

CITY OF KILLEEN INVESTMENT POLICY

Approved: ~~September 2015~~September 2016

TABLE OF CONTENTS

I.	Investment Authority <u>and Scope of Policy</u>	4
	1. Funds Included	
	2. Funds Excluded	
II.	Investment Objectives.....	4
	1. Safety	
	2. Liquidity	
	3. Public Trust	
	4. Yield	
III.	Investment Committee	4
	1. Members	
	2. Scope	
	3. Procedures	
IV.	Responsibilities and Controls	5
	1. Delegation	
	2. Management and Internal Controls	
	3. <u>Investment Management Firm</u>	
	4. Transaction Authority	
	5. Prudence	
	6. Training, Quality and Capability of Investment Management	
V.	Ethics.....	6
	1. Conflicts of Interest	
	2. Disclosure	
VI.	Reporting Investment Earning Evaluation.....	6
	1. Quarterly Reports	
	2. Annual Report	
	3. Notification of Investment Changes	
	4. <u>Performance Standards</u>	
VII.	Investment Types	7
	1. Active Portfolio Management	
	2. Eligible Investments	
	3. Credit Ratings	
	4. Length of Investments	
	5. Diversification	
	6. Prohibited Investments	
VIII.	Selection of Banks and <u>Broker/Dealers</u>	9

	1. Selection Process	
	2. Insurability	
	3. <u>Collateralized Deposits</u>	
	4. <u>Primary Broker</u> /Dealers and Approved List	
	5. Competitive Environment	
	6. <u>Investment Policy Certification</u>	
IX.	Safekeeping and Custody.....	10
	1. Insurance or Collateral	
	2. Pledged Collateral <u>Safekeeping-Custodial</u> Agreement	
	3. Collateral Defined	
	4. Subject to Audit	
	5. Delivery vs. Payment	
	6. Standards of Operation	
X.	Internal Controls	11
XI.	Investment Strategies	12
XII.	Policy	15
	1. Exemptions	
	2. Amendment	
	3. Glossary	
	ATTACHMENT A – Sample Investment Policy Certifications	16

**CITY OF KILLEEN, TEXAS
INVESTMENT POLICY**

I. INVESTMENT AUTHORITY AND SCOPE OF POLICY

The Investment Policy applies to the investment activities of the Government of the City of Killeen (the “City”). These policies serve to satisfy the statutory requirements of the Texas Government Code Chapters 2256 (the “Public Funds Investment Act” or the “Act”) and 2257 (the “Collateral Act”) to define and adopt a formal investment policy. This Policy will be reviewed and adopted by resolution of the City Council at least annually according to the Act.

Funds Included. All financial assets of all funds of the City, including the General Fund, Drainage Utility Fund, Water and Sewer Utility Fund, Airport Fund, Sanitation Fund, Capital Projects Funds, Special Revenue Funds, Debt Service Funds, and all other funds that may be created by the City from time to time, and any funds held in the City’s custody, unless expressly prohibited by law or unless it is in contravention of any depository contract between the City and any depository bank. The Killeen Economic Development Corporation shall be incorporated as a component unit.

Funds Excluded. This Policy does not apply to funds invested in the City’s Deferred Compensation Plan nor to investments in the Firemen’s Pension Fund, which is covered by a separate investment policy adopted by the Firemen’s Pension Board.

II. INVESTMENT OBJECTIVES

Safety. Safety of principal is the foremost objective of the City. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer or a specific class of investments. Diversification strategies shall be determined and revised periodically.

Liquidity. The investment portfolio will remain sufficiently liquid to enable the City to pay current obligations as they become due. Portfolio maturities will be structured to meet the obligations of the City first, and then to achieve the highest return of interest consistent with the objectives of this Policy. When the City has funds that will not be needed to meet current-year obligations, maturity restraints will be imposed based upon the investment strategy for each fund.

