



PURCHASING OFFICE

REQUEST FOR QUALIFICATIONS (RFQ) INVESTMENT BROKER DEALER SERVICES

RFQ NO. 2013-11

I. DEFINITIONS.

Respondent means the person or entity that submits a Submittal in response to this RFQ.

Submittal means the documents required to be submitted under Section II (a).

II. SUBMITTAL. Documents must be submitted as follows:

(a) At least one (1) original and three (3) copies of the following documents must be submitted:

(1) Qualification Statement including:

- Respondent Certification and Addenda Acknowledgment
- Respondent Information
- Respondent Customer/Client References
- Conflict of Interest Questionnaire (CIQ Form)
- Certificate Regarding Debarment

(b) The Submittal must be completed in ink or be typewritten.

(c) The Respondent Customer/Client References Form must include three references for which the Respondent has performed like services. The references must include the name of the business, a contact person, and telephone number and mailing address.

(d) The Submittal must be submitted in a sealed envelope or container that is marked on the outside of the envelope or container with the Name of the Project and Project No. shown above, the Respondent's name and mailing address, and the date of the submittal deadline.

(e) The Submittal may be hand-delivered to the City of Sugar Land, City Secretary Office, 2700 Town Center Blvd. North, Sugar Land, Texas 77479 or mailed to the City of Sugar Land, City Secretary Office, P.O. Box 110, Sugar Land, Texas 77487.
FACSIMILE AND E-MAIL TRANSMITTALS WILL NOT BE ACCEPTED.

- (f) Submittals will be received on or before **2:00 (p.m.) on Thursday, March 14, 2013**. Submittals received after the submittal date and time will not be considered.

III. ADDITIONAL INSTRUCTIONS AND INFORMATION.

- (a) If a Respondent finds a discrepancy in our omission from, or has a question about the meaning of, this RFQ or other related document, the Respondent should immediately notify the Purchasing Office at the E-mail address listed below or at www.bidsync.com. Questions regarding this bid must be received by the Purchasing Office on or before 3:00 (p.m.) on Thursday, March 7, 2013. After the Purchasing Office has been notified of a discrepancy or omission, or has been asked a question, the Purchasing Office will post an amendment or addendum on www.bidsync.com for all Respondents to view.
- (b) A Respondent may withdraw a Submittal by giving the Purchasing Office written notice of the withdrawal before the submittal deadline. If a Respondent submits written notice of the withdrawal after the submittal deadline, a Respondent must receive the City's written consent to withdraw a Submittal.
- (c) Submittals received in response to this RFQ will be reviewed and evaluated by City staff.
- (d) Additional documents, amendments, and addendums relating to this RFQ are available at the City of Sugar Land's City Secretary Office and at www.publicpurchase.com.
- (e) If you have any questions, please contact:

Jason Poscovsky
Contracts Manager
Fax: (281) 275-2741
E-mail: jposcovsky@sugarlandtx.gov

IV. MANDATORY CONTRACT PROVISIONS

The City of Sugar Land is soliciting proposals for professional services in compliance with Chapter 2254 of the Texas Government Code. Since the City must comply with certain State laws and City policies, the City uses a Standard Form of Agreement that incorporates required contract provisions that cannot be modified. Submitting a written proposal in response to the City's solicitation is your offer to enter into the City's Standard Form of Agreement without modification of the required contract provisions.

(a). Payment. The City's payments under the Contract, including the time of payment and the payment of interest on overdue amounts, are subject to Chapter 2251, Texas Government Code.

(b). Liability and Indemnity. Any provision of the Contract is void and unenforceable if it: (1) limits or releases either party from liability that would exist by law in the absence of the provision; (2) creates liability for either party that would not exist by law in the absence of the provision; or (3) waives or limits either party's rights, defenses, remedies, or immunities that would exist by law in the absence of the provision. (Section 5, Article XI, Texas Constitution).

(c). Confidentiality. Any provision in the Contract that attempts to prevent the City's disclosure of information subject to public disclosure under federal or Texas law or regulation, or court or administrative decision or ruling, is invalid. *Chapter 552, Texas Government Code*

(d). Contractual Limitations Period. Any provision of the Contract that establishes a limitations period that does not run against the City by law or that is shorter than two years is void. (Sections 16.061 and 16.070 of the Texas Civil Practice and Remedies Code)

(e). Governing Law and Venue. Texas law governs this Contract and any lawsuit on this Contract must be filed in a court that has jurisdiction in Fort Bend County, Texas.

V. STATEMENT OF WORK.

INTRODUCTION

The City of Sugar Land (the "City") is in the process of qualifying investment broker/dealers to represent investment products to the City. The goals of the City in requesting information from broker/dealers are:

- To ensure that the broker/dealers selected to represent investment products to the City are qualified professionals with experience in public funds investing.
- To provide a competitive process for the selection of broker/dealers for the City.
- To limit the need to represent investment products that may not be appropriate for the City's investment goals.
- To limit the number of approved broker/dealers to no more than six.
- To ensure that the broker/dealers representing investment products to the City completely understand the City's investment policies, goals, and objectives.

In order to reach these goals, the City is seeking broker/dealers that:

- Have good reputations as broker/dealers and are working with firms that also have good reputations.
- Are able to work within the constraints of the City's Investment Policy and Strategy.
- Offer competitive pricing and quick response time to requests for offers & bids.
- Provide an overall good service to the City.
- Clearly understand state statutes and local policy regarding public funds investment.

PROCEDURES

You are invited to fill out the attached Request for Qualifications and return it to the City Secretary Office on or before 2:00 pm Thursday, March 14, 2013. City staff will evaluate responses and recommendations will be made to the City Council in April 2013.

Please return completed packets to:
City of Sugar Land, City Secretary Office
2700 Town Center Blvd N., Sugar Land, TX 77479
or P.O. Box 110, Sugar Land, TX 77487

Note that respondents should mark the envelope RFQ 2013-11 Investment Broker/Dealer Services.

The following will be required with the Request for Qualifications: latest audited financial statement, copy of National Association of Security Dealers certificate, proof of state registration, completed broker/dealer questionnaire, local government references and statements of qualifications. If you have any questions, please contact Jason Poscovsky, Contracts Manager at (281) 275-2302 or jposcovsky@sugarlandtx.gov.

Also attached is a form to be used by your firm to make certain representations to the City. Our investment policy and state law require these representations. To be considered in our selection process, you must sign and return the form to us with your responses.

BROKER/DEALER REQUEST FOR QUALIFICATIONS

Statement of Position and General Requirements

The City of Sugar Land is a home rule municipality operating under the laws of the State of Texas. The City maintains a portfolio that ranges from \$100- \$150 million and is largely comprised of U.S. Treasury and Agency obligations and a Local Government Investment Pool. The City has adopted a written Investment Policy, which regulates the standards and procedures used in its cash management activities. A copy of the most recent Investment Policy is attached as an appendix to this document.

