

CITY OF COLLEGE STATION  
*Home of Texas A&M University®*

***Investment Strategy and Policy***

**2026**

***Approved by Council***

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# INVESTMENT STRATEGY

The City of College Station will pursue a passive investment strategy. Investments will be purchased with the intent of holding to maturity and will only be sold early under exceptional circumstances. In purchasing investments, the investment officer will attempt to follow a ladder strategy to ensure that the portfolio will have at least one investment maturing every month. Investment priorities are as follows:

1. **Suitability** - Any investment allowed under the Investment Policy is suitable.
2. **Preservation and Safety of Principal** - Investments of the City shall be undertaken in a manner that seeks to insure the preservation of capital in the overall portfolio.
3. **Liquidity** - The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operational requirements that might reasonably be anticipated.
4. **Marketability** - Investments should have an active and efficient secondary market to enable the City to liquidate investments prior to the maturity if the need should arise.
5. **Diversification** - The Investment Officer will attempt to maintain a diversified portfolio with regard to security type, financial institution providing the security, and maturity.
6. **Yield** - The City's investment portfolio shall be designed with the objective of attaining the maximum rate of return throughout budgetary and economic cycles, taking into account the City's risk constraints and the cash flow characteristics of the portfolio.

The City of College Station also has an irrevocable trust relating to its Other Post Employment Benefits (OPEB) obligations. The investment strategy for this trust will be dictated by the City's Investment Committee. This trust does not fall under the Texas Public Funds Investment Act. The current investment guideline is attached to this policy as Exhibit A. The future funding of the OPEB liability and trust are attached to this policy as Exhibit B.

# CITY OF COLLEGE STATION

## INVESTMENT POLICY

The Public Funds Investment Act, Chapter 2256, Texas Government Code, as Amended ("PFIA" herein), requires each city to adopt rules governing its investment practices and to define the authority of the investment officer. The following Investment Policy addresses the methods, procedures, and practices that must be exercised to ensure effective and judicious fiscal management of the City of College Station funds.

### I. POLICY

It is the policy of the City of College Station, Texas ("City") to invest public funds in a manner, which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the City and conforming to all federal, state and local statutes governing the investment of public funds.

### II. SCOPE

This investment policy applies to all the financial assets held by the City. These funds are defined in the City's Comprehensive Annual Financial Report (CAFR) and include:

General Fund	Special Revenue Funds
Debt Service Fund	Capital Projects Funds
Enterprise Funds	Internal Service Funds

Any new funds created by the City will be subject to this policy unless specifically exempted by the City Council. To maximize the effective investment of assets, all funds mentioned above will pool their cash balances for investment purposes. The income derived from investing activities will be distributed to the various funds based on calculation of their average balances.

### III. INVESTMENT OBJECTIVES

The City of College Station shall manage and invest its cash with three primary objectives, listed in order of priority: **safety, liquidity and yield**. The safety of the principal invested always remains the primary objective.

#### **Safety**

Safety of Principal is the foremost objective of the City. Investments of the City shall be undertaken in a manner that seeks to insure the preservation of capital in the overall portfolio.

### **Liquidity**

The City's investment portfolio will remain liquid to enable the City to meet all operational requirements that might reasonably be anticipated.

### **Yield**

The City shall invest funds in investments that earn a competitive market yield consistent with stated objectives. For bond proceeds to which arbitrage restrictions apply, the primary objectives shall be to obtain a fair market yield and to minimize the costs associated with the investment of such funds within the constraints of the investment policy and applicable bond covenants.

## **IV. RESPONSIBILITY AND CONTROL**

### **Delegation of Authority**

The Assistant City Manager or his Designee is designated the City's Investment Officer. The Investment Officer shall be responsible for the investment of funds consistent with this Policy, and shall have the authority necessary to carry out such responsibilities. An investment committee consisting of the Investment Officer and at least two other staff members designated by the City Manager will also be formed. This committee will be responsible for selecting eligible broker/dealers, reviewing, updating the investment policy annually, and be responsible for fixing any variable rate indebtedness when they deem appropriate. All participants in the investment process shall seek to act responsibly as custodians of the public trust.

The Investment Officer shall establish written procedures for the operation of the investment program consistent with this investment policy. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Investment Officer. The Investment Officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

### **Cash Flow Analysis**

Supplemental to the financial and budgetary systems, the Investment Officer will maintain a cash flow forecasting process designed to monitor and forecast cash positions for investment purposes. Cash flow analysis will include the historical researching and monitoring of specific cash flow items, payables and receivables as well as overall cash position and patterns.

### **Training Requirement**

In order to ensure the quality and capability of investment management, the Assistant City Manager and the Investment Officer shall:

- attend at least one training session within 12 months of assuming duties *and* containing not less than 10 hours of instruction from an independent source approved by the governing board or a designated investment committee;
- receive training which includes education in investment controls, security risks, strategy risks, market risks, *diversification of the investment portfolio*, and compliance with the PFIA; and
- attend a training session not less than once each state fiscal biennium (beginning on the first day of the fiscal year and consisting of two consecutive fiscal years after that date) and receive not less than 8 hours of training from an independent source approved by the governing board or a designated investment committee.

### **Internal Controls**

The Investment Officer shall establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with policies and procedures. Annually, the City's independent auditors will review quarterly reports for the fiscal year.

### **Prudence**

Investments shall be made with the judgment and 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 capital as well as the probable income to be derived.

The standard of prudence to be used by investment officials 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 appropriate action is taken to control adverse developments.

### **Ethics and Conflicts of Interest**

All participants in the investment process shall seek to act responsibly as custodians of the public trust. Investment officers shall avoid any transactions that might impair public confidence in the City's ability to govern effectively.