Public Trust. Investment Officers shall seek to act responsibly as custodians of the public trust. Investment Officers shall avoid any transaction that might impair public confidence in the City’s ability to govern effectively.

Yield. It will be the objective of the City to earn the optimum rate of return allowed on its investments within the constraints imposed by its safety and liquidity objectives, investment strategies for each fund, and state and federal law governing investment of public funds.

III. INVESTMENT COMMITTEE

Members. The members of the City’s Investment Committee shall be the Mayor of the City (or his/her designee), the City Manager (or his/her designee), the Executive Director of Finance, the Assistant Director of Finance and a member designated by the Executive Director of Finance. The Investment Committee shall receive

quarterly reports, as outlined in this Policy, and monitor the results and performance of the investment portfolio.

Scope. The Investment Committee shall include in its deliberations such topics as: investment strategy, return on investments, economic outlook, portfolio diversification, maturity structure, potential risk to the City's funds, independent training sources, and authorized broker/dealers.

Procedures. The Investment Committee shall provide for minutes of its meetings. Any member may request a special meeting, and three members shall constitute a quorum. The Investment Committee shall establish its own rules of procedure.

IV. RESPONSIBILITY AND CONTROL

Delegation. Management responsibility for the investment program is hereby delegated to the Executive Director of Finance, who is responsible for all investment decisions and activities. The Executive Director of Finance and Assistant Director of Finance shall be the City's Investment Officers. Investment Officers are authorized to deposit, withdraw, invest, transfer, execute documentation, and otherwise manage City funds according to this Policy. The Executive Director of Finance may designate specific City personnel to assist with various investment-related activities. The Executive Director of Finance shall be responsible for all transactions and compliance with the internal controls, to insure that the safekeeping, custodial, and collateral duties are consistent with this Investment Policy.

Management and Internal Controls. The Executive Director of Finance shall establish a system of internal controls, which shall be documented in writing. The internal controls shall be reviewed by the Investment Committee and with the independent auditor. The controls shall be designed to reasonably prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the City. Dual control of all investment activities will consistently be maintained by the Executive Director of Finance.

Investment Management Firm. The City Council may contract with an investment management firm, registered under the Investment Advisor's Act of 1940 (15 U.S.C. Section 80b-1 et seq.) to provide for the investment and management of the funds of the City. The contract will be for a term no longer than two (2) years. Renewal or extension of the contract must be in compliance with the Act.

Transaction Authority. Certain signatory responsibilities are required to transact investments. Positions authorized as depository signatories shall be the City Manager and the Investment Officers.

The persons holding these positions are also designated as authorized to transact wire transfers, buy/sell, and trade investments in accordance with the goals and objectives of the City's investment strategy.

Bonding of all those individuals authorized to place, purchase, or sell investment instruments shall be required.

Prudence. In accordance with the Act, investments shall be made with the exercise of due care, 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 own capital as well as the probable income to be derived. Investment of funds shall be governed by the following investment objectives, in order of priority: preservation and safety of principal; maintenance of adequate liquidity; and achievement of risk-appropriate yield. This investment principle shall be applied in the context of managing the overall investment portfolio.

An Investment Officer, when acting in accordance with written procedures and exercising due diligence,

shall be relieved of personal responsibility for an individual investment's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments. 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, or funds under the control of the City, over which the Investment 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.

Training, Quality and Capability of Investment Management. It is the City's policy to provide training as required by the Act for the Investment Officers. Authorized Investment Officers will be required to complete 10 hours of training within 12 months of assuming duties. In order to insure the quality, capability and competency of all Investment Officers in making investment decisions training shall be provided through courses and seminars offered by the independent sources approved by the Investment Committee. After the initial training requirement, at a minimum, all Investment Officers must attend a training session once every two years and receive 8 hours of training. The two-year period shall begin on the first day of the City's fiscal year and consist of the two consecutive fiscal years after that date.