The City requires broker/dealers to acknowledge, in writing, that they have received and read the City's investment policy. A qualified representative of the firm must make this acknowledgment. The City has provided a form to supply the required acknowledgment as an appendix to this document.

The City will maintain relationships with qualified members of the broker/dealer community who, in their opinion, understand the needs, constraints, and goals of the City.

Criteria used in the selecting authorized broker / dealers will include but are not limited to material litigation against the firm, regulatory status of the dealer, completed packet,

overall reputation, background and expertise with public funds, overall financial condition of firm, and failure rate for transactions. Preference may be given to broker/dealers with a physical presence in Texas.

The City will notify broker/dealers of their approval in writing. No transactions will be conducted with a non-approved broker/dealer, and no broker/dealer is approved until all paperwork required by both parties has been executed. The City solicits competitive bids and offers on most transactions. All securities will be delivered against payment to the third-party custodian named by the City. City staff will review and verify all information and references requested in the document; therefore, please answer all questions as completely as possible.

Responses will be evaluated based on the following criteria:

- 10% Completed Packet w/certification
- 20% Public Fund Client Base
- 10% Broker Office Location
- 10% Trade Failure Rate
- 15% Trade in Securities used by City
- 20% Clients Similar to City
- 15% References

Part I - Request for General Qualifications

I-a. Firm Information:

Name of Firm _____

Address- _____

Local _____

Headquarters _____

Provide both street address and/or P.O. Box, if applicable

I-b. Telephone Number: Local _____ Headquarters: _____

I-c. Contact personnel: (Please list the primary representative/partner-in-charge first. Provide an attachment if more space is required)

Name _____

Title _____

Telephone _____

Name _____

Title _____

Telephone _____

In addition to the information requested, please provide background information concerning account representatives listed above. Include information about each individual's employment history as it relates to the securities industry, official licenses and certificates, the history and details of any disciplinary actions or complaints and the disposition of each as well as the history of any arbitration or litigation, the nature of the case and status or disposition. This can be attached in resume format.

I-d. Provide a list of references of public sector clients with whom your representative listed in I-c has established a business relationship. (Houston/Galveston area preferred)

Client Name _____

Address _____

Person to contact _____

Telephone _____ Length of relationship _____

Client Name_____

Address_____

Person to contact_____

Telephone_____ Length of relationship_____

Client Name_____

Address_____

Person to contact_____

Telephone_____ Length of relationship_____

Client Name_____

Address_____

Person to contact_____

Telephone_____ Length of relationship_____

I-e. Who has authorized the representative(s) listed in (I-c) to be account representative(s) for the City of Sugar Land?

Name _____

Title _____

Telephone _____

Who is the immediate supervisor of the representative(s) named in your response to I-c?

Name _____

Title _____

Telephone _____

I-f. Is your firm a member of NASD? Yes_____ No_____

If not, why?_____

I-g. Please indicate which regulatory agencies your firm is examined by and/or subject to its rules and regulations.

FDIC_____ SEC_____ NYSE_____
Comptroller of Currency_____ Federal Reserve System_____

Other Regulatory Agencies: (Multi-state firms please note: It is not necessary to include regulatory agencies that do not have jurisdiction over your firm's activities in Texas.)

I-h. Have you obtained all required licenses to operate as a broker/dealer in the state of Texas?

Yes_____ No_____ Date received _____

I-i. If your firm is not a Bank, please provide the following information regarding your principal banking relationship.

Bank Name_____
Address _____
Person to contact_____
Telephone number_____
Length of relationship_____

I-j. Please indicate with which instruments in which you are active in the market (both buy and sell).

T-Notes/Bills_____ BAs_____ CP_____ CD's_____ Agencies_____
Other Federal Agencies (Please Specify)_____
Instrumentalities (Please Specify)_____

I-k. Do you specialize in any of the instruments listed above? If so, please specify which ones.

I-l. What was your firm's total volume in U.S. Government and Agency securities trading last year?

	\$ Millions	Number of Transactions
Firm-wide	_____	_____
Local Office	_____	_____

I-m. Indicate your failure rate for transactions: (Failures/Total # of Transactions)

	Firm-wide	Local Office
Last Month	____/____	____/____
Last Year (calendar)	____/____	____/____

I-n. Explain your normal custody and delivery process.

I-o. What percent of your clients and percent/volume of trades are public funds investors?

I-p. Why do you want to represent the City of Sugar Land as a Broker/Dealer?

I-q. What other services does your firm offer? Would these services include the entire portfolio, even though not all investments were purchased through your firm? (yes/no- below)
(Offering the service does not bind the City to utilize the services through your firm.)

_____ Month-end Market Values of Investments	Yes_____	No _____
_____ Month-end Calculations (Accrued Interest & Premium/Discount Amortization)	Yes _____	No_____

Other _____

Part II - Request for Broker/Dealer Candidate Disclosure

II-a. To the best of your knowledge, has there been any "material" litigations, arbitration, or regulatory proceedings, either pending, adjudicated or settled, that your firm has been subject to within the last five years that involved issues concerning the suitability of the sale or purchase of securities to institutional clients or fraudulent or unfair practices related to the sale of securities to an institutional client? If so, please describe each such matter briefly. *For purposes of this section, proceedings are "material" if your independent accountant applying generally accepted accounting principles determines that such proceedings required disclosure in your financial statements.*

II-b. Have the representatives assigned to the City account read and understood the City's investment policy? Each broker selected will be required to sign and return the attached certification form before conducting any investment transactions with the City. The investment policy and certification form are attached to this packet.

Yes_____

No_____

II-c. Please disclose any personal business relationships that your organization may have with any City of Sugar Land investment officer or elected official. For purposes of this subsection, an investment officer or elected official has a personal business relationship with a business organization if:

- (1) the official owns 10 percent or more of the voting stock or shares of the business organization or owns \$5,000 or more of the fair market value of the business organization;
- (2) funds received by the official from the business organization exceed 10 percent of the official's gross income for the previous year; or
- (3) an investment officer has acquired from the business organization during the previous year investments with a book value of \$2,500 or more for the personal account of the investment officer

Current Investment Officers of the City for which #3 applies:

Alka B. Shah

Donna M. Svatek

Jennifer L. Brown

Official_____

Description of Relationship_____ (# ____above)

Official_____

Description of Relationship_____ (# ____above)

Section III - Certification

I hereby certify that the above is true and correct to the best of my knowledge and that I am authorized to execute this request for information on behalf of:

Name of Firm:_____

Signed By*:_____

Name:_____

Title:_____

Date:_____

**** Note: a qualified representative of your firm must sign this form in order for the firm to be considered in the selection process.***

CERTIFICATION BY BUSINESS ORGANIZATION

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

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

1. The undersigned is a Qualified Representative of the Business Organization offering to enter into an investment transaction with the Investor as such terms are used in the Public Funds Investment Act, Chapter 2256, Texas Government Code and
2. The Qualified Representative of the Business Organization has received and reviewed the Investment Policy furnished by the Investor and
3. The Qualified Representative of the Business Organization has implemented reasonable procedures and controls in an effort to preclude imprudent investment transactions conducted between the Entity and the Organization that are not authorized by the entity's investment policy, except to the extent that this authorization is dependent on an analysis of the makeup of the entity's entire portfolio or requires an interpretation of subjective investment standards.
4. The Business Organization will rely upon instructions from only the persons authorized on behalf of the City of Sugar Land as stated in the Investment Policy and City's resolution designating investment officers.