Officers and employees involved in the investment process 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. Employees and investment officials shall disclose to the City Manager any material financial interest in financial institutions that conduct business within this jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the City, particularly with regard to the time of purchases and sales. Investment officials will disclose if the Official is related

with the second degree by affinity or consanguinity, as determined under Chapter 573 of the Texas Government Code. Employees and investment officials shall refrain from undertaking personal investment transactions with the same individual with which business is conducted on behalf of the City.

On an annual basis, the Investment officials shall sign a statement acknowledging that they are in compliance with Section 2256.005 (i) of the Public Funds Investment Act.

## **V. SUITABLE AND AUTHORIZED INVESTMENTS**

### **Portfolio Management**

The City currently has a “buy and hold” portfolio strategy. Maturity dates are matched with cash flow requirements and investments are purchased with the intent to be held until maturity.

### **Investments**

Acceptable investments under this policy shall be limited to certain instruments as described by the Government Code; Chapter 2256, Sections 2256.009 through 2256.011 and Sections 2256.013 through 2256.016 of the Public Funds Investment Act. Investment of funds in any instrument or security not authorized for investment under the Act is prohibited.

- **Authorized**

1. Interest bearing bank deposits insured by the FDIC or the National Credit Union Share Insurance Fund.
2. Direct obligations of the United States government: U.S. Treasury Bills, U.S. Treasury Notes, and U.S. Treasury Bonds as well as Bonds or other interest bearing obligations for which the principal and interest are guaranteed by the full faith and credit of the United States government and rated not less than A or its equivalent by at least one nationally recognized investment rating firm.
3. Federal Agencies and Instrumentalities including but not limited to, discount notes, callables and debentures of the Federal National Mortgage Association (FNMA), the Federal Home Loan Bank (FHLB), the Federal Farm Credit Bank (FFCB), and the Federal Home Loan Mortgage Corporation (FHLMC).
4. Time Certificates of Deposit, insured by the Federal Deposit Insurance Corporation (FDIC) or its successor, or the National Credit Union Share Insurance Fund or its successor, in state or national banks. Any deposits exceeding FDIC insurance limits shall be collateralized at 102% of the face amount of the Certificate of Deposit by securities listed in 1 - 2 above and held by the City's custodial bank or the custodial bank of the institution the CD's are held. Bids for Certificates of Deposit may be solicited orally, in writing, electronically or using any combination of these methods.

5. Repurchase Agreements with a defined termination date of 90 days or less collateralized by a combination of cash and securities listed in 1 - 2 above. Collateral must have a minimum market value of 102% of the repurchase agreement, and must be held by the custodian bank or other independent third-party custodian contracted by the City. Bond proceeds may be invested in flexible repurchase agreements with maturity dates not exceeding the expected final project expenditure if a formal bidding process is followed and properly documented for IRS purposes.
6. AAA-rated No-Load Money Market Mutual Funds registered with the Securities and Exchange Commission and comply with SEC Rule 2a-7 .
7. AAA-rated Investment Pools organized under the Texas Interlocal Cooperation Act that follow the requirements in the Public Funds Investment Act and which have been specifically approved by the City.

- **Not Authorized**

The following security types are not permitted:

1. Obligations whose payment represents the coupon payments of the underlying mortgage-backed security collateral and pays no principal (IO's);
2. Obligations whose payment represents the principal stream from the underlying mortgage-backed security collateral and bears no interest (PO's);
3. Collateralized Mortgage Obligations (CMO's) that have a stated final maturity date of greater than 10 years; and
4. Any security, the interest rate of which is determined by an index that adjusts opposite to the changes in the Market index (inverse floaters).

### **Exemption for Existing Investments**

Any investment, which was authorized at the time of purchase, shall not be required to be liquidated.

### **Loss of Required Rating**

If any security that requires a minimum investment rating is downgraded below that minimum rating subsequent to purchase, it will no longer be considered an authorized investment. As a result, the City shall take all prudent measures to liquidate the security in effort to preclude or reduce principal loss. The City will select a different approved broker/dealer each quarter to verify the ratings of securities held. Local Government Pools ratings will be verified quarterly by checking their websites.

## VI. INVESTMENT PARAMETERS

### **Maximum Maturities**

To the extent possible, the City will 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 years from the date of purchase. Additionally, the City will maintain a dollar-weighted average maturity of two years or less.

### **Diversification**

It is the intent of the City to diversify the investment instruments within the portfolio to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions or maturities. The asset allocation in the portfolio should be flexible depending upon the outlook for the economy and the securities markets. If conditions warrant, the guidelines below may be exceeded by approval of the Investment Committee.

With the exception of U.S. Treasury securities, authorized pools, and the City's depository accounts, the City may not invest more than 30% of the City's investment portfolio with a single financial institution. In addition, the following maximum limits, by instrument, are established for the City's total portfolio:

1. U.S. Treasury Securities	100%
2. Agencies and Instrumentalities	70%
3. Certificates of Deposits	40%
4. Money Market Mutual Funds	30%
5. Repurchase Agreements	20%
7. Authorized Pools	70%

## VII. FINANCIAL INSTITUTIONS AND DEALERS

### **Depository**

At least every three to five years a Depository shall be selected through the City's banking services procurement process, which shall include a formal request for application (RFA). The selection of a depository will be determined by competitive bid and evaluation of bids will be based on the following selection criteria:

- The ability to qualify as a depository for public funds in accordance with state and local laws.
- The ability to provide requested information or financial statements for the period specified.
- The ability to meet all requirements in the banking RFA.

- Complete response to all required items on the bid form.
- Lowest net banking service cost, consistent with the ability to provide an appropriate level of service.
- The credit worthiness and financial stability of the bank.