V. ETHICS

Conflicts of Interest. Officers and employees directly involved in the investment process, including members of the Investment Committee and those authorized as depository signatories, shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

Disclosure. Such employees shall disclose to the City Manager any material financial interests they have in business organizations that conduct business with the City, and shall further disclose any large personal financial or investment positions, as defined by the Public Funds Investment Act, that could be related to the performance of the City's portfolio. Disclosure items include:

1. the employee 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 employee from the business organization exceed 10 percent of the employee's gross income for the previous year; or
3. the employee 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 employee.

Such employees shall subordinate their personal investment transactions to those of the City, particularly with regard to the timing of purchases and sales.

If any Investment Officer has a personal business relationship with an entity or is related within the second degree by affinity or consanguinity to an individual seeking to sell an investment to the City, the Investment Officer must file a statement disclosing that personal business interest or relationship with the City Council and with the Texas Ethics Commission in accordance with the Act.

VI. REPORTING INVESTMENT EARNING EVALUATION

Quarterly Reports. In accordance with the Act, not less than quarterly, the Investment Officers shall prepare and submit to the City Council a written report of investment transactions for all funds for the preceding reporting period within a reasonable time after the end of the period. The report must:

1. describe in detail the investment position of the City on the date of the report;
2. be prepared jointly by all Investment Officers;
3. be signed by each Investment Officer;
4. contain a summary statement of each pooled fund group that states the:
 - A. beginning market value for the reporting period;
 - B. ending market value for the period; and
 - C. fully accrued interest for the reporting period.
5. state the book value and market value of each separately invested asset at the beginning and end of the reporting period by the type of asset and fund type invested; market valuations obtained by the City shall be from sources believed to be accurate and representative of the investment's true value;
6. state the maturity date of each separately invested asset that has a maturity date;
7. state the account or fund or pooled group fund in the City for which each individual investment was acquired;
8. state the compliance of the investment portfolio of the City as it relates to:
 - A. the investment strategy expressed in the City's Investment Policy; and
 - B. relevant provisions of the Act; and
9. state the rate of return on the investment portfolio.

The quarterly investment reports shall be reviewed by the City's independent auditors as part of the City's annual audit and the result of this review shall be reported to the City Council.

Annual Report. Within a reasonable time after the end of the fiscal year, the Executive Director of Finance shall present an annual report on the investment program activity. The annual report shall include 12-month performance information, and shall suggest improvements that might be made in the investment program.

Notification of Investment Changes. It shall be the duty of the Executive Director of Finance to notify the City Council of any significant changes in current investment methods and procedures prior to their implementation, regardless of whether they are authorized by this Policy or not.

Performance Standards. The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles that is consistent with risk limitations and cash flow needs of the City. Given this strategy, the basis used by Investment Officers to determine whether market yields are being achieved shall be the average return on 90-day or 180-day U.S. Treasury Bills. "Weighted average yield to maturity" shall be the portfolio performance measurement standard.

VII. INVESTMENT TYPES

Active Portfolio Management. The City intends to pursue an active vs. a passive portfolio management philosophy. That is investments may be sold before they mature if market conditions present an opportunity for the City to benefit from the trade.

Eligible Investments. Financial assets of the City may be invested in:

1. Obligations of the United States or its agencies and instrumentalities;

2. Direct obligations of the State of Texas or its agencies and instrumentalities;
3. Financial institution deposits with a state or national bank, savings and loan association, or credit union, that meets the requirements of the Act and are fully collateralized in accordance with Section IX. SAFEKEEPING AND CUSTODY.
4. 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, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States;
5. Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm of not less than A or its equivalent;
6. A fully collateralized repurchase agreement, as defined in the Act, if it:
 - A. has a defined termination date;
 - B. is secured by cash and obligations described by Section 2256.009 (a) (1) of the Act; and
 - C. requires the securities being purchased by the City to be pledged to the City, held in the City's account, and deposited at the time the investment is made with the City or with a third party selected and approved by the City; and
 - D. is placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in this State.