Qualified Representative of the Business Organization

Name: _____

Title: _____

Date: _____

REQUIRED FORMS

The following forms must be filled out and turned in with the Submittal in order for Respondent to be considered responsive. Failure to include the following forms, signed and dated, may result the Submittal being rejected.

1. Respondent Certification and Addenda Acknowledgment
2. Respondent Information
3. Respondent Customer/Client References
4. Conflict of Interest Questionnaire (CIQ Form)
5. Certification Regarding Debarment

SCHEDULE of KEY EVENTS		
NO	ACTIVITY	DATE -- TIME
1	RFQ Released	February 27, 2013
2	RFQ Posted to publicpurchase.com	February 27, 2013
3	Questions Deadline	March 7, 2013 @ 3:00 p.m.
4	Questions Answered and Addendum posted	March 8, 2013 @ 3:00 p.m.
5	Submissions Due	March 14, 2013 @ 2:00 p.m.

B I D C H E C K L I S T

CHECK OFF EACH OF THE FOLLOWING AS THE NECESSARY ACTION IS COMPLETED:

- [] 1. THE SUBMISSION HAS BEEN SIGNED AND DATED.
- [] 2. ADDENDUM (IF ANY) HAS BEEN SIGNED AND INCLUDED.
- [] 3. REFERENCES AND CIQ FORM COMPLETED
- [] 4. THE CORRECT NUMBER OF COPIES ENCLOSED
- [] 5. SIGNED DEBARMENT FORM
- [] 6. THE MAILING ENVELOPE HAS BEEN ADDRESSED TO:

THE CITY OF SUGAR LAND
CITY SECRETARY OFFICE, 1ST FLOOR, ROOM 122
2700 TOWN CENTER BLVD. NORTH
SUGAR LAND, TEXAS 77479

- [] 7. THE MAILING ENVELOPE HAS BEEN SEALED AND MARKED WITH THE:
COMPANY NAME, ADDRESS, BID NUMBER, TITLE, AND DUE DATE

RESPONDENT CERTIFICATION AND ADDENDA ACKNOWLEDGEMENT

By signature affixed, the Respondent certifies that neither the Respondent nor the firm, corporation, partnership, or institution represented by the Respondent, or anyone acting for such firm, corporation, or institution has violated the anti-trust laws of this State, codified in Section 15.01, et seq., Texas Business and Commerce Code, or the Federal antitrust laws, nor communicated directly or indirectly the Submittal made to any competitor or any other person engaged in such line of business.

Respondent has examined the information in the RFQ and has fully informed themselves as to all terms and conditions. Any discrepancies or omissions from the information or other documents have been clarified with the Purchasing Office and noted on the Submittal.

Respondent must initial next to each addendum received in order to verify receipt:

Addendum #1_____ Addendum #2_____ Addendum #3_____

Respondent Must Fill in and Sign:

NAME OF FIRM/COMPANY: _____

AGENTS NAME: _____

AGENTS TITLE: _____

MAILING ADDRESS: _____

CITY, STATE, ZIP: _____

PHONE & FAX NUMBERS: _____

E-MAIL ADDRESS: _____

AUTHORIZED SIGNATURE: _____

DATE: _____

RESPONDENT INFORMATION FORM

FULL LEGAL FIRM/COMPANY NAME: _____

BUSINESS STREET ADDRESS: _____

BUSINESS MAILING ADDRESS: _____

BUSINESS TELEPHONE NUMBER: _____

BUSINESS FAX NUMBER: _____

COUNTY: _____ MINORITY OWNED: _____ #OF EMPLOYEES _____

CORPORATION: ____ PARTNERSHIP: ____ PROPRIETORSHIP: ____ L.L.C. ____ L.L.P. ____

YEAR EST. ____ NO. OF YEARS IN BUSINESS ____ FEDERAL ID NO. _____

NATURE OF BUSINESS: _____

PRINCIPALS:

NAME: _____ TITLE: _____

NAME: _____ TITLE: _____

NAME: _____ TITLE: _____

BANK REFERENCE: _____

ADDRESS / CITY / STATE / ZIP : _____

PHONE NO. _____

RESPONDENT CUSTOMER / CLIENT REFERENCES FORM

1. COMPANY NAME: _____

ADDRESS: _____

CITY / STATE / ZIP: _____

PHONE NO. _____

NAME OF CONTACT: _____

2. COMPANY NAME: _____

ADDRESS: _____

CITY / STATE / ZIP: _____

PHONE NO. _____

NAME OF CONTACT: _____

3. COMPANY NAME: _____

ADDRESS: _____

CITY / STATE / ZIP: _____

PHONE NO. _____

NAME OF CONTACT: _____



CITY OF SUGAR LAND

CONTRACTOR INFORMATION

Name: _____

Address: _____

Principal Contact: _____

Tax ID Number: _____

Project Number: _____

Project Name: _____

Certification Regarding Debarment, Suspension, Ineligibility and Voluntary Exclusion

Indicate in the appropriate box which statement applies to the covered potential contractor:

- ☐ The potential contractor certifies, by submission of this certification, that neither it nor its principals is presently debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from participation in this contract by any federal department or agency or by the State of Texas.
- ☐ The potential contractor is unable to certify to one or more of the terms in this certification. In this instance, the potential contractor must attach an explanation for each of the above terms to which he is unable to make certification. Attach the explanation(s) to this certification

The undersigned certifies that the potential contractor will not knowingly enter into any subcontract with a person who is excluded, debarred, suspended, declared ineligible or voluntarily excluded from participation in this covered transaction, unless authorized by the city of Sugar Land, Texas. The undersigned further certifies that the potential contractor will include this section regarding exclusion, debarment, suspension, ineligibility and voluntary exclusion without modification in any subcontracts or solicitations for subcontracts.

The undersigned swears that he/she is authorized to legally bind the prospective contractor to the above-described certification and is fully aware that this certification is made under penalty of perjury under the laws of the State of Texas.

