CITY OF BAYTOWN

INVESTMENT POLICY

FINANCE DEPARTMENT
NOVEMBER 2024

Jason Reynolds
City Manager

Teresa McKenzie
Director of Finance

Table of Contents

I. Policy

It is the policy of the City of Baytown (the "City") to administer and invest its funds in a manner that will preserve principal and maintain liquidity while meeting the daily cash flow requirements of the City. The City will conform to all federal, state and local statutes, rules, and regulations governing investment of the City's funds.

The City's policy is to hold investments to maturity; however, securities may be sold in order to minimize the potential loss of principal on a security whose credit quality has declined; to swap into another security which would improve the quality, yield or target duration of the portfolio; or to meet unanticipated liquidity needs of the portfolio.

Not less than annually, City Council shall adopt a written instrument by resolution stating that it has reviewed the Investment Policy and investment strategies and that the written instrument so adopted shall record any changes made to the Investment Policy or Investment Strategies.

II. Scope

This investment policy applies to all the investment activities of the City. These funds are accounted for in the City's Comprehensive Annual Financial Report and include all financial assets of all funds managed by the City, including but not limited to tax revenues, charges for services, bond proceeds, interest income, and loans and funds received by the City where the City performs a custodial function.

III. General Objectives

The primary objectives, in priority order, of the City's investment activities shall be safety, liquidity, and yield:

A. **Safety** – Safety of the principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to minimize credit risk and interest rate risk.

   i. **Credit Risk** – The City will minimize credit risk, the risk of loss due to the failure of the security issuer or backer, by:

      - Limiting investments to the safest types of securities;
      - Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the City will do business; and

- Diversifying the investment portfolio so that potential losses on individual securities will be minimized

ii. **Interest Rate Risk** – The City will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates, by:

- Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity; and

- Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools

B. **Liquidity** – The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands. Furthermore, since all possible cash demands cannot be anticipated, the portfolio shall consist largely of securities with active secondary or resale markets. A portion of the portfolio also may be placed in money market mutual funds or local government investment pools that offer same-day liquidity for short-term funds.

C. **Yield** – The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, considering the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall not be sold prior to maturity withthe following exceptions:

- A security with declining credit may be sold early to minimize loss of principal;

- To swap into another security which would improve the quality, yield or target duration of the portfolio; and

- Liquidity needs of the portfolio require that the security be sold.

IV. Standards of Care

A. **Prudence** - The standard of care to be used by investment officers shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

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.

B. **Ethics and Conflicts of Interest** - Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution and management of the investment program, or that could impair their ability to make impartial investment decisions. Employees and investment officers shall disclose to the City and the Texas Ethics Commission any material financial interests in financial institutions that conduct business with the City. They shall further file a disclosure statement with the Texas Ethics Commission and the City that includes any large personal financial/investment positions that could be related to the performance of the investment portfolio. See Exhibit B.

C. **Delegation of Authority** –Responsibility for the operation of the investment program is hereby delegated to the Director of Finance, who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this Investment Policy. The Director of Finance may delegate day-to-day activities to a responsible individual(s) who has received the appropriate training required by state statute. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Director of Finance. The Director of Finance shall be responsible for all transactions undertaken and shall establish a system of controls to regulate activities of subordinate officers.

D. **Training** – Investment Officers shall attend at least one investment training session totaling not less than 10 hours within 12 months after taking office or assuming investment duties and shall attend investment training not less than once annually, beginning on the first day of the City of Baytown's fiscal year and consisting of one (1) consecutive fiscal year after that date and receive not less than 8 hours of instruction relating to investment responsibilities. The City of Baytown shall provide the training through courses and seminars offered by professional organizations and associations in order to ensure the quality and capability of the City of Baytown's investment personnel making investment decisions in compliance with Public Funds Investment Act (PFIA). Professional organizations and associations that may provide investment training include Hilltop Securities, the Government Treasurer's Organization of Texas, the University of North Texas, the Government Finance Officers Association of Texas, the Association for Financial Professionals, or the Texas Municipal League.