Notwithstanding any law, the term of any reverse security repurchase agreement may not exceed 90 days after the date the reverse security repurchase agreement is delivered. Money received by the City under the terms of a reverse security repurchase agreement shall be used to acquire additional authorized investments, but the term of the authorized investments acquired must mature not later than the expiration date stated in the reverse security repurchase agreement.

7. Eligible investment pools if the City Council by resolution authorizes investment in the particular pool. An investment pool shall invest the funds it receives from the City in authorized investments permitted by the Act. Investment pools must be continuously rated AAAM or the equivalent by at least one nationally recognized rating service.
8. Money market mutual funds continuously rated AAAM or the equivalent that are registered with and regulated by the Securities and Exchange Commission, whose investment objectives include seeking to maintain a stable net asset value of \$1 per share. The money market mutual funds must provide the City with a prospectus and other information required by federal law. The City may not invest funds under its control in an amount that exceeds 10% of the total assets of any individual money market mutual fund, ~~excluding bond proceeds and reserves and other funds held for debt service in money market mutual funds.~~

Credit Ratings. Not less than quarterly, the Investment Officers will monitor the current credit rating of each held investment that has an Act required minimum rating. Any investment that requires a minimum rating does not qualify during the period the investment does not have the minimum rating. All prudent measures will be taken to liquidate an investment that is downgraded to less than the required minimum rating. The City is not required to liquidate investments that were authorized investments at the time of purchase.

Length of Investments. The City shall invest in instruments with scheduled maturity not to exceed the

limitation of the specific investment strategy at the time of purchase.

Diversification. It shall be the policy of the City to diversify the investment portfolio. Diversification strategies shall be determined and revised periodically by the Investment Committee. In establishing specific diversification strategies, the following general constraints shall apply:

1. Limiting investments to avoid over concentration in investments from a specific issuer or business sector, where appropriate,
2. Limiting investments with higher credit risk,
3. Investing in instruments with varying maturities and in accordance with the City's cash flow projections, and
4. Continuously investing a portion of the portfolio in readily available funds such as local government investment pools, financial institution deposits, money market mutual funds, or overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

Prohibited Investments. The following investment instruments are strictly prohibited:

1. Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal;
2. Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest;
3. Collateralized Mortgage Obligations with a stated final maturity greater than ten 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;
5. The City will not invest in derivatives. For the purposes of this Policy, the definition of derivatives includes instruments which have embedded features that alter their character or income stream or allow holders to hedge or speculate on a market or spreads between markets that are external to the issuer, or are not correlated on a one-to-one basis to the associated index or market.

VIII. SELECTION OF BANKS AND BROKER/DEALERS

Selection Process. Primary Depositories shall be selected through the City's banking services procurement process, which shall include a formal request for application (RFA) as per State legislation and the City's purchasing policy. In selecting primary depositories, the credit worthiness of institutions shall be considered, and the Executive Director of Finance shall conduct a comprehensive review of prospective depositories' credit characteristics and financial history.

Insurability. Banks seeking to establish eligibility for the City's depository contract shall submit financial statements, evidence of Federal insurance and other information as required by the Executive Director of Finance.

Collateralized Deposits. All financial institution deposits shall be insured or collateralized in compliance with applicable State law. The City reserves the right, in its sole discretion, to accept or reject any form of insurance or collateralization pledged towards depository deposits. Financial institutions serving as the City's depositories will be required to sign a depository agreement with the City. The collateralized deposit portion of the agreement shall define the City's rights to the collateral in case of default, bankruptcy, or closing and shall establish a perfected security interest in compliance with Federal and State regulations, including:

- The agreement must be in writing;
- The agreement has to be executed by the depository and the City contemporaneously with the acquisition of the asset;

- The 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
- The agreement must be part of the depository’s “official record” continuously since its execution.

The Killeen Economic Development Corporation, where applicable, shall also comply with these requirements.