Signature/Authorized Certifying Official_____
Typed Name and Title_____
Prospective Contractor/Organization_____
Date Signed_____
State Contractor License No. (if any)

CONFLICT OF INTEREST QUESTIONNAIRE**FORM CIQ****For vendor or other person doing business with local governmental entity**

This questionnaire reflects changes made to the law by H.B. 1491, 80th Leg., Regular Session.

This questionnaire is being filed in accordance with Chapter 176, Local Government Code by a person who has a business relationship as defined by Section 176.001(1-a) with a local governmental entity and the person meets requirements under Section 176.006(a).

By law this questionnaire must be filed with the records administrator of the local governmental entity not later than the 7th business day after the date the person becomes aware of facts that require the statement to be filed. See Section 176.006, Local Government Code.

A person commits an offense if the person knowingly violates Section 176.006, Local Government Code. An offense under this section is a Class C misdemeanor.

OFFICE USE ONLY

Date Received

1 Name of person who has a business relationship with local governmental entity.

2 ☐ Check this box if you are filing an update to a previously filed questionnaire.

(The law requires that you file an updated completed questionnaire with the appropriate filing authority not later than the 7th business day after the date the originally filed questionnaire becomes incomplete or inaccurate.)

3 Name of local government officer with whom filer has employment or business relationship.

Name of Officer

This section (item 3 including subparts A, B, C & D) must be completed for each officer with whom the filer has an employment or other business relationship as defined by Section 176.001(1-a), Local Government Code. Attach additional pages to this Form CIQ as necessary.

A. Is the local government officer named in this section receiving or likely to receive taxable income, other than investment income, from the filer of the questionnaire?

☐ Yes

☐ No

B. Is the filer of the questionnaire receiving or likely to receive taxable income, other than investment income, from or at the direction of the local government officer named in this section AND the taxable income is not received from the local governmental entity?

☐ Yes

☐ No

C. Is the filer of this questionnaire employed by a corporation or other business entity with respect to which the local government officer serves as an officer or director, or holds an ownership of 10 percent or more?

☐ Yes

☐ No

D. Describe each employment or business relationship with the local government officer named in this section.

4

Signature of person doing business with the governmental entity

Date

CITY OF SUGAR LAND INVESTMENT POLICY

A. PURPOSE

To establish and provide specific policy and guidelines for the conduct of the investment program of the City of Sugar Land.

B. POLICY

It is the policy of the City of Sugar Land that all City funds will be invested in compliance with state statutes, City Charter and Ordinances, and all related Governmental Accounting Standards Board Statements, and related financial accounting standards.

C. DELEGATION OF AUTHORITY

The City of Sugar Land is required by the Public Funds Investment Act (Chapter 2256, Texas Government Code) to adopt by resolution, a written investment policy regarding the investment of its funds and funds under its control.

Authority to manage the City of Sugar Land's investment program is derived by Resolution. Procedures include explicit delegation of authority to persons responsible for investment transactions. The Investment Program Manager is responsible for the management of the investment program. The Investment Officers are responsible for the daily operation of the investment function. A person may not deposit, withdraw, invest, transfer, or manage in any other manner funds of the City without written authority by City Council. All investments must be approved in writing by two Investment Officers. Authority granted to a person(s) to deposit, withdraw, invest, transfer, or manage the City's funds is effective until rescinded by City Council or until termination of the person's employment. The Investment Program Manager shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials. Controls shall include, but may not be limited to an annual review of selected transactions by an external auditor. The reviews will provide internal control by ensuring compliance with policies and procedures.

D. SCOPE

The investment policy applies to all financial assets of the City of Sugar Land [as reported in the City of Sugar Land's Comprehensive Annual Financial Report] and includes the following funds:

- 1) General Fund
- 2) Special Revenue Funds
- 3) Capital Project Funds
- 4) Enterprise Funds
- 5) Trust and Agency Funds
- 6) Debt Service Funds, including Reserves and Sinking Funds
- 7) Internal Service Funds
- 8) Component Units, excluding those that have adopted a separate investment policy.

Current component units included under this policy:

- a. Sugar Land Development Corporation
- b. Sugar Land 4B Corporation
- c. ~~Town Square~~ Tax Increment Reinvestment Zone #1

d. Tax Increment Reinvestment Zone #3

~~e.~~ Tax Increment Reinvestment Zone #4

- 9) Any other funds or component units as created by the City.

These funds, as well as funds that may be created from time-to-time, shall be administered in accordance with the provisions of this policy. All funds invested under this policy shall be considered as a pooled group for investment purposes.

Deferred compensation and the retirement system assets the City sets aside or holds for its employees are not subject to this policy.

E. PRUDENCE

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

In determining whether an Investment Officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration:

- 1) the investment of all funds under the City's control over which the officer had responsibility rather than a consideration as to the prudence of a single investment; and
- 2) whether the investment decision was consistent with the written investment policy of the city.

The Investment Program Manager and the Investment Officers are not personally responsible for changes in the market.

F. OBJECTIVES

It is the City's full intent, at the time of purchase, to hold all investments until maturity in order to ensure the return of all invested principal. The primary objectives, in priority order, of the City of Sugar Land's investment activities shall be:

Safety. Safety of principal is the foremost objective of the investment program. Investments of the City of Sugar Land shall be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio, investments are limited to the safest types of securities, and pre-qualification is required for broker/dealers, financial institutions, and advisors with which the City will do business.

Liquidity. The City of Sugar Land's investment portfolio will remain sufficiently liquid to enable the City of Sugar Land to meet all operating requirements, which might be reasonably anticipated. Liquidity shall be achieved by matching investment maturities with budgetary and economic cycles and forecasted cash flow requirements. A portion of the portfolio will be maintained in liquid short-term securities that can be converted to cash if necessary to meet disbursement requirements. Investment pools and no-load money market mutual funds provide daily liquidity and may be utilized as a competitive yield alternative to fixed maturity investments.

Return on Investment (Yield). The City of Sugar Land's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the City of Sugar Land's investment risk constraints and the cash flow characteristics of the portfolio. Return on Investment is of secondary importance compared to safety and liquidity objectives.

The City shall attempt to obtain an acceptable return provided that the requirements of safety and liquidity are first met. The yields of the three and six month Treasury bill shall be the yield objectives or "benchmarks". The portfolio shall also be benchmarked against an agency note with approximately the same maturity as the weighted average maturity of the portfolio.

The City of Sugar Land shall strive to maintain the level of investment of all fund balances, reserves and bond funds as close to 100% as possible. While the objectives of safety and liquidity must first be met, it is recognized that portfolio assets represent a potential source of significant revenues. It is to the benefit of the City that these assets be managed to produce optimum revenues, consistent with state statutes and local ordinances.

G. STRATEGY

The governing body shall adopt a separate written investment strategy for each of the funds or pooled group of funds under its control. The strategy shall be reviewed on an annual basis with formal action by the City Council stating that the strategy has been reviewed and recording any changes made.