The bank depository contract is subject to Council approval. During the term of the contract, additional accounts may be established. The City may open a cash money market account with its approved depository bank. Accounts held by the approved bank are to be collateralized at no less than 105%. Two authorized signers on the City's accounts must approve the establishment of new accounts.

### **Authorized Brokers/Dealers**

The Investment Officer shall maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved security broker/dealers selected by credit worthiness who are authorized to provide investment services in the State of Texas. These may include "primary" or regional dealers that qualify under SEC rule 15C3-1. No public deposit shall be made except in a qualified public depository as established by state laws.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Investment Officer with a completed Broker/Dealer Questionnaire and Certification, which shall include the following:

- An audited financial statement for the most recent period.
- Proof of certification by the Financial Industry Regulatory Authority (FINRA).
- Proof of current registration with the State Securities Commission.

Financial institutions eligible to transact investment business with the City shall be presented a written copy of this Investment Policy.

Additionally, the qualified representative of the business organization seeking to transact investment business shall execute a written instrument substantially to the effect that the qualified representative has received and reviewed this Investment Policy, and acknowledged that the organization has implemented reasonable procedures and controls in an effort to preclude imprudent investment activities with the City.

The City will not enter into an investment transaction with a Broker/Dealer prior to receiving the written agreement described above and current audited financial statements.

Annually, the Investment Committee shall review and revise the list as needed. The Committee will consider any new firms that have submitted the required documentation and review the performance of the previously approved firms. Any modifications to the list will be submitted to Council for their review, approval and adoption.

### **Competitive Bids**

Securities will be purchased or sold after three (3) offers/bids are taken to verify that the City is receiving fair market value/price for the investment. Security transactions that may be purchased without competitive offers include: a) transactions with money market mutual funds b) local government investment pools and c) new securities still in syndicate and priced at par.

### **Delivery vs. Payment**

All securities transaction, including collateral for repurchased agreements, shall be purchased using the delivery vs., payment method with the exception of investment pools and mutual funds. Funds will be released after notification that the purchased security has been received.

## **VIII. SAFEKEEPING OF SECURITIES**

### **Safekeeping Agreement**

The City shall contract with a bank or banks for the safekeeping of securities either owned by the City as part of its investment portfolio or held as collateral to secure demand or time deposits.

### **Safekeeping and Custody**

Safekeeping and custody of securities and collateral shall be in accordance with state law. Securities and collateral will be held by a third party custodian designated by the Investment Officer and held in the City's name as evidenced by safekeeping receipts of the institution with which the securities are deposited. Original safekeeping receipts shall be obtained.

### **Collateralization**

Consistent with the requirements of the Public Funds Collateral Act, it is the policy of the City to require full collateralization of all investments and uninsured balances plus accrued interest on deposit with a depository bank, other than investments, which are obligations of the U.S. government, its agencies and instrumentalities, and government sponsored enterprises. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 102% of market value of principal and accrued interest on deposits or investments less than an amount insured by the FDIC. The collateralization level of the City's depository accounts will be no less than 105%.

Collateral will always be held by an independent third party with whom the City has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the City and retained.

The right of collateral substitution is granted and the City's Investment Officers reserve the right to accept or reject any form of collateral or enhancement at their sole discretion.

## **IX. PERFORMANCE STANDARDS**

### **Performance Standards**

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and cash flow needs.

### **Performance Benchmark**

Given the passive investment strategy of the City, the benchmark to be used by the Investment Officer to determine whether market yields are being achieved shall be the average closing yield during the reporting period comparable to the portfolios dollar-weighted average maturity in days.

## **X. REPORTING**

### **Methods**

Not less than quarterly and within a reasonable time after the end of the period reported, the Investment Officer should prepare and submit to the City Council a written report of the investment transactions for all funds of the City for the preceding reporting period. The report must:

- describe in detail the investment position of the City on the date of the report,
- be prepared jointly by all the Investment Officers if the City appoints more than one,
- be signed by all Investment Officials,
- contain a summary statement of each pooled fund group that states the beginning market value for the reporting period,
- state the book value and the market value of each separately invested asset at the end of the reporting period by the type of asset and fund type invested,
- state the maturity date of each separately invested asset that has a maturity date,
- state the fund for which each individual investment was acquired,
- state all accrued interest payable; and
- state the compliance of the investment portfolio as it relates to this Policy and Investment Act.

### **Marking to Market**

The market values of the City's investments shall be obtained from a reliable outside source, which has access to investment market values. Marking to Market will be done at least quarterly.

## **XI. INVESTMENT POLICY ADOPTION**

The City's investment policy and investment strategies must be adopted annually by resolution of the City Council even if there are no changes. The City Council shall review the policy annually and they must approve any changes or modifications made thereto.

## QUALIFIED BROKERS/DEALERS/ADVISORS

### **FHN Financial**

Buddy Saragusa, Shay Hisle  
920 Memorial City Way, 11<sup>th</sup> Floor  
Houston, TX 77024  
Phone: (713) 435-4351

### **Cantor Fitzgerald & Company**

1700 Post Oak Boulevard  
2 BLVD Place, Suite 250  
Houston, TX 77056  
Phone: (713) 599-5192

### **Hilltop Securities, Inc.**

Gilbert Ramon  
700 Milam St., #1200  
Houston, TX 77002  
Phone: (512) 340-1841

### **Truist Securities**

901 East Byrd Street, Suite 300  
Richmond, VA 23219  
Phone: (804) 649-3976

### **American Momentum Bank (CD's only)**

Frank Varisco  
Five Momentum Blvd.  
College Station, TX 77845  
Phone: (979) 599-9349

