

CITY OF NORTH RICHLAND HILLS

INVESTMENT STRATEGY

November 13, 2018

PREFACE

It is the policy of the City of North Richland Hills that, giving due regard to the safety and risk of investment, all available funds shall be invested in conformance with State and Federal Regulations, applicable Bond Resolution requirements, and the adopted Investment Policy and Investment Strategy.

In accordance with the Public Funds Investment Act (Texas Government Code 10, Chapter 2256), the City of North Richland Hills' investment strategies shall address the following priorities (in order of importance):

- Understanding the suitability of the investment to the financial requirements of the City
- Preservation and safety of principal
- Liquidity
- Marketability of the investment prior to maturity
- Diversification of the investment portfolio
- Optimization of interest earnings

Effective investment strategy development coordinates the primary objectives of the City of North Richland Hills' Investment Policy and cash management procedures to enhance interest earnings and reduce investment risk. Aggressive cash management will increase the available "investment period" and subsequently interest earnings. Maturity selections shall be based on cash flow and market conditions to take advantage of various interest rate cycles. The City's investment portfolio shall be designed and managed in a manner responsive to the public trust and consistent with the Investment Policy.

The City's Funds shall be analyzed and invested according to the following major fund types:

- I. Operating Funds
- II. Capital Improvement Funds
- III. Debt Service Funds
- IV. General Fund Balance Reserve
- V. Revenue Bond Reserves

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In order to minimize risk of loss on a sale because of fluctuating market prices, investment maturities will not exceed the anticipated cash flow requirements of the funds. In general, the City will structure the investment portfolio so that investments mature to meet cash

requirements for ongoing operations. From time to time, securities may be purchased at a premium or traded for other securities to improve yield, maturity or credit risk. For these transactions, a loss may be incurred for accounting purposes to achieve optimal investment return, provided any of the following occurs with respect to the replacement security:

- A. The yield has been increased, or
- B. The maturity has been reduced or lengthened, or
- C. The quality of the investment has been improved.

Investment guidelines by fund type are as follows:

I. Operating Funds

The City of North Richland Hills Operating Funds are as follows:

- General Fund
- Special Revenue Funds
 - Special Investigation Fund
 - Drainage Utility Fund
 - Crime Control and Prevention District Fund
 - Promotional Fund
 - Economic Development Fund
 - Donations Fund
 - Parks and Recreation Facilities Development Fund
 - Grant Fund
 - Gas Development Fund
 - Traffic Safety Fund
- Enterprise Funds
 - Utility Fund
 - Aquatic Park Fund
 - Golf Course Fund
- Internal Service Funds
 - Facilities/Construction Management Fund
 - Fleet Services Fund
 - Self-Insurance Fund
 - Information Services Fund
- Capital Projects Funds
 - General CIP Fund
 - Permanent Street Maintenance Fund
 - Sidewalk Maintenance Fund

- Component Units
 - Tax Increment Financing District 1 (TIF #1)
 - Tax Increment Financing District 2 (TIF #2)
- 1) Suitability - Any investment eligible in the Investment Policy is suitable for the Operating Funds.
 - 2) Safety of Principal - All investments shall be in high quality securities with no perceived default risk. The maximum allowable investment in commercial paper shall be limited to 10% of total Operating Fund investments. Market price fluctuations will occur. By managing the weighted average days to maturity for the operating fund portfolio to be less than 3 years and restricting the maximum allowable maturity to five years, the price volatility of the overall portfolio will be minimized.
 - 3) Marketability - Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash requirement. Active electronically traded markets will define an efficient secondary market.
 - 4) Liquidity - The Operating Funds require the greatest short-term liquidity of any of the fund types. Short-term investment pools and government money market mutual funds shall provide liquidity and may be utilized as a competitive yield alternative to fixed maturity investments.
 - 5) Diversification - Investment maturities shall be staggered throughout the fiscal year to provide cash flow based on the anticipated operating needs of the City. Market cycle risk will be reduced by diversifying the appropriate maturity structure not to exceed the weighted average maturity allowed by the Investment Policy, and through diversification by market sector.
 - 6) Yield - Attaining a competitive market yield for comparable securities and portfolio restrictions is the desired objective. The City's portfolio shall be designed with the purpose of obtaining an optimized rate of return, through budgetary and economic cycles, commensurate with the investment risk, policy constraints, and cash flow requirements.