V. Financial Institutions, Broker/Dealers, Investment Advisors, Safekeeping and Custody

A. **Authorized Financial Dealers and Institutions** –Investment Officers will maintain a list of financial institutions and securities broker/dealers authorized to provide investment services (Exhibit C). These may include "primary" dealers or regional dealers. No public deposit shall be made except in a qualified public depository as established by state law.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply Investment Officers with the following, as appropriate:

- Audited financial statements
- Proof of Financial Industry Regulatory Authority (FINRA) certification
- Proof of state registration
- Completed broker/dealer questionnaire
- Written acknowledgement by a qualified representative of the firm that the broker/dealer has a) received and reviewed the City's Investment Policy.

- Qualified Business Organizations which include local government investment pools and discretionary investment advisors are required to review policy and certify in writing that they have implemented reasonable procedures and controls in an effort to preclude investment transactions that are not authorized by the City's Investment Policy, except to the extent that this authorization is dependent on an analysis of the makeup of the City's entire portfolio or requires an interpretation of subjective investment standards. (EXHIBIT D)

The governing body and/or the Finance Committee shall at least annually review and/or revise and adopt a list of qualified brokers that are authorized to engage in investment transactions with the City.

The City may retain the services of an investment advisory firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to assist in the review of the investment policy, cash flow requirements, the formulation of investment strategies, the execution of security purchases, sales and deliveries, as well as attend quarterly investment meetings, provide monthly and quarterly reporting and market updates. The investment advisor will also be responsible for performing broker/dealer financial due diligence on the City's behalf and provide a list of its authorized broker/dealers on an annual basis. The City, however, retains ultimate responsibility as fiduciary of its assets. The investment advisory contract may not be for a term longer than two years and its renewal or extension must be approved by the City Council by ordinance or resolution as required by the Tex. Gov't. Code Sec. 2256.003(b).

(2) **Internal Controls** – The 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 the valuation of costs and benefits requires estimates and judgments by management.

Accordingly, the investment officer shall establish a process for an annual independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following points:

- Control of collusion
- Separation of transaction authority from accounting and record keeping
- Custodial safekeeping
- Avoidance of physical delivery securities
- Clear delegation of authority to subordinate staff members
- Written confirmation of transactions for investments and wire transfers
- Development of a wire transfer agreement with the lead bank and third-party custodian

B. **Delivery vs. Payment** – All trades where applicable will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds. Securities and collateral will be held in the City's name by a third-party custodian as evidenced by safekeeping receipts.

C. **Competitive Bidding** - The City shall require at least three competitive offers or bids for all individual security purchases and sales (excluding transactions with money market mutual funds, local government investment pools and when issued securities, which are deemed to be made at prevailing market rates). In the event the City has contracted with an investment advisor, the advisor shall be required to obtain and document three bids or offers on all security transactions on behalf of the City.

VI. Investments

A. **Eligible Investments** – Assets of the City may be invested in the instruments described below. All of these investments are authorized by Chapter 2256 of the Texas Government Code (Public Funds Investment Act, or the Act).

An investment that requires a minimum rating under this Section 2256.021 does not qualify as an authorized investment during the period the investment does not have the minimum rating. The City shall take all prudent measures consistent with this Investment Policy to liquidate an investment that does not have the minimum rating.

In order to monitor rating changes in investments acquired with public funds, Investment Officers shall, on at least a monthly basis, verify the ratings of investments currently held by the City with either the authorized broker/dealer from which the investment was purchased, or a broker/dealer currently authorized to engage in investment transactions with the City. As a condition of engaging in investment transactions with the City, brokers/dealers shall, when requested by the City's Investment Officer(s), provide said Investment Officer(s) with written verification of the ratings of investments currently owned by the City. If the City has engaged an Investment Advisor, the advisor shall be responsible for verifying credit ratings.