## INVESTMENT POOLS

### **TexPool / TexPool Prime**

1001 Texas Ave., Suite 1400  
Houston, TX 77002  
Phone: (866)839-7665

### **TexSTAR**

1201 Elm Street, Suite 3500  
Dallas, TX 75270  
Phone: (800)839-7827

### **Texas CLASS / Texas CLASS Govt.**

6907 Shavelson St.  
Houston, TX 77055  
Phone: (800)707-6242

### **LOGIC**

1201 Elm Street, Suite 3500  
Dallas, TX 75270  
Phone: (800)895-6442

## DEPOSITORY BANKS

### **Truist Bank**

2717 Texas Avenue South  
College Station, Texas 77840  
(979)260-1482

### **JPMorgan Chase Bank, NA.**

One Chase Manhattan Plaza  
New York, New York 10005-1401

## GLOSSARY OF COMMON TREASURY TERMINOLOGY

**Accrued Interest** - The accumulated interest due on a bond as of the last interest payment made by the issuer.

**Agency** - A debt security issued by a federal or federally sponsored agency. Federal agencies are backed by the full faith and credit of the U.S. Government. Federally sponsored agencies (FSAs) are backed by each particular agency with a market perception that there is an implicit government guarantee. An example of federal agency is the Government National Mortgage Association (GNMA). An example of a FSA is the Federal National Mortgage Association (FNMA).

**Amortization** - The systematic reduction of the amount owed on a debt issue through periodic payments of principal.

**Asked** - The price at which securities are offered.

**Average Life** - The average length of time that an issue of serial bonds and/or term bonds with a mandatory sinking fund feature is expected to be outstanding.

**Basis Point** - A unit of measurement used in the valuation of fixed-income securities equal to 1/100 of 1 percent of yield, e.g., "1/4" of 1 percent is equal to 25 basis points.

**Bid** - The indicated price at which a buyer is willing to purchase a security or commodity.

**Book Value** - The value at which a security is carried on the inventory lists or other financial records of an investor. The book value may differ significantly from the security's current value in the market.

**Broker** - A broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides; he does not position. In the money market, brokers are active in markets in which banks buy and sell money and in interdealer markets.

**Callable Bond** - A bond issue in which all or part of its outstanding principal amount may be redeemed before maturity by the issuer under specified conditions.

**Call Price** - The price at which an issuer may redeem a bond prior to maturity. The price is usually at a slight premium to the bond's original issue price to compensate the holder for loss of income and ownership.

**Call Risk** - The risk to a bondholder that a bond may be redeemed prior to maturity.

**Cash Sale/Purchase** - A transaction that calls for delivery and payment of securities on the same day that the transaction is initiated.

**Certificate of Deposit (CD)** – A time deposit with a specific maturity evidenced by a certificate. Large-denomination CD's are typically negotiable.

**Collateralization** - Process by which a borrower pledges securities, property, or other deposits for the purpose of securing the repayment of a loan and/or security.

**Commercial Paper** - An unsecured short-term promissory note issued by corporations, with maturities ranging from 2 to 270 days.

**Comprehensive Annual Financial Report (CAFR)** – The official annual report for the City of College Station. It includes combined statements and basic financial statements for each individual fund and account group prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provision, extensive introductory material, and a detailed statistical section.

**Coupon Rate** - The annual rate of interest received by an investor from the issuer of certain types of fixed-income securities. It is also known as the interest rate.

**Credit Quality** - The measurement of the financial strength of a bond issuer. This measurement helps an investor to understand an issuer's ability to make timely interest payments and repay the loan principal upon maturity. Generally, the higher the credit quality of a bond issuer, the lower the interest rate paid by the issuer because the risk of default is lower. Credit quality ratings are provided by nationally recognized rating agencies.

**Credit Risk** - The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

**Current Yield (Current Return)** - A yield calculation determined by dividing the annual interest received on a security by the current market price of that security.

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

**Delivery Versus Payment (DVP)** - A type of securities transaction in which the purchaser pays for the securities when they are delivered either to the purchaser or his/her custodian.

**Discount** - The amount by which the par value of a security exceeds the price paid for the security.

**Discount Security** – Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value, e.g. U.S. Treasury Bills.

**Diversification** - A process of investing assets among a range of security types by sector, maturity, and quality rating.

**Duration** - A measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security. This calculation is based on three variables: term to maturity, coupon rate, and yield to maturity. The duration of a security is a useful indicator of its price volatility for given changes in interest rates.

**Fair Value** - The amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

**Federal Funds (Fed Funds)** - Funds placed in Federal Reserve banks by depository institutions in excess of current reserve requirements. These depository institutions may lend fed funds to each other overnight or on a longer basis. They may also transfer funds among each other on a same-day basis through the Federal Reserve banking system. Fed funds are considered immediately available funds.

**Federal Funds Rate** - Interest rate charged by one institution lending federal funds to the other.

**Federal Credit Agencies** – Agencies of the Federal Government set up to supply credit to various classes of institutions and individuals, e.g. S&L's small business firms, students, farmers, farm cooperatives, and exporters.

**Federal Deposit Insurance Corporation (FDIC)** – A federal agency that insures bank deposits, currently up to \$250,000 per depository account through December 31, 2013. On January 1, 2014, the standard insurance amount will return to \$100,000.

**Federal Home Loan banks (FHLB)** – The institutions that regulate and lend to savings and loan associations. The Federal Home Loan Banks play a role similar to that played by the Federal Reserve Bank versus member commercial banks.

**Federal National Mortgage Association (FNMA)** – A government –sponsored enterprise (GSE) that was created in 1938 to expand the flow of mortgage money by creating a secondary mortgage market. Fannie Mae is a publicly traded company which operates under a congressional charter that directs Fannie Mae to channel its efforts into increasing the availability and affordability of homeownership for low-, moderate-, and middle-income Americans.