II. Capital Improvement Funds

The City of North Richland Hills Capital Improvement Funds are comprised of the monies available from the sale of debt and other sources to finance capital improvement projects. Bond proceeds are segregated from operating funds on the general ledger and in investment accounts for arbitrage compliance purposes. Capital Improvement Funds include all funding for the design and construction of capital projects, including streets, drainage facilities, utility adjustments, park

improvements, and municipal buildings as well as the acquisition of capital assets.

- 1) Suitability - Any investment eligible in the Investment Policy is suitable for Capital Improvement Funds.
- 2) Safety of Principal - All investments shall be in high quality securities with no perceived default risk. The maximum allowable investment in commercial paper shall be limited to 10% of total Capital Improvement Fund investments. Market price fluctuations will occur. By managing the various Capital Improvement accounts in anticipation of cash flow requirements, the impact of market risk for the portfolio will be minimized.
- 3) Marketability - Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash requirement. Active electronically traded markets will define an efficient secondary market.
- 4) Liquidity - The City's funds used for construction and capital improvement programs have reasonably predictable draw down schedules. Therefore, investment maturities shall generally follow the anticipated cash flow requirements. Investment pools and government money market mutual funds shall provide readily available funds generally equal to one month's anticipated cash flow needs, or a competitive alternative for short-term fixed maturity investments. A singular repurchase agreement may be utilized if disbursements are allowed in the amount necessary to satisfy any expenditure request. This investment structure is commonly referred to as a Flexible Repurchase Agreement.
- 5) Diversification - Market conditions and arbitrage regulations influence and limit the selection and the laddering of maturities of fixed rate investments for bond proceeds and other construction and capital improvement funds. When investing these types of funds, every effort will be made to at least meet the maximum allowed yield, and to select and ladder maturities to meet the cash flow needs of the funds. Maturities should not exceed the normal life of the underlying projects supported by the fund.
- 6) Yield - Achieving a positive spread to the applicable arbitrage yield is the desired objective for bond proceeds. The City's portfolio shall be designed with the purpose of obtaining an optimized rate of return, through budgetary and economic cycles, commensurate with the investment risk, policy constraints and cash flow requirements.

III. Debt Service Funds

The City's Debt Service funds include the General Debt Service Fund and the Sales Tax Revenue Debt Service Fund. The General Debt Service Fund is funded from ad valorem tax collections and transfers from various other funds. The Sales Tax

Revenue Debt Service Fund is funded solely from transfers from the Park and Recreation Facilities Development Fund.

- 1) Suitability - Any investment listed as eligible in the Investment Policy is suitable for the Debt Service Funds.
- 2) Safety of Principal - All investments shall be in high quality securities with no perceived default risk. The maximum allowable investment in commercial paper shall be limited to 10% of total Debt Service Fund investments. Market price fluctuations will however occur. By limiting the Debt Service Funds Portfolio maturity dates to the next scheduled debt service payment, the market risk of the overall portfolio will be minimized.
- 3) Marketability - Securities with active and efficient secondary markets are not necessary as the event of an unanticipated cash requirement is not probable.
- 4) Liquidity - Debt service funds have predictable payment schedules. Therefore, investment maturities shall not exceed the anticipated cash flow requirements. Investment pools and government money market mutual funds may provide a competitive yield alternative for time deposits and short-term fixed maturity investments. A singular repurchase agreement may be utilized if disbursements are allowed in the amount necessary to satisfy any expenditure request. This investment structure is commonly referred to as a Flexible Repurchase Agreement.
- 5) Diversification - Market conditions influence the attractiveness of fully extending maturities to the next unfunded payment date. At no time shall the debt service schedule be exceeded in an attempt to bolster yield.
- 6) Yield - Attaining a competitive market yield for comparable securities and portfolio restrictions is the desired objective. The City's portfolio shall be designed with the purpose of obtaining an optimized rate of return, through budgetary and economic cycles, commensurate with the investment risk, policy constraints and cash flow requirements.