H. ETHICS AND CONFLICT OF INTEREST

Officers, employees, and elected officials shall refrain from personal business activities that could conflict with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Elected officials and investment officials who have a personal relationship with an entity seeking to sell an investment to the City and anyone who is related within the second degree by affinity or consanguinity to an individual seeking to sell an investment to the City shall file a statement disclosing that personal business interest to the Investment Program Manager and City Manager.

For purposes of this section, an investment officer or elected official has a personal business relationship with a business organization if:

- (1) the official owns 10 percent or more of the voting stock or shares of the business organization or owns \$5,000 or more of the fair market value of the business organization;
- (2) funds received by the official from the business organization exceed 10 percent of the official's gross income for the previous year; or
- (3) an investment officer has acquired from the business organization during the previous year investments with a book value of \$2,500 or more for the personal account of the investment officer.

The statements must be filed with the Texas Ethics Commission and the City Council. Employees and officers shall subordinate their personal investment transactions to those of the City of Sugar Land, particularly with regard to timing of purchases and sales.

I. INVESTMENT TRAINING

The Investment Officers shall take (a) 10 hours of training within twelve (12) months after taking office or assuming duties and (b) not less than (10) ten hours of training every (2) two years, relating to their investment responsibilities. The two year training cycle begins on October 1st and ends two years later. Training must include education in investment controls, security risks, strategy risks, market risks, diversification, and compliance. The training must be provided by an independent source approved by the governing body or designated investment committee. For these purposes, courses or seminars offered by the Government Finance Officers Association, Government Finance Officers Association of Texas, Texas Municipal League, Southwest School of Government Finance, University of North Texas, Texas Association of Counties, Treasury Management Association or the Government Treasurers Organization of Texas will satisfy the training requirements. Documentation of training hours shall be reviewed annually by an external auditor.

J. QUALITY AND CAPABILITY OF INVESTMENT MANAGEMENT

Investment Officers shall at all times be cognizant of the standard of care and the investment objectives as set forth in the Public Funds Investment Act and the City's investment policy. The City shall provide investment training in compliance with the Public Funds Investment Act to ensure the quality and capability of investment management. Staff sets the standard of training required, which may be over and above the (10) ten hours as required by the Public Funds Investment Act.

K. SELECTION AND COMPLIANCE OF FINANCIAL INSTITUTION / BROKER/DEALERS INVESTMENT BROKER/DEALERS

Selection Process

The Investment Officers will maintain a list of financial institutions, primary broker/dealers and local government investment pools authorized by the City Council to provide investment services to the City. Investment Officers shall not conduct business with any firm not approved by City Council.

The City will prepare a Request for Investment Services every two years at a minimum and notice of said requests will be published in the City's official paper. All financial institutions and broker/dealers who desire to become qualified bidders for investment services must fill out the application and return it to the City by the stated day and time. After review of all applications, a list of selected financial institutions and broker/dealers will be prepared by the Investment Officers and approved by City Council. The following will be required with the application: most recent audited financial statements, proof of National Association of Security Dealers certification, trading resolution, proof of state registration, completed broker/dealer questionnaire, a list of local government clients and statements of qualifications.

Criteria used in the selection of authorized broker / dealers will include, but are not limited to material litigation against the firm, regulatory status of the dealer, completed packet, references from local government clients, background and expertise in investment of public funds.

The top six firms/banks shall be selected to appear on the City's approved broker/dealer list. If, after a firm is selected, they no longer qualify to appear on the City's approved dealer list, or provide services inconsistent with acceptable levels, the Investment Officers may recommend to

City Council to remove the firm from the approved list and replace it with the next qualified candidate based on the previous Request for Investment Services rankings.

CERTIFICATES OF DEPOSIT

Banks and savings and loan associations seeking to establish eligibility for Certificates of Deposit (CD) shall submit the most recent audited financial statements, evidence of federal insurance, collateralization capacity, historical CD rates and other information as required by the Investment Program Manager. Requests for qualifications shall be made every two years. The top three banks or savings & loan associations shall be selected to appear on the City's approved Certificates of Deposit list, based on historical rates and capacity for proper collateralization of deposits. Should an approved bank merge with or be acquired by another bank while on the City's approved CD list, new bank must agree to meet the same collateralization and certification requirements, or the bank shall be removed from the approved list.

The City may also purchase Certificates of Deposit from banks not on the approved CD list as long as they are purchased through a broker/dealer on the City's approved broker/dealer list who has an office located in the state of Texas.

CERTIFICATION

A copy of the investment policy shall be presented to all authorized financial institutions, broker/dealers, and investment pools. The qualified representative of the business/institution shall execute a written instrument stating to the effect that the qualified representative has:

- 1) Received and thoroughly reviewed the investment policy
- 2) Acknowledged that the business organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the entity and the organization that are not authorized by the entity's investment policy, except to the extent that this authorization is dependent on an analysis of the makeup of the entity's entire portfolio or requires an interpretation of subjective standards.

The Investment Officers may not buy any securities from an organization that has not delivered to the City such an instrument. The instrument must be signed annually by the qualified representative. For authorized financial institutions, broker/dealers, and investment pools, a current audited financial statement will be required to be on file in the Investment Officer files.

COMPETITIVE BIDDING REQUIREMENT

All purchases of investments will be placed after receiving competitive quotes from at least three financial institutions, broker/dealers, investment pools or any combination thereof. Quotes will be accepted either written or electronically, or a combination thereof. An exception to this rule may be made when time limitations preclude the bidding process such as rapidly changing market conditions, or if the security to be purchased is a "new issue" (offered at par value and still in the primary market) with a future settlement date or Certificates of Deposit purchased through a broker/dealer at par value. If possible, new issues should be competitively bid by comparing to securities available in the secondary market of similar characteristics (maturity date, type, etc). Funds may be invested in an authorized investment pool without receiving competitive bids in order to facilitate the investment of City funds.

The investment will be made with the broker/dealer offering the greatest return and quality to the City. If three bids/offers are solicited but three responses are not received within the time frame

specified in the solicitation of the bid/offer, the Investment Officer may act based on the responses received as long as the solicitation of and failure to receive the bids/offers is documented. Any investments purchased must have the signature of at least two Investment Officers.

L. AUTHORIZED AND SUITABLE INVESTMENTS

The City of Sugar Land is empowered by state statute and City resolution to invest in the following types of securities and/or Public Investment Pools:

Obligations of or Guaranteed by, Governmental Entities

- 1) Direct obligations of the United States or its agencies and instrumentalities.
- 2) Direct obligations of the State of Texas or its agencies and instrumentalities.
- 3) Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of the State of Texas or the United States or their respective agencies and instrumentalities.