The City shall take all prudent measures consistent with this Investment Policy to liquidate an investment that does not have the minimum rating.

1. <u>Obligations of, or Guaranteed by Governmental Entities</u>

   (a) Except as provided by Subsection (b), the following are authorized investments under this subchapter:

      (i) obligations, including letters of credit, of the United States or its agencies and instrumentalities;

      (ii) direct obligations of this state or its agencies and instrumentalities;

      (iii) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States;

      (iv) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of this state 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;

      (v) 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 not less than A or its equivalent.

(b) The following are not authorized investments under this section:

(i) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage- backed security collateral and pays no principal;

(ii) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest;

(iii) collateralized mortgage obligations that have a stated final maturity date of greater than 10 years; and

(iv) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

2. Certificates of Deposit and Share Certificates

A certificate of deposit is an authorized investment under this subchapter if the certificate is issued by a state or national bank domiciled in this state, a savings bank domiciled in this state, or a state or federal credit union domiciled in this state and is:

(i) guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor;

(ii) secured by obligations that are described by Section 1(a), including mortgage backed securities directly issued by a federal agency or instrumentality that have a market value of not less than the principal amount of the certificates, but excluding those mortgage-backed securities of the nature described by Section1(b); or

(iii) secured in any other manner and amount provided by law under Texas Government Code Chapter 2257 (The Public Funds Collateral Act).

3. Repurchase Agreements

(a) A fully collateralized repurchase agreement is an authorized investment under this subchapter if the repurchase agreement:

(i) has a defined termination date;

(ii) is secured by a combination of cash and obligations described by Section 1(a)(i); and

(iii) requires the securities being purchased by the City or cash held by the City to be pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or witha third party selected and approved by the City; and

(iv) is placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in this state.

(b) In this section, "repurchase agreement" means a simultaneous agreement to buy, hold for a specified time and sell back at a future date, obligations described by Section 1(a)(i), at a market value at the time the funds are disbursed of not less than the principal amount of the funds disbursed. The term includes a direct security repurchase agreement and a reverse security repurchase agreement.

(c) Notwithstanding any other law, the term of any reverse security repurchase agreement may not exceed 90 days after the date the reverse security repurchase agreement is delivered.

(d) Money received by an entity 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.

4. Banker's Acceptances

A banker’s acceptance is an authorized investment under this policy if the banker’s acceptance:

(i) has a stated maturity of 180 days or fewer from the date of its issuance;

(ii) will be, in accordance with its terms, liquidated in full at maturity;

(iii) is eligible for collateral for borrowing from a Federal Reserve Bank; and

(iv) is accepted by a bank organized and existing under the laws of the United States or any state, if the short-term obligations of the bank, or of a bank holding company of which the bank is the largest subsidiary, are rated not less than A-1 or P-1 or an equivalent rating by at least one nationally recognized credit rating agency.

5. Commercial Paper

Commercial paper is an authorized investment under this policy if the commercial paper has a stated maturity of 270 days or fewer from the date of its issuance and is rated not less than A-1 or P-1 or an equivalent rating by at least two nationally recognized credit rating agencies; or one nationally recognized credit rating agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state.

6. Mutual Funds

(a) A no-load money market mutual fund is an authorized investment under this policy if the mutual fund:

(i) is registered with and regulated by the Securities and Exchange Commission;

(ii) provides the investing entity with a prospectus and other information required by the Securities Exchange Act of 1934 (15
U.S.C. Section 78a et seq.) or the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.);

(iii) has a dollar-weighted average stated maturity of 60 days or fewer; and

(iv) includes in its investment objectives the maintenance of a stable net asset value of $1 for each share.