**Federal Open Market Committee (FOMC)** – Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

**Federal Reserve System** – The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., 12 regional banks and about 5,700 commercial banks that are members of the system.

**Financial Industry Regulatory Authority (FINRA)** - A self-regulatory organization (SRO) of brokers and dealers in the over-the-counter securities business. Its regulatory mandate includes authority over firms that distribute mutual fund shares as well as other securities.

**Government Securities** - An obligation of the U.S. government, backed by the full faith and credit of the government. These securities are regarded as the highest quality of investment securities available in the U.S. securities market. See "Treasury Bills, Notes, and Bonds."

**Interest Rate** - See "Coupon Rate."

**Interest Rate Risk** - The risk associated with declines or rises in interest rates which cause an investment in a fixed-income security to increase or decrease in value.

**Internal Controls** - An internal control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse. The internal control structure is 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. Internal controls should address the following points:

- **Control of collusion** - Collusion is a situation where two or more employees are working in conjunction to defraud their employer.
- **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.
- **Custodial safekeeping** - Securities purchased from any bank or dealer including appropriate collateral (as defined by state law) shall be placed with an independent third party for custodial safekeeping.

**Inverted Yield Curve** - A chart formation that illustrates long-term securities having lower yields than short-term securities. This configuration usually occurs during periods of high inflation coupled with low levels of confidence in the economy and a restrictive monetary policy.

**Investment Policy** - A concise and clear statement of the objectives and parameters formulated by an investor or investment manager for a portfolio of investment securities.

**Liquidity** - An asset that can be converted easily and quickly into cash.

**Local Government Investment Pool (LGIP)** - An investment by local governments in which their money is pooled as a method for managing local funds.

**Mark-to-market** - The process whereby the book value or collateral value of a security is adjusted to reflect its current market value.

**Market Risk** - The risk that the value of a security will rise or decline as a result of changes in market conditions.

**Market Value** - Current market price of a security.

**Maturity** - The date on which payment of a financial obligation is due. The final stated maturity is the date on which the issuer must retire a bond and pay the face value to the bondholder. See "Weighted Average Maturity."

**Money Market** - The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

**Money Market Mutual Fund** - Mutual funds that invest solely in money market instruments (short-term debt instruments, such as Treasury bills, commercial paper, bankers' acceptances, repos and federal funds).

**Mutual Fund** - An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments. Mutual funds are regulated by the Investment Company Act of 1940.

**Net Asset Value** - The market value of one share of an investment company, such as a mutual fund. This figure is calculated by totaling a fund's assets that includes securities, cash, and any accrued earnings, subtracting this from the fund's liabilities and dividing this total by the number of shares outstanding. This is calculated once a day based on the closing price for each security in the fund's portfolio. (See below.)  $[(\text{Total assets}) - (\text{Liabilities})] / (\text{Number of shares outstanding})$

**Nominal Yield** - The stated rate of interest that a bond pays its current owner, based on par value of the security. It is also known as the "coupon," "coupon rate," or "interest rate."

**Offer** - An indicated price at which market participants are willing to sell a security or commodity. Also referred to as the "Ask price."

**Par** - Face value or principal value of a bond, typically \$1,000 per bond.

**Portfolio** – Collection of securities held by an investor.

**Positive Yield Curve** - A chart formation that illustrates short-term securities having lower yields than long-term securities.

**Premium** - The amount by which the price paid for a security exceeds the security's par value.

**Prime Rate** - A preferred interest rate charged by commercial banks to their most creditworthy customers. Many interest rates are keyed to this rate.

**Principal** - The face value or par value of a debt instrument. Also may refer to the amount of capital invested in a given security.

**Prospectus** - A legal document that must be provided to any prospective purchaser of a new securities offering registered with the SEC. This can include information on the issuer, the issuer's business, the proposed use of proceeds, the experience of the issuer's management, and certain certified financial statements.

**Prudent Person Rule** - An investment standard outlining the fiduciary responsibilities of public funds investors relating to investment practices.

**Rate of Return** – The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

**Reinvestment Risk** - The risk that a fixed-income investor will be unable to reinvest income proceeds from a security holding at the same rate of return currently generated by that holding.

**Repurchase Agreement (repo or RP)** - An agreement of one party to sell securities at a specified price to a second party and a simultaneous agreement of the first party to repurchase the securities at a specified price or at a specified later date.

**Reverse Repurchase Agreement (Reverse Repo)** - An agreement of one party to purchase securities at a specified price from a second party and a simultaneous agreement by the first party to resell the securities at a specified price to the second party on demand or at a specified date.

**Rule 2a-7 of the Investment Company Act** - Applies to all money market mutual funds and mandates such funds to maintain certain standards, including a 13- month maturity limit and a 90-day average maturity on investments, to help maintain a constant net asset value of one dollar (\$1.00).

**Safekeeping** - Holding of assets (e.g., securities) by a financial institution.

**Secondary Market** – A market made for the purchase and sale of outstanding issues following the initial distribution.

**Securities & Exchange Commission** – Agency created by Congress to protect investors in securities transactions by administering securities legislation.

**Serial Bond** - A bond issue, usually of a municipality, with various maturity dates scheduled at regular intervals until the entire issue is retired.

**Sinking Fund** - Money accumulated on a regular basis in a separate custodial account that is used to redeem debt securities or preferred stock issues.

**Swap** - Trading one asset for another.

**Term Bond** - Bonds comprising a large part or all of a particular issue which come due in a single maturity. The issuer usually agrees to make periodic payments into a sinking fund for mandatory redemption of term bonds before maturity.