Certificates of Deposit

Authorized investment if the certificate of deposit is issued by a depository institution that has its main office or a branch office in this state, or purchased through a broker/dealer located in this state, and is:

- 1) Guaranteed or insured by the Federal Deposit Insurance Corporation or its successor.
- 2) Secured by obligations that are described in Section M: Obligations of, or Guaranteed by, Governmental Entities or secured in any other manner and amount provided by law for deposits of the city.

CD's purchased through a broker shall meet criteria for maturity and interest rates determined by the City's investment officers in advance of purchase. The City must appoint an entity or the broker/dealer as custodian with respect to the CD's issued for the account of the City. The custodian shall provide monthly reports of CD's owned by the City.

Repurchase Agreements

Repurchase agreements may only be made with a Master Repurchase Agreement in place between the City and the financial institution. Authorized investments:

- 1) Must have a defined termination date.
- 2) Can be secured either by: obligations described in Section M, 1: Obligations of, or Guaranteed by, Governmental Entities, or cash held by a third party.
- 3) Must be pledged to the City, held in the City's name, and deposited at the time the investment is made with a third party approved by the City.
- 4) Must be placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in this state.

Bankers' Acceptances

Bankers' Acceptances can be an authorized investment if they:

- 1) Have a stated maturity of 270 days or fewer from the date of issuance.
- 2) Can be liquidated in full at maturity.

- 3) Are eligible for collateral for borrowing from a Federal Reserve Bank.
- 4) Are accepted by a bank organized and existing under the laws of the United States, if the short-term obligations of the bank are rated not less than A-1 or P-1 or an equivalent rating by at least one nationally recognized credit rating agency.

Mutual Funds

A no-load money market mutual fund is an authorized investment if the mutual fund:

- 1) Is registered and regulated by the Securities and Exchange Commission.
- 2) Has a dollar-weighted average stated maturity of 90 days or fewer?
- 3) Includes in its investment objectives the maintenance of a stable net asset value of \$1 for each share.

A no-load mutual fund is an authorized investment if the mutual fund:

- 1) Is registered with the Securities and Exchange Commission.
- 2) Has an average weighted maturity of less than two (2) years.
- 3) Is invested exclusively in obligations and investment pools as approved in the City's investment policy.
- 4) Is continually rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent.

The City will be provided with a prospectus and other information required by the Securities Exchange Act of 1934.

The City may not invest in the aggregate more than 15 percent of its monthly average fund balance, excluding bond proceeds, reserves, and debt service in no-load mutual funds.

The City may not invest any portion of bond proceeds, reserves or funds held for debt service in no-load mutual funds.

The City may not invest funds in an amount that would exceed 10% of the total assets of that particular mutual fund.

Investment Pools

The City may invest its funds and funds under its control through eligible investment pools if the governing body by ordinance or resolution authorizes participation in the particular pool. The investment pool(s) must furnish a circular or disclosure document, which contains specific and detailed information. A listing of requirements is contained in Chapter 2256.016(b) of the Government Code. Investment pools must provide detailed monthly transaction and performance reports as outlined in Chapter 2256.016 (c) & (e).

A public funds investment pool created to function as a money market mutual fund must mark its portfolio to market daily and, to the extent possible, stabilize at a \$1 net asset value. If the ratio of the market value of the portfolio divided by the book value of the portfolio is less than 0.995 or greater than 1.005, holdings shall be sold as necessary to maintain the ratio between 0.995 and 1.005. The monthly statement for a pool that invests in money market mutual funds must include a statement on how the yield on the pool is calculated.

A public fund investment pool must be continuously rated no lower than AAA or AAAm or no lower than investment grade by at least one nationally recognized rating service and have a weighted average maturity no greater than 90 days.

Investment pools created under Chapter 791 and managed by a state agency or private investment manager shall establish an advisory board composed equally of participants in the pool and other persons who do not have a business relationship with the pool.

Investments with Required Ratings

Investments with minimum required ratings such as investment pools, no-load mutual funds, and bankers' acceptances do not qualify as authorized investments during the period the investment does not have the minimum rating. The City shall take all prudent measures that are consistent with its investment policy to liquidate an investment that does not have the minimum rating.

If an investment receives a change in rating that makes it no longer acceptable under the City's investment policy or PFIA, the City shall liquidate the investment at the earliest opportunity and reinvest the funds in an acceptably rated alternative investment.

M. UNAUTHORIZED INVESTMENTS

1. Collateralized mortgage obligations, including but not limited to principal only strips, interest only strips, mortgage obligations with a stated final maturity date of greater than 10 years, and obligations with an inverse floating interest rate.
2. Commercial Paper, including Pools which invest in Commercial Paper
3. All swaps including but not limited to even-basis swaps, interest rate swaps.
4. Forwards and futures.
5. Options
6. Foreign exchange.
7. Planned amortization classes (PAC)
8. Regular floaters tied to government securities
9. Investments with various interest rate caps, floors, and collars.
10. Investment pools in which the City would own more than 10% of the market value of the pool.
11. Any other investments that are not on the authorized investments list.

N. ELECTRONIC FUNDS TRANSFER

The City may use electronic means to transfer or invest all funds collected or controlled by the City.

O. COLLATERALIZATION

Collateralization will be required on demand deposits, certificates of deposit, repurchase agreements and all accrued interest. In order to anticipate market changes and provide a level of security for all funds, the market value of collateral pledged must be at least 102% of the ledger balance of demand deposits principal on certificates of deposit and repurchase agreements, and all accrued interest net of FDIC insurance coverage. Pledged securities shall be marked-to-market at least monthly.

A written collateral agreement must be executed, approved by the Board of Directors, an official record since the agreements inception, and executed contemporaneously with the acquisitions of the asset.

The City chooses to accept collateral based on the list of investments authorized under the Public Funds Investment Act. The right of collateral substitution is granted with the approval of the Investment Program Manager or Chief Accountant. The Investment Program Manager or Chief Accountant may approve and release pledged collateral.

The City shall request additional collateral in the event Investment Officers deem that deposits or investments are not sufficiently protected by the pledged collateral.

Collateral will always be held in the City's name by an independent third party with whom the City or bank has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the City and will be retained in the office of the Investment Officer. City staff will monitor deposit balances daily, in accordance with the intradepartmental policy on collateral, and will request increases in collateral pledged if deposits are reasonably anticipated to exceed the current collateral pledged.

P. SAFEKEEPING AND CUSTODY

All security transactions, including collateral for repurchase agreements, entered into by the City shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held in the name of the City by a third party custodian designated by the City and evidenced by safekeeping receipts. Safekeeping receipts shall be maintained by the Investment Officers, and shall be available for review upon request.

Q. DIVERSIFICATION

The City of Sugar Land will diversify its investments by security type, institution and broker/dealer. Requests for bids/offers from broker/dealers shall rotate among approved broker/dealers to ensure that the same brokers are not solicited for every bid/offer request, and to ensure competition among broker/dealers.

