies may arise. Selecting investment maturities that provide greater cash flow than the anticipated needs will reduce the liquidity risk of unanticipated expenditures.

5. Diversification - Investment maturities should blend the short-term and long-term cash flow needs to provide adequate liquidity and yield enhancement and stability. A “barbell” maturity ladder may be appropriate.
6. Yield - Attaining a competitive market yield for comparable security-types and portfolio structures is the desired objective. The yield of an equally weighted, rolling six-month treasury-bill portfolio will be the minimum yield objective.

### **Bond Funds**

1. Suitability - Any investment eligible in the investment policy is suitable for Bond Funds.
2. Safety of Principal - All investments will be of high quality securities with no perceived default risk. Market price fluctuations will occur. However, by managing Bond Funds to not exceed the shorter of three years or the anticipated expenditure schedule and maintaining a maximum average dollar-weighted maturity, based on the stated maturity date, of less than three hundred sixty-five (365) days the market risk of the overall portfolio will be minimized.
3. Marketability - Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash flow requirement. Historical market “spreads” between the bid and offer prices of a particular security-type of less than a quarter of a percentage point will define an efficient secondary market.
4. Liquidity - Bond Funds used for capital improvements programs have reasonably predictable draw down schedules. Therefore investment maturities should generally follow the anticipated cash flow requirements. Investment pools and money market mutual funds will provide readily available funds generally equal to one month’s anticipated cash flow needs, or a competitive yield alternative for short term fixed maturity investments. A singular repurchase agreement may be utilized if disbursements are allowed in the amount necessary to satisfy any expenditure request. This investment structure is commonly referred to as a flexible repurchase agreement.
5. Diversification - Market conditions and arbitrage regulations influence the attractiveness of staggering the maturity of fixed rate investments for construction, loan and bond proceeds. Generally, when investment rates exceed the applicable cost of borrowing, the City is best served by locking in most investments. If the cost of borrowing cannot be exceeded, then concurrent market conditions will determine the attractiveness of diversifying maturities or investing in shorter and larger amounts. At no time shall the anticipated expenditure schedule be exceeded in an attempt to bolster yield.
6. Yield - Achieving a positive spread to the cost of borrowing is the desired objective, within the limits of the investment policy’s risk constraints. The yield of an equally weighted, rolling six-month treasury-bill portfolio will be the minimum yield objective for non-borrowed funds.



**Attachment B**

CITY OF CORINTH, TEXAS  
Investment Policy

[SAMPLE]  
TEXAS PUBLIC FUNDS INVESTMENT ACT  
CERTIFICATION BY BUSINESS ORGANIZATION

This certification is executed on behalf of the City of Corinth, Texas (the "City") and \_\_\_\_\_ (the Business Organization), pursuant to the Public Funds Investment Act, Chapter 2256, Texas Government Code (the "Act") in connection with investment transactions conducted between the City and the Business Organization.

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

1. The undersigned is a Qualified Representative of the Business Organization offering to enter an investment transaction with the Investor as such terms are used in the Public Funds Investment Act, Chapter 2256, Texas Government Code; and
2. The Qualified Representative of the Business Organization has received and reviewed the investment policy furnished by the City; and
3. The Qualified Representative of the Business Organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the Business Organization and the City that are not authorized by the City's investment policy, except to the extent that this authorization is dependent on an analysis of the makeup of the City's entire portfolio or requires an interpretation of subjective investment standards.

Qualified Representative of Business Organization

Firm: \_\_\_\_\_

Signature \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

**CITY OF CORINTH, TEXAS  
ECONOMIC DEVELOPMENT CORPORATION  
INVESTMENT POLICY**

PREFACE

It is the policy of the City of Corinth the "City" and the Corinth Economic Development Corporation (the "EDC") that after allowing for the anticipated cash flow requirements and giving due consideration to the safety and risks of investments, all available funds shall be invested in conformance with these legal and administrative guidelines to obtain a market rate of return.

Effective cash management is recognized as essential to good fiscal management. An active cash management and investment policy will be pursued to take advantage of investment interest as a viable and material source of revenue for EDC funds. The EDC's portfolio shall be designed and managed in a manner responsive to the public trust and shall be invested in conformance with State and Federal Regulations, applicable Bond Resolution requirements, and adopted investment policy. The EDC will invest public funds in a manner which will provide the maximum security and a market rate of return while meeting the daily cash flow demands of the EDC.

The EDC is required under the Public Funds Investment Act (Chapter 2256 of the Texas Government Code) to adopt a formal written investment policy for the investment of public funds. These policies serve to satisfy the statutory requirement (specifically the Public Funds Investment Act, Chapter 2256 of the Texas Government Code [the Act]) to define, adopt and review a formal investment strategy and policy.

## I. PURPOSE

The purpose of this investment policy (the “policy”) is to set forth specific investment policy and strategy guidelines for the EDC in order to achieve the goals of safety, liquidity, rate-of-return, and public trust for all investment activities.

## II. SCOPE

The investment policy shall govern the investment of all financial assets considered to be part of the EDC and includes the following separately invested funds or fund types: Operating, Reserve, and Bond Funds, although the EDC has only operating funds. This policy does not include funds governed by approved trust agreements, or assets administered for the benefit of the EDC by outside agencies under retirement or deferred compensation programs. The City shall and will maintain responsibility for these funds to the extent required by: Federal and State law; the City Charter; and donor stipulations.

## III. INVESTMENT OBJECTIVES

Funds of the EDC shall be invested in accordance with all applicable Texas statutes, this policy and any other approved, written administrative procedures. The five objectives of the EDC’s investment activities shall be as follows (in the order of priority):

- A. Safety – Preservation and safety of Principal. Safety of principal invested is the foremost objective in the investment decisions of the EDC. Each investment transaction shall seek to ensure the preservation of capital in the overall portfolio. The risk of loss shall be controlled by investing only in authorized securities as defined in this policy, by qualifying the financial institutions with which the EDC will transact, and by portfolio diversification. Safety is defined as the undiminished return of the principal on the EDC’s investments.
- B. Liquidity - The investment portfolio shall be managed to maintain liquidity to ensure that funds will be available to meet the EDC’s cash flow requirements and by investing in securities with active secondary markets. Investments shall be structured in such a manner as to provide liquidity necessary to pay obligations as they become due. A security may be liquidated prior to its stated maturity to meet unanticipated cash requirements or to otherwise favorably adjust the EDC’s portfolio.
- C. Diversification - Investment maturities shall be staggered throughout the budget cycle to provide cash flow based on the anticipated needs of the EDC. Diversifying the appropriate maturity structure will reduce market cycle risk.
- D. Market Rate-of-Return (Yield) - The EDC’s investment portfolio shall be designed to optimize a market rate-of-return on investments consistent with risk constraints and cash flow requirements of the portfolio. The investment portfolio shall be managed in a manner which seeks to attain a market rate-of-return throughout budgetary and economic cycles. The EDC will not attempt to consistently attain an unrealistic above market rate-of-return, as this objective will subject the overall portfolio to greater risk. Therefore, the EDC’s rate-of-return objective is secondary to those of safety and liquidity. Rate-of-return (yield) is defined as the annual income returned on an investment, expressed as a percentage.
- E. Public Trust - The Investment Officer(s) shall avoid any transactions that might impair public confidence in the EDC’s ability to govern effectively. The governing body recognizes that in diversifying the portfolio, occasional measured losses due to market

volatility are inevitable, and must be considered within the context of the overall portfolio's investment return, provided that adequate diversification has been implemented. The prudence of the investment decision shall be measured in accordance with the tests set forth in Section 2256.006(b) of the Act.

#### **IV. INVESTMENT STRATEGY**

The City maintains a comprehensive and proactive cash management program which is designed to monitor and control all EDC funds to ensure maximum utilization and yield a market rate of return. The basic and underlying strategy of this program is that all of the EDC's funds are earning interest. It is the responsibility and obligation of the City to maintain a flexible approach and be prepared to modify the investment strategy as market conditions dictate. The investment strategy described is predicated on conditions as they now exist and are subject to change. The investment strategy emphasizes low credit risk, diversification, and the management of maturities. The strategy also considers the expertise and time constraints of the Investment Officers. The allowable investments as defined in Section VII of this policy reflect the avoidance of credit risk. Diversification refers to dividing investments among a variety of securities offering independent returns. This strategy uses local government investment pools to achieve diversification. The active management of maturities refers to structuring the maturity dates of the direct investments so that, while funds are initially invested for a longer period of time, some investments mature as cash needs require. The strategies for the EDC's investment activities shall be as follows:

##### **Strategy No. 1**

Diversifying the EDC's investment opportunities through the use of local government investment pools and money market mutual funds as authorized by the EDC Board, and the City Council. An investment pool is a professionally managed portfolio of shared assets created to invest public funds jointly on behalf of the governmental entities that participate in the pool and whose investment objectives in order of priority match those objectives of the EDC. Fund withdrawals are usually available from investment pools on a same-day basis, meaning the pools have a high degree of liquidity. Because of the size and expertise of their staff, investment pools are able to prudently invest in a variety of the investment types allowed by state law. In this manner, investment pools achieve desired diversification. The strategy of the EDC calls for the use of investment pools as a primary source of diversification and a supplemental source of liquidity. Funds that may be needed on a short-term basis but are in excess of the amount maintained at the depository bank are available for deposit in investment pools.

##### **Strategy No. 2**

Building a ladder of authorized securities with staggered maturities for all or part of the longer-term investable funds. The benefits of this ladder approach include the following:

- A.** It is straight-forward and easily understood;
- B.** It will assure the EDC that it will capture a reasonable portion of the yield curve; and,
- C.** It provides predictable cash flow with scheduled maturities and reinvestment opportunities.

##### **Strategy No. 3**

Utilizing the services of a Professional Investment Advisor in order to maximize investment earnings and realize market opportunities when they become available. Other responsibilities of the Investment Advisor include, but are not limited to broker compliance,

security selection, competitive bidding, investment reporting, and security documentation. The Investment Advisor must be registered with the Securities and Exchange Commission (SEC) under the Investment Advisor's Act of 1940 as well as with the Texas State Securities Board and shall adhere to the spirit and philosophy of this policy and avoid recommending or suggesting transactions outside the "Standard of Care" under this policy.

#### **Strategy No. 4**

The EDC will utilize a general investment strategy designed to address the unique characteristics of specific fund-types (detailed strategies are presented in Attachment A):

- A. Investment strategies for operating funds and pooled funds containing operating funds have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. The secondary objective is to create a portfolio which will experience minimal volatility during economic cycles.
- B. Investment strategies for reserve funds shall have as the primary objective the ability to generate a dependable revenue stream to the appropriate reserve fund.
- C. Investment strategies for special projects and capital projects funds will have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity.
- D. The investment maturity of bond proceeds (excluding reserve and debt service funds) shall generally be limited to the anticipated cash flow requirement or the "temporary period," as defined by Federal tax law. During the temporary period, bond proceeds may be invested at an unrestricted yield. After the expiration of the temporary period, bond proceeds subject to yield restriction shall be invested considering the anticipated cash flow requirements of the funds and market conditions to achieve compliance with the applicable regulations.

#### **Strategy No. 5**

The EDC generally intends to hold all of its securities until they mature and will accomplish this by maintaining sufficient liquidity in its portfolio so that it does not need to sell a security early. Should it become necessary to sell a security prior to maturity, where the sale proceeds are less than the current book value, the prior written consent of the EDC Executive Director, or the City Manager must be obtained. Securities may be sold prior to maturity by the Director of Finance at or above their book value at any time, without the consent of the City Manager.

#### **Strategy No. 6**

All demand deposits of the EDC will be concentrated with one central depository, so long as, the FDIC insurance limits are not exceeded. The City's depository procedure will maximize the EDC's ability to pool cash for investment purposes, and provide more manageable banking relationships. In addition, depositories not holding demand deposits of the EDC may be eligible to bid on EDC investments.

#### **Strategy No. 7**

This policy shall further seek to maintain good depository bank relationships while minimizing the cost of banking services. The City will seek to maintain a depository contract which will be managed to a level that minimizes the cost of the banking relationship to the EDC, while allowing the EDC to earn an appropriate return on idle demand deposits.

### **Strategy No. 8**

A single pooled fund group of EDC funds, as defined in this policy, may be utilized at the discretion of the Investment Officer. However, earnings from investments will be allocated on a pro-rata cash basis to the individual funds and used in a manner that will best service the interests of the EDC.

### **Strategy No. 9**

Procedures shall be established and implemented in order to maximize investable cash by decreasing the time between the actual collection and the deposit of receipts, and by the controlling of disbursements.

## **V. FINANCE AUDIT COMMITTEE**

- A. Members** – There is hereby created a Finance Audit Committee consisting of the Mayor, two members of the City Council and two citizens appointed by the City Council. The Mayor will be a permanent member of the Committee. The other four members of the Committee will be appointed by the City Council to serve a two-year term and shall not exceed two successive terms. The Mayor and the two members of the City Council shall be voting members of the Committee. The Community Representative members shall be non-voting members of the Committee.
- B. Scope** – The Finance Audit Committee shall meet at least once per calendar quarter to determine general strategies and to monitor results. Included in its deliberations will be such topics as: economic outlook, portfolio diversification, maturity structure, potential risk to the EDC's funds, authorized brokers and dealers, and the target rate-of-return on the investment portfolio.
- C. Procedures** – The Finance Audit Committee shall provide minutes of its meetings. Any two members of the Finance Audit Committee may request a special meeting and a majority of the voting members shall constitute a quorum. The Finance Audit Committee shall abide by the Rules of Procedure and Policies as set forth in Resolution 09-05-01-11, as amended, and the Charter of the City of Corinth.

## **VI. RESPONSIBILITY AND STANDARD OF CARE**

- A.** The responsibility for the daily operation and management of the EDC's investments shall be outlined within this section.
- 1. Delegation of Authority** - Management responsibility for the investment program is hereby delegated to the Director of Finance, who shall be authorized to deposit, withdraw, invest, transfer or manage the funds of the City and shall establish written procedures for the operation of the investment program, consistent with this policy. Such procedures shall include explicit delegation of authority to other persons responsible for investment transactions. All persons involved in investment activities will be referred to in this policy as "Investment Officers." No persons may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Director of Finance.
  - 2.** The Director of Finance shall assume responsibility for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate Investment Officials. The system of controls shall be designed to provide reasonable assurance that ensures the assets of the City are protected from loss, theft or misuse. The concept of reasonable assurance recognizes that:

- a. The cost of control should not exceed the benefits likely to be derived; and,
    - b. The valuation of costs and benefits requires estimates and judgments by management.
  3. The Director of Finance shall be designated as the primary Investment Officer for the City and shall be responsible for investment decisions and activities under the direction of the City Manager. The Director of Finance may delegate any phase of the investment program to a secondary Investment Officer. Both the Director of Finance and the designated secondary Investment Officer are responsible for daily investment decisions and activities. However, ultimate responsibility for investment decisions will rest with the Director of Finance.
- B. Prudence** - The standard of prudence to be applied by the Investment Officer shall be the "prudent investor" rule, which states, "investments shall be made with judgment and care, under prevailing circumstances, that a person of prudence, discretion and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." In determining whether the Investment Officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration the following:
1. The investment of all funds over which the Investment Officer had responsibility rather than a consideration as to the prudence of a single investment; and
  2. The investment decision was consistent with the written investment policy and procedures of the EDC.
- C. Due Diligence** - The Director of Finance, designated secondary Investment Officer, Mayor, City Council, City Manager, other Finance employees and the citizen committee members acting in accordance with written policies and procedures and exercising due diligence, shall not be held personally responsible for a specific security's credit risk or market price changes, provided that these deviations are reported in a timely manner and that appropriate action is taken to control adverse developments.
- D. Ethical Standards and Conflicts of Interest**
1. All EDC Investment Officers having a direct or indirect role in the investment of EDC funds shall act as custodians of the public trust avoiding any transaction which might involve a conflict of interest, the appearance of a conflict of interest, or any activity which might otherwise discourage public confidence. Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair the ability to make impartial investment decisions.
  2. An Investment Officer who has a personal business relationship with the depository bank or with any entity seeking to sell an investment to the EDC shall file a statement disclosing that personal business interest.
  3. An Investment Officer has a personal business relationship with a business organization if:

- a. The Investment Officer or person related to the Investment Officer by the second degree of affinity or consanguinity owns 10% or more of the voting stock or shares of the business organization or owns \$5,000 or more of the fair market value of the business organization;
  - b. Funds received by the Investment Officer or person related to the investment officer by the second degree of affinity or consanguinity from the business organization exceed 10% of the Investment Officer's gross income for the prior year; or
  - c. The Investment Officer or person related to the Investment Officer by the second degree of affinity or consanguinity has acquired from the business organization during the prior year investments with a book value of \$2,500 or more for the personal account of the Investment Officer.
  - d. An Investment Officer who is related within the second degree of affinity or consanguinity to an individual seeking to sell an investment to the EDC shall file a statement disclosing that relationship. A statement required under this subsection must be filed with the Texas Ethics Commission and the City Council.
- E. Training - The City shall provide periodic training in investments for the investment personnel through courses and seminars offered by professional organizations and associations in order to ensure the quality and capability of the EDC's investment personnel making investment decisions in compliance with Public Funds Investment Act (PFIA). The Investment Officers and Finance Audit Committee members shall attend at least one training session containing at least 10 hours of instruction relating to the officer's responsibility under the PFIA within 12 months after assuming duties, and thereafter shall attend at least 8 hours of additional investment training in subsequent two-year periods which begin on the first day of the fiscal year and consist of the two consecutive fiscal years after that date. The Government Finance Officers Association of Texas, the Government Treasurers Organization of Texas, the Texas Municipal League, or the North Central Texas Council of Governments are approved as independent training sources by the City Council.

## VII. AUTHORIZED INVESTMENTS

- A. Generally - Safety of principal is the primary objective in investing public funds and can be accomplished by limiting credit risk and interest rate risk. Credit risk is the risk associated with the failure of a security issuer or backer to pay back principal and interest on a timely basis. Interest rate risk is the risk that the value of a portfolio will decline due to an increase in the general level of interest rates. In order to provide for safety of principal as the EDC's primary objective, only certain investments are authorized as acceptable investments for the EDC. The following list of authorized investments for the EDC intentionally excludes some investments authorized by state law. These restrictions are intended to limit possible risk and provide the maximum measure of safety to EDC funds. In the event an authorized investment loses its required minimum credit rating, all prudent measures will be taken to liquidate said investment. Additionally, the EDC is not required to liquidate investments that were authorized at the time of purchase.
- B. Authorized and Acceptable Investments - The authorized list of investment instruments is as follows:



1. Obligations of the United States or its agencies and instrumentalities, or any obligation fully guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC), *excluding mortgage-backed securities*.
  2. Direct obligations of the State of Texas, or its agencies and instrumentalities, other obligations, the principal of and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, excluding mortgage-related securities.
- C. Certificates of Deposit – A certificate of deposit issued by a depository institution that has its main office or branch office in this state, and is secured in accordance with the specific collateralization requirements contained in section XI, B of this policy. –In addition, an investment in "bundled" or "shared" CDs made in accordance with the following conditions is permitted:
1. The funds are invested through a broker that has its main office or a branch office in this state selected from a list adopted by the City as required by Section 2256.025; or through a depository institution that has its main office or a branch office in this state and that is selected by the City;
  2. The selected broker or depository institution arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City.
  3. The full amount of the principal and accrued interest of each of the CD is insured by the United States or an instrumentality of the United States;
  4. The City appoints the depository institution, a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to SEC Rule 15c3-3, or an entity described in the Public Funds Collateral Act, Section 2257.041(d), as custodian for the City with respect to those CDs issued for the City's account.
- D. Eligible Local Government Investment Pools - AAA-rated public funds investment pools, with a weighted average maturity of 60 days or less, individually approved by formal Council resolution, which invest in instruments and follow practices allowed by the current law as defined in Section 2256.016 of the Texas Government Code. The pool must be continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service. A public funds investment pool created to function as a money market mutual fund must mark to market daily and, stabilize at a \$1 net asset value.
- E. Repurchase Agreements - Fully collateralized repurchase agreements having a defined termination date, placed through a primary government securities dealer or a financial institution doing business in the State of Texas, and fully secured by cash and obligations of the United States or its agencies and instrumentalities. This collateral must be pledged to the EDC and held in safekeeping with a third-party custodian approved by the City. All collateral must be maintained at a market value of no less than the principal amount of the outstanding funds disbursed. All transactions shall be governed by signed Security Industry and Financial Markets Association (SIFMA) Master Repurchase Agreement. Repurchase agreements must also be collateralized in accordance with State law as described in Section XI of this policy. Authorized under this section includes flexible repurchase agreements which may be

used for specific investment of bond proceeds but *shall not include reverse purchase agreements*.

- F. Bankers' Acceptances, and Commercial Paper (LIMITED USE) - These investments are authorized for the EDC to the extent that they are contained in the portfolios of approved public funds investment pools or money market funds in which the EDC invests.
  
- G. AAA-rated SEC-Regulated 2a7 No-Load Money Market Mutual Funds - An SEC-registered, no load money market mutual fund which has a dollar weighted average stated maturity of 60 days or less whose assets consist exclusively of the assets described in section VII.A and whose investment objectives includes the maintenance of a stable net asset value of \$1 for each share: furthermore, it provides the EDC with a prospectus and other information required by the SEC Act of 1934 or the Investment Advisor Act of 1940 and which provides the EDC with a prospectus and other information required by the Securities Exchange Act of 1934 (15 USC. Section 78a et. Seq.) & the Investment Company Act of 1990 (15 USC Section 80a-1 et. Seq.).
  
- H. Unauthorized Securities - State law specifically prohibits investment in the following securities:
  - 1. An obligation whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security and pays no principal.
  - 2. An obligation whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest.
  - 3. Collateralized mortgage obligations that have a stated final maturity date of greater than 10 years.
  - 4. Collateralized mortgage obligations, the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

## VIII. DIVERSIFICATION

- A. Generally - Diversification of investment instruments shall be utilized to avoid incurring unreasonable risks resulting from over-concentration of investments in a specific maturity, a specific issue, or a specific class of securities. With the exception of U.S. Government securities (debt obligations issued by the U. S. Government, its agencies, or instrumentalities) as authorized in this policy, and authorized local government investment pools, no more than forty percent (40%) of the total investment portfolio will be invested in any one security type or with a single financial institution. Diversification of the portfolio considers diversification by maturity dates and diversification by investment instrument.
  
- B. Diversification by Maturities - The longer the maturity of investments, the greater their price volatility. Therefore, it is the EDC's policy to concentrate its investment portfolio in shorter-term securities in order to limit principal risks caused by change in interest rates. The EDC will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow (including the anticipated cash flow requirements of bond proceeds within the temporary period), the EDC will not directly invest in securities maturing more than two (2) years from the date of purchase. However, the above described obligations, certificates, or agreements may be

collateralized using longer date instruments. The EDC shall diversify the use of investment instruments to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions or maturities. Maturity scheduling shall be managed by the Investment Officer so that maturities of investments shall be timed to coincide with projected cash flow needs.

The entire EDC portfolio, or single pooled fund group if utilized, shall maintain a maximum average dollar-weighted maturity, based on the stated maturity date, of less than two hundred seventy (270) days. Investment maturities for debt service interest and sinking funds and/or other types of reserve funds, whose use is never anticipated, shall maintain a maximum average dollar-weighted maturity, based on the stated maturity date, of less than three hundred sixty-five (365) days.