Broker/Dealers and Approved List. All broker/dealers who desire to become qualified for investment transactions with the City must be recommended by the Executive Director of Finance and approved by the Investment Committee. Applications will be reviewed on a periodic basis and submitted to the Investment Committee for approval. The Executive Director of Finance will maintain a list of broker/dealers authorized to provide investment services to the City. The authorized list of broker/dealers will, at a minimum, be reviewed and approved on an annual basis, and any broker/dealers who fail to meet the standards of this Policy shall be removed from the list. All broker/dealers who desire to become qualified for investment transactions must supply the following, as appropriate:

1. Completed Investment Policy Certification
2. Proof of registration with the Texas State Securities Board.
3. Proof of Financial Industry Regulatory Authority (FINRA) membership.
4. Audited financial statements.

Competitive Environment. All trades, purchases and sales, executed for the City, excluding transactions with money market mutual funds, and local government investment pools which are deemed to be made at prevailing market rates, will be done through a documented competitive solicitation process. Competitive quotes must be solicited from at least three qualifying institutions for any investment transaction. For those situations where it may be impractical or unreasonable to receive three quotes for a transaction due to rapidly changing market conditions, initial security offering, or limited secondary market availability, documentation of a competitive market survey of comparable investments or an explanation of the specific circumstance must be included with the transaction record.

Investment Policy Certification. In accordance with the Act, a written copy of this Investment Policy shall be presented to any person seeking to sell to the City an authorized investment or act as Investment Advisor. A qualified representative of the business organization seeking to sell an authorized investment or perform investment advisory services shall execute a written instrument substantially to the effect that the qualified representative has:

1. Received and thoroughly reviewed the Investment Policy; and
2. Acknowledged that the organization has implemented reasonable procedures and controls in an effort to preclude imprudent investment activities arising out of investment transactions conducted between the City and the organization.

The City may not buy any investments from a person who has not delivered to the City an instrument in substantially the form provided above according to the Act.

IX. SAFEKEEPING AND CUSTODY

The City shall contract with a third party for the safekeeping and custody of securities either owned by the City as a part of its investment portfolio or held as collateral to secure financial institution deposits, share certificates or repurchase agreements. The securities will be held in the name of the City as evidenced by safekeeping receipts of the institution with which the securities are deposited.

Insurance or Collateral. All deposits of City funds with financial institutions shall be secured by pledged collateral with a market value equal to no less than 102% of the uninsured deposits, including accrued interest. Repurchase agreements shall be documented by a specific agreement noting the collateral pledged in each agreement. Collateral shall be reviewed at least monthly to assure the market value equals or exceeds the collateralization requirement for the related bank balances.

Pledged Collateral Custodial Agreement. All custodial arrangements shall be in accordance with a Custodial Agreement approved by the Investment Officers, which clearly defines the procedural steps for gaining access to the collateral should the City determine that the City's funds are in jeopardy. The custodian institution, or Custodian, shall be the Federal Reserve Bank or an institution not a branch of the firm pledging the collateral. The custodial agreement shall include the signatures of the City and the firm pledging the collateral, and may include the Custodian. The custodial agreement shall address acceptance, substitution, release and valuation of collateral.

Collateral Defined. The City shall accept only the following as collateral:

1. Cash.
2. FDIC and NCUSIF insurance coverage.
3. A bond, certificate of indebtedness, or note of the United States or its agencies and instrumentalities, or other evidence of indebtedness that is guaranteed as to the principal and interest by the United States or its agencies and instrumentalities.
4. Obligations, the principal and interest on which are unconditionally guaranteed or insured by the State of Texas or its agencies and instrumentalities.
5. A bond of the State of Texas or of a county, city or other political subdivision of the State of Texas having been rated as investment grade (investment rating no less than "A" or its equivalent) by a nationally recognized rating agency, with a remaining maturity of ten (10) years or less.

The use of a letter of credit issued to the City by a Federal Home Loan Bank may be considered by the City to meet the required bank depository collateral requirements.