(b) In addition to a no-load money market mutual fund permitted as an authorized investment in Subsection (a), a no-load mutual fund is an authorized investment under this subchapter if the mutual fund:

(i) is registered with the Securities and Exchange Commission;

(ii) has a weighted average maturity of less than two years;

(iii) is invested exclusively in obligations approved by this subchapter;

(iv) is continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent; and

(v) conforms to the requirements set forth in Sections 5(b) and (c) relating to the eligibility of investment pools to receive and invest funds of investing entities.

(c) The City is not authorized by this section to:

(i) invest in the aggregate more than 15 percent of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, in mutual funds described in Subsection (b);

(ii) invest any portion of bond proceeds, reserves and funds held for debt service, in mutual funds described in Subsection (b); or

(iii) invest its funds or funds under its control, including bond proceeds and reserves and other funds held for debt service, in any one mutual fund described in Subsection (a) or (b) in an amount that exceeds 10 percent of the total assets of the mutual fund.

7. <u>Guaranteed Investment Contracts</u>

(a) A collateralized guaranteed investment contract is an authorized investment for bond proceeds under this policy if the guaranteed investment contract:

(i) has a defined termination date;

(ii) is secured by direct and unsubordinated obligations described by Section 2256.009(a)(1) of the Act, excluding those obligations described by Section 2256.009(b) of the Act, in an amount at least equal to the amount of bond proceeds invested under the contract; and

(iii) is pledged to the City and deposited with the City or with a third party selected and approved by the City.

(b) Bond proceeds, other than bond proceeds representing reserves and funds maintained for debt service purposes, may not be invested under this policy in a guaranteed investment contract with a term of longer than five years from the date of issuance of the bonds.

(c) To be eligible as an authorized investment:

(i) the City Council must specifically authorize guaranteed investment contracts as an eligible investment in the order, ordinance, or resolution authorizing the issuance of bonds;

(ii) the City must receive bids from at least three separate providers with no material financial interest in the bonds from which proceeds were received;

(iii) the City must purchase the highest yielding guaranteed investment contract for which a qualifying bid is received;

(iv) the price of the guaranteed investment contract must take into account the reasonably expected drawdown schedule for the bond proceeds to be invested; and

(v) the provider must certify the administrative costs reasonably expected to be paid to third parties in connection with the guaranteed investment contract.

8. Investment Pools

The City may invest its funds and funds under its control through an eligible investment pool if the City Council by rule, order, ordinance, or resolution, as appropriate, authorizes investment in the particular pool. An investment pool shall invest the funds it receives from entities in authorized investments permitted by this subchapter. An investment pool may invest its funds in money market mutual funds to the extent permitted by and consistent with Texas Government Code, Chapter 2256.016 and the investment policies and objectives adopted by the investment pool.

B. **Collateralization** – Collateralization will be required on three types of investments: certificates of deposit, repurchase (including reverse repurchase) agreements, and guaranteed investment contracts (GICs). In order to anticipate market changes and provide a level of security for all funds, the Collateralization level will be one hundred two percent (102%) of the market value, including principal and accrued interest. Pledged collateral shall consist of eligible U.S. Treasury securities, eligible securities issued by U.S. Government Sponsored Enterprises, or Federal Home Loan Bank Letters of Credit (LOC), or a combination thereof, and shall be marked to market on at least a monthly basis. An FHLB LOC is not a marketable security and therefore isn't subject to price change. As a result, the FHLB LOC required amount shall be 100% of outstanding balance plus accrued interest.

Likewise, all time and demand deposits with collected balances in excess of FDIC or NCUA insurance levels shall be collateralized to a minimum of 102% of principal and accrued interest. The depository shall be responsible for maintaining collateralization margins based on the market value of securities pledged to the City. Collateral will be held in the City's name by an independent third party with whom the City has a current custodial agreement approved by the Council and executed under the terms of FIRREA (Financial Institutions Reform, Recovery, and Enforcement Act) as amended. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the City and retained. The right of collateral substitution is granted, subsequent to the review and approval of an authorized City of Baytown Investment Officer.