- C. Diversification by Investment Instrument** - Diversification by investment instrument shall not exceed the following guidelines for each type of instrument:

	Maximum % of Portfolio
U.S. Treasury Obligations	100%
U.S. Government Agency Securities and Instrumentalities	100%
Authorized Local Government Investment Pool	100%
Local Government Obligations	10%
Fully Insured Certificates of Deposit	50%
Fully Collateralized Repurchase Agreements	25%
SEC-Regulated No-Load Money Market Mutual Fund	100%
U.S. Treasury & Agency Callables	30%

**IX. SECURITY SWAPS**

Security swaps may be considered as an investment option for the EDC. A swap out of one instrument into another is acceptable to increase yield, realign for disbursement dates, extend or shorten maturity dates and improve market sector diversification. Swaps may be initiated by brokers/dealers who are on the City's approved list. A horizon analysis is required for each swap proving benefit to the EDC before the trade decision is made, which will accompany the investment file for record keeping.

**X. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS**

- A.** The Director of Finance will maintain a list of financial institutions authorized to provide investment services to the City. In addition, a list will also be maintained of approved broker/dealers authorized to provide investment services in the State of Texas. These will include financial institutions that qualify under Securities & Exchange Commission Rule 15-C3-1 (uniform net capital rule). No public deposit shall be made except in a qualified public depository as established by state laws.
- B.** All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Director of Finance with the following, as appropriate: audited financial statements, proof of Financial Industry Regulatory Authority certification, trading resolution, proof of State registration, completed broker/dealer questionnaire and certification of having read the EDC's investment policy.
- C.** The Finance Audit Committee shall be responsible for adopting the list of brokers and dealers of government securities. Their selection shall be among only primary

government securities dealers that report directly to the New York Federal Reserve Bank, unless a comprehensive credit and capitalization analysis reveals that other firms are adequately financed to conduct public business. The Finance Audit Committee shall base its evaluation of security dealers and financial institutions upon:

1. Financial conditions, strength and capability to fulfill commitments;
  2. Overall reputation with other dealers or investors;
  3. Regulatory status of the dealer;
  4. Background and expertise of the individual representatives.
- D.** Investment Officers shall only conduct business with securities dealers approved by the Finance Audit Committee and will not purchase investments from any financial organization until the organization's registered principal has executed a written instrument stating that he or she has thoroughly reviewed the EDC's investment policy and acknowledges that reasonable procedures and controls have been implemented to preclude imprudent investment activities arising out of transactions between the organization and the EDC, except to the extent that this authorization is dependent on an analysis of the makeup of the EDC's entire portfolio or requires an interpretation of subjective investment standards.
- E.** To guard against default possibilities under these conditions, and to assure diversification of bidders, business with any one issuer, or investment broker, should be limited to forty percent (40%) of the total portfolio at any point in time. In this way, bankruptcy, receivership or legal action would not immobilize the EDC's ability to meet payroll or other expenses.
- F.** All investments (governments or bank C.D.'s) will be solicited on a competitive basis with at least three (3) institutions. The Finance Audit Committee can approve exceptions on a case by case basis or on a general basis in the form of guidelines. These guidelines shall take into consideration the investment type maturity date, amount, and potential disruptiveness to the EDC's investment strategy. The investment will be made with the broker/dealer offering the best yield/quality to the EDC. The quotes may be accepted orally, in writing, electronically, or any combination of these methods.
- G.** An annual review of the financial condition and registrations of qualified financial organizations will be conducted by the Director of Finance.
- H.** A current audited financial statement is required to be on file for each financial institution and broker/dealer in which the EDC invests.
- I.** If the City has contracted with a Registered Investment Advisor for the management of its funds, the advisor shall be responsible for performing due diligence on and maintaining a list of broker/dealers with which it shall transact business on behalf of the EDC. The advisor shall determine selection criteria and shall annually present a list of its authorized broker/dealers to the City for review and likewise shall execute the aforementioned written instrument stating that the advisor has reviewed the EDC's investment policy and has implemented reasonable procedures and controls in an effort to preclude imprudent investment activities with the EDC. The advisor shall obtain and document competitive bids and offers on all transactions and present these to the City as part of its standard trade documentation.

- J. It is the policy of the City that all security transactions entered into with the EDC shall be conducted on a “Delivery-versus-Payment” basis through the Federal Reserve System. By doing this, EDC funds are not released until the City has received, through the Federal Reserve wire, the securities purchased. The City shall authorize the release of funds only after receiving notification from the safekeeping bank that a purchased security has been received in the safekeeping account of the EDC. The notification may be oral, but shall be confirmed in writing.

## **XI. SAFEKEEPING AND COLLATERALIZATION**

- A. Safekeeping - All securities owned by the EDC shall be held by a third-party safekeeping agent selected by the EDC’s Investment Officer. Bank deposits will be held in the EDC’s name in the bank’s trust department, in a Federal Reserve Bank account in the EDC’s name, or third-party financial institutions doing business in the state of Texas, in accordance with state law. Original safekeeping receipts shall be obtained and held by the City and the EDC. The City and the EDC shall contract with a bank or banks for the safekeeping of securities either owned by the EDC as part of its investment portfolio or held as collateral to secure time deposits, if collateralized time deposits are specifically authorized by the board.
- B. Collateralized Deposits - Consistent with the requirements of State law, the EDC requires all bank deposits to be federally insured. If the board and the City do agree that collateralized accounts are acceptable in specific situations the provisions above may be amended for EDC accounts.

## **XII. INTERNAL CONTROL**

The Investment Officer shall establish a system of written internal controls, which shall be reviewed annually by independent auditors. The controls shall be designed to prevent loss of public funds due to fraud, error, misrepresentation, unanticipated market changes, or imprudent actions. The internal controls are to be reviewed annually in conjunction with an external independent audit. This review will provide assurance of compliance with policies and procedures as specified by this policy. The City, in conjunction with its annual financial audit, shall perform a compliance audit of management controls and adherence to the EDC’s established investment policy.

## **XIII. PERFORMANCE**

The EDC’s investment portfolio shall be designed to obtain a market rate-of-return on investments consistent with risk constraints and cash flow requirements of the EDC. This investment policy establishes “weighted average yield to maturity” as the standard portfolio performance measurement.

## **XIV. REPORTING**

- A. Quarterly - The Director of Finance shall prepare and submit a signed quarterly investment report to the Economic Development Board and the Finance Audit Committee that summarizes current market conditions, economic developments, and anticipated investment conditions. The report shall summarize investment strategies employed in the most recent quarter and describe the portfolio in terms of investment securities, maturities, risk characteristics, and shall explain the total investment return for the quarter. The City shall also monitor the credit ratings on securities that require minimum ratings. This may be accomplished through staff research, or with the

assistance of broker-dealers, investment advisors, banks or safekeeping agents.

- B. Annual Report** - Within 180 days of the end of the fiscal year, the Director of Finance shall present an annual report on the investment program and investment activity. This report may be presented as a component of the fourth quarter report to the Economic Development Board, City Manager and the City Council. The quarterly reports prepared by the Director of Finance shall be formally reviewed at least annually by an independent auditor, and the result of the review shall be reported to the City Council by that auditor.
- C. Methods** - The quarterly and annual investment reports shall include a succinct management summary that provides a clear picture of the status of the current investment portfolio and transactions made over the past quarter. This management summary will be prepared in a manner which will allow the EDC to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report will be prepared in compliance with generally accepted accounting principles. The report will include the following:
1. A listing of individual securities held at the end of the reporting period. This list will include the name of the fund or pooled group fund for which each individual investment was acquired;
  2. Unrealized gains or losses resulting from appreciation or depreciation by listing the beginning and ending book and market value of securities for the period. Market values shall be obtained from financial institutions or portfolio reporting services independent from the broker/dealer from which the security was purchased;
  3. Additions and changes to the market value during the period;
  4. Fully accrued interest for the reporting period;
  5. Average weighted yield to maturity of portfolio on entity investments as compared to applicable benchmarks;
  6. Listing of investments by maturity date;
  7. The percentage of the total portfolio which each type of investment represents; and
  8. Statement of compliance of the EDC's investment portfolio with State Law and the investment strategy and policy approved by the City Council.
  9. Market yield benchmark comparison of the average 90-day U. S. Treasury Bill auction yield during the reporting period.
  10. The guidelines of retaining records for seven years as recommended in the *Texas State Library Municipal Records Manual* should be followed. The Director of Finance shall oversee the filing and/or storing of investment records.

## **XV. INVESTMENT POLICY ADOPTION AND AMENDMENT**

The EDC's investment policy shall be reviewed by the Economic Development Board and formally adopted and amended by resolution by the City Council. The City's written policies and procedures for investments are subject to review not less than annually to stay current with changing laws, regulations and needs of the City. The City Council, not less than annually, shall adopt a written instrument stating that it has reviewed the investment policy and investment strategies and that the written instrument so adopted shall record any changes made to either the policy or strategies.

## Attachment A

CITY OF CORINTH, TEXAS  
Economic Development Corporation  
Investment Strategy Statement

### Operating Funds

1. Suitability - Any investment eligible in the investment policy is suitable for Operating Funds.
2. Safety of Principal - All investments shall be of high quality securities with no perceived default risk. Market price fluctuations will occur. However, by managing the weighted average days to maturity for the Operating Fund's portfolio to less than 270 days and restricting the maximum allowable maturity to two years, the price volatility of the overall portfolio will be minimized.
3. Marketability - Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash flow requirement. Historical market "spreads" between the bid and offer prices of a particular security-type of less than a quarter of a percentage point will define an efficient secondary market.
4. Liquidity - The Operating Fund requires the greatest short-term liquidity of any of the Fund types. Short-term investment pools and money market mutual funds will provide daily liquidity and may be utilized as a competitive yield alternative to fixed maturity investments.
5. Diversification - Investment maturities should be staggered throughout the budget cycle to provide cash flow based on the anticipated operating needs of the EDC. Market cycle risk will be reduced by diversifying the appropriate maturity structure out through two years.
6. Yield - Attaining a competitive market yield for comparable security-types and portfolio restrictions is the desired objective. The yield of an equally weighted, rolling three-month treasury-bill portfolio will be the minimum yield objective.

### Reserve Funds

1. Suitability - Any investment eligible in the investment policy is suitable for Debt Service Reserve Funds. Bond resolution and loan documentation constraints and insurance company restrictions may create specific considerations in addition to the investment policy.
2. Safety of Principal - All investments shall be of high quality securities with no perceived default risk. Market price fluctuations will occur. However, managing Debt Service Reserve Fund maturities to not exceed the call provisions of the borrowing reduces the investment's market risk if the EDC's debt is redeemed and the Reserve Fund liquidated. The fund shall maintain a maximum average dollar-weighted maturity, based on the stated maturity date, of less than three hundred sixty-five (365) days. No stated final investment maturity shall exceed the shorter of the final maturity of the borrowing or two years. Annual mark-to-market requirements or specific maturity and average life limitations within the borrowing's documentation will influence the attractiveness of market risk and reduce the opportunity for maturity extension.



3. Marketability - Securities with less active and efficient secondary markets are acceptable for Debt Service Reserve Funds.
4. Liquidity - Debt Service Reserve Funds have no anticipated expenditures. The Funds are deposited to provide annual debt service payment protection to the City's debt holders. The funds are "returned" to the EDC at the final debt service payment. Market conditions and arbitrage regulation compliance determine the advantage of security diversification and liquidity. Generally, if investment rates exceed the cost of borrowing, the EDC is best served by locking in investment maturities and reducing liquidity. If the borrowing cost cannot be exceeded, then concurrent market conditions will determine the attractiveness of locking in maturities or investing shorter and anticipating future increased yields.
5. Diversification - Market conditions and the arbitrage regulations influence the attractiveness of staggering the maturity of fixed rate investments for Debt Service Reserve Funds. At no time shall the final debt service payment date of a bond issue, if any, be exceeded in an attempt to bolster yield.
6. Yield - Achieving a positive spread to the applicable borrowing cost is the desired objective. Debt Service Reserve Fund portfolio management shall at all times operate within the limits of the investment policy's risk constraints.

### **Bond Funds**

1. Suitability - Any investment eligible in the Investment Policy is suitable for Bond Funds.
2. Safety of Principal - All investments will be of high quality securities with no perceived default risk. Market price fluctuations will occur. However, by managing Bond Funds to not exceed the shorter of two years or the anticipated expenditure schedule and maintaining a maximum average dollar-weighted maturity, based on the stated maturity date, of less than three hundred sixty-five (365) days the market risk of the overall portfolio will be minimized.
3. Marketability - Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash flow requirement. Historical market "spreads" between the bid and offer prices of a particular security-type of less than a quarter of a percentage point will define an efficient secondary market.
4. Liquidity - Bond Funds used for capital improvements programs have reasonably predictable draw down schedules. Therefore investment maturities should generally follow the anticipated cash flow requirements. Investment pools and money market mutual funds will provide readily available funds generally equal to one month's anticipated cash flow needs, or a competitive yield alternative for short term fixed maturity investments. A singular repurchase agreement may be utilized if disbursements are allowed in the amount necessary to satisfy any expenditure request. This investment structure is commonly referred to as a flexible repurchase agreement.
5. Diversification - Market conditions and arbitrage regulations influence the attractiveness of staggering the maturity of fixed rate investments for construction, loan and bond proceeds. Generally, when investment rates exceed the applicable cost of borrowing, the EDC is best served by locking in most investments. If the cost of borrowing cannot be exceeded, then concurrent market conditions will determine the attractiveness of diversifying maturities or investing in shorter and larger amounts.

At no time shall the anticipated expenditure schedule be exceeded in an attempt to bolster yield.

6. Yield - Achieving a positive spread to the cost of borrowing is the desired objective, within the limits of the investment policy's risk constraints. The yield of an equally weighted, rolling six-month treasury-bill portfolio will be the minimum yield objective for non-borrowed funds.

**Attachment B**

CITY OF CORINTH, TEXAS  
Investment Policy

[SAMPLE]  
TEXAS PUBLIC FUNDS INVESTMENT ACT  
CERTIFICATION BY BUSINESS ORGANIZATION

This certification is executed on behalf of the City of Corinth, Texas (the "City") and \_\_\_\_\_ (the Business Organization), pursuant to the Public Funds Investment Act, Chapter 2256, Texas Government Code (the "Act") in connection with investment transactions conducted between the City and the Business Organization.

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

1. The undersigned is a Qualified Representative of the Business Organization offering to enter an investment transaction with the Investor as such terms are used in the Public Funds Investment Act, Chapter 2256, Texas Government Code; and
2. The Qualified Representative of the Business Organization has received and reviewed the investment policy furnished by the City; and
3. The Qualified Representative of the Business Organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the Business Organization and the City that are not authorized by the City's investment policy, except to the extent that this authorization is dependent on an analysis of the makeup of the City's entire portfolio or requires an interpretation of subjective investment standards.

Qualified Representative of Business Organization

Firm: \_\_\_\_\_

Signature \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

**Finance Audit Committee Regular Session**

**Meeting Date:** 12/17/2019  
**Title:** Annual Audit and Comprehensive Annual Report Discussion  
**Submitted For:** Lee Ann Bunselmeyer, Director  
**Submitted By:** Lee Ann Bunselmeyer, Director  
**Finance Review:** N/A **Legal Review:** N/A

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**AGENDA ITEM**

Discuss and provide staff direction on the annual external audit and the Comprehensive Annual Financial Report (CAFR).

**AGENDA ITEM SUMMARY/BACKGROUND**

The City of Corinth's Home Rule Charter, Section 9.12, states that at the close of the fiscal year an independent audit must be made on all accounts of the City by a certified public accountant. Eide Bailey, in their fourth year as the City's independent audit firm, will perform the audit for fiscal year 2018-2019 which ended on September 30, 2019.

The tentative audit timeline is listed below:

September 10, 2019	Auditors begin Interim Fieldwork
September 30, 2019	City's fiscal year end
October-December 5, 2019	City staff analyze the financials, make year-end entries and prepare the CAFR.
December 5, 2019	City staff close the books and provide a trial balance to the auditors
December 9, 2019	Auditors begin fieldwork
December 17, 2019	Preliminary Audit discussions with Finance Audit Committee
February 20, 2020	Post-Audit meeting with Finance Audit Committee and presentation of CAFR
March 19, 2020	Presentation of CAFR to City Council

**RECOMMENDATION**

No action to be taken on this item.

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**Finance Audit Committee Regular Session**

**Meeting Date:** 12/17/2019

**Title:** Annual Investment Report

**Submitted For:** Lee Ann Bunselmeyer, Director

**Submitted By:** Chris Rodriguez, Financial Services Manager

**Finance Review:** N/A

**Legal Review:** N/A

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**AGENDA ITEM**

Consider and act on the Fiscal Year 2018-2019 Annual Investment Report

**AGENDA ITEM SUMMARY/BACKGROUND**

In accordance with Public Funds Investment Act, Chapter 2256, Section 02399(a), of the Texas Government Code, the investment officer must prepare and submit to the governing body a written report of the investment transactions within 180 days of the end of the fiscal year. The report must summarize current market conditions, economic developments, and anticipated investment conditions and include the following:

1. A listing of individuals securities held at the end of the reporting period. This list will include the name of the fund or pooled group fund for which each individual investment was acquired.
2. Unrealized gain or losses resulting from appreciation or depreciation by listing the beginning and ending book and market value of securities for the period. Market values shall be obtained from financial institutions or portfolio reporting services, independent from the broker/dealer from which the security was purchased.
3. Additions and changes to the market value during the period.
4. Fully accrued interest for the reporting period.
5. Average weighted yield to maturity of portfolio on entity investments, as compared to applicable benchmarks.
6. Listing of investments by maturity date.
7. The percentage of the total portfolio which each type of investment represents; and
8. Statement of compliance of the City's investment portfolio with State Law and the investment strategy and policy approved by the City Council.
9. Market yield benchmark comparison of the average 90-days U.S. Treasury Bill auction yield during the reporting period.

The investment report must be formally reviewed at least annually by an independent auditor and the results of the review must be reports. Appendix A includes the independent review by Hilltop Securities on November 11, 2019.

**RECOMMENDATION**

Staff recommends the acceptance of the Annual Investment Report.

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**Attachments**

Annual Investment Report

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City of Corinth, Texas

ANNUAL INVESTMENT REPORT

*For Fiscal Year Ended September 30, 2019*



Bob Hart  
*City Manager*

Lee Ann Bunselmeyer  
*Director of Finance,  
Communication &  
Strategic Services*

Prepared By:  
Chris Rodriguez  
*Assistant Finance Director*



December 5, 2019

TO: Honorable Mayor and Members of the City Council

The Annual Investment Report is written in accordance with state statutes, specifically the Public Funds Investment Act, section 2256 of the Texas Government Code. This report is presented to comply with the City's investment policy that states "within one hundred (180) days of the end of the fiscal year, the Director of Finance shall present an annual report on the investment program and investment activity. This report may be presented as a component of the fourth quarter report to the City Manager and City Council."

## I. STATUTORY AND POLICY REQUIREMENTS

On February 7, 2019, a resolution was passed to adopt a formal investment policy for the City of Corinth. The Investment Policy is required by state law to be reviewed each year. The policy designates the Director of Finance as being responsible for the City's investment program. The Director of Finance is also responsible for establishing written procedures for the operation of the program. These procedures include the explicit delegation of authority to persons who carry out the daily investment transactions. Investment officials have the authority to invest all funds for the City of Corinth, the Corinth Crime Control and Prevention District and Corinth Economic Development Corporation with the exception of funds contributed to the Texas Municipal Retirement System (TMRS); other funds established by the City for deferred employee compensation; and revenue bond escrow funds. These funds are managed by outside investment managers and administrators and are monitored by the Finance Department.

The funds of the City of Corinth, Texas, are invested in compliance with Article. 842(a-1) entitled the "Public Funds Investment Act" of the Texas Government Code. Staff annually reviews the policy guidelines and objectives to ensure compliance with the changes in state law, and with the investment strategies adopted by the City Council as summarized below in order of importance.

### 1) Safety – Preservation and safety of Principal.

Safety of principal invested is the foremost objective in the investment decisions of the City. Each investment transaction shall seek to ensure the preservation of capital in the overall portfolio. The risk of loss shall be controlled by investing only in authorized securities as defined in this Policy, by qualifying the financial institutions and broker with which the City will transact, and by portfolio diversification. Safety is defined as the undiminished return of the principal on the City's investments.

2) Liquidity.

The investment portfolio shall be managed to maintain liquidity to ensure that funds will be available to meet the City's cash flow requirements and by investing in securities with active secondary markets. Investments shall be structured in such a manner as to provide liquidity necessary to pay obligations as they become due. A security may be liquidated prior to its stated maturity to meet unanticipated cash requirements or to otherwise favorably adjust the City's portfolio.

3) Diversification.

Investment maturities shall be staggered throughout the budget cycle to provide cash flow based on the anticipated needs of the City. Diversifying the appropriate maturity structure will reduce market cycle risk.

4) Market Rate-of-Return (Yield).

The City's investment portfolio shall be designed to optimize a market rate-of-return on investments consistent with risk constraints and cash flow requirements of the portfolio. The investment portfolio shall be managed in a manner which seeks to attain a market rate of return throughout budgetary and economic cycles. The City will not attempt to consistently attain an unrealistic above market rate-of-return, as this objective will subject the overall portfolio to greater risk. Therefore, the City's rate of return objective is secondary to those of safety and liquidity. Rate of return (yield) is defined as the annual income returned on an investment, expressed as a percentage.

5) Public Trust

The Investment Officer shall avoid any transactions that might impair public confidence in the City's ability to govern effectively. The governing body recognizes that in diversifying the portfolio, occasional measured losses due to market volatility are inevitable, and must be considered within the context of the overall portfolio's investment return, provided that adequate diversification has been implemented. The prudence of the investment decision shall be measured in accordance with the tests set forth in Section 2256.006(b) of the Act.

## II. BANK DEPOSITORY

Depository services support the objectives of the City's cash and investment management program. Those objectives are to maximize investment yield after satisfying the goals of safety and liquidity. A depository services contract is required for municipalities and the City of Corinth contracts with Independent Financial Bank. Frost Bank serves as the City's safekeeping institution and acts as a third-party custodian.

There are four significant cash management services that are provided to the City. These services are (1) a control concentration/sweep account, (2) the on-line cash management system, (3) positive pay, and (4) safekeeping services. These automated services facilitate full utilization of available cash thus maximizing interest income. The Independent Financial Bank contract was renewed on June 1, 2019 for a three-year period with an additional option for two one-year renewals.



### III. INVESTMENT ACCOUNTING METHODOLOGY

The accounts of the City of Corinth are maintained on a funds basis or account groups, each of which is considered a separate accounting entity. Each fund is invested separately, as long as it maintains a sufficient fund balance. The investment activity of each fund is summarized in the tables presented in this report.

The enclosed Annual Investment Report is compliant with the investment strategies adopted by the City Council as well as in accordance with the relevant provisions of the Tex. Gov't Code Ch. 2256. The objectives adopted by the City Council will continue to drive the investment program in the next fiscal year to achieve optimum protection of public funds.