Subject to Audit. All collateral shall be subject to inspection and audit by the City or the City's independent auditors.

Delivery vs. Payment. All security transactions shall be purchased using the delivery vs. payment method. That is, funds shall not be wired or paid until verification has been made that the security was received by the City's Safekeeping Agent or the Trustee. The security shall be held in the account of the City. The Trustee's or Safekeeping Agent's records shall assure the notation of the City's ownership of or explicit claim on the securities. The original copy of all safekeeping receipts shall be delivered to the City.

Standards of Operation. The Executive Director of Finance shall develop and maintain written administrative procedures for the operation of the investment program, consistent with this Investment Policy.

X. INTERNAL CONTROLS

Internal Controls. The Executive Director of Finance is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to

be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management. Accordingly, as part of the annual audit, the Executive Director of Finance shall establish a process for independent review by the external auditor to assure compliance with policies and procedures. The internal controls shall address the following points:

1. Control of collusion - Collusion is a situation where two or more employees are working in conjunction to defraud their employer.
2. Separation of transaction authority from accounting and record keeping - By separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction, a separation of duties is achieved.
3. Custodial safekeeping - Securities purchased from any bank or broker/dealer, including appropriate collateral shall be placed with an independent third party for custodial safekeeping.
4. Avoidance of physical delivery securities - Book entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities.
5. Clear delegation of authority to subordinate staff members - Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.
6. Written confirmation of telephone transactions for investments and wire transfers - Due to the potential for error and improprieties arising from telephone transactions, all telephone transactions should be supported by written communications and approved by the appropriate person. Written communications may be via fax or email if on letterhead and the custodial safekeeping institution has a list of authorized signatures.

XI. INVESTMENT STRATEGIES

Investment Strategies. In accordance with the Act, a separate written investment strategy will be developed for each of the fund-types under the City's control. Each investment strategy must describe the investment objectives for the particular fund-type using the following priorities of importance:

1. Understanding of the suitability of the investment to the financial requirements of the City;
2. Preservation and safety of principal;
3. Liquidity;
4. Marketability of the investment if the need arises to liquidate the investment before maturity;
5. Diversification of the investment portfolio;
6. Yield; and
7. Maturity restrictions.

The investment strategies to be employed by the City are:

A. Operating Funds

Suitability - Any investment eligible in the Investment Policy is suitable for Operating Funds.

Safety of Principal - All investments shall be of high quality with no perceived default risk. Market price fluctuations will occur. However, managing the weighted average days to maturity of each fund's portfolio to less than 270 days and restricting the maximum allowable maturity to two years will minimize the price volatility of the portfolio.

Liquidity - Operating Funds require the greatest short-term liquidity of any of the fund-types. Short-term financial institution deposits, investment pools and money market mutual funds will provide daily liquidity and may be utilized as a competitive yield alternative to fixed maturity investments.

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.

~~Liquidity—Operating Funds require the greatest short term liquidity of any of the fund types. Short term financial institution deposits, investment pools and money market mutual funds will provide daily liquidity and may be utilized as a competitive yield alternative to fixed maturity investments.~~

Diversification - Investment maturities should be staggered throughout the budget cycle to provide cash flow based on the anticipated operating needs of the City. Diversifying the appropriate maturity structure up to the two-year maximum will reduce interest rate risk.

Yield - Attaining a competitive market yield for comparable security-types and portfolio restrictions is the desired objective. The yield of an ~~an equally weighted~~, rolling three-month Treasury-Bill portfolio will be the minimum yield objective.

B. Debt Service Funds

Suitability - Any investment eligible in the Investment Policy is suitable for ~~the~~ Debt Service Funds.

Safety of Principal - All investments shall be of high quality with no perceived default risk. Market price fluctuations will occur. However, by managing Debt Service Funds to not exceed the debt service payment schedule the market risk of the overall portfolio will be minimized.