With the exception of U.S. Treasury securities, no more than 75% of the City's total investment portfolio will be invested in a single security type. If the City elects to participate in more than one investment pool, the total percent invested in all pools shall not exceed the maximum percent allowed.

Diversification requirements are as follows:

<u>Investment Type</u>	<u>Maximum Investment %</u>
Repurchase Agreements	up to 50%
Certificates of Deposit	up to 50%
U.S. Treasury Bills/Notes	up to 100%
Other U.S. Government Securities	up to 75%
Authorized Investment Pools	up to 75% total
Bankers' Acceptances	up to 25%
No Load Money Market Mutual Funds	up to 50%
No Load Mutual Funds	See authorized Investments, Mutual Funds

R. MAXIMUM MATURITIES

To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. The City will not directly invest in securities maturing more than two (2) years or 730 days from date of purchase. The settlement date is considered the date of purchase. However, the City may collateralize its certificates of deposits and repurchase agreements using longer-dated investments not to exceed thirty (30) years.

The targeted weighted average maturity allowed, based on the stated maturity date for the portfolio, is 365 days or 12 months.

S. INTERNAL CONTROL AND ANNUAL AUDIT

The Investment Program Manager or designee shall establish a system of internal controls. The controls shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation of third parties, or imprudent actions by employees of Investment Officers of the City.

Controls and managerial emphasis deemed most important include the following:

Imperative Controls:

- A. Safekeeping receipts records management
- B. Documentation of investment bidding
- C. Written confirmations
- D. Reconciliation and comparisons of security receipts with investment and bank records
- E. Compliance with investment policies
- F. Accurate and timely reporting
- G. Adequate training and development of Investment Officers

Controls Where Practical

- A. Control of collusion
- B. Segregation of duties
- C. Clear delegation of authority
- D. Staying informed about market conditions, changes and trends that require adjustments in investment strategies.

The City, in conjunction with its annual financial audit, shall perform a compliance audit of management controls on investments and adherence to the City's established investment policies. This annual audit will be performed by an external auditor and will include formal review of the quarterly reports.

T. PERFORMANCE STANDARDS

The investment portfolio will be designed to obtain an average rate of return during budgetary and economic cycles, taking into account the City of Sugar Land's investment risk constraints and cash flow needs.

Market Yield Benchmark

The basis used to determine whether market yields are being achieved shall be the 3-month U.S. Treasury Bill. The portfolio will also be tracked against the 6-month U.S. Treasury Bill, as well as an agency note with maturity approximately equal to the weighted average maturity of the portfolio for that month. In a changing interest rate environment, the change in portfolio yield shall be monitored against the change in benchmark yield, and stated as a basis point increase or decrease from the prior reporting period.

U. ARBITRAGE

The Tax Reform Act of 1986 issued regulations related to the City's investing of tax-exempt bond proceeds and debt service income. Arbitrage rebate provisions require that the City compute earnings on investments from each issue of bonds on an annual basis to determine if a rebate to the IRS is required. To determine the City's arbitrage position, the City is required to perform specific calculations relative to the actual yield earned on the investment of the funds and the yield that could have been earned if the funds had been invested at a rate equal to the yield on the bonds sold by the City. The rebate provision states that periodically (not less than once every five years, and not later than sixty days after maturity of the bonds), the City is required to pay the IRS a rebate of any excess earnings (positive arbitrage). The regulations require extreme precision in the monitoring and recording facets of investments as a whole, and particularly as it relates to yields and computations so as to insure compliance. Failure to comply can dictate that the bonds become taxable, retroactively from the date of issuance, or subject the City to severe penalties.

The City's investment position as it relates to arbitrage regulations is as follows: Investments on bond proceeds will be made with safety of principal and liquidity in mind, but with a competitive rate of return. When project timing and cash flows allow, bond proceeds may be invested in instruments allowed under Section M. It is preferable to purchase investments solely with individual bond proceeds, and not commingle with operating funds or multiple issues; however, it is recognized that this is not always feasible. It is preferable to commingle funds from multiple issues or other capital projects funds before commingling with operating funds. Investments of bond funds should match maturities with project cash flows as closely as possible. All investments purchased with bond funds shall be documented clearly and reported to the City's arbitrage consultant for tracking and review. Arbitrage rebate calculations will be performed annually on all debt issues and funds set aside annually for any positive arbitrage. Arbitrage will be rebated to the IRS, as necessary.

V. REPORTING

The City Manager and the City Council will receive a monthly report listing the investments, collateralization, and interest earnings prepared jointly and signed by all Investment Officers. The reports will be prepared in compliance with generally accepted accounting principles and include fully accrued interest for the reporting period. The reports shall provide the following:

- 1) Investments by fund and in total.
- 2) Investment by maturity date.
- 3) Collateral amounts
- 4) Beginning Book and Market Value In Summary and By Investment
- 5) Additions/Changes to the Market Value In Summary
- 6) Ending Book and Market Value In Summary and By Investment

Where Book Value = ~~Par Value + Accrued Interest and/or — Amortization~~Purchase
Value

Purchase Value = Par Value x Purchase Price

Where Market Value = Par Value x Market Price

Market Value will be reported as of the last business day of the period and be obtained from the City's depository bank.

7) Beginning and Ending Accrued Interest

~~Market Value will be reported as of the last business day of the period and be obtained from the City's depository bank.~~

8) Coupon/Discount and Earnings Rate

9) Percentage of the portfolio represented by each investment category.

10) Average weighted yield to maturity of portfolio as compared to benchmark.

11) Statement of compliance with the investment policy, strategy, and Public Funds Investment Act.

~~11)~~12) Signature of Investment Officers

W. INVESTMENT POLICY

The City of Sugar Land's investment policy shall be adopted by resolution by the City Council. The policy shall be reviewed annually by the Investment Program Manager, City Manager, Finance Committee and City Council. Any modifications made thereto must be approved by the City Council and documented by formal action.

GLOSSARY

ACCRUED INTEREST: Term designating the interest due on a bond or other fixed income security that must be paid by the buyer of a security to its seller. Usual computation: coupon rate of interest times elapsed days from prior interest payment date (i.e., coupon date) up to but not including settlement date. Principal exceptions: money market securities that are sold at a discount do not have accrued interest.

AGENCY: A security, almost always debt, issued by a corporation sponsored by the U.S. Government. Examples: bonds of the Federal Intermediate Credit Bank (FICB) or the Tennessee Valley Authority. Agency securities are exempt from registration under the Securities Act of 1933.

AGENCY NOTES: One- to two-year obligations offered at a discount from par by U. S. Government agencies, such as the Federal National Mortgage Association, the Federal Home Administration, and the Farm Credit System. Such notes generally represent interim financing prior to the issuance of long-term bonds.