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Lee Ann Bunselmeyer  
Director of Finance, Communication  
& Strategic Services

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Chris Rodriguez  
Assistant Finance Director

**CITY OF CORINTH**  
**ANNUAL INVESTMENT REPORT**  
*For Period Ending September 30, 2019*

Security Type	Par Value	Book Value	Market Value	% of Mkt to Book
U. S. Federal Agency-Coupon	\$ 6,625,000	\$ 6,610,258	\$ 6,631,258	100.32%
U.S. Federal Agency -Callable	8,000,000	7,995,794	8,009,500	100.17%
Managed Pools	18,625,249	18,625,249	18,625,249	100.00%
Money Market	295,897	295,897	295,897	100.00%
Bank Cash	8,690,476	8,690,476	8,690,476	100.00%
	<u>\$ 42,236,622</u>	<u>\$ 42,217,674</u>	<u>\$ 42,252,379</u>	<u>100.08%</u>

**PORTFOLIO SUMMARY REPORT**

Beginning Par Value as of 9/30/2018	\$ 23,387,085	
Beginning Book Value as of 9/30/2018	\$ 23,384,213	
Beginning Market Value as of 9/30/2018	\$ 23,286,721	
WAM at Beginning Date (Days)	183	
Ending Par Value as of 9/30/2019	\$ 42,236,622	
Ending Book Value as of 9/30/2019	\$ 42,217,674	
Ending Market Value as of 9/30/2019	\$ 42,252,379	
WAM at Ending Date (Days)	146	
Change to Market Value <sup>(1)</sup>		\$ 18,965,658

<sup>(1)</sup> The net increase in the Market Value is due to the sale of \$20 million in bonds in April 2019 and the drawdown of fund balance in the Economic Development Corporation for the purchase of 18.206 acres of land in the amount of \$2.9 million.

This report is prepared in accordance with Chapter 2256 of the Public Funds Investment Act ("PFIA") Section 2256.023(a) which states that "Not less than quarterly, the investment officer shall prepare and submit to the governing body of the entity a written report of the investment transactions for all funds covered by this chapter for the preceding reporting period."

The investment portfolio complied with the PFIA and the City's approved Investment Policy and Strategy throughout the period.

\_\_\_\_\_  
Lee Ann Bunselmeyer  
Director of Finance & Strategic Services

\_\_\_\_\_  
Chris Rodriguez  
Assistant Finance Director

  
\_\_\_\_\_  
Scott McIntrye  
First Southwest Asset Management

## INVESTMENT STRATEGIES COMPLIANCE REPORT

For Period Ending September 30, 2019

### OPERATING FUNDS

The investment strategy for operating funds and commingled pools containing operating funds have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. The secondary objective is to structure a portfolio, which will minimize volatility during economic cycles. This may be accomplished by purchasing high quality, short-term securities, which will compliment each other in a laddered maturity structure. A dollar-weighted average maturity of 270 days or less will be maintained and calculated by using the stated final maturity date of each security.

Beginning Book Value as of 9/30/2018	\$	12,694,000
Beginning Market Value as of 9/30/2018	\$	12,640,309
WAM at Beginning Date (Days)		164
Ending Book Value as of 9/30/2019	\$	11,117,809
Ending Market Value as of 9/30/2019	\$	11,129,907
Unrealized Gain/(Loss)	\$	12,099
Change to Market Value <sup>(1)</sup>	\$	(1,510,402)
WAM at Ending Date (Days)		94
WAM Policy Benchmark $\leq$		270

<sup>(1)</sup> The net decrease in the Market Value for the Operating Funds is due to the drawdown of fund balance in the Economic Development Corporation for the purchase of 18.206 acres of land in the amount of \$2.9 million.

### DEBT SERVICE RESERVE FUND

Investment strategies for debt service reserve and contingency funds shall have as the primary objective the ability to generate a dependable revenue stream to the appropriate fund from securities with a low degree of volatility. Securities should be of high quality and, except as may be required by the bond ordinance specific to an individual issue, of short to intermediate-term maturities. Volatility shall be further controlled through the purchase of securities carrying the highest coupon available, within the desired maturity and quality range, without paying a premium, if at all possible. Such securities will tend to hold their value during economic cycles. A dollar weighted average maturity of 365 days or less will be maintained and calculated by using the stated final maturity date of each security.

Beginning Book Value as of 9/30/2018	\$	291,914
Beginning Market Value as of 9/30/2018	\$	291,914
WAM at Beginning Date (Days)		1
Ending Book Value as of 9/30/2019	\$	295,897
Ending Market Value as of 9/30/2019	\$	295,897
Unrealized Gain/(Loss)	\$	-
Change to Market Value <sup>(2)</sup>	\$	3,983
WAM at Ending Date (Days)		1
WAM Policy Benchmark $\leq$		365

<sup>(2)</sup> No significant change.

## INVESTMENT STRATEGIES COMPLIANCE REPORT

For Period Ending September 30, 2019

### BOND/CAPITAL PROJECT FUNDS

Investment strategies for bond funds will have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. These portfolios should include at least 10% in highly liquid securities to allow for flexibility and unanticipated project outlays. The stated final maturity dates of securities held should not exceed the estimated project completion date. A dollar weighted average maturity of 365 days or less will be maintained and calculated by using the stated final maturity of each security.

Beginning Book Value as of 9/30/2018	\$	8,648,992
Beginning Market Value as of 9/30/2018	\$	8,606,576
WAM at Beginning Date (Days)		255
Ending Book Value as of 9/30/2019	\$	28,632,273
Ending Market Value as of 9/30/2019	\$	28,652,380
Unrealized Gain/(Loss)	\$	20,107
Change to Market Value <sup>(1)</sup>	\$	20,045,804
WAM at Ending Date (Days)		173
WAM Policy Benchmark $\leq$		365

<sup>(1)</sup> The net increase in the Market Value is due to the sale of \$20 million in bonds in April 2019.

### SPECIAL REVENUE FUNDS

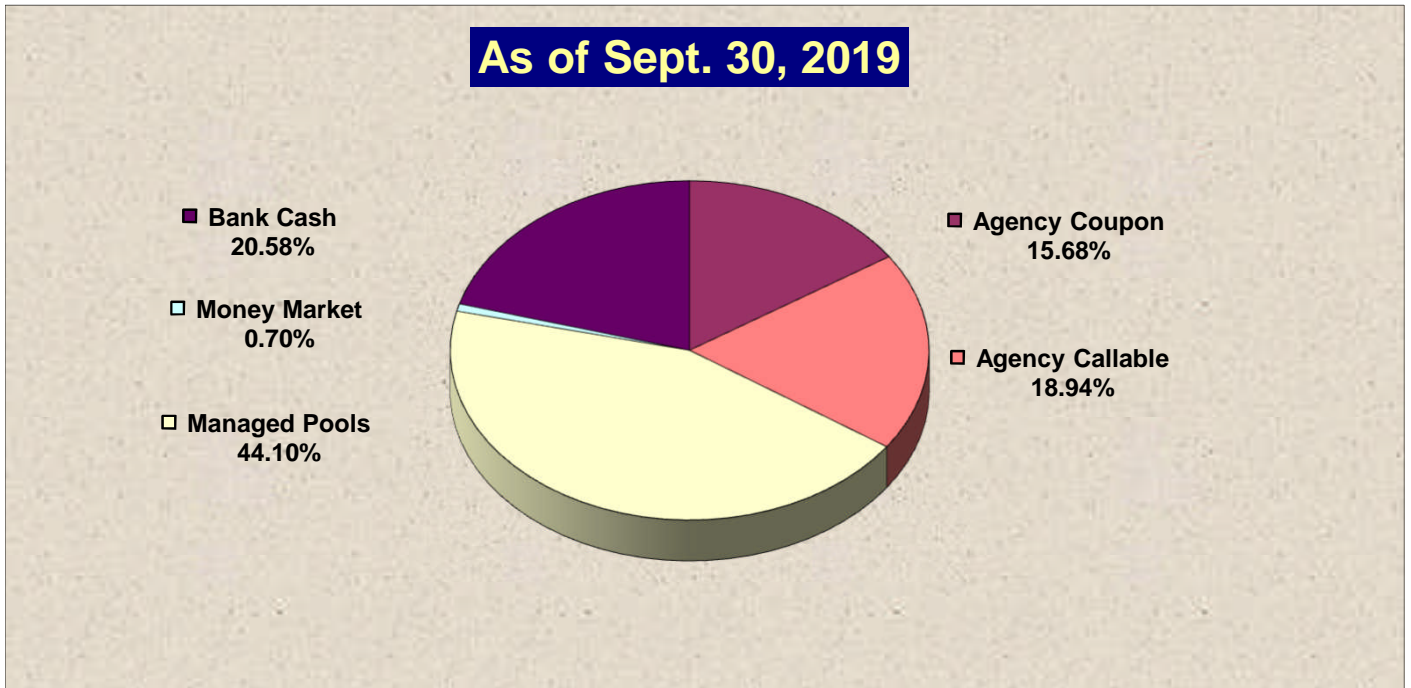
Investment strategies for construction projects or special revenue fund portfolios will have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. These portfolios should include at least 10% in highly liquid securities to allow for flexibility and unanticipated project outlays. The stated final maturity dates of securities held should not exceed the estimated project completion date. A dollar weighted average maturity of 270 days or less will be maintained and calculated by using the stated final maturity of each security.

Beginning Book Value as of 9/30/2018	\$	1,749,308
Beginning Market Value as of 9/30/2018	\$	1,747,922
WAM at Beginning Date (Days)		96
Ending Book Value as of 9/30/2019	\$	2,171,696
Ending Market Value as of 9/30/2019	\$	2,174,196
Unrealized Gain/(Loss)	\$	2,500
Change to Market Value <sup>(2)</sup>	\$	426,274
WAM at Ending Date (Days)		84
WAM Policy Benchmark $\leq$		270

<sup>(2)</sup> The net increase in the Market Value is due to the impact fee revenue due to development.

**ANNUAL INVESTMENT REPORT**  
**Portfolio Summary By Market Sector**

Market Sector	Dec. 31, 2018	Mar. 31, 2019	June 30, 2019	Sept. 30, 2019
U.S. Federal Agency -Coupon	\$ 5,427,910	\$ 4,302,910	\$ 7,125,000	\$ 6,625,000
U.S. Federal Agency-Callable	5,900,000	8,000,000	10,250,000	8,000,000
Managed Pools	4,621,153	6,655,877	18,771,026	18,625,249
Money Market	293,151	293,874	294,607	295,897
Bank Cash	10,385,563	9,225,013	6,714,949	8,690,476
<b>Total Par Value:</b>	<b>\$ 26,627,777</b>	<b>\$ 28,477,674</b>	<b>\$ 43,155,583</b>	<b>\$ 42,236,622</b>



The portfolio is restricted to U.S. Treasuries, U.S. Agencies, bonds issued by Texas public entities and rated AA or better, fully insured/collateralized certificates of deposit, and fully collateralized repurchase agreements. The investments are diversified by security type to protect interest income from the volatility of interest rates and to protect the portfolio from the risk of principal loss in any one market.

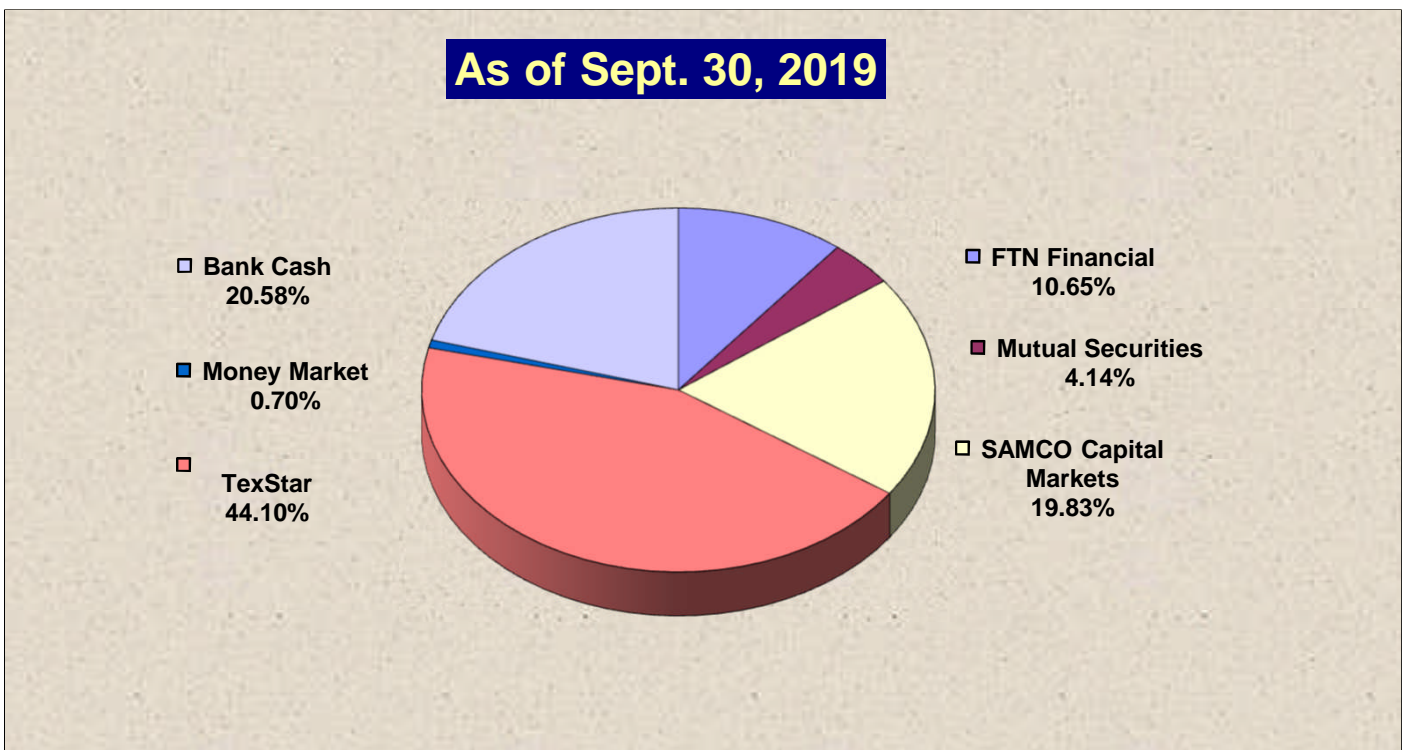
Performance Indicators	Policy Benchmark	Dec. 31, 2018	Mar. 31, 2019	June 30, 2019	Sept. 30, 2019
Average Yield to Maturity		1.560%	1.945%	2.162%	2.116%
≥ Policy Benchmark-(Six Month T-Bill)		2.529%	2.493%	2.166%	1.926%
Callable Securities ≤	30.00%	22.16%	28.09%	23.75%	18.94%
Investment By Type ≤					
U.S. Treasuries	100.00%	0.00%	0.00%	0.00%	0.00%
U.S. Agencies	100.00%	42.54%	43.20%	40.26%	34.62%
Certificates of Deposit	100.00%	0.00%	0.00%	0.00%	0.00%
Managed Pools	50.00%	17.35%	23.37%	43.50%	44.10%
Money Market	100.00%	1.10%	1.03%	0.68%	0.70%
Bank Cash	100.00%	39.01%	32.40%	15.56%	20.58%

**Note:** The portfolio is below the benchmark for callable securities for the year. The Average Yield to Maturity is above the Policy Benchmark as of September 30th.

## ANNUAL INVESTMENT REPORT

### Portfolio Summary By Broker/Dealer

Dealers/Brokers	Dec. 31, 2018	Mar. 31, 2019	June 30, 2019	Sept. 30, 2019
<b>Broker/Dealer</b>				
FTN Financial	\$ 4,000,000	\$ <b>5,250,000</b>	\$ 5,000,000	\$ 4,500,000
Mutual Securities	3,000,000	2,000,000	1,750,000	1,750,000
SAMCO Capital Markets	<b>4,327,910</b>	5,052,910	<b>10,625,000</b>	<b>8,375,000</b>
Total Broker/Dealer	\$ 11,327,910	\$ 12,302,910	\$ 17,375,000	\$ 14,625,000
<b>Managed Pools/ Depository Bank</b>				
TexStar	\$ 4,621,153	\$ 6,655,877	\$ 18,771,026	\$ 18,625,249
Money Market	293,151	293,874	294,607	295,897
Bank Cash	10,385,563	9,225,013	6,714,949	8,690,476
Total Managed Pools/Depository Bank	\$ 15,299,867	\$ 16,174,764	\$ 25,780,583	\$ 27,611,622
Total Par Value:	<u>\$ 26,627,777</u>	<u>\$ 28,477,674</u>	<u>\$ 43,155,583</u>	<u>\$ 42,236,622</u>

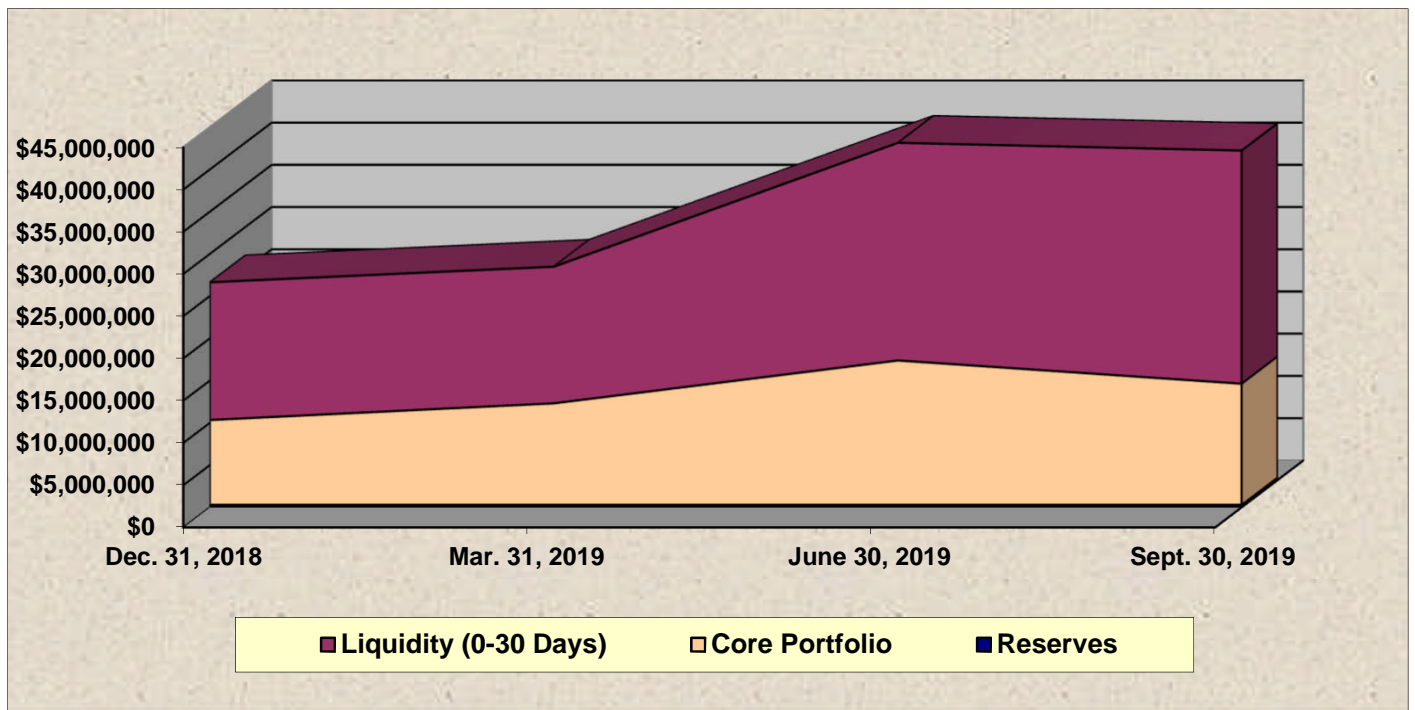


To guard against default possibilities, and to promote diversification of bidders, business with any one issuer, or investment broker, is limited to forty (40%) percent of the total portfolio at any point in time. As shown in the table below, the portfolio adhered to this provision throughout the quarter.

Performance Indicators	Policy Benchmark	Dec. 31, 2018	Mar. 31, 2019	June 30, 2019	Sept. 30, 2019
Highest Broker Percent ≤	40.00%	16.25%	18.44%	24.62%	19.83%

**ANNUAL INVESTMENT REPORT**  
*Portfolio Summary By Maturity*

Maturity Time Frame	Dec. 31, 2018	Mar. 31, 2019	June 30, 2019	Sept. 30, 2019
0-30 Days	\$ 16,299,867	\$ 16,174,764	\$ 25,780,583	\$ 27,611,622
31-90 Days	3,150,000	-	750,000	-
91-180 Days	-	750,000	-	2,250,000
181-270 Days	750,000	-	4,025,000	2,775,000
271-360 Days	-	3,000,000	1,000,000	875,000
361-450 Days	3,000,000	202,910	875,000	2,500,000
451-540 Days	202,910	875,000	2,500,000	1,725,000
541 Days & Over	3,225,000	7,475,000	8,225,000	4,500,000
	<u>\$ 26,627,777</u>	<u>\$ 28,477,674</u>	<u>\$ 43,155,583</u>	<u>\$ 42,236,622</u>



The risk of market price volatility is minimized through maturity diversification. The maturities on our investments are staggered over a series of three-month increments to provide cash flow based on the anticipated needs of the City. Liquidity is achieved by matching investment maturities with forecasted cash flow requirements and by investing in securities with active secondary markets. Short-term investment pools and money market funds provide daily liquidity and are utilized as a competitive yield alternative to fixed maturity investments.

