

## Additional Backup Information for Item #61

### Prior Council Action:

The City of Austin's Investment Policy was last approved by City Council on October 6, 2016

### For More Information:

Art Alfaro, Treasurer 974-7882

### Council Committee, Boards and Commission Action:

Recommended by the Council's Audit and Finance Committee Meeting on December 11, 2017

### Additional Backup Information:

The Public Funds Investment Act (PFIA), Chapter 2256 of the Texas Government Code, is the state law that governs the investment of public funds. In Section 2256(e), the PFIA requires governmental bodies to adopt an investment policy on an annual basis to serve as the guideline for the investment of public funds. The City of Austin's Investment Policy was last approved by Council on October 6, 2016.

The PFIA provides the legal parameters for the City of Austin's investments, which are further narrowed by adoption of specific investment policies by the Austin City Council.

There are ten recommended changes to the City of Austin's Investment Policy. The changes either refine or clarify the current Investment Policy, or resulted from recent PFIA legislative changes. All revisions are outlined below. The proposed changes to the City's Investment Policy were approved by the City of Austin Investment Committee and presented to the City Council's Audit and Finance Committee.

The first change, is the removal of appendix references from the Investment Policy.

The second change, on page five, is a PFIA legislative change that modifies the requirement for money market mutual funds. Currently the Investment Policy requires that money market mutual funds have a dollar weighted average stated maturity of 90 days or less, and have an investment objective seeking to maintain a stable net asset value of \$1 per share. PFIA now requires that money market mutual funds comply with SEC Rule 2a7. The verbiage "with a dollar weighted average stated portfolio maturity of 90 days or less, whose investment objectives include seeking to maintain a stable net asset value of \$1 per share" has been replaced with "that comply with the SEC Rule 2a7."

The third change, on page seven, clarifies the language associated with the method of settlement of securities as "delivery versus payment" (DVP). Currently the language states that all securities are to be settled through the Federal Reserve System. The "through the Federal Reserve System" verbiage has been deleted because certain securities can be settled through Depository Trust Company (DTC) settlement and not the Federal Reserve. All investments whether settled through the Federal Reserve or DTC are still required to be settled DVP.

The fourth change, on page seven, removes the Financial Institution approval requirement. Annually, the City's Investment Committee approves all Broker/Dealers able to transact business with the City. Financial institutions have set requirements detailed within the City's Investment Procedures that must be met before any business can be transacted.

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The fifth change, on page seven, is a PFIA legislative change that modifies the certification requirements of approved broker/dealers. The PFIA legislative change limits the business organizations required to file a certificate to Local Government Investment Pools (LGIPs) or investment management firms under contract. Currently the Investment Policy states "the qualified representative of the business assigned to the City's account shall execute a written certification to acknowledge that the organization has implemented reasonable procedures and controls to preclude imprudent investment activities arising out of the investment transactions conducted between the entity and the City." This has been removed and replaced with the requirement that the firm or institution must "acknowledge receipt, review, and understanding of the City's investment Policy," as well as meet the requirements established by the Investment Committee.

The sixth change, on page eight, refines and expands on collateralization requirements of the City. A slight language refinement modifies "case" of a default to "event" of a default for collateral rights of the City. In addition, the City will accept depository collateral in the form of letters of credit issued by the Federal Home Loan Bank in accordance with the Collateral for Public Funds, Chapter 2257 of the Texas Government Code and the surety bond requirements have been consolidated.

The seventh change, on page 15, proposes Public Trust Advisors as a new independent training source for the City. Additionally, name clarifications for existing independent training source providers are detailed, including: Hilltop Securities was added to First Southwest Company, as Hilltop Securities is First Southwest's parent company, and PFM Asset Management has replaced Texas Term because PFM Asset Management performs all training on behalf of Texas Term.

The eighth change, on page 15, is a PFIA legislative change that modifies the training requirements for personnel authorized to execute investment transactions from 10 hours within a two-year period, to 8 hours within a two-year period.

The ninth change, on page 16, pertains to the Investment Committee. The Investment Committee member composition will now allow the Controller to provide a designee for the Investment Committee. The term "Controller" has been replaced with "a representative from the Controller's office." In addition, the committee meetings have been modified from "quarterly" meetings to "at minimum semi-annually" meetings.

The tenth change, on page 16, is related to the PFIA legislative change that modifies the certification requirements of approved broker/dealers. The PFIA legislative change limits the business organizations required to file a certificate to LGIPs or investment management firms under contract. The Certification section details that the investment policy will be provided to all banks and broker/dealers. Verbiage has been added that states "all brokers, dealers, and financial institutions must acknowledge receipt and review of the City's Investment Policy before business is transacted with the firm." In addition, modification to require certification from an LGIP has been added.