C. **Existing Investments –** Any investment currently held that is no longer an authorized investment under the Public Funds Investment Act (PFIA) or this policy but was an authorized investment at the time of purchase, is not required to be liquidated.

VII. Investment Parameters

A. **Diversification –** The investments shall be diversified by security type and institution. With the exception of U.S. Treasury securities and authorized pools, the City will diversify the entire portfolio to comply with the investment strategy; however, in no case shall any single investment transaction be more than 10 percent (10%) of the entire portfolio.

B. **Maximum Maturities** – To the extent possible, the City shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than five (5) years from the date of purchase.

VIII. Investment Strategies

The City maintains separate portfolios for individual funds or groups of funds that are managed according to the terms of this Policy and the corresponding investment strategies listed in Exhibit E. The investment strategy for portfolios established after the annual Investment Policy review and adoption will be managed in accordance with the terms of this Policy and applicable agreements until the next annual review when a specific strategy will be adopted.

The City maintains a pooled fund group that is an aggregation of the majority of City funds including tax receipts, enterprise fund revenues, fine and fee revenues, as well as some, but not all, bond proceeds, and grants. This portfolio is maintained to meet anticipated daily cash needs for City operations, capital projects and debt service. In order to ensure the ability of the City to meet obligations and to minimize potential liquidation losses, the dollar-weighted average stated maturity of the Investment Pool shall not exceed two (2) years. The objectives of this portfolio are to ensure safety of principal; ensure adequate investment liquidity; limit market and credit risk through diversification; and attain the best feasible yield in accordance with the objectives and restrictions set forth in this Policy.

IX. Reporting

A. **Methods** – Investment officers shall jointly prepare an investment report at least quarterly, including a management summary that provides an analysis of the status of the current investment portfolio and transactions made over the last quarter. This management summary will be prepared in a manner consistent with the requirements of Section 2256.023 (Internal Management Reports) of the PFIA, and that will allow the City to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the Finance Committee and the City Council.

An independent auditor shall formally review the quarterly reports prepared under this section at least annually, and that auditor shall report the results of the review to City Council.

B. **Performance Standards** – The investment portfolio shall be managed in accordance with the objectives specified in this policy (safety, liquidity, and yield). The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. The basis used by investment officers to determine whether market yields are being achieved shall be the three (3) month U.S. Treasury bill.

C. **Marking to Market** – The market value of the portfolio shall be calculated at least monthly and a statement of the market value of the portfolio shall be issued at least quarterly. The market value of each investment shall be obtained from a source including, but not limited to the City's investment advisor, the Wall Street Journal, the City's safekeeping agent, a reputable brokerage firm not having sold the security being priced or security pricing service.

EXHIBIT B

City of Baytown

Statement of Ethics and Conflicts of Interest

Investment officers for the City of Baytown shall refrain from personal business relationships with business organizations that could conflict with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Such conflicts would only apply to personal business relationships with business organizations that have been approved by City Council to conduct investment transactions with the City of Baytown.

An investment officer is considered to have a personal business relationship with a business organization if:

(1) The investment officer 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.

(2) Funds received by the investment officer from the business organization exceed 10 percent of the investment officer's gross income for the previous year.

(3) The 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.

I do hereby certify that I do not have a personal business relationship with any business organization approved to conduct investment transactions with the City of Baytown, nor am I related within the second degree by affinity or consanguinity, as determined under Chapter 573 of the Texas Government Code, to an individual seeking to sell an investment to the City of Baytown as of the date of this statement.

City of Baytown
Investment
Officers

________________________________ ____________________
Teresa McKenzie, Director of Finance Date

EXHIBIT C

City of Baytown

Approved Broker/Dealers, Financial Institutions, and Investment Pools

Investment Advisors

Hilltop Securities Asset Management

Broker/Dealers*

Cantor Fitzgerald & Co.

Wells Fargo Brokerage Services, LLC

Duncan-Williams, Inc.

Multi-Bank Securities, Inc.

Vining Sparks IBG, L.P.