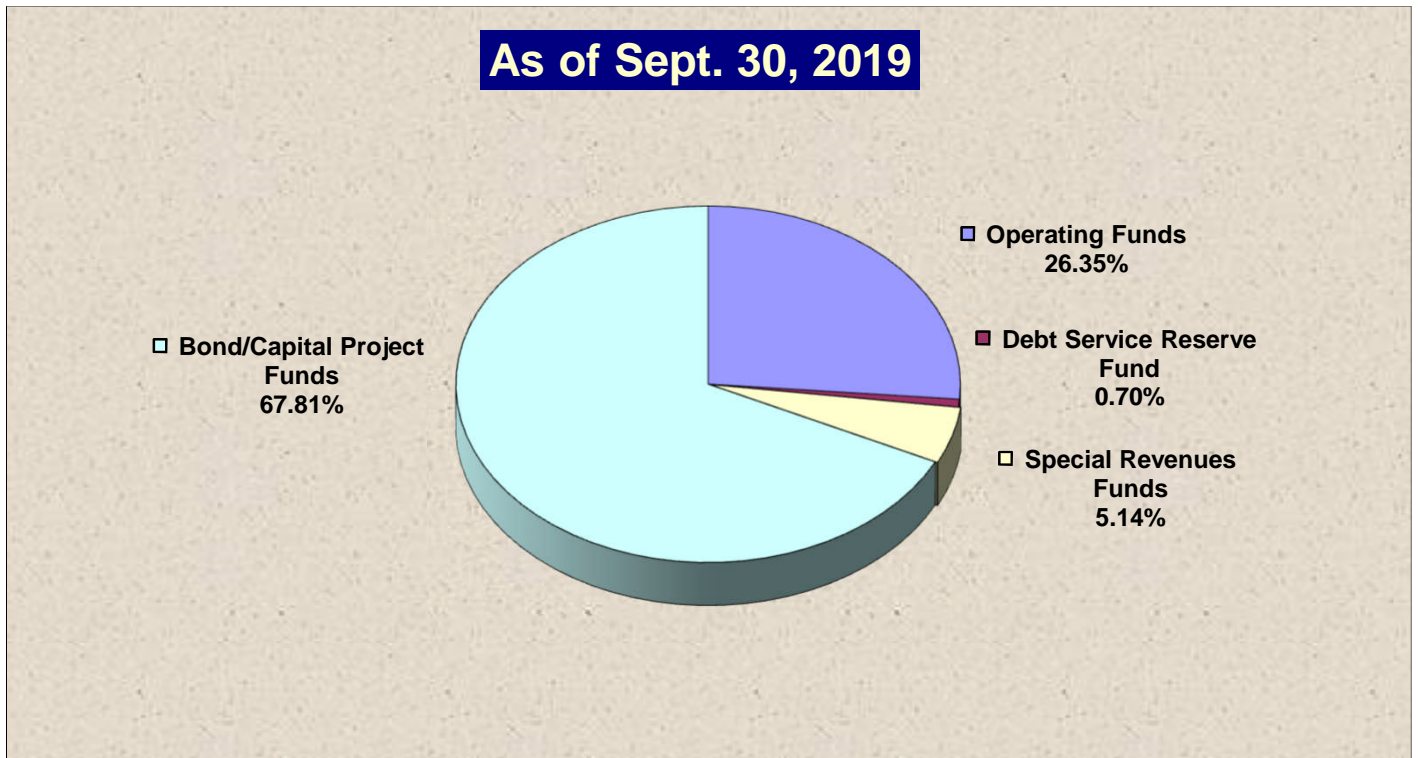
Performance Indicators	Policy Benchmark	Dec. 31, 2018	Mar. 31, 2019	June 30, 2019	Sept. 30, 2019
Weighted Avg. Maturity ≤	365 Days	151	271	212	146
Maturities ≤30 days ≥	5.00%	61.21%	56.80%	59.74%	65.37%

**Note:** The portfolio is within the benchmark limits for the Weighted Average Maturity and liquidity is at 65% at the end of the fiscal year.

## ANNUAL INVESTMENT REPORT

### Portfolio Summary By Fund Type

Fund Type	Dec. 31, 2018	Mar. 31, 2019	June 30, 2019	Sept. 30, 2019
Operating Funds	\$ 15,403,417	\$ 17,159,721	\$ 13,541,794	\$ 11,129,978
Debt Service Reserve Fund	293,151	293,874	294,607	295,897
Special Revenues Funds	1,261,034	1,780,979	2,109,393	2,171,696
Bond/Capital Project Funds	9,670,175	9,243,099	27,209,789	28,639,052
	\$ 26,627,777	\$ 28,477,674	\$ 43,155,583	\$ 42,236,622



As shown in the graph above, the investments in the portfolio are distributed by fund type. Preservation and safety of principal of these investments is the most important strategy. All investments shall be high quality securities with no perceived default risk. Market fluctuations will occur; however, by managing the weighted-average days to maturity (WAM) for each fund type, losses are minimized.

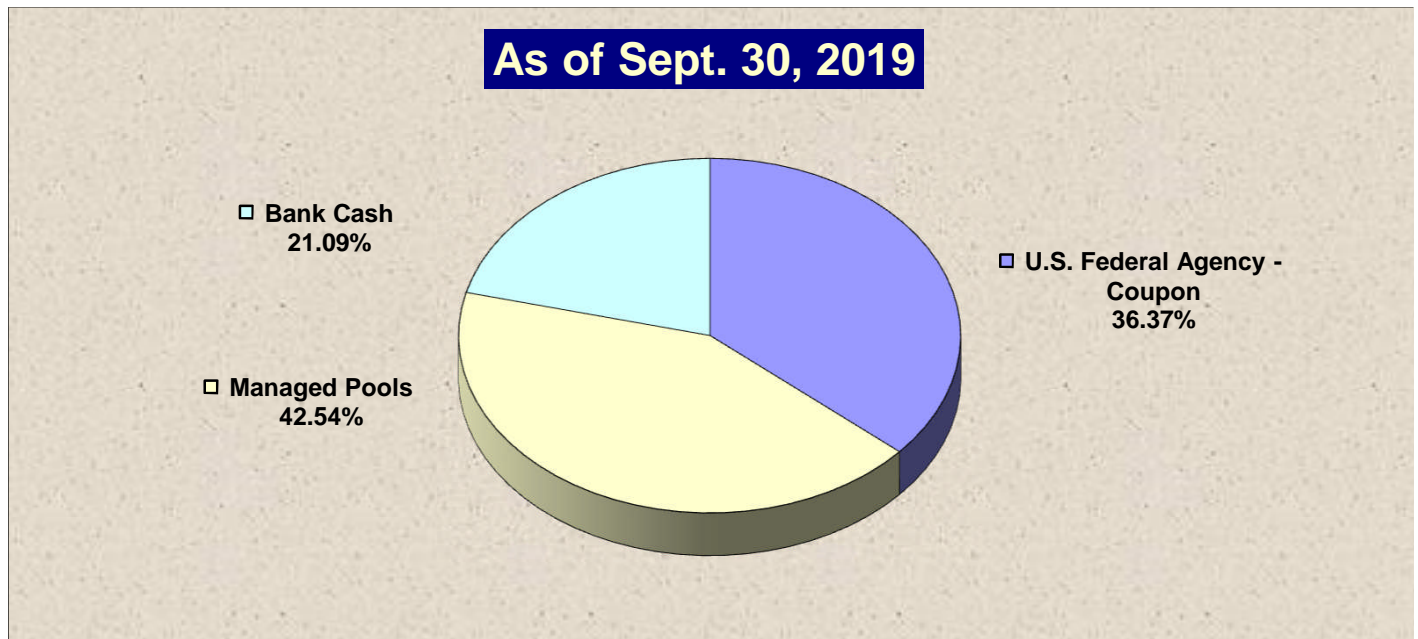
Performance Indicators	Policy Benchmark	Dec. 31, 2018	Mar. 31, 2019	June 30, 2019	Sept. 30, 2019
WAM by Fund ≤					
Operating Funds	270 Days	167	276	232	94
Debt Service Reserve Funds	365 Days	1	1	1	1
Special Revenue Funds	270 Days	152	93	130	84
Bond Funds	365 Days	130	306	210	173

**Note:** The Weighted Average Maturity is below the policy benchmark for all funds as of September 30, 2018.



**ANNUAL INVESTMENT REPORT**  
Economic Development Corporation

Market Sector	Dec. 31, 2018	Mar. 31, 2019	June 30, 2019	Sept. 30, 2019
U.S. Federal Agency -Coupon	\$ 2,097,090	\$ 2,097,090	\$ 500,000	\$ 500,000
U.S. Federal Agency-Callable	1,000,000	1,000,000	-	-
Managed Pools	574,656	578,065	581,539	584,831
Bank Cash	185,267	351,538	171,127	289,983
<b>Total Par Value:</b>	<b>\$ 3,857,013</b>	<b>\$ 4,026,693</b>	<b>\$ 1,252,665</b>	<b>\$ 1,374,814</b>



The portfolio is restricted to U.S. Treasuries, U.S. Agencies, bonds issued by Texas public entities and rated AA or better, fully insured/collateralized certificates of deposit, and fully collateralized repurchase agreements. The investments are diversified by security type to protect interest income from the volatility of interest rates and to protect the portfolio from the risk of principal loss in any one market.

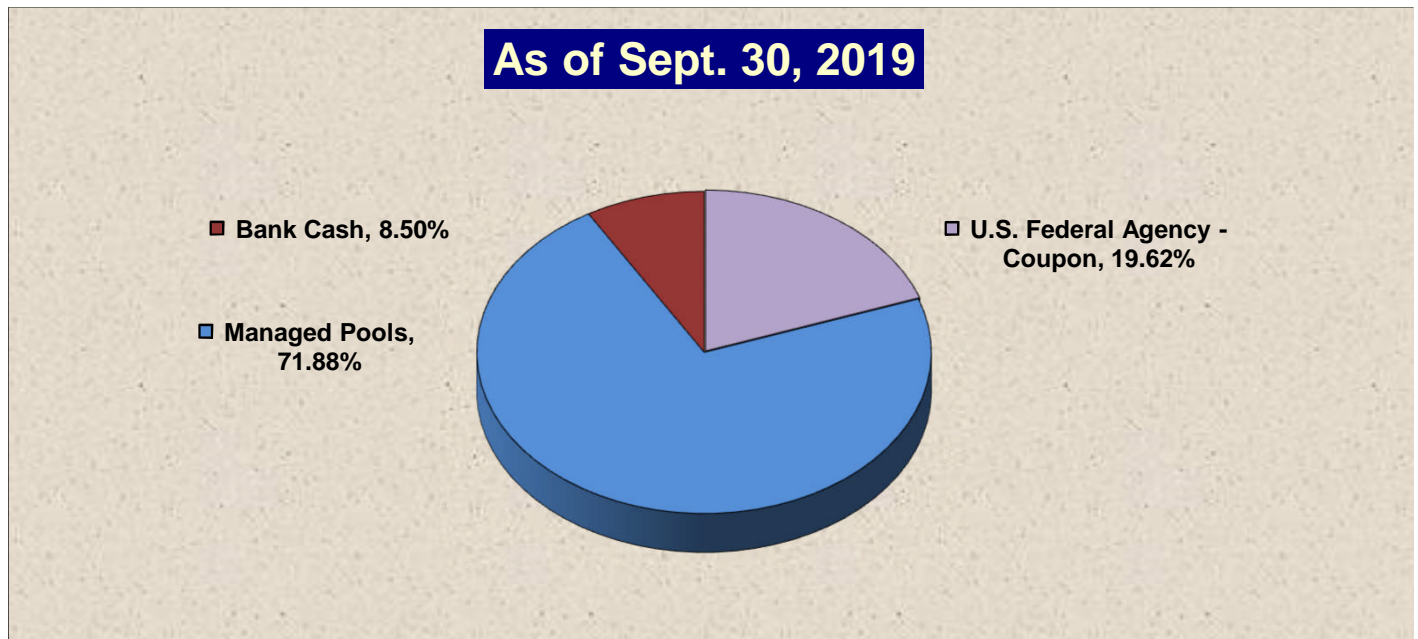
Performance Indicators	Policy Benchmark	Dec. 31, 2018	Mar. 31, 2019	June 30, 2019	Sept. 30, 2019
Average Yield to Maturity		2.239%	2.207%	2.042%	1.680%
≥ Policy Benchmark-(Six Month T-Bill)		2.529%	2.493%	2.166%	1.926%
Callable Securities ≤	30.00%	25.93%	24.83%	0.00%	0.00%
Investment By Type ≤					
U.S. Treasuries	100.00%	0.00%	0.00%	0.00%	0.00%
U.S. Agencies	100.00%	80.30%	76.91%	39.92%	36.37%
Managed Pools	100.00%	14.90%	14.36%	46.42%	42.54%
Money Market	100.00%	0.00%	0.00%	0.00%	0.00%
Bank Cash	100.00%	4.80%	8.73%	13.66%	21.09%
Weighted Avg. Maturity ≤	270 Days	434	347	103	60
Maturities ≤30 days ≥	5.00%	19.70%	23.09%	60.09%	63.63%

**Note:** The portfolio is within the policy benchmark for the Average Weighted Maturity for the fourth quarter of the fiscal year. The liquidity for the portfolio is 64% at the end of the fiscal year.

## ANNUAL INVESTMENT REPORT

### Street Maintenance Sales Tax

Market Sector	Dec. 31, 2018	Mar. 31, 2019	June 30, 2019	Sept. 30, 2019
U.S. Federal Agency -Coupon	\$ 200,000	\$ 200,000	\$ 250,000	\$ 250,000
U.S. Federal Agency-Callable	-	-	-	-
Managed Pools	653,778	657,608	661,784	915,906
Bank Cash	451,916	548,130	375,264	108,314
<b>Total Par Value:</b>	<b>\$ 1,305,694</b>	<b>\$ 1,405,738</b>	<b>\$ 1,287,048</b>	<b>\$ 1,274,220</b>



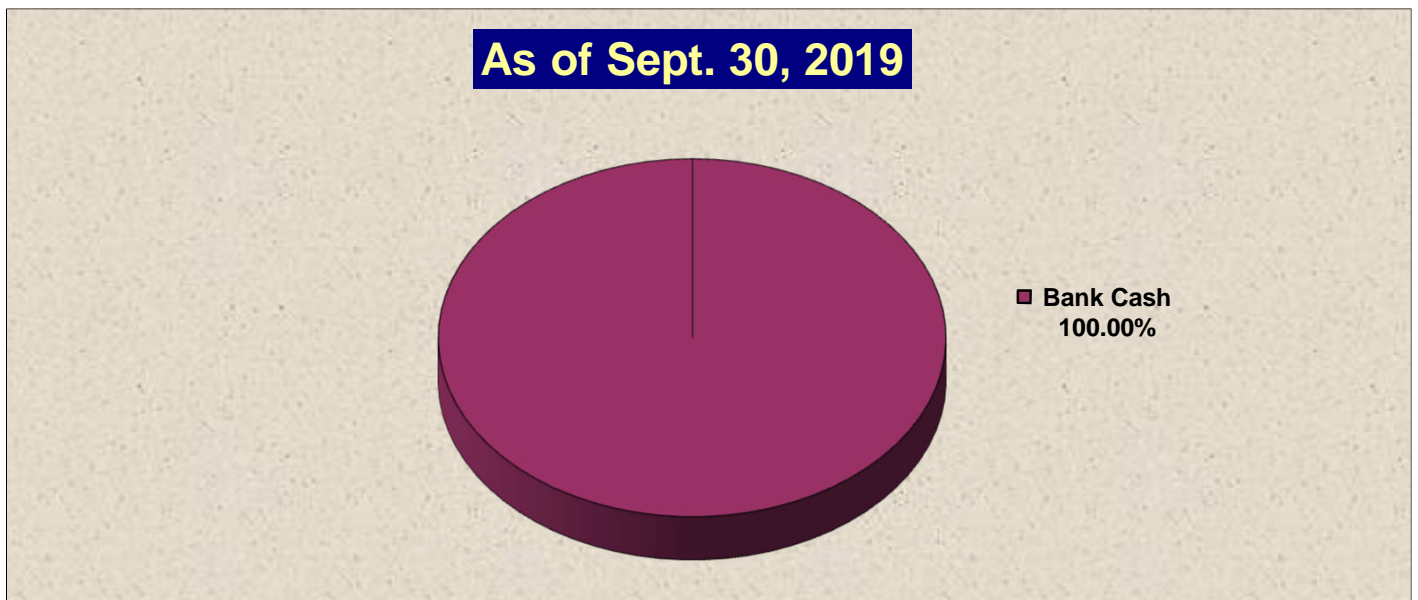
The portfolio is restricted to U.S. Treasuries, U.S. Agencies, bonds issued by Texas public entities and rated AA or better, fully insured/collateralized certificates of deposit, and fully collateralized repurchase agreements. The investments are diversified by security type to protect interest income from the volatility of interest rates and to protect the portfolio from the risk of principal loss in any one market.

Performance Indicators	Policy Benchmark	Dec. 31, 2018	Mar. 31, 2019	June 30, 2019	Sept. 30, 2019
Average Yield to Maturity		1.703%	1.706%	1.903%	2.056%
≥ <i>Policy Benchmark-(Six Month T-Bill)</i>		2.529%	2.493%	2.166%	1.926%
Callable Securities ≤	30.00%	0.00%	0.00%	0.00%	0.00%
Investment By Type ≤					
U.S. Treasuries	100.00%	0.00%	0.00%	0.00%	0.00%
U.S. Agencies	100.00%	15.32%	14.23%	19.42%	19.62%
Managed Pools	100.00%	50.07%	46.78%	51.42%	71.88%
Money Market	100.00%	0.00%	0.00%	0.00%	0.00%
Bank Cash	100.00%	34.61%	38.99%	29.16%	8.50%
Weighted Avg. Maturity ≤	270 Days	17	3	40	22
Maturities ≤ 30 days ≥	5.00%	84.68%	85.77%	80.58%	80.38%

**Note:** The portfolio is within the policy benchmark for the Weighted Average Maturity for the fiscal year. The liquidity for the portfolio is 80% at the end of the fiscal year.

**ANNUAL INVESTMENT REPORT**  
**Crime Control & Prevention District**

Market Sector	Dec. 31, 2018	Mar. 31, 2019	June 30, 2019	Sept. 30, 2019
U.S. Federal Agency -Coupon	\$ -	\$ -	\$ -	\$ -
Bank Cash	419,871	433,272	431,451	434,285
<b>Total Par Value:</b>	<b>\$ 419,871</b>	<b>\$ 433,272</b>	<b>\$ 431,451</b>	<b>\$ 434,285</b>



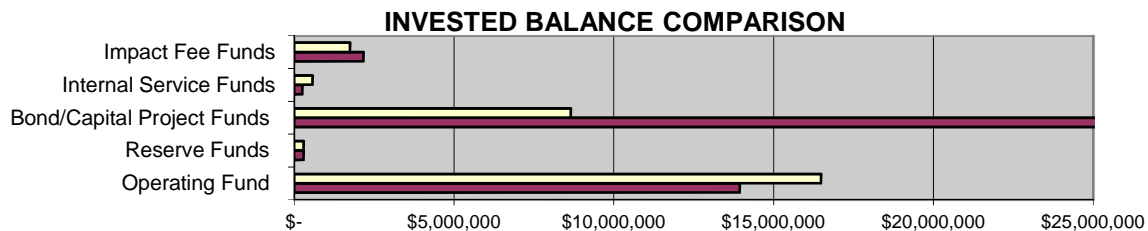
The portfolio is restricted to U.S. Treasuries, U.S. Agencies, bonds issued by Texas public entities and rated AA or better, fully insured/collateralized certificates of deposit, and fully collateralized repurchase agreements. The investments are diversified by security type to protect interest income from the volatility of interest rates and to protect the portfolio from the risk of principal loss in any one market.

Performance Indicators	Policy Benchmark	Dec. 31, 2018	Mar. 31, 2019	June 30, 2019	Sept. 30, 2019
Average Yield to Maturity		1.000%	1.000%	1.000%	1.760%
≥ Policy Benchmark-(Six Month T-Bill)		2.529%	2.493%	2.166%	1.926%
Callable Securities ≤	30.00%	0.00%	0.00%	0.00%	0.00%
Investment By Type ≤					
U.S. Treasuries	100.00%	0.00%	0.00%	0.00%	0.00%
U.S. Agencies	100.00%	0.00%	0.00%	0.00%	0.00%
Managed Pools	100.00%	0.00%	0.00%	0.00%	0.00%
Bank Cash	100.00%	100.00%	100.00%	100.00%	100.00%
Weighted Avg. Maturity ≤	270 Days	1	1	1	1

**Note:** Due to liquidity needs, the fund balance is not invested. All funds are held in the bank account.

**CITY OF CORINTH**  
**INVESTED BALANCE COMPARISON**  
*(For Periods Ending September 30)*

Fund Name	Actual 2018-19	Actual 2017-18	Variance
<b>OPERATING FUNDS</b>			
100 General Fund	\$ 5,044,790	\$ 4,902,875	\$ 141,915
110 Water/Sewer Operations	3,023,217	2,689,684	333,533
120 Storm Water Utility Fund	331,554	648,958	(317,404)
130 Economic Development Corporation	1,085,695	3,518,962	(2,433,267)
131 Crime Control & Prevention District	-	-	-
132 Street Maintenance Sales Tax	1,166,203	851,509	314,694
Independent Bank Cash	3,293,075	3,874,024	(580,949)
	<u>\$ 13,944,534</u>	<u>\$ 16,486,012</u>	<u>\$ (2,541,478)</u>
<b>RESERVE FUNDS</b>			
200 Debt Service	\$ 295,897	\$ 291,914	\$ 3,983
	<u>\$ 295,897</u>	<u>\$ 291,914</u>	<u>\$ 3,983</u>
<b>BOND / CAPITAL PROJECTS FUNDS</b>			
193 General Fund Capital Expenditure Fund	\$ 1,202,910	\$ 1,432,910	\$ (230,000)
194 Utility Capital Expenditure Fund	696,619	650,000	46,619
706 GF Capital Projects - 2016 C.O.	500,000	1,200,000	(700,000)
708 GF Capital Projects - 2019 C.O.	11,019,315	-	11,019,315
709 GF Capital Projects - 2017 C.O.	500,000	921,630	(421,630)
803 Water - 2016 C.O.	1,391,305	1,150,000	241,305
804 Water - 2017 C.O.	-	250,000	(250,000)
805 Wastewater - 2017 C.O.	-	250,000	(250,000)
806 Water - 2019 C.O.	8,258,539	-	8,258,539
Independent Bank Cash	5,058,288	2,795,853	2,262,435
	<u>\$ 28,626,976</u>	<u>\$ 8,650,393</u>	<u>\$ 19,976,583</u>
<b>INTERNAL SERVICE FUNDS</b>			
300 General Fund Vehicle Replacement	\$ -	\$ -	\$ -
301 Fire Vehicle Replacement	-	330,000	(330,000)
302 Technology Replacement	-	-	-
310 Utility Vehicle Replacement	250,000	250,000	-
311 Utility Meter Replacement	-	-	-
	<u>\$ 250,000</u>	<u>\$ 580,000</u>	<u>\$ (330,000)</u>
<b>IMPACT FEE FUNDS</b>			
610 Water/Sewer Impact Fees	\$ -	\$ -	\$ -
611 Wastewater Impact Fees	500,080	500,000	80
620 Storm Drainage Impact Fees	-	-	-
630 Roadway Impact Fees	500,000	-	500,000
699 Street Escrow Fund	-	-	-
Independent Bank Cash	1,171,696	1,249,237	(77,541)
	<u>\$ 2,171,775</u>	<u>\$ 1,749,237</u>	<u>\$ 422,538</u>
	<u><u>\$ 45,289,182</u></u>	<u><u>\$ 27,757,556</u></u>	<u><u>\$ 17,531,626</u></u>

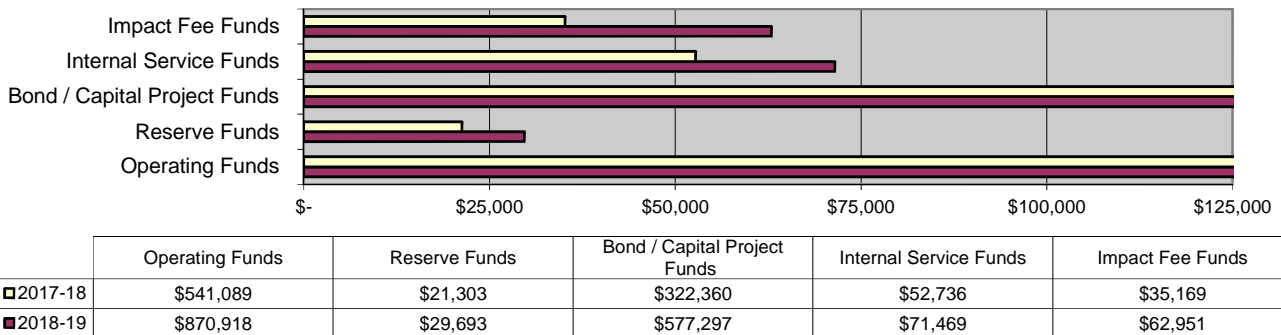


	Operating Fund	Reserve Funds	Bond/Capital Project Funds	Internal Service Funds	Impact Fee Funds
2017-18	16,486,012	291,914	8,650,393	\$580,000	\$1,749,237
2018-19	13,944,534	295,897	28,626,976	\$250,000	\$2,171,775