**Total Return** - The sum of all investment income plus changes in the capital value of the portfolio. For mutual funds, return on an investment is composed of share price appreciation plus any realized dividends or capital gains. This is calculated by taking the following components during a certain time period. (Price Appreciation) + (Dividends paid) + (Capital gains) = Total Return

**Treasury Bills** - Short-term U.S. government non-interest bearing debt securities with maturities of no longer than one year and issued in minimum denominations of \$10,000. Auctions of three- and six-month bills are weekly, while auctions of one-year bills are monthly. The yields on these bills are monitored closely in the money markets for signs of interest rate trends.

**Treasury Bonds** – Marketable, fixed-interest U.S. government debt securities with maturities of more than ten years and issued in minimum denominations of \$1,000. Treasury bonds make interest payments semi-annually and the income that holders received is only taxed at the federal level.

**Treasury Notes** - Marketable U.S. government debt securities with fixed interest rates and maturities between 1 to 10 years. Treasury notes can be bought either directly from the U.S. government or through banks.

**Uniform Net Capital Rule** - SEC Rule 15C3-1 – Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1: also called net capital rule and net capital ratio. Indebtedness covers all money owned to a firm, including margin loans and commitments to purchase securities. This is one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

**Volatility** - A degree of fluctuation in the price and valuation of securities.

**Volatility Risk Rating** - A rating system to clearly indicate the level of volatility and other non-credit risks associated with securities and certain bond funds. The ratings for bond funds range from those that have extremely low sensitivity to changing market conditions and offer the greatest stability of the returns ("aaa" by S&P; "V-1" by Fitch) to those that are highly sensitive with currently identifiable market volatility risk ("ccc-" by S&P, "V-10" by Fitch).

**Weighted Average Maturity (WAM)** - The average maturity of all the securities that comprise a portfolio. According to SEC rule 2a-7, the WAM for SEC registered money market mutual funds may not exceed 90 days and no one security may have a maturity that exceeds 397 days.

**Yield** - The current rate of return on an investment security generally expressed as a percentage of the security's current price.

**Yield-to-call (YTC)** - The rate of return an investor earns from a bond assuming the bond is redeemed (called) prior to its nominal maturity date. **Yield Curve** - A graphic representation that depicts the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity. A normal yield curve may be alternatively referred to as a positive yield curve.

**Yield-to-maturity** - The rate of return yielded by a debt security held to maturity when both interest payments and the investor's potential capital gain or loss are included in the calculation of return.

**Zero-coupon Securities** - Security that is issued at a discount and makes no periodic interest payments. The rate of return consists of a gradual accretion of the principal of the security and is payable at par upon maturity.

**EXHIBIT A  
PARS OBEB TRUST  
INVESTMENT GUIDELINE**



# Investment Guidelines Document

City of College Station, Texas

115 Irrevocable Exclusive Benefit Trust

August 2017

# Investment Guidelines Document

## Scope and Purpose

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The purpose of this Investment Guidelines Document is to:

- Facilitate the process of ongoing communication between the Plan Sponsor and its plan fiduciaries;
- Confirm the Plan's investment goals and objectives and management policies applicable to the investment portfolio identified below and obtained from the Plan Sponsor;
- Provide a framework to construct a well-diversified asset mix that can potentially be expected to meet the account's short- and long-term needs that is consistent with the account's investment objectives, liquidity considerations and risk tolerance;
- Identify any unique considerations that may restrict or limit the investment discretion of its designated investment managers;
- Help maintain a long-term perspective when market volatility is caused by short-term market movements.

### Key Plan Sponsor Account Information as of August 2017

<b>Plan Sponsor:</b>	City of College Station
<b>Governance:</b>	City Council for the City of College Station
<b>Plan Name ("Plan")</b>	City of College Station Other Post-Employment Benefits Plan
<b>Trustee:</b>	US Bank Contact: Susan Hughes, 949-224-7209 susan.hughes@usbank.com
<b>Type of Account:</b>	GASB 45/Other Post-Employment Benefits Trust
<b>ERISA Status:</b>	Not subject to ERISA
<b>Market Value of Account:</b>	est. \$1,000,000
<b>Investment Manager:</b>	US Bank, as discretionary trustee, has delegated investment management responsibilities to HighMark Capital Management, Inc. ("Investment Manager"), an SEC-registered investment adviser Contact: Andrew Brown, CFA, 415-705-7605 Andrew.brown@highmarkcapital.com

**Investment Authority:** Except as otherwise noted, the Trustee, US Bank, has delegated investment authority to HighMark Capital Management, an SEC-registered investment adviser. Investment Manager has full investment discretion over the managed assets in the account. Investment Manager is authorized to purchase, sell, exchange, invest, reinvest and manage the designated assets held in the account, all in accordance with account's investment objectives, without prior approval or subsequent approval of any other party(ies).

## **Investment Objectives and Constraints**

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The goal of the Plan's investment program is to generate adequate long-term returns that, when combined with contributions, will result in sufficient assets to pay the present and future obligations of the Plan. The following objectives are intended to assist in achieving this goal:

- The Plan should earn, on a long-term average basis, a rate of return equal to or in excess of the targeted rate of return in the actuarial valuation.
- The Plan should seek to earn a return in excess of its policy benchmark over the long-term.
- The Plan's assets will be managed on a total return basis which takes into consideration both investment income and capital appreciation. While the Plan Sponsor recognizes the importance of preservation of capital, it also adheres to the principle that varying degrees of investment risk are generally rewarded with compensating returns. To achieve these objectives, the Plan Sponsor allocates its assets (asset allocation) with a strategic, long-term perspective of the capital markets.