Liquidity - Debt Service Funds have predictable payment schedules. Therefore, investment maturities should not exceed the anticipated cash flow requirements. Short-term financial institution deposits, investments pools and money market mutual funds may provide a competitive yield alternative for short-term fixed maturity investments. A singular repurchase agreement, or similar structured investment, may be utilized if disbursements are allowed in the amount necessary to satisfy any debt service payment. This investment structure is commonly referred to as a flexible repurchase agreement.

Marketability - Securities with active and efficient secondary markets are not necessary as the event of an unanticipated cash flow requirement is not probable.

~~Liquidity—Debt Service Funds have predictable payment schedules. Therefore, investment maturities should not exceed the anticipated cash flow requirements. Short term financial institution deposits, investments pools and money market mutual funds may provide a competitive yield alternative for short-term fixed maturity investments. A singular repurchase agreement, or similar structured investment, may be utilized if disbursements are allowed in the amount necessary to satisfy any debt service payment. This investment structure is commonly referred to as a flexible repurchase agreement.~~

Diversification - Market conditions influence the attractiveness of fully extending maturity to the next “unfunded” payment date. Generally, if investment rates are anticipated to decrease over time, the City is

best served by locking in most investments. If the interest rates are potentially rising, then investing in shorter and larger amounts may provide an advantage. At no time shall the debt service schedule be exceeded in an attempt to bolster yield.

Yield - Attaining a competitive market yield for comparable investment-types and portfolio restrictions is the desired objective. The yield of ~~an equally weighted~~, rolling three-month Treasury-Bill portfolio shall be the minimum yield objective.

C. Special Revenue Funds

Suitability - Any investment eligible in the Investment Policy is suitable for Special Revenue Funds.

Safety of Principal -- All investments will be of high quality with no perceived default risk. Market fluctuations will occur. However, by managing Special Revenue Funds to balance the short-term and long-term anticipated cash flow requirements of the specific revenue/expense plan, the market risk of the Fund's portfolio will be minimized. No stated final investment maturity shall exceed the shorter of the anticipated cash flow requirement or two years.

~~Liquidity - A portion of the Special Revenue Funds 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. Short-term financial institution deposits, investment pools and money market mutual funds will provide daily liquidity and may be utilized as a competitive yield alternative to fixed maturity investments.~~

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.

~~Liquidity - A portion of the Special Revenue Funds 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. Short term financial institution deposits, investment pools and money market mutual funds will provide daily liquidity and may be utilized as a competitive yield alternative to fixed maturity investments.~~

Diversification - Investment maturities should be staggered throughout the budget cycle to provide cash flow based on the anticipated -needs of the City. Diversifying the appropriate maturity structure up to the two-year maximum will reduce interest rate risk.

Yield - Attaining a competitive market yield for comparable investment-types and portfolio structures is the desired objective. The yield of ~~an equally weighted~~, rolling three-month Treasury-Bill portfolio will be the minimum yield objective.

D. Capital Project Funds

Suitability - Any investment eligible in the Investment Policy is suitable for Capital Project Funds.

Safety of Principal - All investments will be of high quality with no perceived default risk. Market price fluctuations will occur. However, by managing Capital Project Funds to not exceed the anticipated

expenditure schedule the market risk of the overall portfolio will be minimized. No stated final investment maturity shall exceed the shorter of the anticipated expenditure schedule, the IRS temporary period for tax-exempt bond proceeds, or five years.

Liquidity - Most capital improvements programs have reasonably predictable draw down schedules. Therefore, investment maturities should generally follow the anticipated cash flow requirements. Short-term financial institution deposits, investment pools and money market mutual funds will provide readily available funds generally equal to at least one month's anticipated cash flow needs, or a competitive yield alternative for short-term fixed maturity investments. A singular repurchase agreement, or similar investment structure, 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.

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.