**CITY OF CORINTH**  
**INTEREST EARNINGS COMPARISON**  
*(For Periods Ending September 30)*

Fund Name	Actual 2018-19	Actual 2017-18	Variance
<b>OPERATING FUNDS:</b>			
100 General Fund	\$ 479,220	\$ 300,487	\$ 178,733
110 Water/Sewer Operations	127,072	69,782	57,290
120 Storm Water Utility Fund	28,531	21,757	6,774
130 Economic Development Corporation	178,961	118,441	60,521
131 Crime Control & Prevention District	10,832	6,554	4,278
132 Street Maintenance Sales Tax	46,301	24,068	22,233
	<u>\$ 870,918</u>	<u>\$ 541,089</u>	<u>\$ 329,829</u>
<b>RESERVE FUNDS:</b>			
200 Debt Service	\$ 29,693	\$ 21,303	\$ 8,390
	<u>\$ 29,693</u>	<u>\$ 21,303</u>	<u>\$ 8,390</u>
<b>BOND /CAPITAL PROJECTS FUNDS</b>			
193 General Fund Capital Expenditure Fund	\$ 99,250	\$ 69,800	\$ 29,450
194 Utility Capital Expenditure Fund	38,315	16,346	21,969
706 GF Capital Projects - 2016 C.O.	161,435	139,009	22,426
708 GF Capital Projects - 2019 C.O.	49,746	32,148	17,599
709 GF Capital Projects - 2017 C.O.	49,746	32,148	17,599
803 Water - 2016 C.O.	58,869	20,762	38,108
804 Water - 2017 C.O.	11,294	6,250	5,044
805 Wastewater - 2017 C.O.	11,302	5,897	5,404
806 Water - 2019 C.O.	97,339	-	97,339
	<u>\$ 577,297</u>	<u>\$ 322,360</u>	<u>\$ 254,938</u>
<b>INTERNAL SERVICE FUNDS</b>			
300 General Fund Vehicle Replacement	\$ 5,609	\$ 3,316	\$ 2,292
301 Fire Vehicle Replacement	15,141	8,931	6,210
302 Technology Replacement	3,394	1,505	1,889
310 Utility Vehicle Replacement	20,518	14,056	6,462
311 Utility Meter Replacement	26,807	24,927	1,880
	<u>\$ 71,469</u>	<u>\$ 52,736</u>	<u>\$ 18,733</u>
<b>IMPACT FEE FUNDS</b>			
610 Water/Sewer Impact Fees	\$ 11,381	\$ 9,946	\$ 1,435
611 Wastewater Impact Fees	25,946	11,877	14,069
620 Storm Drainage Impact Fees	3,183	2,252	930
630 Roadway Impact Fees	16,063	6,275	9,788
630 Street Escrow	6,379	4,819	1,560
	<u>\$ 62,951</u>	<u>\$ 35,169</u>	<u>\$ 27,782</u>
	<u><u>\$ 1,612,329</u></u>	<u><u>\$ 972,657</u></u>	<u><u>\$ 639,672</u></u>

**INTEREST EARNINGS COMPARISON**



# City of Corinth, Texas

## ANNUAL INVESTMENT REPORT

*For Fiscal Year Ended September 30, 2019*



### APPENDIX A

#### **First Southwest Portfolio Assessment**



**City of Corinth, Texas**


**Portfolio Exceptions**


**Quarter Ending September 30, 2019**

*Fund Groups Included: Consolidated, Eco Development, Crime Control and Street Maintenance Tax.*

The following exception(s) were noted during our review of the above-captioned investment report:

*There were no exceptions noted.*

  
\_\_\_\_\_  
Scott D. McIntyre, CFA  
Managing Director  
Hilltop Securities Asset Management, LLC

  
\_\_\_\_\_  
Date



**City of Corinth, Texas**  
Portfolio Assessment  
Quarter Ending September 30, 2019

*Fund Groups Included: Consolidated, Eco Development, Crime Control and Street Maintenance Tax.*

- The Fed raised the overnight rate target by 25 bps in December 2018, boosting the overnight target to a range of 2.25% to 2.50%. The ninth rate increase in a four-year period appears as though it was ill-advised as the Fed was subsequently forced to reverse course, hiking the overnight rate by 25 basis points in July and again in September. Although these moves were widely anticipated, the inverted yield curve didn't allow investors to lock-in at favorable levels.
- The City's consolidated portfolio yield was 2.12% at quarter end. This is approximately 74 basis points *above* the average yield at the end of the last fiscal year, but four (4) basis points below the six month trailing average of the six-month Treasury bill. The reason for the shortfall is that 21% of available funds were held at the depository bank earning 1.76%. Adjusting the cash rate to match the month-end TexPool 7-day average rate of 2.18% would boost the overall portfolio yield to around 2.20%.
- There was no undue credit risk assumed; no direct exposure to foreign markets, leverage or speculation in any of the portfolios.
- Bank deposits are adequately secured through a Federal Home Loan Bank (FHLB) standby letter of credit in the amount of \$6.5 million expiring 8/21/2020, as well as approximately \$5mm in mortgage-backed securities collateral.
- The portfolio strategy and investment management appear prudent, and investment reporting appears accurate.

Scott D. McIntyre, CFA  
Managing Director

Date



# City of Corinth, Texas

## ANNUAL INVESTMENT REPORT

*For Fiscal Year Ended September 30, 2019*



### APPENDIX B

**Investment Report  
For Month Ending September 30, 2018**



**City of Corinth portfolio  
Texas Compliance Change in Val Report  
Sorted by Fund  
October 1, 2018 - September 30, 2019**

Inv #	Issuer	Fund	Purch Date	Interest Accrual	Beginning Book Value				Ending Book Value
Cusip	Par Value	YTM	Mat Date	Interest Received	Beginning Market Value	Purchases/ Additions	Redemptions	Change in Value	Ending Market Value
<b>Fund: Pooled Cash</b>									
10012	NTHSTR	00	10/01/2018	50,138.37	7,919,114.07	11,356,774.52	16,815,395.65	-5,458,621.13	2,460,492.94
SYS10012	2,460,492.94	1.760	/ /	0.00	7,919,114.07	11,356,774.52	16,815,395.65	-5,458,621.13	2,460,492.94
<b>Sub Totals For: Fund: Pooled Cash</b>				50,138.37	7,919,114.07	11,356,774.52	16,815,395.65	-5,458,621.13	2,460,492.94
				0.00	7,919,114.07	11,356,774.52	16,815,395.65	-5,458,621.13	2,460,492.94
<b>Fund: Pooled Cash- Crime C</b>									
10323	NTHSTR	00A	10/01/2018	4,733.65	391,476.93	92,893.40	50,085.62	42,807.78	434,284.71
SYS10322	434,284.71	1.760	/ /	0.00	391,476.93	92,893.40	50,085.62	42,807.78	434,284.71
<b>Sub Totals For: Fund: Pooled Cash- Crime C</b>				4,733.65	391,476.93	92,893.40	50,085.62	42,807.78	434,284.71
				0.00	391,476.93	92,893.40	50,085.62	42,807.78	434,284.71
<b>Fund: Pooled Cash-Eco Dev</b>									
10021	NTHSTR	00B	10/01/2018	2,156.84	303,201.44	780,485.46	793,703.41	-13,217.95	289,983.49
SYS10021	289,983.49	0.150	/ /	0.00	303,201.44	780,485.46	793,703.41	-13,217.95	289,983.49
<b>Sub Totals For: Fund: Pooled Cash-Eco Dev</b>				2,156.84	303,201.44	780,485.46	793,703.41	-13,217.95	289,983.49
				0.00	303,201.44	780,485.46	793,703.41	-13,217.95	289,983.49
<b>Fund: Pooled Cash - Street</b>									
10401	NTHSTR	00C	10/01/2018	4,757.86	343,456.48	723,029.37	958,172.06	-235,142.69	108,313.79
SYS10042	108,313.79	1.760	/ /	0.00	343,456.48	723,029.37	958,172.06	-235,142.69	108,313.79
<b>Sub Totals For: Fund: Pooled Cash - Street</b>				4,757.86	343,456.48	723,029.37	958,172.06	-235,142.69	108,313.79
				0.00	343,456.48	723,029.37	958,172.06	-235,142.69	108,313.79

**Fund: Capital Project Ban**

**City of Corinth portfolio**  
**Texas Compliance Change in Val Report**  
**October 1, 2018 - September 30, 2019**

Inv #	Issuer	Fund	Purch Date	Interest Accrual	Beginning Book Value				Ending Book Value
Cusip	Par Value	YTM	Mat Date	Interest Received	Beginning Market Value	Purchases/ Additions	Redemptions	Change in Value	Ending Market Value
10630	NTHSTR	00D	10/01/2018	43,134.65	0.00	11,277,103.49	2,216,954.88	5,058,287.76	5,058,287.76
SYS10630	5,058,287.76	1.760	/ /	0.00	0.00	11,277,103.49	2,216,954.88	5,058,287.76	5,058,287.76
<b>Sub Totals For: Fund: Capital Project Ban</b>				43,134.65	0.00	11,277,103.49	2,216,954.88	5,058,287.76	5,058,287.76
				0.00	0.00	11,277,103.49	2,216,954.88	5,058,287.76	5,058,287.76
<b>Fund: Special Revenue Bank</b>									
10631	NTHSTR	00E	10/01/2018	12,147.81	0.00	2,974,617.30	945,180.96	1,171,695.60	1,171,695.60
SYS10631	1,171,695.60	1.760	/ /	0.00	0.00	2,974,617.30	945,180.96	1,171,695.60	1,171,695.60
<b>Sub Totals For: Fund: Special Revenue Bank</b>				12,147.81	0.00	2,974,617.30	945,180.96	1,171,695.60	1,171,695.60
				0.00	0.00	2,974,617.30	945,180.96	1,171,695.60	1,171,695.60
<b>Fund: General Fund</b>									
10607	FFCB	100	02/28/2018	12,420.00	598,536.58	0.00	0.00	648.01	599,184.59
3133EH5G4	600,000.00	2.181	01/04/2021	12,420.00	587,700.00	0.00	0.00	14,460.00	602,160.00
10140	TXSTAR	100	10/01/2018	66,652.51	505,875.27	3,731,989.85	2,000,000.00	1,731,989.85	2,237,865.12
SYS10140	2,237,865.12	2.106	/ /	61,989.85	505,875.27	3,731,989.85	2,000,000.00	1,731,989.85	2,237,865.12
10327	NTHSTR	100	10/01/2018	0.00	0.00	0.00	0.00	0.00	0.00
SYS10327	0.00	0.450	/ /	0.00	0.00	0.00	0.00	0.00	0.00
10574	FNMA	100	03/20/2017	250.10	146,995.32	0.00	147,000.00	-146,995.32	0.00
3136G2H91	0.00	0.000	11/20/2018	918.75	146,794.20	0.00	147,000.00	-146,794.20	0.00
10556	FNMA	100	08/05/2016	378.96	150,085.89	0.00	150,000.00	-150,085.89	0.00
3136G16Y0	0.00	0.000	12/26/2018	802.50	149,580.00	0.00	150,000.00	-149,580.00	0.00
10599	FAMC	100	01/17/2018	3,277.78	1,000,000.00	0.00	1,000,000.00	-1,000,000.00	0.00
3132X0E72	0.00	0.000	01/17/2020	7,388.89	991,400.00	0.00	1,000,000.00	-991,400.00	0.00
10601	FHLB	100	01/29/2018	20,200.00	999,223.25	0.00	0.00	585.00	999,808.25
3130ADFP2	1,000,000.00	2.080	01/29/2020	20,200.00	990,000.00	0.00	0.00	10,300.00	1,000,300.00

**City of Corinth portfolio**  
**Texas Compliance Change in Val Report**  
**October 1, 2018 - September 30, 2019**

Inv #	Issuer	Fund	Purch Date	Interest Accrual	Beginning Book Value				Ending Book Value
Cusip	Par Value	YTM	Mat Date	Interest Received	Beginning Market Value	Purchases/ Additions	Redemptions	Change in Value	Ending Market Value
10600	FHLB	100	01/30/2018	7,889.34	1,000,000.00	0.00	1,000,000.00	-1,000,000.00	0.00
3130ADDH2	0.00	0.000	01/30/2020	16,875.00	997,400.00	0.00	1,000,000.00	-997,400.00	0.00
10596	FHLB	100	11/29/2017	9,750.00	499,482.08	0.00	0.00	240.89	499,722.97
3130ACTL8	500,000.00	1.999	11/25/2020	9,750.00	490,100.00	0.00	0.00	10,000.00	500,100.00
10633	FFCB	100	12/20/2018	8,658.31	0.00	707,737.75	0.00	714,137.08	714,137.08
3133EFXB8	725,000.00	2.700	01/28/2021	6,717.12	0.00	707,737.75	0.00	721,810.00	721,810.00
<b>Sub Totals For: Fund: General Fund</b>				129,477.00	4,900,198.39	4,439,727.60	4,297,000.00	150,519.62	5,050,718.01
				137,062.11	4,858,849.47	4,439,727.60	4,297,000.00	203,385.65	5,062,235.12
<b>Fund: Utility Fund</b>									
10615	FHLB	110	06/30/2018	1,062.56	400,243.11	0.00	400,000.00	-400,243.11	0.00
3130AAHG6	0.00	0.000	12/14/2018	2,387.11	399,512.89	0.00	400,000.00	-399,512.89	0.00
10612	FFCB	110	05/31/2018	932.64	340,000.00	0.00	340,000.00	-340,000.00	0.00
3133EGW35	0.00	0.000	12/20/2018	2,125.00	339,184.00	0.00	340,000.00	-339,184.00	0.00
10557	FNMA	110	08/05/2016	682.12	270,154.60	0.00	270,000.00	-270,154.60	0.00
3136G16Y0	0.00	0.000	12/26/2018	1,444.50	269,244.00	0.00	270,000.00	-269,244.00	0.00
10624	FFCB	110	09/30/2018	2,166.67	501,065.28	0.00	500,000.00	-501,065.28	0.00
3133EG5Q4	0.00	0.000	02/01/2019	2,184.72	499,015.28	0.00	500,000.00	-499,015.28	0.00
10656	FFCB	110	06/30/2019	1,783.57	0.00	297,056.95	0.00	297,068.21	297,068.21
3133EJHL6	297,090.00	2.387	03/27/2020	1,705.17	0.00	297,056.95	0.00	297,624.76	297,624.76
10211	TXSTAR	110	10/01/2018	49,811.91	1,179,683.85	1,548,065.46	0.00	1,548,065.46	2,727,749.31
SYS10211	2,727,749.31	2.106	/ /	48,065.46	1,179,683.85	1,548,065.46	0.00	1,548,065.46	2,727,749.31
10358	NTHSTR	110	10/01/2018	0.00	0.00	0.00	0.00	0.00	0.00
SYS10358	0.00	0.450	/ /	0.00	0.00	0.00	0.00	0.00	0.00
10018	TXPOOL	110	10/01/2018	0.00	0.00	0.00	0.00	0.00	0.00
SYS10018	0.00	5.271	/ /	0.00	0.00	0.00	0.00	0.00	0.00

**City of Corinth portfolio**  
**Texas Compliance Change in Val Report**  
**October 1, 2018 - September 30, 2019**

Inv #	Issuer	Fund	Purch Date	Interest Accrual	Beginning Book Value				Ending Book Value
Cusip	Par Value	YTM	Mat Date	Interest Received	Beginning Market Value	Purchases/ Additions	Redemptions	Change in Value	Ending Market Value
10023	FEDER	110	10/01/2018	0.00	0.00	0.00	0.00	0.00	0.00
SYS10023	0.00	5.190	/ /	0.00	0.00	0.00	0.00	0.00	0.00
<b>Sub Totals For: Fund: Utility Fund</b>				56,439.47	2,691,146.84	1,845,122.41	1,510,000.00	333,670.68	3,024,817.52
				57,911.96	2,686,640.02	1,845,122.41	1,510,000.00	338,734.05	3,025,374.07
<b>Fund: Drainage Fund</b>									
10558	FNMA	120	08/05/2016	378.96	150,085.89	0.00	150,000.00	-150,085.89	0.00
3136G16Y0	0.00	0.000	12/26/2018	802.50	149,580.00	0.00	150,000.00	-149,580.00	0.00
10610	FNMA	120	04/01/2018	2,839.86	249,587.18	0.00	250,000.00	-249,587.18	0.00
3136G2XJ1	0.00	0.000	08/23/2019	3,175.00	246,825.00	0.00	250,000.00	-246,825.00	0.00
10302	TXSTAR	120	10/01/2018	2,521.68	248,957.79	252,822.41	170,000.00	82,822.41	331,780.20
SYS10302	331,780.20	2.106	/ /	2,822.41	248,957.79	252,822.41	170,000.00	82,822.41	331,780.20
10332	NTHSTR	120	10/01/2018	0.00	0.00	0.00	0.00	0.00	0.00
SYS10332	0.00	0.450	/ /	0.00	0.00	0.00	0.00	0.00	0.00
<b>Sub Totals For: Fund: Drainage Fund</b>				5,740.50	648,630.86	252,822.41	570,000.00	-316,850.66	331,780.20
				6,799.91	645,362.79	252,822.41	570,000.00	-313,582.59	331,780.20
<b>Fund: Economic Development</b>									
10616	FHLB	130	06/30/2018	1,184.03	1,002,215.28	0.00	1,000,000.00	-1,002,215.28	0.00
3130ACR89	0.00	0.000	11/02/2018	4,659.72	1,001,515.28	0.00	1,000,000.00	-1,001,515.28	0.00
10606	FHLMC	130	02/28/2018	8,250.00	497,500.00	0.00	0.00	1,724.14	499,224.14
3134G35V8	500,000.00	2.003	03/13/2020	8,250.00	491,750.00	0.00	0.00	8,000.00	499,750.00
10007	TXPOOL	130	10/01/2018	13,232.29	421,872.10	162,958.55	0.00	162,958.55	584,830.65
SYS10007	584,830.65	2.163	/ /	12,958.55	421,872.10	162,958.55	0.00	162,958.55	584,830.65
10379	NTHSTR	130	10/01/2018	0.00	0.00	0.00	0.00	0.00	0.00
SYS10379	0.00	0.250	/ /	0.00	0.00	0.00	0.00	0.00	0.00

**City of Corinth portfolio**  
**Texas Compliance Change in Val Report**  
**October 1, 2018 - September 30, 2019**

Inv #	Issuer	Fund	Purch Date	Interest Accrual	Beginning Book Value				Ending Book Value
Cusip	Par Value	YTM	Mat Date	Interest Received	Beginning Market Value	Purchases/ Additions	Redemptions	Change in Value	Ending Market Value
10595	FHLB	130	11/06/2017	729.17	500,009.72	0.00	500,000.00	-500,009.72	0.00
3130ACRE6	0.00	0.000	11/06/2018	3,750.00	499,650.00	0.00	500,000.00	-499,650.00	0.00
10583	FHLB	130	08/15/2017	1,038.19	499,879.25	0.00	500,000.00	-499,879.25	0.00
313381EC5	0.00	0.000	12/06/2018	2,875.00	499,150.00	0.00	500,000.00	-499,150.00	0.00
10578	FFCB	130	04/17/2017	2,156.00	300,000.00	0.00	300,000.00	-300,000.00	0.00
3133EHFK4	0.00	0.000	04/17/2019	3,960.00	297,930.00	0.00	300,000.00	-297,930.00	0.00
10609	FFCB	130	03/27/2018	5,272.32	297,023.65	0.00	297,056.95	-297,023.65	0.00
3133EJHL6	0.00	0.000	03/27/2020	5,350.71	295,129.21	0.00	297,056.95	-295,129.21	0.00
<b>Sub Totals For: Fund: Economic Development</b>				31,862.00	3,518,500.00	162,958.55	2,597,056.95	-2,434,445.21	1,084,054.79
				41,803.98	3,506,996.59	162,958.55	2,597,056.95	-2,422,415.94	1,084,580.65
<b>Fund: Street Maintenance S</b>									
10617	FHLB	132	06/30/2018	894.44	500,413.96	0.00	500,000.00	-500,413.96	0.00
313382CU5	0.00	0.000	11/27/2018	2,347.92	499,727.08	0.00	500,000.00	-499,727.08	0.00
10579	FFCB	132	04/17/2017	1,437.33	200,000.00	0.00	200,000.00	-200,000.00	0.00
3133EHFK4	0.00	0.000	04/17/2019	2,640.00	198,620.00	0.00	200,000.00	-198,620.00	0.00
10657	FAMC	132	06/30/2019	1,263.89	0.00	250,000.00	0.00	250,000.00	250,000.00
3132X0E72	250,000.00	1.999	01/17/2020	236.11	0.00	250,000.00	0.00	250,100.00	250,100.00
10155	TXSTAR	132	10/01/2018	15,293.73	151,509.25	764,396.97	0.00	764,396.97	915,906.22
SYS10155	915,906.22	2.106	/ /	14,396.97	151,509.25	764,396.97	0.00	764,396.97	915,906.22
10331	NTHSTR	132	10/01/2018	0.00	0.00	0.00	0.00	0.00	0.00
SYS10331	0.00	0.450	/ /	0.00	0.00	0.00	0.00	0.00	0.00
<b>Sub Totals For: Fund: Street Maintenance S</b>				18,889.39	851,923.21	1,014,396.97	700,000.00	313,983.01	1,165,906.22
				19,621.00	849,856.33	1,014,396.97	700,000.00	316,149.89	1,166,006.22
<b>Fund: General Fund Capital</b>									