IV. General Fund Balance Reserve

The City's objective regarding the General Fund Balance is to maintain a sufficient fund balance to operate the City for a period of sixty days or 15% of the following year's budgeted expenditures. The amount of funds to be invested in non-liquid investments shall be limited to not more than 50% of this amount of the General Fund Balance. Non-liquid investments are those instruments that require greater than one day to become liquid.

- 1) Suitability - Any investment eligible in the Investment Policy is suitable for General Fund Balance Reserves.
- 2) Safety of Principal – Generally, the investment quality of all securities allowed as investments in the Operating Funds will be allowable in the General Fund Balance Reserve. All investments shall be in high quality securities with no perceived default risk. The maximum allowable investment in commercial paper shall be limited to 10% of total General Fund Balance Reserve investments. Market price fluctuations will occur. Under no circumstance shall any investment from this portfolio cause the combined portfolio's weighted average maturity to exceed the three year maximum allowed by the Investment Policy. The maximum allowable individual maturity is restricted to five years.
- 3) Marketability - Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash requirement. Active electronically traded markets will define an efficient secondary market.
- 4) Liquidity - The Fund Balance Reserve requires the liquidity necessary to cover the City's expenditures in the event of a cash shortfall. Short-term investment pools and government money market mutual funds shall provide liquidity and may be utilized as a competitive yield alternative to time deposits and fixed maturity investments.
- 5) Diversification – Maturing investments shall be reinvested within the desired maturity to provide cash flow in the event that cash is needed for the operating needs of the City. Market cycle risk will be reduced by diversifying the appropriate maturity structure throughout three years and through diversification by market sector.
- 6) Yield - Attaining a competitive market yield for comparable securities and portfolio restrictions is the desired objective. The City's portfolio shall be designed with the purpose of obtaining an optimized rate of return, through budgetary and economic cycles, commensurate with the investment risk, policy constraints and cash flow requirements.

V. Revenue Bond Reserves

Debt service reserves are required by bond covenants for a particular revenue bond issue.

- 1) Suitability - Any investment eligible in the Investment Policy is suitable for Debt Service Fund Reserves.
- 2) Safety of Principal – Generally, the investment quality of all securities allowed as investments in the Operating Funds will be allowable in the Debt Service Fund Reserve. All investments shall be in high quality securities with no perceived default

risk. The maximum allowable investment in commercial paper shall be limited to 10% of total Revenue Bond Reserve investments. Market price fluctuations will occur. Under no circumstance shall any investment from this portfolio cause the combined portfolio's weighted average maturity to exceed the maximum allowed by the Investment Policy. The maximum allowable individual maturity is restricted to five years.

- 3) Marketability - Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash requirement. Active electronically traded markets will define an efficient secondary market. By utilizing the yield advantages of fixed income securities, maximum yield should be attained while meeting cash requirements.
- 4) Liquidity - The Debt Service Reserve Funds require the amount of liquidity necessary to convert securities into cash if needed for payment of debts on schedule. Short-term investment pools and government money market mutual funds shall provide liquidity and may be utilized as a competitive yield alternative to fixed maturity investments.
- 5) Diversification - Market cycle risk will be reduced by diversifying the appropriate maturity structure throughout three years and through diversification by market sector.
- 6) Yield - Attaining a competitive market yield for comparable security-types and portfolio restrictions is the desired objective. The City's portfolio shall be designed with the purpose of obtaining an optimized rate of return, through budgetary and economic cycles, commensurate with the investment risk, policy constraints and cash flow requirements.