**Investment Time Horizon:** Long-term

**Anticipated Cash Flows:** Distributions are expected to be low in the early years of the Plan.

**Investment Objective:** The primary objective is to maximize total Plan return, subject to the risk and quality constraints set forth herein. The investment objective the Plan Sponsor has selected is the Balanced Objective, which has a dual goal to seek growth of income and principal.

**Risk Tolerance:** *Balanced*

The account's risk tolerance has been rated balanced, which demonstrates that the account can accept price fluctuations to pursue its investment objectives.

**Strategic Asset Allocation:** The asset allocation ranges for this objective are listed below:

<i>Strategic Asset Allocation Ranges</i>		
Cash	Fixed Income	Equity
0-20%	30%-50%	50%-70%
Policy: 5%	Policy: 35%	Policy: 60%

Market conditions may cause the account's asset allocation to vary from the stated range from time to time. The Investment Manager will rebalance the portfolio no less than quarterly and/or when the actual weighting differs substantially from the strategic range, if appropriate and consistent with your objectives.

**Security Guidelines:**

Equities

With the exception of limitations and constraints described above, Investment Manager may allocate assets of the equity portion of the account among various market capitalizations (large, mid, small) and investment styles (value, growth). Further, Investment Manager may allocate assets among domestic, international developed and emerging market equity securities.

Total Equities	50%-70%
<i>Equity Style</i>	<i>Range</i>
Domestic Large Cap Equity	20%-50%
Domestic Mid Cap Equity	0%-15%
Domestic Small Cap Equity	0%-20%
International Equity (incl. Emerging Markets)	0%-20%
Real Estate Investment Trust (REIT)	0%-10%

Fixed Income

In the fixed income portion of the account, Investment Manager may allocate assets among various sectors and industries, as well as varying maturities and credit quality that are consistent with the overall goals and objectives of the portfolio.

Total Fixed Income	30%-50%
<i>Fixed Income Style</i>	<i>Range</i>
Long-term bonds (maturities >7 years)	0%-20%
Intermediate-term bonds (maturities 3-7 years)	15%-50%
Short-Term bonds (maturities <3 years)	0%-15%
High Yield bonds	0%-8%

**Performance Benchmarks:**

The performance of the total Plan shall be measured over a three and five-year periods. These periods are considered sufficient to accommodate the market cycles experienced with investments. The performance shall be compared to the return of the total portfolio blended benchmark shown below.

Total Portfolio Blended Benchmark

32.00%	S&P500 Index
6.00%	Russell Mid Cap Index
9.00%	Russell 2000 Index
4.00%	MSCI Emerging Market Index
7.00%	MSCI EAFE Index
2.00%	Wilshire REIT Index
27.00%	Bloomberg Barclays Capital Aggregate Index
6.75%	ML 1-3 Year US Corp/Gov't
1.25%	US High Yield Master II
5.00%	Citi 1Mth T-Bill

Asset Class/Style Benchmarks

Over a market cycle, the long-term objective for each investment strategy is to add value to a market benchmark. The following are the benchmarks used to monitor each investment strategy:

Large Cap Equity	S&P 500 Index
Growth	S&P 500 Growth Index
Value	S&P 500 Value Index
Mid Cap Equity	Russell Mid Cap Index
Growth	Russell Mid Cap Growth Index
Value	Russell Mid Cap Value Index
Small Cap Equity	Russell 2000 Index
Growth	Russell 2000 Growth Index
Value	Russell 2000 Value Index
REITs	Wilshire REIT
International Equity	MSCI EAFE Index
Investment Grade Bonds	Bloomberg Barclays Capital Aggregate Index
High Yield	US High Yield Master II

**Security Selection**

Investment Manager may utilize a full range of investment vehicles when constructing the investment portfolio, including but not limited to individual securities, mutual funds, and exchange-traded funds. In addition, to the extent permissible, Investment Manager is authorized to invest in shares of mutual funds in which the Investment Manager serves as advisor or subadvisor.

***Investment Limitations:***

The following investment transactions are prohibited:

- Direct investments in precious metals (precious metals mutual funds and exchange-traded funds are permissible).
- Venture Capital
- Short sales\*
- Purchases of Letter Stock, Private Placements, or direct payments
- Leveraged Transactions\*
- Commodities Transactions Puts, calls, straddles, or other option strategies\*
- Purchases of real estate, with the exception of REITs
- Derivatives, with exception of ETFs\*

*\*Permissible in diversified mutual funds and exchange-traded funds*

**Duties and Responsibilities**

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***Responsibilities of Plan Sponsor***

The Investment Committee of the City of College Station is responsible for:

- Confirming the accuracy of this Investment Guidelines Document, in writing.
- Advising Trustee and Investment Manager of any change in the plan/account's financial situation, funding status, or cash flows, which could possibly necessitate a change to the account's overall risk tolerance, time horizon or liquidity requirements; and thus would dictate a change to the overall investment objective and goals for the account.
- Monitoring and supervising all service vendors and investment options, including investment managers.
- Avoiding prohibited transactions and conflicts of interest.

***Responsibilities of Trustee***

The plan Trustee is responsible for:

- Valuing the holdings.
- Collecting all income and dividends owed to the Plan.
- Settling all transactions (buy-sell orders).

***Responsibilities of Investment Manager***

The Investment Manager is responsible for:

- Assisting the Investment Committee with the development and maintenance of this Investment Policy Guideline document annually.
- Meeting with Investment Committee annually to review portfolio structure, holdings, and performance.
- Designing, recommending and implementing an appropriate asset allocation consistent with the investment objectives, time horizon, risk profile, guidelines and constraints outlined in this statement.
- Researching and monitoring investment advisers and investment vehicles.
- Purchasing, selling, and reinvesting in securities held in the account.
- Monitoring the performance of all selected assets.
- Voting proxies, if applicable.
- Recommending changes to any of the above.