**City of Corinth portfolio**  
**Texas Compliance Change in Val Report**  
**October 1, 2018 - September 30, 2019**

Inv #	Issuer	Fund	Purch Date	Interest Accrual	Beginning Book Value				Ending Book Value
Cusip	Par Value	YTM	Mat Date	Interest Received	Beginning Market Value	Purchases/ Additions	Redemptions	Change in Value	Ending Market Value
10613	FFCB	193	05/31/2018	905.21	330,000.00	0.00	330,000.00	-330,000.00	0.00
3133EGW35	0.00	0.000	12/20/2018	2,062.50	329,208.00	0.00	330,000.00	-329,208.00	0.00
10626	FFCB	193	09/30/2018	1,953.65	150,103.13	0.00	150,000.00	-150,103.13	0.00
3133EHYJ6	0.00	0.000	09/12/2019	1,959.37	148,213.13	0.00	150,000.00	-148,213.13	0.00
10658	FAMC	193	06/30/2019	1,516.66	0.00	300,000.00	0.00	300,000.00	300,000.00
3132X0E72	300,000.00	1.999	01/17/2020	283.33	0.00	300,000.00	0.00	300,120.00	300,120.00
10608	FFCB	193	03/27/2018	4,819.11	202,864.69	0.00	0.00	30.43	202,895.12
3133EJHL6	202,910.00	2.390	03/27/2020	4,819.12	201,570.79	0.00	0.00	1,704.45	203,275.24
10650	FFCB	193	04/02/2019	5,314.06	0.00	450,000.00	0.00	450,000.00	450,000.00
3133EJHL6	450,000.00	2.374	03/27/2020	5,195.31	0.00	450,000.00	0.00	450,810.00	450,810.00
10464	NTHSTR	193	10/01/2018	0.00	0.00	0.00	0.00	0.00	0.00
SYS10464	0.00	0.450	/ /	0.00	0.00	0.00	0.00	0.00	0.00
10559	FHLMC	193	08/25/2016	2,000.00	500,000.00	0.00	500,000.00	-500,000.00	0.00
3134G96J1	0.00	0.000	02/25/2019	2,500.00	497,100.00	0.00	500,000.00	-497,100.00	0.00
10576	FNMA	193	04/06/2017	4,125.00	250,000.00	0.00	0.00	0.00	250,000.00
3135G0S46	250,000.00	1.644	01/27/2020	4,125.00	246,225.00	0.00	0.00	3,800.00	250,025.00
<b>Sub Totals For: Fund: General Fund Capital</b>				20,633.69	1,432,967.82	750,000.00	980,000.00	-230,072.70	1,202,895.12
				20,944.63	1,422,316.92	750,000.00	980,000.00	-218,086.68	1,204,230.24
<b>Fund: Water/Wastewater Cap</b>									
10621	FFCB	194	08/31/2018	1,635.56	501,011.94	0.00	500,000.00	-501,011.94	0.00
3133EG2S3	0.00	0.000	01/03/2019	2,168.89	499,481.11	0.00	500,000.00	-499,481.11	0.00
10627	FFCB	194	09/30/2018	1,953.65	150,103.13	0.00	150,000.00	-150,103.13	0.00
3133EHYJ6	0.00	0.000	09/12/2019	1,959.37	148,213.13	0.00	150,000.00	-148,213.13	0.00
10465	NTHSTR	194	10/01/2018	0.00	0.00	0.00	0.00	0.00	0.00
SYS10465	0.00	0.450	/ /	0.00	0.00	0.00	0.00	0.00	0.00

**City of Corinth portfolio**  
**Texas Compliance Change in Val Report**  
**October 1, 2018 - September 30, 2019**

Inv #	Issuer	Fund	Purch Date	Interest Accrual	Beginning Book Value				Ending Book Value
Cusip	Par Value	YTM	Mat Date	Interest Received	Beginning Market Value	Purchases/ Additions	Redemptions	Change in Value	Ending Market Value
10651	FNMA	194	04/04/2019	1,917.50	0.00	321,425.00	0.00	323,396.26	323,396.26
3136G32E4	325,000.00	2.454	02/25/2020	1,527.50	0.00	321,425.00	0.00	324,187.50	324,187.50
10638	FFCB	194	01/11/2019	7,041.67	0.00	375,168.75	0.00	375,088.25	375,088.25
3133EJUM9	375,000.00	2.569	07/16/2020	5,010.42	0.00	375,168.75	0.00	377,100.00	377,100.00
<b>Sub Totals For: Fund: Water/Wastewater Cap</b>				12,548.38	651,115.07	696,593.75	650,000.00	47,369.44	698,484.51
				10,666.18	647,694.24	696,593.75	650,000.00	53,593.26	701,287.50
<b>Fund: General Debt Service</b>									
10328	NTHSTR	200	10/01/2018	3,650.62	291,913.80	3,982.85	0.00	3,982.85	295,896.65
SYS10328	295,896.65	1.760	/ /	3,482.85	291,913.80	3,982.85	0.00	3,982.85	295,896.65
10017	TXSTAR	200	10/01/2018	0.00	0.00	0.00	0.00	0.00	0.00
SYS10017	0.00	5.288	/ /	0.00	0.00	0.00	0.00	0.00	0.00
<b>Sub Totals For: Fund: General Debt Service</b>				3,650.62	291,913.80	3,982.85	0.00	3,982.85	295,896.65
				3,482.85	291,913.80	3,982.85	0.00	3,982.85	295,896.65
<b>Fund: GF Vehicle &amp; Equip</b>									
10462	NTHSTR	300	10/01/2018	0.00	0.00	0.00	0.00	0.00	0.00
SYS10462	0.00	0.250	/ /	0.00	0.00	0.00	0.00	0.00	0.00
<b>Sub Totals For: Fund: GF Vehicle &amp; Equip</b>				0.00	0.00	0.00	0.00	0.00	0.00
				0.00	0.00	0.00	0.00	0.00	0.00
<b>Fund: Fire Vehicle Replace</b>									
10614	FFCB	301	05/31/2018	905.21	330,000.00	0.00	330,000.00	-330,000.00	0.00
3133EGW35	0.00	0.000	12/20/2018	2,062.50	329,208.00	0.00	330,000.00	-329,208.00	0.00
10510	NTHSTR	301	10/01/2018	0.00	0.00	0.00	0.00	0.00	0.00
SYS10510	0.00	0.450	/ /	0.00	0.00	0.00	0.00	0.00	0.00
<b>Sub Totals For: Fund: Fire Vehicle Replace</b>				905.21	330,000.00	0.00	330,000.00	-330,000.00	0.00
				2,062.50	329,208.00	0.00	330,000.00	-329,208.00	0.00



**City of Corinth portfolio**  
**Texas Compliance Change in Val Report**  
**October 1, 2018 - September 30, 2019**

Inv #	Issuer	Fund	Purch Date	Interest Accrual	Beginning Book Value				Ending Book Value
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<b>Fund: Utility Vehicle &amp; Eq</b>									
10577	FNMA	310	04/06/2017	4,125.00	250,000.00	0.00	0.00	0.00	250,000.00
3135G0S46	250,000.00	1.649	01/27/2020	4,125.00	246,225.00	0.00	0.00	3,800.00	250,025.00
10463	NTHSTR	310	10/01/2018	0.00	0.00	0.00	0.00	0.00	0.00
SYS10462	0.00	0.450	/ /	0.00	0.00	0.00	0.00	0.00	0.00
<b>Sub Totals For: Fund: Utility Vehicle &amp; Eq</b>				4,125.00	250,000.00	0.00	0.00	0.00	250,000.00
				4,125.00	246,225.00	0.00	0.00	3,800.00	250,025.00
<b>Fund: Utility Meter Replac</b>									
10511	NTHSTR	311	10/01/2018	0.00	0.00	0.00	0.00	0.00	0.00
SYS10511	0.00	0.450	/ /	0.00	0.00	0.00	0.00	0.00	0.00
<b>Sub Totals For: Fund: Utility Meter Replac</b>				0.00	0.00	0.00	0.00	0.00	0.00
				0.00	0.00	0.00	0.00	0.00	0.00
<b>Fund: Water Impact Fees</b>									
10052	TXSTAR	610	10/01/2018	0.00	0.00	0.00	0.00	0.00	0.00
SYS10013	0.00	0.209	/ /	0.00	0.00	0.00	0.00	0.00	0.00
<b>Sub Totals For: Fund: Water Impact Fees</b>				0.00	0.00	0.00	0.00	0.00	0.00
				0.00	0.00	0.00	0.00	0.00	0.00
<b>Fund: Wastewater Impact Fe</b>									
10611	FHLB	611	04/20/2018	929.74	350,009.17	0.00	350,000.00	-350,009.17	0.00
3130AAHG6	0.00	0.000	12/14/2018	2,292.50	349,370.00	0.00	350,000.00	-349,370.00	0.00
10625	FNMA	611	09/30/2018	725.00	150,061.45	0.00	150,000.00	-150,061.45	0.00
3136G3AG0	0.00	0.000	02/26/2019	730.00	149,315.00	0.00	150,000.00	-149,315.00	0.00
10315	TXSTAR	611	10/01/2018	0.00	0.00	0.00	0.00	0.00	0.00
SYS10315	0.00	0.209	/ /	0.00	0.00	0.00	0.00	0.00	0.00

**City of Corinth portfolio**  
**Texas Compliance Change in Val Report**  
**October 1, 2018 - September 30, 2019**

Inv #	Issuer	Fund	Purch Date	Interest Accrual	Beginning Book Value				Ending Book Value
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10648	FHLB	611	04/02/2019	5,904.52	0.00	500,000.00	0.00	500,000.00	500,000.00
3130ADUJ9	500,000.00	2.375	03/30/2020	5,871.53	0.00	500,000.00	0.00	501,250.00	501,250.00
<b>Sub Totals For: Fund: Wastewater Impact Fe</b>				7,559.26	500,070.62	500,000.00	500,000.00	-70.62	500,000.00
				8,894.03	498,685.00	500,000.00	500,000.00	2,565.00	501,250.00
<b>Fund: Roadway Impact Fees</b>									
10649	FHLB	630	04/02/2019	5,904.52	0.00	500,000.00	0.00	500,000.00	500,000.00
3130ADUJ9	500,000.00	2.374	03/30/2020	5,871.53	0.00	500,000.00	0.00	501,250.00	501,250.00
10301	TXSTAR	630	10/01/2018	0.00	0.00	0.00	0.00	0.00	0.00
SYS10301	0.00	0.209	/ /	0.00	0.00	0.00	0.00	0.00	0.00
<b>Sub Totals For: Fund: Roadway Impact Fees</b>				5,904.52	0.00	500,000.00	0.00	500,000.00	500,000.00
				5,871.53	0.00	500,000.00	0.00	501,250.00	501,250.00
<b>Fund: Street Escrow</b>									
10329	NTHSTR	699	10/01/2018	0.00	0.00	0.00	0.00	0.00	0.00
SYS10329	0.00	0.450	/ /	0.00	0.00	0.00	0.00	0.00	0.00
10019	TXPOOL	699	10/01/2018	0.00	0.00	0.00	0.00	0.00	0.00
SYS10019	0.00	4.928	/ /	0.00	0.00	0.00	0.00	0.00	0.00
<b>Sub Totals For: Fund: Street Escrow</b>				0.00	0.00	0.00	0.00	0.00	0.00
				0.00	0.00	0.00	0.00	0.00	0.00
<b>Fund: Street 2007 CO</b>									
10064	TXPOOL	703	10/01/2018	0.00	0.00	0.00	0.00	0.00	0.00
SYS10009	0.00	0.131	/ /	0.00	0.00	0.00	0.00	0.00	0.00
10138	TXSTAR	703	10/01/2018	0.00	0.00	0.00	0.00	0.00	0.00
SYS10138	0.00	0.132	/ /	0.00	0.00	0.00	0.00	0.00	0.00
10330	NTHSTR	703	10/01/2018	0.00	0.00	0.00	0.00	0.00	0.00
SYS10330	0.00	0.250	/ /	0.00	0.00	0.00	0.00	0.00	0.00

**City of Corinth portfolio**  
**Texas Compliance Change in Val Report**  
**October 1, 2018 - September 30, 2019**

Inv #	Issuer	Fund	Purch Date	Interest Accrual	Beginning Book Value				Ending Book Value
Cusip	Par Value	YTM	Mat Date	Interest Received	Beginning Market Value	Purchases/ Additions	Redemptions	Change in Value	Ending Market Value
<b>Sub Totals For: Fund: Street 2007 CO</b>				0.00	0.00	0.00	0.00	0.00	0.00
				0.00	0.00	0.00	0.00	0.00	0.00
<b>Fund: Tech 2007 CO</b>									
10380	NTHSTR	704	10/01/2018	0.00	0.00	0.00	0.00	0.00	0.00
SYS10380	0.00	0.613	/ /	0.00	0.00	0.00	0.00	0.00	0.00
10065	TXPOOL	704	10/01/2018	0.00	0.00	0.00	0.00	0.00	0.00
SYS100099	0.00	2.246	/ /	0.00	0.00	0.00	0.00	0.00	0.00
10139	TXSTAR	704	10/01/2018	0.00	0.00	0.00	0.00	0.00	0.00
SYS10139	0.00	0.145	/ /	0.00	0.00	0.00	0.00	0.00	0.00
<b>Sub Totals For: Fund: Tech 2007 CO</b>				0.00	0.00	0.00	0.00	0.00	0.00
				0.00	0.00	0.00	0.00	0.00	0.00
<b>Fund: Fire 2010 CO</b>									
10370	NTHSTR	705	10/01/2018	0.00	0.00	0.00	0.00	0.00	0.00
SYS10370	0.00	0.510	/ /	0.00	0.00	0.00	0.00	0.00	0.00
<b>Sub Totals For: Fund: Fire 2010 CO</b>				0.00	0.00	0.00	0.00	0.00	0.00
				0.00	0.00	0.00	0.00	0.00	0.00
<b>Fund: 2016 CO General Capi</b>									
10560	FHLMC	706	08/25/2016	4,000.00	1,000,000.00	0.00	1,000,000.00	-1,000,000.00	0.00
3134G96J1	0.00	0.000	02/25/2019	5,000.00	994,200.00	0.00	1,000,000.00	-994,200.00	0.00
10628	FFCB	706	09/30/2018	2,604.86	200,137.50	0.00	200,000.00	-200,137.50	0.00
3133EHYJ6	0.00	0.000	09/12/2019	2,612.50	197,617.50	0.00	200,000.00	-197,617.50	0.00
10549	TXSTAR	706	10/01/2018	0.00	0.00	0.00	0.00	0.00	0.00
SYS10549	0.00	1.351	/ /	0.00	0.00	0.00	0.00	0.00	0.00
10660	FHLMC	706	09/04/2019	750.00	0.00	500,000.00	0.00	500,000.00	500,000.00
3134GT4P5	500,000.00	1.990	09/03/2021	0.00	0.00	500,000.00	0.00	500,300.00	500,300.00

**City of Corinth portfolio**  
**Texas Compliance Change in Val Report**  
**October 1, 2018 - September 30, 2019**

Inv #	Issuer	Fund	Purch Date	Interest Accrual	Beginning Book Value				Ending Book Value
Cusip	Par Value	YTM	Mat Date	Interest Received	Beginning Market Value	Purchases/ Additions	Redemptions	Change in Value	Ending Market Value
<b>Sub Totals For: Fund: 2016 CO General Capi</b>				7,354.86	1,200,137.50	500,000.00	1,200,000.00	-700,137.50	500,000.00
				7,612.50	1,191,817.50	500,000.00	1,200,000.00	-691,517.50	500,300.00
<b>Fund: 2019 CO - Steets</b>									
10646	FHLMC	708	04/01/2019	9,000.00	0.00	750,000.00	0.00	750,000.00	750,000.00
3134GTBG7	750,000.00	2.400	04/01/2021	0.00	0.00	750,000.00	0.00	753,375.00	753,375.00
10653	FHLMC	708	04/18/2019	23,997.22	0.00	2,000,000.00	0.00	2,000,000.00	2,000,000.00
3134GTDP5	2,000,000.00	2.650	04/18/2022	0.00	0.00	2,000,000.00	0.00	2,001,400.00	2,001,400.00
10644	TXSTAR	708	04/04/2019	93,210.00	0.00	16,269,315.24	0.00	8,269,315.24	8,269,315.24
SYS10644	8,269,315.24	2.106	/ /	95,695.07	0.00	16,269,315.24	0.00	8,269,315.24	8,269,315.24
<b>Sub Totals For: Fund: 2019 CO - Steets</b>				126,207.22	0.00	19,019,315.24	0.00	11,019,315.24	11,019,315.24
				95,695.07	0.00	19,019,315.24	0.00	11,024,090.24	11,024,090.24
<b>Fund: 2017 CO General Capi</b>									
10622	FHLB	709	08/31/2018	920.14	250,381.94	0.00	250,000.00	-250,381.94	0.00
3130AAMC9	0.00	0.000	01/17/2019	1,180.56	249,656.94	0.00	250,000.00	-249,656.94	0.00
10618	FHLB	709	07/31/2018	2,064.61	500,000.00	0.00	500,000.00	-500,000.00	0.00
3130A8YM9	0.00	0.000	02/28/2019	2,500.00	497,200.00	0.00	500,000.00	-497,200.00	0.00
10661	FHLMC	709	09/04/2019	750.00	0.00	500,000.00	0.00	500,000.00	500,000.00
3134GT4P5	500,000.00	2.000	09/03/2021	0.00	0.00	500,000.00	0.00	500,300.00	500,300.00
10586	TXSTAR	709	10/01/2018	2,360.89	171,630.08	1,990.09	173,620.17	-171,630.08	0.00
SYS10586	0.00	2.411	/ /	1,990.09	171,630.08	1,990.09	173,620.17	-171,630.08	0.00
<b>Sub Totals For: Fund: 2017 CO General Capi</b>				6,095.64	922,012.02	501,990.09	923,620.17	-422,012.02	500,000.00
				5,670.65	918,487.02	501,990.09	923,620.17	-418,187.02	500,300.00
<b>Fund: Water 2007 CO</b>									
10066	TXPOOL	800	10/01/2018	0.00	0.00	0.00	0.00	0.00	0.00
SYS10009	0.00	0.050	/ /	0.00	0.00	0.00	0.00	0.00	0.00

**City of Corinth portfolio**  
**Texas Compliance Change in Val Report**  
**October 1, 2018 - September 30, 2019**

Inv #	Issuer	Fund	Purch Date	Interest Accrual	Beginning Book Value				Ending Book Value
Cusip	Par Value	YTM	Mat Date	Interest Received	Beginning Market Value	Purchases/ Additions	Redemptions	Change in Value	Ending Market Value
10135	TXSTAR	800	10/01/2018	0.00	0.00	0.00	0.00	0.00	0.00
SYS10135	0.00	0.103	/ /	0.00	0.00	0.00	0.00	0.00	0.00
10333	NTHSTR	800	10/01/2018	0.00	0.00	0.00	0.00	0.00	0.00
SYS10333	0.00	0.250	/ /	0.00	0.00	0.00	0.00	0.00	0.00
<b>Sub Totals For: Fund: Water 2007 CO</b>				0.00	0.00	0.00	0.00	0.00	0.00
				0.00	0.00	0.00	0.00	0.00	0.00
<b>Fund: Wastewater 2007 CO</b>									
10067	TXPOOL	801	10/01/2018	0.00	0.00	0.00	0.00	0.00	0.00
SYS10009	0.00	0.035	/ /	0.00	0.00	0.00	0.00	0.00	0.00
10136	TXSTAR	801	10/01/2018	0.00	0.00	0.00	0.00	0.00	0.00
SYS10136	0.00	0.031	/ /	0.00	0.00	0.00	0.00	0.00	0.00
10334	NTHSTR	801	10/01/2018	0.00	0.00	0.00	0.00	0.00	0.00
SYS10334	0.00	0.250	/ /	0.00	0.00	0.00	0.00	0.00	0.00
<b>Sub Totals For: Fund: Wastewater 2007 CO</b>				0.00	0.00	0.00	0.00	0.00	0.00
				0.00	0.00	0.00	0.00	0.00	0.00
<b>Fund: Drainage 2007 CO</b>									
10137	TXSTAR	802	10/01/2018	0.00	0.00	0.00	0.00	0.00	0.00
SYS10137	0.00	0.090	/ /	0.00	0.00	0.00	0.00	0.00	0.00
10458	NTHSTR	802	10/01/2018	0.00	0.00	0.00	0.00	0.00	0.00
SYS10458	0.00	0.250	/ /	0.00	0.00	0.00	0.00	0.00	0.00
10068	TXPOOL	802	10/01/2018	0.00	0.00	0.00	0.00	0.00	0.00
SYS10009	0.00	2.972	/ /	0.00	0.00	0.00	0.00	0.00	0.00
<b>Sub Totals For: Fund: Drainage 2007 CO</b>				0.00	0.00	0.00	0.00	0.00	0.00
				0.00	0.00	0.00	0.00	0.00	0.00
<b>Fund: 2016 CO WATER</b>									

**City of Corinth portfolio**  
**Texas Compliance Change in Val Report**  
**October 1, 2018 - September 30, 2019**

Inv #	Issuer	Fund	Purch Date	Interest Accrual	Beginning Book Value				Ending Book Value
Cusip	Par Value	YTM	Mat Date	Interest Received	Beginning Market Value	Purchases/ Additions	Redemptions	Change in Value	Ending Market Value
10619	FHLB	803	07/31/2018	1,032.30	250,000.00	0.00	250,000.00	-250,000.00	0.00
3130A8YM9	0.00	0.000	02/28/2019	1,250.00	248,600.00	0.00	250,000.00	-248,600.00	0.00
10598	FHLMC	803	01/10/2018	8,250.00	497,500.00	0.00	0.00	1,724.14	499,224.14
3134G35V8	500,000.00	2.003	03/13/2020	8,250.00	491,750.00	0.00	0.00	8,000.00	499,750.00
10629	FHLMC	803	10/19/2018	8,787.50	0.00	491,305.00	0.00	496,070.53	496,070.53
3134GBXV9	500,000.00	2.884	07/13/2020	6,783.33	0.00	491,305.00	0.00	500,000.00	500,000.00
10602	FFCB	803	01/16/2018	8,280.00	399,024.39	0.00	0.00	432.01	399,456.40
3133EH5G4	400,000.00	2.182	01/04/2021	8,280.00	391,800.00	0.00	0.00	9,640.00	401,440.00
<b>Sub Totals For: Fund: 2016 CO WATER</b>				26,349.80	1,146,524.39	491,305.00	250,000.00	248,226.68	1,394,751.07
				24,563.33	1,132,150.00	491,305.00	250,000.00	269,040.00	1,401,190.00
<b>Fund: 2017 CO WATER PROJEC</b>									
10620	FHLB	804	07/31/2018	1,032.30	250,000.00	0.00	250,000.00	-250,000.00	0.00
3130A8YM9	0.00	0.000	02/28/2019	1,250.00	248,600.00	0.00	250,000.00	-248,600.00	0.00
<b>Sub Totals For: Fund: 2017 CO WATER PROJEC</b>				1,032.30	250,000.00	0.00	250,000.00	-250,000.00	0.00
				1,250.00	248,600.00	0.00	250,000.00	-248,600.00	0.00
<b>Fund: 2017 CO WASTEWATER</b>									
10623	FHLB	805	08/31/2018	920.14	250,381.94	0.00	250,000.00	-250,381.94	0.00
3130AAMC9	0.00	0.000	01/17/2019	1,180.56	249,656.94	0.00	250,000.00	-249,656.94	0.00
<b>Sub Totals For: Fund: 2017 CO WASTEWATER</b>				920.14	250,381.94	0.00	250,000.00	-250,381.94	0.00
				1,180.56	249,656.94	0.00	250,000.00	-249,656.94	0.00
<b>Fund: 2019 CO - Water</b>									
10659	FAMC	806	06/30/2019	2,275.00	0.00	450,000.00	0.00	450,000.00	450,000.00
3132X0E72	450,000.00	1.999	01/17/2020	425.00	0.00	450,000.00	0.00	450,180.00	450,180.00
10647	FHLMC	806	04/01/2019	9,000.00	0.00	750,000.00	0.00	750,000.00	750,000.00
3134GTBG7	750,000.00	2.400	04/01/2021	0.00	0.00	750,000.00	0.00	753,375.00	753,375.00

**City of Corinth portfolio**  
**Texas Compliance Change in Val Report**  
**October 1, 2018 - September 30, 2019**

Inv #	Issuer	Fund	Purch Date	Interest Accrual	Beginning Book Value				Ending Book Value
Cusip	Par Value	YTM	Mat Date	Interest Received	Beginning Market Value	Purchases/ Additions	Redemptions	Change in Value	Ending Market Value
10652	FHLB	806	04/09/2019	24,080.00	0.00	2,000,000.00	0.00	2,000,000.00	2,000,000.00
3130AG5X9	2,000,000.00	2.520	10/09/2020	0.00	0.00	2,000,000.00	0.00	2,000,600.00	2,000,600.00
10645	TXSTAR	806	04/04/2019	57,018.81	0.00	10,058,538.98	0.00	5,058,538.98	5,058,538.98
SYS10645	5,058,538.98	2.106	/ /	58,538.98	0.00	10,058,538.98	0.00	5,058,538.98	5,058,538.98
<b>Sub Totals For: Fund: 2019 CO - Water</b>				92,373.81	0.00	13,258,538.98	0.00	8,258,538.98	8,258,538.98
				58,963.98	0.00	13,258,538.98	0.00	8,262,693.98	8,262,693.98
<b>Report Grand Totals:</b>				675,137.99	28,792,771.38	71,141,657.39	36,787,169.70	16,507,445.22	45,300,216.60
				514,181.77	28,681,708.54	71,141,657.39	36,787,169.70	16,653,839.62	45,335,548.16

City of Corinth, Texas

ANNUAL INVESTMENT REPORT

*For Fiscal Year Ended September 30, 2019*



**APPENDIX C**

**Glossary**



## Glossary

**Accrued Interest** - In the sale of a new issue of municipal bonds, the dollar amount, based on the stated rate or rates of interest, which has accrued on the bonds from the dated date, or other stated date, up to but not including the date of delivery. When a bond is purchased in the secondary market, the dollar amount, based upon the stated rate of interest, which has accrued on the bond from the most recent interest payment date, up to but not including the date of settlement. Accrued interest is paid to the seller by the purchaser and is usually calculated on a 360-day-year basis (assumes each month has 30 days).