Raymond James & Associates, Inc.

RBC Capital Markets, LLC

- The Investment Advisor shall provide a list of its broker/dealers no less than annually, and that updated list shall be included with this policy.

Public Depository

JPMorgan Chase, NA (Primary)

Investment Pools

Texpool

TexSTAR

TexasClass

<u>EXHIBIT D</u>

City of Baytown
Certification by Business Organization

<u>(date)</u>

City of Baytown, Texas

(Attn: Designated Investment officer)

P O Box 424

Baytown, TX 77522-

0424 Dear Mr./s.

(investment officer):

This certification is executed on behalf of the City of Baytown, Texas (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 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 (Note: as such terms are used in the Public Funds Investment Act, chapter 2256, Texas Local Government Code) and;

2. The Qualified Representative of the Business Organization has received and reviewed the Investment Policy furnished by the Investor and agrees, on behalf of the Business Organization, to comply with its requirements under the investment policyand;

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 the subjective investment standards.

Qualified Representative of the Business Organization

Signed By: ____

Name: ____

Title: ____

Date: ____

EXHIBIT E

City of Baytown

INVESTMENT STRATEGY

It is the policy of the City of Baytown, Texas (the "City") that, giving due regard to the safety and risk of investments, all funds shall be invested at all times in conformance with State and Federal statutes, applicable trust agreements or related bond document requirements, the City's adopted Investment Policy and this Investment Strategy. The City's portfolio shall be designed and managed in a manner responsive to the public trust and consistent with the Investment Policy.

In accordance with the Public Funds Investment Act, City investment strategies establish maximum maturities and maximum dollar-weighted average maturity limits for each portfolio and address the priorities for those funds (in order of priority):

- Suitability of the investment to the financial requirements of the City and the particular Fund Type;
- Preservation and safety of principal;
- Liquidity;
- Marketability of the investment if the need arises to liquidate the investment prior to maturity;
- Diversification of the investment portfolio; and
- Yield.

Effective investment strategy development coordinates the primary objectives of the City's Investment Policy and cash management procedures with investment security risk/return analysis to enhance interest earnings and reduce investment risk. The City intends to generally utilize a buy and hold strategy but will evaluate more active strategies, such as swaps or outright sales of securities, for incremental income when appropriate. The structure of the portfolio(s) will be primarily dependent upon the continuing cash flow requirements of the funds represented. The portfolio(s) will reflect both the short and long term needs of the funds. A limited liquidity buffer will be maintained to cover any unanticipated cash needs, where appropriate.

With a more active position, maturity selections may be extended to gain incremental income or adjust portfolios to economic and market conditions. It is recognized that more active management may increase the overall weighted average maturity of the portfolios due to additional volatility.

The City's Investment Officer(s) shall monitor and evaluate the ongoing economic environment and incorporate market information from reliable sources as well as current and anticipated City financial conditions when prudently implementing these strategies. Anticipated changes in the City’s investment strategy shall be reported to the Finance Committee as part of the quarterly investment reporting.

The City expects, but is not required by law, to consolidate and commingle funds from similar type funds or all funds in an attempt to maximize investment earnings. Investment income by fund will be recognized and allocated on a monthly basis based on respective fund balances for the period in accordance with generally accepted accounting principles.

FUND TYPE IDENTIFICATION

Each major fund type has varying cash flow requirements and liquidity needs. Therefore, specific strategies shall be implemented considering the fund type's unique requirements. City funds shall be analyzed and invested according to the following major fund types:

a. Operating Funds

Operating funds have ongoing cash needs in support of ongoing operations and required transfers.

Funds include General Fund

b. Capital Improvement Funds

Capital Improvement funds have cash needs dependent upon anticipated construction, acquisition and payment schedules. Funds include Construction Fund, Capital Improvement Fund

c. Debt Service Funds

Debt Service funds are structured to provide for debt service payments for the City’s bonds. The expenditures are strictly scheduled and occur normally in six-month intervals. Funds include Bond Interest Accounts and Bond Principal Accounts.

d. Liquidity Buffer Accounts

Liquidity funds are to assure the City’s liquidity for anticipated and unanticipated needs within one month. A liquidity buffer is needed in all but debt service funds which have well-defined and unalterable liabilities.