~~Liquidity - Most capital improvements programs have reasonably predictable draw down schedules. Therefore, investment maturities should generally follow the anticipated cash flow requirements. Short-term financial institution deposits, investment pools and money market mutual funds will provide readily available funds generally equal to at least one month's anticipated cash flow needs, or a competitive yield alternative for short term fixed maturity investments. A singular repurchase agreement, or similar investment structure, 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.~~

Diversification - Market conditions and arbitrage regulations influence the attractiveness of staggering the maturity of fixed rate investments for bond proceeds. Generally, if 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.

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 ~~an equally weighted~~, rolling six-month Treasury-Bill portfolio will be the minimum yield objective ~~for non-borrowed funds~~.

XII. POLICY

Exemption. Any investment currently held that does not meet the guidelines of this Policy shall be exempted from the requirements of this Policy. At maturity or liquidation, such monies shall be reinvested only as provided by this Policy.

Amendment. The City Council shall review the Investment Policy, and incorporated investment strategies, annually. Amendments must be approved by the Investment Committee and adopted by the City Council. The City Council shall annually adopt a written instrument by rule, order, ordinance, or resolution stating that it has reviewed and approved the Investment Policy and investment strategies, even if there are no changes from the previous document.

Appendix A

Sample Investment Policy Certification

This certification is executed on behalf of the **City of Killeen** (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 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 investment transactions conducted between the Business Organization and the Investor that are not authorized by the Investor's Investment Policy, except to the extent that this authorization is dependent on an analysis of the makeup of the Investor's entire portfolio or requires an interpretation of subjective investment standards.

(Firm)

Qualified Representative of the Business Organization

(Signature)

(Name)

(Title)

(Date)

City of Killeen

Approved Broker/Dealer List

August 18, 2015 June 7, 2016 August 29, 2016

Bonwick Capital

Carol Mackoff

135 S. LaSalle St., Ste. 1930

Chicago, IL 60603

844-708-0850

Coastal Securities

Tony Sekaly

5555 San Felipe St., Ste. 2200

Houston, TX 77056-2725

800-681-4121

Duncan Williams, Inc.

Stephen Capoferi

11458 W. Travelers Way Circle

Houston, TX 77065-4982

866-394-0236

Mutual Securities, Inc.

Michael Swan

220 Park Avenue, Suite One

Laguna Beach, CA 92651

855-400-4825

Rice Financial Products Co.

Carol Mackoff**Jared Fragin**

208 S LaSalle St., Ste 1338

Chicago, IL 60604-1319

877-855-2739

Raymond James

Polly Moore

2801 Via Fortuna, Ste. 650

Austin, TX 78746-7907

512-306-2503

**Wells Fargo Brokerage Services,
L.L.C.**

Chuck Landry

1445 Ross Ave., Ste. 210

MAC T9216-025

Dallas, TX 75202

214-777-4018

FTN Financial Capital Markets

Taylor Howell

5949 Sherry Ln., #610

Dallas, TX 75223

214-890-6309

JPMorgan Chase

Brad Neimer

320 N. New Road

Waco, TX 76710

254-751-2914

Vining Sparks

Andy Lamanna

775 Ridge Lake Blvd.

Memphis, TN 38120

800-829-0321

Cantor Fitzgerald

Don La Piana

14185 Dallas Parkway, Suite 870

Dallas, TX 75254

800-883-6332

First Southwest Company**Hilltop
Securities**

Linda Callaway

300 W. 6th St., Ste. 1940

Austin, TX

512-481-2040

Great Pacific Securities

Jason Pham

151 Kalmus Dr, Suite H8

Costa Mesa, CA 92626

714-619-3000

City of Killeen

Approved Independent Training Sources

~~August 18, 2015~~ June 7, 2016

- Government Finance Officers' Association
- Government Finance Officers' Association of Texas
- Government Treasurers' Organization of Texas
- City Managers' Association
- American Institute of Certified Public Accountants
- Texas Municipal League
- University of North Texas Center for Public Management