**Agencies** – Federal agency securities.

**Arbitrage** – Generally, transactions by which securities are bought and sold in different markets at the same time for the sake of the profit arising from a difference in prices in the two markets. With respect to the issuance of municipal bonds, arbitrage usually refers to the difference between the interest paid on the bonds issued and the interest earned by investing the bond proceeds in other securities. Arbitrage profits are permitted on bond proceeds for various temporary periods after issuance of municipal bonds. Internal Revenue Service regulations govern arbitrage of municipal bond proceeds.

**Asked** – The price at which securities are offered.

**Bankers' Acceptance (BA)** – A draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

**Bearer Bond** – Bond which is presumed to be owned by the person who holds it. The Tax Equity and Fiscal Responsibility Act of 1982 requires the issuance of municipal bonds in fully registered form, with minor exceptions.

**Bid** – The price offered by a buyer of securities. (When you are selling securities, you ask for a bid).

**Book Value** – The original acquisition cost of an investment plus or minus the accrued amortization or accretion.

**Broker** – A broker brings buyers and sellers together for a commission.

**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.

**Capital Appreciation Bond** – Long-term tax exempt security sold at a large discount. Yield is reinvested at a stated rate until maturity at which time the investor receives total payment. Latter represents both principal and interest.

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

**Collateral** – Securities, evidence of deposit or other property which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

**Commercial Paper (tax-exempt)** – Short-term, unsecured promissory notes issued in either registered or bearer form, and usually backed by a line of credit with a bank. Maturities do not exceed 270 days and generally average 30 – 45 days.

**Comprehensive Annual Financial Report (CAFR)** – The official annual report for the City of Corinth. It includes five combined 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 to legal and contractual provision, extensive introductory material, and a detailed Statistical Section.

**Coupon** – (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

**Current Yield** – The ratio of the annual dollar amount of interest to the purchase price of a bond, stated as a percentage. For example, a \$1,000 bond purchased at par with an 8% coupon pays \$80 per year, or a current yield of 8%. The same bond, if purchased at a discounted price of \$800, would have a current yield of 10%.

**Dated Date** – The date of a bond issue, printed on each bond, from which interest usually starts to accrue, even though the bonds may actually be delivered at some later date.

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

**Debenture** – A bond secured only by the general credit of the issuer.

**Delivery Date** – Date on which the bonds are physically delivered in exchange for the payment of the purchase price. The date of issuance is the same date as the delivery date.

**Delivery Versus Payment** – There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

**Discount** – The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

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

**Diversification** – Dividing investment funds among a variety of securities offering independent returns.

**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 Funds Rate** – The rate of interest at which federal funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

**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 vis-à-vis 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 (HUD). 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 highly 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.

**Fiscal Year** – A twelve-month period which determines the time frame for financial reporting, budgeting, and accounting. At the end of the fiscal year, financial position and results of operations are determined.

**Government National Mortgage Association (GNMA or Ginnie Mae)** – Securities influencing the volume of bank credit 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 the FHA, VA or FMHM mortgages. The term “pass throughs” is often used to describe Ginnie Maes.

**Interest** – Compensation for the use of borrowed money, generally expressed as an annual percentage of the principal amount.

**Liquidity** – Usually refers to the ability to convert assets (such as investments) into cash.

**Market Value** – The Current face or par value of an investment multiplied by the net selling price of the security as quoted by a recognized market pricing source quoted on the valuation date.

**Master Repurchase Agreement** – A written contract covering all future transactions between the parties to repurchase – reverse repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

**Maturity** – The date upon which the principal of a municipal bond becomes due and payable to the bondholder.

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

**Note** – A written, short-term promise of the issuer to repay a specified principal amount on a certain date, together with interest at a stated rate, or according to a formula for determining that rate, payable from a defined source of anticipated revenue. Notes usually mature in less than five years.

**Offer** – The price asked by a seller of securities. (When you are buying securities, you ask for an offer.)

**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 in 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.

**Original Issue Discount** – An amount which represents the difference by which par value exceeds the public offering price of a new issue or part of an issue of municipal bonds. Original issue discount is amortized over the life of the bonds and is generally treated as tax-exempt interest. When the investor sells the bonds before maturity, any profit or loss realized on such sale is figured on the adjusted cost basis for tax purposes. The adjusted cost basis is calculated for each year the bonds are outstanding by adding the accretion value to the original offering price. The accretion value is determined by the rules and regulations of the Internal Revenue Service. Selling the bonds at a price in excess of the adjusted cost basis would result in a taxable gain for the seller, while a selling price below that level would be treated as a loss for income tax purposes.

**Par Value** – In the case of bonds, the amount of principal which must be paid at maturity. Par value is also referred to as the face amount of a security.

**Pooled Fund Group** – An internally created fund of an investing entity in which one or more institutional accounts of the investing entity are invested.

**Portfolio** – Collection of securities held by an investor.

**Premium** – The amount by which the price paid for a security exceeds par value, generally representing the difference between the nominal interest rate and the actual or effective return to the investor.

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

**Primary Market** – The market for new issues of municipal securities.

**Principal** – The face amount or par value of a bond or issue of bonds payable on stated dates of maturity.

**Prudent Person Rule** – An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state—the so-called legal

list. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

**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 this 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.

**Qualified Representative** – A Person who holds a position with a business organization, who is authorized to act on behalf of the business organization, and who is one of the following:

- (a) for a business organization doing business that is regulated by or registered with a securities commission, a person who is registered under the rules of the National Association of Securities Dealers;
- (b) for a state or federal bank, a savings bank, or a state or federal credit union, a member of the loan committee for the bank or branch of the bank or a person authorized by corporate resolution to act on behalf of and bind the banking institution; or
- (c) for an investment pool, the person authorized by the elected official or board with authority to administer the activities of the investment pool to sign the written instrument on behalf of the investment pool.

**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 the current income return.

**Ratings** – Evaluations of the credit quality of notes and bonds usually made by independent rating services, although many financial institutions also rate bonds for their own purposes. Ratings generally measure the probability of the timely repayment of principal of and interest on municipal bonds. Ratings are initially made before issuance and are continuously reviewed and may be amended to reflect changes in the issuer's credit position. The information required by the rating agencies varies with each bond issue, but generally includes demographics, debt burden, economic base, finances, and management structure. The information is evaluated and the issue is assigned a letter rating which reflects the creditworthiness of the bonds. The higher the credit rating, the more favorable the effect on the marketability of the bond.

**Repurchase Agreement** - A simultaneous agreement to buy, hold for a specified time, and sell back at a future date obligations described by Section 2256.009(a)(1), at a market value at the time the funds are disbursed of not less than the principal amount of the funds disbursed. The term includes a direct security repurchase agreement and a reverse security repurchase agreement.

**Safekeeping** – A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

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

**Securities and Exchange Commission or SEC** – The federal agency responsible for supervising and regulating the securities industry. Generally, municipal securities are exempt from the SEC's registration and reporting requirements. However, the SEC has responsibility for the approval of Municipal Securities Rulemaking Board rules, and has jurisdiction, pursuant to SEC Rule 10b-5, over fraud in the sale of municipal securities.

**Security** – Generally, evidence of debt or equity in a common enterprise in which a person invests in the expectation of earning income. The term includes notes, stocks, bonds, debentures, mortgages, and other forms of negotiable and non-negotiable evidences of indebtedness or ownership. Unless exempted, as are municipal bonds, securities transactions are subject to federal and state regulation.

**Separately Invested Asset** – An account or fund of a state agency or local government that is not invested in a pooled fund group.

**Treasury Securities** – Debt obligations of the United States Government sold by the Treasury Department in the forms of bills, notes, and bonds.

**Bills** – Short-term obligations which mature in one year or less, and are sold at a discount in lieu of paying periodic interest.

**Notes** – Interest bearing obligations which mature between one year and 10 years.

**Bonds** – Interest bearing long-term obligations which generally mature in 10 years or more.

**Yield Curve** – A graph which plots the yields on securities with equivalent quality but different maturities, at a given point in time. The vertical axis represents the interest rates, while the horizontal axis depicts the years to maturity. The term structure of interest rates, as reflected by the yield curve, will vary according to market conditions, resulting in a variety of yield curve configurations.

**Normal or Positive Yield Curve** – Indicates that short-term securities have a lower interest rate than long-term securities.

**Inverted or Negative Yield Curve** – Reflects the situation of short-term rates exceeding long-term rates.

**Flat Yield Curve** – Reflects the situation when short and long-term rates are the same.

**Humpback Yield Curve** – An unusual shape, indicating that rates are rising in the early years, peaking in the middle years and declining in later years.

**Yield to Maturity** – The rate of return to the investor earned from payments of principal and interest, with interest compounded semiannually and assuming that interest paid is reinvested at the same rate. Yield to maturity takes into account the time value of the investment.

**Zero Coupon Bond** – A bond which pays no interest, but is issued at a deep discount from par, appreciating to its full value at maturity.

**Finance Audit Committee Regular Session**

**Meeting Date:** 12/17/2019  
**Title:** Debt Policy  
**Submitted For:** Lee Ann Bunselmeyer, Director  
**Submitted By:** Lee Ann Bunselmeyer, Director  
**Finance Review:**  
**City Manager Review:**

**Legal Review:**

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**AGENDA ITEM**

Receive a report, hold a discussion and provide direction on the Debt Management and Continuing Disclosure Policy.

**AGENDA ITEM SUMMARY/BACKGROUND**

The policy shall provide general guidelines by which the City of Corinth will issue debt. It is the objective of this policy that (1) the City obtain financing only when necessary, (2) the process for identifying the timing and amount of debt or other financing, proceed as efficiently as possible, and (3) the most favorable interest rate and other costs be obtained.

This debt management policy applies to the financing activities of the City. It also addresses the issues of process, use and limitations. Obligations will be timed for issuance and delivery of proceeds as close as possible to the time that contracts are expected to be awarded so that the proceeds are spent in the most efficient manner.

**RECOMMENDATION**

Staff recommends the policy be forwarded to the City Council for approval.

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**Attachments**

Debt Policy

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## POLICY/ADMINISTRATIVE PROCEDURE/ADMINISTRATIVE DIRECTIVE

SECTION: FINANCE	REFERENCE NUMBER:
SUBJECT: DEBT MANAGEMENT	INITIAL EFFECTIVE DATE: 01-09-2020
TITLE: DEBT SERVICE MANAGEMENT	LAST REVISION DATE:

### POLICY STATEMENT

This policy shall provide general guidelines by which the City of Corinth (the City) will issue debt. It is the objective of this policy that (1) the City obtain financing only when necessary, (2) the process for identifying the timing and amount of debt or other financing, proceed as efficiently as possible, and (3) the most favorable interest rate and other costs be obtained.

This debt management policy applies to the financing activities of the City of Corinth, Texas. It also addresses the issues of process, use and limitations. Obligations will be timed for issuance and delivery of proceeds as close as possible to the time that contracts are expected to be awarded so that the proceeds are spent in the most efficient manner.

### ADMINISTRATIVE PROCEDURES

#### I. FINANCE/AUDIT COMMITTEE

- A. Members** - The Finance/Audit Committee (the Committee) consists of the Mayor, two City Council Members, and two citizens as ex-officio members.
- B. Scope** -The Committee shall meet as necessary to review the debt program. Included in its discussions will be such topics as: Capital Improvement Program, status of financed projects, timing of additional financing needs, the effect of proposed financing activity on the related rates supporting the debt (i.e. property tax rate, utility rates, user fees, etc.).

#### II. RESPONSIBILITY AND STANDARD OF CARE

The Finance Department will coordinate all activities required for the issuance of all debt.

- A. Delegation** - The primary individual who shall be involved in the development of financing recommendations will be the Director of Finance. The City Manager shall be responsible for all debt financing activities and shall establish a system of controls to regulate the activities of the Director of Finance.
- B. Conflicts of Interest** - All participants in the debt management process shall seek to act responsibly as custodians of public assets. Officers and employees involved in the debt management process shall refrain from personal business activity that could conflict with proper execution of the financing program, or which could impair their



ability to make impartial financing decisions.

- C. Reporting** - The Director of Finance shall prepare at least annually a report summarizing all debt outstanding by type (tax supported and revenue backed), remaining balance of bond proceeds, update of arbitrage liability, and update of pertinent legislative changes.
- D. Investor Relations** - The City shall endeavor to maintain a positive relationship with the investment community. The Director of Finance and the City's financial advisor shall, as necessary, prepare reports and other forms of communications regarding the City's indebtedness, as well as its future financing plans. This includes information presented to the press and other media. The information includes annual program of services, comprehensive annual financial report, financial plans, capital improvement plans, comprehensive development plans, etc.

All forms of media deemed appropriate immediately available to the City will be utilized to disseminate information to all investors. Examples include Texas Municipal Report, The Bond Buyer, Nationally Recognized Municipal Security Information Repository and State Information Depository. Bond counsel and the members of the financing team will advise on the use of electronic media in connection with the City's debt program.

- E. Financial Advisor** - The City shall retain a licensed financial advisor for advice on the structuring of new debt, financial analysis of various options, the rating review process, marketing debt issues, marketability of City obligations, sale and post-sale services, the review of the official statement and other services as necessary. The City will seek the advice of the financial advisor on an ongoing basis. The financial advisor will perform other services as defined by the agreement approved by the City Council.
- F. Bond Counsel** - The City shall retain bond counsel for legal and procedural advice on all debt issues. Bond counsel shall advise the City Council in all matters pertaining to its bond ordinance(s) and/or resolution(s). No action shall be taken with respect to new obligations until a written instrument has been prepared by the bond attorneys certifying the legality of the proposal. The bond attorneys shall prepare all ordinances and other legal instruments required for the execution and sale of any bonds issued which shall then be reviewed by the City Attorney and Director of Finance. The City will also seek the advice of bond counsel on all other types of debt and on any other questions involving federal tax or arbitrage law. Special counsel shall be retained to protect the City's interest in complex negotiations and comment review.

## OFFICIAL STATEMENT

The preparation of the Official Statement is the responsibility of the financial advisor or other directed member of the financing team in concert with the Director of Finance under the supervision of the City Manager. Information for the Official Statement is gathered from departments/divisions throughout the City.

The City will take all appropriate steps to comply with the federal disclosure rules (i.e., Securities and Exchange Commission Rule 15C2-12). The City will provide annual and event disclosure to information repositories throughout the term of securities for the benefit of the primary and secondary municipal market.

### III. DISCLOSURE

- A. With each bond offering, and at least annually, in the preparation of Financial Reports or Official Statements of any bond prospectus, the City will follow a policy of full and complete disclosure of financial and legal conditions of the City, in conformance with guidelines issued by the Government Finance Officers Association Disclosure Guideline, and as advised by disclosure counsel or financial advisor. Furthermore, all City finance and debt-related information which may appear in publicly distributed documents in anticipation of the issuance of bonds by the City Enterprise Funds, or Redevelopment Agency should be reviewed by the Finance Department prior to distribution to ensure that the information is presented on an accurate and consistent basis.
- B. Material Events - Securities and Exchange Commission (SEC) Rule 15c2-12 lists eleven events that, if material, must be reported in a timely fashion to each Nationally Recognized Municipal Security Information Repository (NRMSIR) or to the Municipal Security Rulemaking Board (MSRB) and to the appropriate State Information Depository (SID).

The events that must be reported, if material, are:

1. Principal and interest payment delinquencies;
2. Nonpayment related defaults;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;
6. Adverse tax opinions or events affecting the tax-exempt status of the security;
7. Modifications to rights of security holders;
8. Bond calls;
9. Defeasances;
10. Release, substitution, or sale of property securing repayment of the securities;
11. Rating changes
12. Bankruptcy, insolvency, receivership or similar event of the City
13. The consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.
14. Appointment of a successor paying agent/registrars or change in the name of the paying agent/registrars, if material.
15. Incurrence of a Financial Obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the City, any of which affect security holders, if material.
16. Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the City, and of which

reflect financial difficulties.

The phrase “bankruptcy, insolvency, receivership or similar event” means the appointment of a receiver, fiscal agent or similar officer for the City in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets of the City, or if jurisdiction has been assumed by leaving the City Council and official or officers of the City in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City. As used in clauses 15 and 16 above, the term “Financial Obligation” means: (i) a debt obligation; (ii) a derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) a guarantee of (i) or (ii), however, the term Financial Obligation shall not include Municipal Securities as to which a final official statement has been provided to the MSRB consistent with the Rule; and the term “Municipal Securities” means securities which are direct obligations of, or obligations guaranteed as to principal or interest by, a state or any political subdivision thereof, or any agency or instrumentality of a state or any political subdivision thereof, or any municipal corporate instrumentality of one or more states and any other Municipal Securities described by Section 3(a)(29) of the Securities Exchange Act of 1934, as the same may be amended from time to time.

In addition, the City shall notify the MSRB, in a timely manner, of any failure by the City to provide financial information or operating data in accordance with its annual reporting requirements.

Full disclosure of the operations will be made to the bond rating agencies. The City staff, with the assistance of the financial advisors and bond counsel, will prepare the necessary materials for and presentation to the rating agencies.

#### **IV. RATING AGENCY COMMUNICATIONS & CREDIT OBJECTIVES**

The City will seek to maintain and improve its current bond rating, so its borrowing costs are reduced to a minimum and its access to credit is preserved.

In conjunction with the financial advisor, the City shall maintain a line of communication with the selected rating agencies (Moody's, Standard & Poor's, Fitch, Kroll), informing them of major financial events in the City as they occur. The Comprehensive Annual Financial Report, Annual Program of Services and Capital Improvement Plan, shall be distributed to the rating agencies after they have been accepted/adopted by the City Council on an annual basis.

When necessary, a personal meeting with representatives of the rating agencies will be scheduled when a major capital improvement program is initiated, or to discuss economical and/or financial developments which might impact credit ratings. The following documents may be required for the rating agencies:

1. Most recent annual audit reports, including a description of accounting practices. Accounting changes in the past three years and the impact on financial

- results should be explained.
2. Current budget.
  3. Current capital improvement program/plan.
  4. Official statements for new financings.
  5. Description of projects being financed.
  6. Sources and uses statement for project being financed. If additional funds are required to complete project, the source of the funds and any conditional requirements will be discussed.
  7. Engineering and feasibility report (if applicable).
  8. Zoning or land-use map (if applicable).
  9. Cash flow statement, in the case of interim borrowing. Statement of long – and short-term debt with annual and monthly maturity dates as appropriate. Also, a report of any lease obligations, their nature and term.
  10. Indication of appropriate authority for debt issuance
  11. Investment policy (if applicable).
  12. Statement concerning remaining borrowing capacity plus tax rate and levy capacity or other revenue capacity.

## V. LIMITATIONS OF INDEBTEDNESS

City staff, in conjunction with the financial advisor and bond counsel, will produce a comprehensive analysis of debt capacity prior to issuing bonds. This document from time to time may cover a broad range of factors, including but not limited to:

1. Legal debt limits, tax or expenditure ceilings.
2. Coverage requirements or additional bonds tests in accordance with bond covenants.
3. Measures of the tax and revenue base, such as projections of relevant economic variables (e.g., assessed property values, employment base, unemployment rates, income levels, and retail sales).
4. Population trends.
5. Utilization trends for services underlying revenues.
6. Factors affecting tax collections, including types of property, goods, or services taxed, assessment practices and collection rates, evaluation of trends relating to the City's financial performance, such as revenues and expenditures, net revenues available after meeting operating requirements.
7. Reliability of revenues expected to pay debt service.
8. Unreserved fund balance levels.
9. Debt service obligations, such as existing debt service requirements.
10. Debt service as a percentage of expenditures or tax or system revenues.
11. Measures of debt burden on the community, such as debt per capita, debt as a percentage of personal income, debt as a percentage of full or equalized assessed property value and overlapping or underlying debt.
12. Tax-exempt market factors affecting interest costs, such as interest rates, market receptivity, and credit rating.

The City can have both revenue bonds and other indebtedness of the Water, Wastewater, and Drainage Funds. The City will endeavor to maintain two coverage ratios as provided in the City's outstanding bond covenants (e.g. 1.25 and/or 1.50 times, or as required by individual bond covenants).

The Water, Wastewater, and Drainage Funds' total long-term debt outstanding shall not exceed the amount of combined fund equity.

## **VI. TYPES OF DEBT**

The City's bond counsel and financial advisor will analyze the different types of debt best suited and legally permissible under state law for each debt issue. These types may include:

1. short-term vs. long-term debt,
  2. general obligation vs. revenue debt,
  3. fixed vs. variable rate debt,
  4. lease-backed debt,
  5. special obligation debt such as assessment district debt,
  6. conduit issues, and
  7. taxable debt;
- A.** The City will seek all possible federal and state reimbursement for mandated projects and/or programs. The City will pursue a balanced relationship between issuing debt and pay-as-you-go financing.
  - B.** The City will match the term of long-term debt issued up to the useful life of the projects financed. Current operations will not be financed with long-term debt. Debt incurred to finance capital improvements will be repaid within the useful life of the project.
  - C.** High priority will be assigned to the replacement of capital improvements when they have deteriorated to the point where they are hazardous, incur high maintenance costs, negatively affect property values, or no longer serve their intended purposes.
  - D.** An updated Capital Improvement Plan will be presented to the City Council for approval on an annual basis. This plan will be used as a basis for the long-range financial planning process.

## **VII. BOND STRUCTURE**

Structural features that may be considered are:

1. maturity of the debt,
2. setting the maturities of the debt equal to or less than the useful life of the project,
3. use of zero-coupon bonds, capital appreciation bonds, deep discount bonds, or premium bonds,
4. debt service structure (level debt service payments, level principal payments or other repayment structure defined by state law),
5. redemption provisions (mandatory and optional call features),
6. use of credit enhancement,
7. use of senior lien and junior lien obligations, and
8. use of derivative products;

## VIII. SHORT-TERM DEBT

- A. General** - Short-term obligations may be issued to finance projects or portions of projects for which the City ultimately intends to issue long-term debt; i.e., it will be used, when appropriate, to provide interim financing which will eventually be refunded with the proceeds of long-term obligations.