INVESTMENT STRATEGY BY TYPE

In order to minimize market risks or principal loss due to interest rate fluctuations, investment maturities and portfolio structures will be limited by the anticipated cash flow requirements of the various fund types. The general investment strategies are established by fund type. The use of liquidity buffers in fund types is to provide for unanticipated liabilities.

a. Operating Funds

The short term (one to six months) needs of the operating funds will generally be addressed through a laddered portfolio and the longer term (six to twelve months) needs of the operating funds will be structured in a more loosely structured ladder. Core funds, not intended for use within one year may be extended to two years.

Operating Funds are designed to meet ongoing demands. The portfolio(s) will utilize high credit quality securities with no perceived credit risk to meet those demands and assure liquidity if needed. Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash requirement. Investment maturities shall be laddered based on the anticipated operating needs of the City. Market cycle risk will be reduced by diversifying the appropriate maturity structure. Operating Funds require the greatest short-term liquidity of any of the fund types, investment pools and money market mutual funds can provide daily liquidity.

Price volatility of the overall portfolio(s) will be minimized by requiring a maximum dollar- weighted average days to maturity (WAM) for the Operating portfolio(s) of 270 days and restricting the maximum allowable maturity to two years.

Attaining a competitive market yield is a desired objective. The yields on the three-month and one- year Treasury Bills shall be the minimum yield objective and benchmarks for these funds in accordance with their anticipated WAM restrictions.

a. Capital Improvement Funds

Capital Improvement Funds are designed to meet anticipated needs for construction and certain fixed liabilities, are primarily funded by bond proceeds and should have reasonably predictable draw down schedules.

Investment maturities will generally follow the anticipated cash flow requirements. Investment pools and money market mutual funds shall provide readily available funds generally equal to one month's anticipated cash flow needs. The portfolio(s) must be based upon the anticipated schedules but also provide for changing schedules and cash needs and to minimize the effect of market fluctuations. As such they require a laddered portfolio based on known needs and a liquidity buffer to provide for unanticipated needs.

Securities with active and efficient secondary markets of high-credit quality with no perceived default risk are to be used.

A single flex repurchase agreement may be utilized and structured to satisfy expenditure requests. The flex may be used effectively to manage against falling interest rates and protect against negative arbitrage.

US tax and arbitrage regulations require competitive market rates. The portfolio(s) will be structured in such a way as to avoid negative arbitrage on bond proceeds and will comply with all arbitrage provisions. For Capital Improvement Funds that have an arbitrage yield, achieving a positive spread to the applicable arbitrage yield is the desired objective.

If the arbitrage yield is not applicable, then current market conditions will determine the portfolio structure and strategy.

At no time shall the investment maturities of a fund exceed the anticipated expenditure schedule. The maximum maturity limits shall reflect the then-current expenditure plan for the proceeds.

b. Debt Service Funds

Debt Service funds are structured to provide for debt service payments for the City's bonds. The expenditures are strictly scheduled and occur normally in six-month intervals. The portfolio(s) will utilize high credit quality securities with no perceived credit risk to meet those demands and assure liquidity if needed.

The maximum maturity for the investments in these portfolios will be one year and every known debt service date shall be fully funded before extensions are made.

c. Liquidity Buffer Accounts

A liquidity buffer, dependent in size upon then–current economic conditions and City cash flow needs, shall be maintained in Operating and Capital Improvement Funds to meet immediate cash needs of at least one month and provide for reasonable, unanticipated liabilities. The maximum maturity of these liquid invested funds should be one day. These funds may be invested in money market mutual funds, local government pools, or in a depository overnight sweep.