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.

BID: The price offered by a buyer of securities. (When you are selling securities, you ask for a bid.) See Offer.

BROKER: A broker brings buyers and sellers together for a commission.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a certificate. Large-denomination CD's are typically negotiable.

COLLATERAL: 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.

COMPONENT UNIT: Based on generally accepted accounting principles, the Sugar Land Development Corporation, Sugar Land 4B Corporation, Sugar Land Town Square Development Authority, and Tax Increment Reinvestment Zone #1 are considered component units of the City of Sugar Land, and as such are included in the City's annual financial reports.

CONFIRMATION: The confirmation is a notice to a customer that payment is due on a purchase, or that net proceeds are available on a sale of securities. Federal securities law requires that a confirmation be sent promptly following each purchase and sale. Notices for dividend reinvestment programs, however, may be sent on a periodic basis.

CONFLICT OF INTEREST: Term used to describe a financial situation where a person prejudicially places personal affairs before those of constituents that the person is supposed to serve or represent. The term is not limited to financial profit; it also may include social or political conflicts.

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 MATURITY: Used to designate the remaining lifetime of an already outstanding bond.

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

DELIVERY VERSUS PAYMENT: Delivery versus payment is delivery of securities first, with an exchange of money for the securities after delivery.

DERIVATIVES: (1) Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying indices or securities, and may include a leveraging factor, or (2) financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

DISCOUNT: The difference between the cost price of a security and its maturity value 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 at a discount and redeemed at maturity for full face value, e.g. U.S. Treasury Bills.

DISCOUNT YIELD: Measurement of return that computes interest on face value of security rather than on dollar amount invested. Used in figuring yield on U.S. Treasury bills.

DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent returns.

EQUIVALENT BOND YIELD: Used to compare the discount yield on money market securities to the coupon yield on government bonds.

FACE VALUE: The dollar amount that appears on the face of the bond certificate. It is the dollar amount the issuer promises to pay to the holder at maturity. Also called par value.

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 \$ 250,000 per depositor.

FEDERAL FUNDS RATE: The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

FEDERAL HOME LOAN BANKS (FHLB): Government sponsored wholesale banks (currently 12 regional banks) which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district Bank.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA or Fannie Mae): 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 the 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.

FINANCIAL ASSETS: Cash and other assets that, in the normal course of operations, will become cash.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae): A fixed-income security that represents an undivided interest in a pool of federally insured mortgages put together by Ginnie Mae. Ginnie Mae securities are commonly backed by FHA or VA mortgages. The term "pass through" is often used to describe Ginnie Maes.

INVESTMENT OFFICER: Named by City Manager and adopted by Resolution.

INVESTMENT PROGRAM MANAGER: Named by City Manager and adopted by Resolution.

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

LOCAL GOVERNMENT INVESTMENT POOL (LGIP): An entity created under the public funds investment act to invest public funds jointly on behalf of the entities that participate in the pool and whose investment objectives in order of priority are 1) preservation and safety of principal, 2) liquidity and 3) yield.

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase--reverse repurchase agreements that established 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 or stated value of an investment becomes due and payable.

MONEY MARKET: The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) with a one- year maturity or less, and often 30-days or less, are issued and traded.

NEW ISSUE: A security that has been registered, issued, and is being sold on a market to the public for the first time. New issues are often referred to as new offerings, and are often sold at par or face value.

OFFER: The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See Bid.

OVERNIGHT REPO: A repurchase agreement with expiration set for the following business day. The interest rate associated with such short-term borrowings is lower than that for term or open repurchase agreements because the risk is lower. In an overnight repo, the seller agrees to repurchase a security at an increment over the original purchase price.

PAR VALUE: The dollar amount that appears on the face of the bond certificate. It is the dollar amount the issuer promises to pay to the holder at maturity. Also called face value.

PORTFOLIO: Collection of securities held by an investor.

PRIMARY DEALER: A designation given by the Federal Reserve System to commercial banks or broker/dealers who meet specific criteria, including capital requirements and participation in Treasury auctions.

PRINCIPAL: The face amount (par value) of a debt security.

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.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. For bonds and notes, it is the coupon rate divided by the price. .

REPURCHASE AGREEMENT (REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing an RP, it is lending money that is, increasing bank reserves.

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 & EXCHANGE COMMISSION: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SEC RULE 15C3-1: See Uniform Net Capital Rule.

SELL: To transfer ownership for a monetary consideration. The term is used in conjunction with the disposition of stock, bonds, or other financial assets.

STRUCTURED NOTES: Notes issued by Government Sponsored Enterprises (FHLB, FNMA, SLMA, etc.) and Corporations that have imbedded options (e.g., call features, step-up coupons, floating rate coupons, and derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

TREASURY BILLS: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

TREASURY BONDS: Long-term coupon bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than 10 years.

TREASURY NOTES: Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to 10 years.

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

INVESTMENT STRATEGY

The City of Sugar Land shall adopt by resolution a separate written investment strategy for each of the funds under its control. For Investment purposes, the City shall use a "Pooled Fund Group" which means that all funds under the City's control shall be treated as one fund.

INVESTMENT STRATEGY

I. Suitability

Investments are to be purchased based on the financial requirements of the City. The City of Sugar Land shall strive to maintain the level of investment of all fund balances, reserves and bond funds as close as possible to 100%. Any investment eligible in the Investment Policy is suitable for all City funds, including component units.

II. Safety of Principal

Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. All investments shall be of high quality with no perceived default risk. It is the City's full intent, at the time of purchase, to hold all investments until maturity in order to ensure the return of all invested principal.

III. Liquidity

The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements that might be reasonably anticipated. Liquidity shall be achieved by matching investment maturities with budgetary and economic cycles, and forecasted cash flow requirements. A portion of the portfolio will be maintained in liquid short-term securities that can be converted to cash if necessary to meet disbursement requirements. Investment pools and money market mutual funds provide daily liquidity and may be utilized as a competitive yield alternative to fixed maturity investments.

IV. Marketability

The City shall invest in securities that, if the need arises, can be liquidated before maturity. Investments will never be prematurely sold at less than book value plus accrued interest, without approval of the ~~Director of Finance/Administration and the City Manager~~ [Investment Program Manager](#).

V. Diversification

The City will diversify its investments by security type, broker/dealer, and institution. With the exception of U.S. Treasury securities, no more than 75% of the City's total investment portfolio will be invested in a single security type. (See Diversification in Investment Policy)

VI. Yield

The investment portfolio shall obtain a competitive rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs. The City shall attempt to obtain an acceptable return provided that the requirements of safety and liquidity are first met. The yields of the three and six month Treasury bill shall be the yield objectives or "benchmarks". The portfolio yield shall also be benchmarked against an agency note with maturity approximately equal to the weighted average maturity of the portfolio.