Short-term obligations may be backed with a tax and/or revenue pledge or a pledge of other available resources.

Interim financing may be appropriate when long-term interest rates are expected to decline in the future. In addition, some forms of short-term obligations can be obtained quicker than long-term obligations and thus can be used until long-term financing can be obtained.

- B. Commercial Paper** - Due to the issuance costs associated with the marketing and placement of commercial paper in amounts of less than approximately \$25 million, it is not considered feasible for the City of Corinth to issue this type of debt. Should the opportunity to participate in a commercial paper issuance pool present itself, the advantages and disadvantages shall be evaluated by the Director of Finance.
- C. Anticipation Notes** - Anticipation notes empower municipalities to issue debt without giving notice of intent. Anticipation notes may be secured and repaid by a singular pledge, but not a plural pledge, of revenue, taxes, or the proceeds of a future debt issue. Anticipation notes may be authorized by an ordinance adopted by the City Council. Anticipation notes may be used to finance projects or acquisitions that could also be financed with Certificates of Obligation.

Anticipation notes have several restrictions, which include:

1. Anticipation notes issued for general purposes must mature before the seventh anniversary of the date the attorney general approves the issue,
2. Anticipation notes may not be used to repay interfund borrowing or a borrowing that occurred up to/or more than 24-months prior to the date of issuance,
3. A governing body may not issue anticipation notes that are payable from bond proceeds unless the proposition authorizing the issuance of the bonds has already been approved by the voters.

## IX. LONG-TERM DEBT

- A. General** - Proceeds from the sale of long-term obligations will not be used for operating purposes, and the life of the obligations will not exceed the estimated useful life of the projects financed.

A level debt service structure will be used unless operational matters, tax rate management, and marketing considerations dictate otherwise.

The cost of issuance of private activity bonds is usually higher than for governmental purpose bonds. Consequently, private activity bonds will be issued only when they will

economically benefit the City.

The cost of taxable debt is higher than for tax-exempt debt. However, the issuance of taxable debt may be more appropriate in some circumstances and may allow valuable flexibility in subsequent contracts with users or managers of the improvement constructed with the bond proceeds. Therefore, the City will usually issue tax-exempt obligations but may occasionally issue taxable obligations.

- B. Bonds** - Long-term general obligation or revenue bonds shall be issued to finance significant and desirable capital improvements. The general obligation bonds will be used for purposes set forth by voters in bond elections.

General obligation bonds will strive to have an average life of approximately twenty (20) years or less, and revenue bonds will strive to have an average life of approximately twenty (20) years or less.

A resolution of intent to issue bonds authorizing staff to proceed with preparations shall be presented for the consideration of the City Council when the capital budget is presented or as soon thereafter as reasonably possible.

Unless a compelling reason is identified by the Finance Committee, all bonds issued for the purpose of supplying new monies as needed for current, ongoing public improvements shall be sold at a public, competitive sale based upon sealed bids pursuant to terms and conditions specified in the City's Charter which requires "the publication of a proper notice of sale in a national publication which regularly includes municipal bond sale notices, stating pertinent facts relating to the proposed sale including, but not limited to, the time, the date, and the place (which shall be in the City of Corinth) that all sealed bids will be publicly opened, read, and tabulated before the City Council. The date advertised for opening of the bids shall be not less than 30 days from the date of publication."

- C. Certificates of Obligation** - Certificates of obligation may be issued to finance permanent improvements and land acquisition, the need for which arose between bond elections. In addition, they may also be used to finance costs associated with capital project overruns or to acquire equipment.

In accordance with state law, a resolution authorizing publication of notice of intent to issue certificates of obligation shall be presented for the consideration of the City Council. The notice of intent shall be published in a newspaper of general circulation in the City once a week for two consecutive weeks with the first publication to be at least forty-five (45) days prior to the sale date.

Certificates of obligation may be backed by a tax pledge under certain circumstances as defined by law. They may also be backed by a combination tax and revenue pledge eligible under state law. Some revenues are restricted as to the uses for which they may be pledged. Water, Wastewater, and Drainage revenues may be pledged without limit for Water, Wastewater, and Drainage purposes but may only be pledged up to \$10,000 for non-utility system purposes.

- D. Public Property Finance Contractual Obligation** - Public property finance contractual obligations may be issued to finance the acquisition of personal property.

**E. Revenue Bonds** - In addition to the policies set forth above, when cost-beneficial and when permitted under applicable ordinances, the City may consider the use of surety bonds, lines of credit, or similar instruments to satisfy mandated debt service fund requirements on outstanding and/or proposed revenue bonds.

## **X. REFUNDING AND RESTRUCTURING OPTIONS**

The City shall consider refunding debt whenever an analysis indicates the potential for present value savings of approximately 3.5% of the debt service being refunded or if beneficial to the City in another way.

## **XI. METHOD OF SALE**

The City reserves the right to consider the sale method of each transaction on a case by case basis in consultation with the member of the financing team. The sale methods to be considered include and are not limited to the following:

**A. Competitive Sale** - When feasible and economical, obligations shall be issued by competitive rather than negotiated sale. Favorable conditions for a competitive method of sale include the following:

1. The market is familiar with the issuer, and the issuer is a stable and regular borrower in the public market.
2. An active secondary market with a broad investor base for the issuer's bonds.
3. The issue is neither too large to be easily absorbed by the market nor too small to attract investors without a concerted sales effort.
4. The issue is not viewed by the market as carrying overly complex features or requiring explanation as to the bonds' soundness.
5. Interest rates are stable, market demand is strong, and the market is able to absorb a reasonable amount of buying or selling at reasonable price changes.

**B. Negotiated Sale** - Bonds issued for the purpose of refunding and/or restructuring outstanding debt may appropriately be sold on a negotiated basis when maximum flexibility is required in order for the City to respond to day-to-day nuances in the marketplace and other complications peculiar to the issuance of refunding debt. Whenever the option exists to sell an issue on a negotiated basis, an analysis of the options shall be performed to aid in the decision-making process.

The City will present the reasons and will actively participate in the selection of the underwriter or direct purchaser.

In a negotiated sale, the underwriter may be selected through a request for proposals (RFP) or because of a relationship established by previous debt transactions. The criteria used to select an underwriter in a negotiated sale should include the following:

1. Overall experience
2. Marketing philosophy
3. Capability
4. Previous experience as managing or co-managing partner
5. Financial statement
6. Public finance team and resources



7. Breakdown of underwriter's discount

- C. Private Placement** - When cost-beneficial, the City may privately place its debt. Since no underwriter participates in a private placement, it may result in lower cost of issuance. Private placement is sometimes an option for small issues. The opportunity may be identified by the financial advisor.
- D. Bidding Parameters** - The notice of sale will be carefully constructed so as to ensure the best possible bid for the City, in light of existing market conditions and other prevailing factors. Parameters to be examined include:
1. Limits between lowest and highest coupons
  2. Coupon requirements relative to the yield curve
  3. Method of underwriter compensation, discount, or premium coupons
  4. Use of true interest cost (TIC) versus net interest cost (NIC)
  5. Use of bond insurance
  6. Deep discount bonds
  7. Variable rate bonds
  8. Call provisions

## XII. INVESTMENT OF BOND PROCEEDS

- A. Strategy** - The City should actively monitor its investment practices to ensure maximum returns on its invested bond funds while complying with Federal arbitrage guidelines. Specific investment strategies for the investment of bond proceeds are provided in the City's investment policy.
- B. Arbitrage Compliance** - The City will follow a policy of full compliance with all arbitrage rebate requirements of the federal tax code and Internal Revenue Service regulations and will perform (internally or by contract consultants) arbitrage rebate calculations for each issue subject to rebate on an annual basis. All necessary rebates will be filed and paid when due.
- C. Arbitrage Liability Management** - The Director of Finance will maintain a system for tracking arbitrage rebate liability and ensuring that required calculations are performed on a timely basis. These calculations will be performed annually. Funds should be set aside in anticipation of potential rebate liabilities. Due to the complexity of the arbitrage calculations and regulations, and to the severity of the penalties for noncompliance, the advice of Bond Counsel and qualified experts will be pursued on an ongoing basis.
- D.** All bond proceeds will be separately accounted for in the financial accounting system to facilitate arbitrage tracking and reporting. Arbitrage rebate liability reports shall be generated semi-annually and submitted to the Finance/Audit Committee and to the Debt Management Committee for review.

## GLOSSARY

**Amortization** – The planned reduction of a debt obligation according to a stated maturity or redemption schedule.

**Arbitrage** – The gain which may be obtained by borrowing funds at a lower (often tax-exempt) rate and investing the proceeds at higher (often taxable) rates. The ability to earn arbitrage by issuing tax-exempt securities has been severely curtailed by the Tax Reform Act of 1986, as amended.

**Average Life** – The average length of time debt is expected to be outstanding.

**Basis Point** – One one-hundredth of one percent (0.0001).

**BBI** – Bond Buyer Index. Comparison of current rates for various maturities.

**Bid Form** – The document used by an underwriter to submit his bid at a competitive sale.

**Bond** – A security that represents an obligation to pay a specified amount of money on a specific date in the future, typically with periodic interest payments.

**Bond Counsel** – An attorney (or firm of attorneys) retained by the issuer to give a legal opinion concerning the validity of the securities. The bond counsel's opinion usually addresses the subject of tax exemption. Bond counsel may prepare, or review and advise the issuer regarding authorizing resolutions or ordinances, trust indentures, official statements, validation proceedings and litigation.

**Bond Insurance** – Bond insurance is a type of credit enhancement whereby a monoline insurance company indemnifies an investor against a default by the issuer to pay principal and interest in-full and on-time. Once assigned, the municipal bond insurance policy generally is irrevocable. The insurance company receives an up-front fee, or premium, when the policy is issued.

**Book-Entry-Only** – Bonds that are issued in fully-registered form but without certificates of ownership. The ownership interest of each actual purchaser is recorded on computer.

**Bond Years** - \$1,000 of debt outstanding for one year used to compute average life and net interest cost.

**Call Option** – The right to redeem a bond prior to its stated maturity, either on a given date or continuously. The call option is also referred to as the optional redemption provision.

**Capital Appreciation Bond** – A bond without current interest coupons that is sold at a substantial discount from par. Investors are provided with a return based upon the accretion of value in the bond through maturity.

**Capital Lease** – The acquisition of a capital asset over time rather than merely paying a rental fee for temporary use. A lease-purchase agreement, in which provision is made for transfer of ownership of the property for a nominal price at the scheduled termination of the lease, is referred to as a capital lease.

**Closing** – When bonds are exchanged for money (a/k/a delivery or settlement).

**Commercial Paper (Tax-Exempt)** – By convention, short-term, unsecured promissory notes issued in either registered or bearer form with a stated maturity of 270 days or less.

**Competitive Sale** – A sale of securities in which the securities are awarded to the bidder who offers to purchase the issue at the best price or lowest cost.

**Coupon Rate** – The interest rate on specific maturities of a bond issue. While the term “coupon” derives from the days when virtually all municipal bonds were in bearer form with coupons attached, the term is still frequently used to refer to the interest rate on different maturities of bonds in registered form.

**Cover Bid** – The runner-up in a competitive bond sale.

**Credit Enhancements** – Credit enhancements are mechanisms which guarantee principal and interest payments. They include bond insurance and a line or letter of credit. A credit enhancement, while costly, will usually bring a lower interest rate on debt and a higher rating from the rating agencies, thus lowering overall costs. Cost effectiveness of credit enhancement will be evaluated for each debt issue.

**CUSIP Number** – The term CUSIP is an acronym for the Committee on Uniform Securities Identification Procedures. An identification number is assigned to each maturity of an issue and is usually printed on the face of each individual certificate of the issue. The CUSIP numbers are intended to help facilitate the identification and clearance of municipal securities. As the municipal market has evolved, and the new derivative products are devised, the importance of the CUSIP system for identification purposes has increased.

**Dated Date** – A defined date at which interest begins to accrue from.

**Debt Burden** – The ratio of outstanding tax-supported debt to the market value of property within a jurisdiction. The overall debt burden includes a jurisdiction’s proportionate share of overlapping debt as well as the municipality’s direct net debt.

**Debt Limitation** – The maximum amount of debt that is legally permitted by a jurisdiction’s charter, constitution, or statutory requirements.

**Debt Service** – The amount necessary to pay principal and interest requirements on outstanding bonds for a given year or series of years.

**Debt Service Reserve Fund** – The fund into which moneys are placed which may be used to pay debt service if pledged revenues are insufficient to satisfy the debt service requirements. The debt service reserve fund may be entirely funded with bond proceeds, or it may only be partly funded at the time of the issuance and allowed to reach its full funding requirement over time, due to the accumulation of pledged revenues. If the debt service reserve fund is used in whole or part to pay debt service, the issuer usually is required to replenish the funds from the first available funds or revenues. A typical reserve requirement might be the maximum aggregate annual debt service requirement for any year remaining until the bonds reach maturity. The size of the reserve fund, and the manner in which it is invested, may be subject to arbitrage regulations.

**Default** – The failure to pay principal or interest in full or on time. An actual default should be distinguished from technical default. The latter refers to a failure by an issuer to abide by certain covenants but does not necessarily result in a failure to pay principle or interest when due.

**Defeasance** – Providing for payment of principal of premium, if any, and interest on debt through the first call date or scheduled principal maturity in accordance with the terms and requirements of the instrument pursuant to which the debt was issued. A legal defeasance usually involves establishing an irrevocable escrow funded with only cash and U.S. government obligations.

**Depository Trust Company (DTC)** – A limited purpose trust company organized under the New York Banking Law. DTC facilitates the settlement of transactions in municipal securities.

**Downgrade** – A reduction in credit rating.

**Enterprise Activity** – A revenue-generating project or business. The project often provides funds necessary to pay debt service on securities issued to finance the facility. The debts of such projects are self-liquidating when the projects earn sufficient monies to cover all debt service and other requirements imposed under the bond contract. Common examples include water and sewer treatment facilities and utility facilities.

**Final Official Statement (FOS)** – A document published by the issuer which generally discloses material information on a new issue of municipal securities including the purposes of the issue, how the securities will be repaid, and the financial, economic and social characteristics of the issuing government. Investors may use this information to evaluate the credit quality of the securities.

**Flow of Funds** – The order in which pledged revenues must be disbursed, as set forth in the trust indenture or bond resolution. In most instances, the pledged revenues are deposited into a general collection account or revenue fund as they are received and subsequently transferred into the other accounts established by the bond resolution or trust indenture. The other accounts provide for payment of the costs of debt service, debt service reserve deposits, operation and maintenance costs, renewal and replacement, and other requirements.

**General Obligation Debt**- Debt that is secured by a pledge of the ad valorem taxing power of the issuer. Also known as a full faith and credit obligation.

**Good Faith Deposit** – A sum of money given by the Underwriter to assure his bid.

**Institutional Buyer** – Banks, financial institutions, insurance companies, and bond funds.

**Issuance Costs** – The costs incurred by the bond issuer during the planning and sale of securities. These costs include but are not limited to financial advisory and bond counsel fees, printing and advertising costs, rating agencies fees, and other expenses incurred in the marketing of an issue.

**Junior Lien Bonds** – Bonds which have a subordinate claim against pledged revenues.

**Letter of Credit** – Bank credit facility whereby a bank will honor the payment of an issuer's debt,

in the event that an issuer is unable to do so, thereby providing an additional source of security for bondholders for a predetermined period of time. A letter of credit often is referred to as an L/C or an LOC. Letter of Credit can be issued on a “stand-by” or “direct pay” basis.

**Level Debt Service** – When annual payments are substantially the same each year.

**Line of Credit** – Bank credit facility wherein the bank agrees to lend up to a maximum amount of funds at some date in the future in return for a commitment fee.

**Manager** – The member (or members) of an underwriting syndicate charged with the primary responsibility for conducting the affairs of the syndicate. The managers take the largest underwriting commitment.

Lead Manager or Senior Manager

The underwriter serving as head of the syndicate. The lead manager generally handles negotiations in a negotiated underwriting of a new issue of municipal securities or directs the process by which a bid is determined for a competitive underwriting. The lead manager also is charged with allocating securities among the members of the syndicate in accordance with the terms of the syndicate agreement or agreement among underwriters.

Joint Manager or Co-Manager

Any member of the management group.

**Municipal Securities Rulemaking Board (MSRB)** – A self-regulating organization established on September 5, 1975 upon the appointment of a 15-member Board by the Securities and Exchange Agreement. The MSRB, comprised of representatives from investment banking firms, dealer bank representatives, and public representatives, is entrusted with the responsibility of writing rules of conduct for the municipal securities market. New Board members are selected by the MSRB pursuant to the method set forth in Board rules.

**Negotiated Sale** – A sale of securities in which the terms of sale are determined through negotiation between the issuer and the purchaser, typically an underwriter, without competitive bidding.

**Net Interest Cost** – The average interest cost of a bond issue calculated on the basis of simple interest.

**Paying Agent** – An agent of the issuer with responsibility for timely payment of principal and interest to bond holders.

**Preliminary Official Statement (POS)** – The POS is a preliminary version of the official statement which is used by an issuer or underwriters to describe the proposed issue of municipal securities prior to the determination of the interest rate(s) and offering prices(s). The preliminary official statement, also called a “red herring”, often is examined upon by potential purchasers prior to making an investment decision.

**Present Value** – The value of a future amount or stream of revenues or expenditures in current dollars.

**Refunding** – An advance refunding is a refunding that occurs more than 90 days before the call date of the refunded bonds. A current refunding is a process of selling a new issue of securities to obtain funds needed to retire existing securities. Debt refunding is done to extend maturity and/or to reduce debt service cost.

**Retail Buyer** – Individual investors.

**Revenue Bond** – A bond which is payable from a specific source of revenue and to which the full faith and credit of an issuer with taxing power is not pledged. Revenue bonds are payable from identified sources of revenue, and do not permit the bondholders to compel a jurisdiction to pay debt service from any other source. Pledged revenues often are derived from the operation of an enterprise activity. Generally, no voter approval is required prior to issuance of such obligations.

**Secondary Market** – The market in which bonds are sold after their initial sale in the new issue market.

**Senior Lien Bonds** – Bonds having a prior, or first claim on pledged revenues.

**Serial Bonds** – A bond issue in which the principal is repaid in periodic installments over the issue's life.

**Split ratings** – Different rating levels from different rating agencies.

**Surety Bond** – A bond guaranteeing performance of a contract or obligation.

**Term Bonds** – Term bonds usually refer to a particularly large maturity of a bond issue that is created by aggregating a series of maturities. A provision is often made for the mandatory redemption of specified amounts of principal during several years prior to the stated maturity, which effectively simulates serial bonds.

**True Interest Cost (TIC)** – An expression of the average interest cost in present value terms. The true interest cost is a more accurate measurement of the bond issue's effective interest cost and should be used to ascertain the best bid in a competitive sale.

**Variable Rate Bond** – A bond on which the interest rate is reset periodically, usually no less often than semi-annually. The interest rate is reset either by means of an auction or through an index.

**Upgrade** – An increase in credit rating.

**Finance Audit Committee Regular Session**

**Meeting Date:** 12/17/2019  
**Title:** 2018-2019 Summary of Rebatable Arbitrage  
**Submitted For:** Lee Ann Bunselmeyer, Director  
**Submitted By:** Chris Rodriguez, Financial Services Manager  
**Finance Review:** **Legal Review:**

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**AGENDA ITEM**

Review and discuss the Fiscal Year 2018-2019 Summary of Rebatable Arbitrage.

**AGENDA ITEM SUMMARY/BACKGROUND**

Tax-exempt bonds which were issued on or after September 1, 1986 are subject to federal arbitrage rebate requirements. Arbitrage rebate requirements require that any excess earnings or arbitrage be rebated to the Federal Government. Arbitrage is the ability to obtain tax-exempt bond proceeds and invest the funds in higher yielding taxable securities. The rebate amount due to the Federal Government is equal to the excess of the amount earned on all non-purposed investment purchased with gross proceeds of the bonds over the amount which would have been earned if such non-purchase investments were invested at a rate equal to the yield on the bonds.

The rebate computation and payment to the Federal Government, if applicable, is required to be made at least every five-year period an issue remains outstanding and upon the retirement of an issue. The payment is due to the Federal Government within 60 days from either each Rebate Installment Computation Date or Final Rebate Computation Date. Failure to comply with these Federal Rebate Requirements could lead to substantial late filing penalties and interest and/or, potentially the loss of tax-exempt status for these bonds and subsequent bonds.

First Southwest Asset Management has performed the annual computation to ensure the City's compliance with the Federal Government Requirements. The attached 2018-2019 Summary of Rebatable Arbitrage includes the required annual computation for all bonds through September 30, 2019.

**RECOMMENDATION**

There is no action to be taken on this item.

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**Attachments**

2018-19 Arbitrage

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**City of Corinth, Texas**  
**Summary of Rebatable Arbitrage and Yield Restriction**  
**As of September 30, 2019**

**Final Numbers\***

*(Issues delivered prior to 5/14/2010, which are not presented herein, no longer require calculations)*

Delivery Date	Par Amount	Issue Description	Bond Yield	Rebatable Arbitrage / Yield Restriction 9/30/2018	Rebatable Arbitrage / Yield Restriction 9/30/2019	Upcoming IRS Dates	
						Next IRS Calculation Date**	Next IRS Payment Date**
05/14/10	\$1,500,000	Combination Tax and Rev. CO, Series 2010	3.404388%	(13,895.25)	(14,452.77)	2/15/2020	4/15/2020
05/19/16	\$1,510,000	General Obligation Refunding Bonds, Series 2016					
05/19/16	\$13,275,000	Combination Tax and Ltd. Surplus Rev. CO, Series 2016	2.382943%	(327,116.34)	(345,515.42)	(1)	5/19/2021 7/19/2021
	\$14,785,000	Combined Liability					
08/03/17	\$14,240,000	General Obligation Refunding Bonds, Series 2017					
08/03/17	\$4,855,000	Combination Tax and Ltd. Surplus Rev. CO, Series 2017	2.281137%	(58,157.78)	(82,986.83)		
	\$19,095,000	Combined Liability					
04/04/19	\$19,205,000	Combination Tax and Ltd. Surplus Rev. CO, Series 2019	2.879136%	(2)	(47,569.68)		
<b>Total Cumulative Liability</b>				<b>\$0.00</b>	<b>\$0.00</b>		

(1) Issue met Small Issuer for the calendar year. The Tax Certificate states that amounts in excess of the Bona Fide Debt Service Fund will be restricted to a yield that does not exceed the yield on the Obligations; therefore, the liability represents the Yield Restriction Liability.

(2) Due to short time period from delivery date to current fiscal year end, will perform calculations at next fiscal year end.

\* Unless otherwise noted, all liabilities represent annual estimations of the rebate and yield restriction amounts as of your current fiscal year end.

\*\* Next IRS Pay Date represents potential payments that are upcoming in the next two years from the current fiscal year end. Actual IRS Calculation Dates and Payment Dates may be accelerated as a result of refundings/defeasances occurring after the date of this summary.