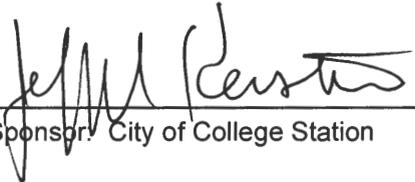
- Periodically reviewing the suitability of the investments, being available to meet with the committee at least once each year, and being available at such other times within reason at your request.
- Preparing and presenting appropriate reports.
- Informing the committee if changes occur in personnel that are responsible for portfolio management or research.

## **Acknowledgement and Acceptance**

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I/We being the Plan Sponsor with responsibility for the account(s) held on behalf of the Plan Sponsor specified below, designate Investment Manager as having the investment discretion and management responsibility indicated in relation to all assets of the Plan or specified Account. If such designation is set forth in the Plan/trust, I/We hereby confirm such designation as Investment Manager.

I have read the Investment Guidelines Document, and confirm the accuracy of it, including the terms and conditions under which the assets in this account are to be held, managed, and disposed of by Investment Manager. This Investment Guidelines Document supersedes all previous versions of an Investment Guidelines Document or investment objective instructions that may have been executed for this account.

  
\_\_\_\_\_  
Plan Sponsor: City of College Station      Date: 9-19-17

  
\_\_\_\_\_  
Investment Manager: Andrew Brown, CFA, Senior Portfolio Manager, (415) 705-7605      Date: 9/21/17

**EXHIBIT B**  
**OPEB Funding Policy**



**CITY OF COLLEGE STATION  
POSTRETIREMENT MEDICAL, DENTAL  
AND LIFE INSURANCE BENEFITS PROGRAM**

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**FUNDING POLICY**

**EFFECTIVE FOR FISCAL YEARS BEGINNING**

**ON AND AFTER OCTOBER 1, 2021**

Adopted: \_\_\_\_\_, 20\_\_

**FUNDING POLICY FOR THE  
CITY OF COLLEGE STATION  
POSTRETIREMENT MEDICAL, DENTAL  
AND LIFE INSURANCE BENEFITS PROGRAM**

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## A. Purpose of Funding Policy

Adoption of a formal policy defining priorities and guidelines for the funding of pension benefits and Other Post-Employment Benefits (OPEB) has become a best practice for public retirement systems. Governing boards and plan sponsors can use a formal funding policy to communicate funding goals and to provide a plan actuary with guidance in determining the requisite contribution rates to meet those goals.

For the City of College Station (the City), the adoption of this policy is intended to:

- Define the goals and objectives of funding the City of College Station Postretirement Medical, Dental and Life Insurance Program (the OPEB Plan),
- Ensure the funding objectives consider the current recommendations of the Government Finance Officers Association (GFOA) and the Conference of Consulting Actuaries Public Plans Community (CCA PPC)<sup>1</sup>,
- Review those objectives against the Texas Pension Review Board (the PRB) funding requirements and Texas Government Code §802.2011, even though such requirements only apply to Public Retirement (Pension) Systems<sup>2</sup>,
- Enhance communications to plan members and retirees regarding the City's funding strategy, and
- Provide funding policy guidance to current and future City managers.

## B. Primary Funding Objective

The primary objective of the funding policy is to fully fund the long-term cost of benefits provided under the terms of the OPEB Plan through disciplined and timely accumulation of contributions and prudent investment of assets, where such investments are governed by the guidelines of a separate Investment Policy Statement.

## C. Funding Priorities and Guidelines

The following priorities and guidelines seek to achieve the Primary Funding Objective:

- **100% Payment of Benefits** – Contributions and current plan assets must be sufficient to pay for all benefits expected to be paid to members and their beneficiaries when due.

<sup>1</sup> The GFOA recommendations are written for both Public Pension Plans and Public OPEB Plans. The CCA PPC recommendations are written for Public Pension Plans, but the CCA PPC white paper states that the general policy objectives presented are applicable to funding OPEB plans with consideration given to distinctive features applicable to OPEB Plans. Accordingly, these GFOA and CCA PPC recommendations are useful guidelines for funding OPEB Plans.

<sup>2</sup> Although the PRB requirements do not apply to OPEB plans, they are useful in comparing to the GFOA and CCA recommendations.

- **Target a Funded Ratio of 100%** – The funded ratio shall be determined based on the ratio of:
  - the Plan Assets (which may be determined using a smoothing methodology discussed below) to
  - the Actuarial Accrued Liability (determined using the selected actuarial Cost Method as discussed below and all other funding valuation assumptions).
- **Contribution Stability and Sound Financing of Benefits** – The financing of benefits should be based on sound actuarial principles. The City desires to minimize year-to-year employer contribution volatility to the extent reasonably possible while understanding that a sound funding policy may require employer contribution fluctuations from year-to-year in order to achieve and maintain the sound actuarial financing of benefits.
- **Intergenerational Equity** – Whenever possible, the costs of benefits are managed such that future taxpayers are not burdened with costs associated with a previous generation of City employees’ service, and such costs are managed in a manner consistent with the principle to pay all benefits when due and without reduction.
- **Benefit Enhancements** – Amendments to the OPEB Plan that improve plan benefits shall not be permitted unless the plan remains above 90% funded following the amendment. However, if the employer funds the full amount of the benefit enhancement at the time the enhancement is adopted, then the 90% funding threshold requirement shall be waived.

## D. City’s OPEB Funding Policy

The Funding Policy determines the manner in which plan liabilities and assets are measured for purposes of determining the annual contributions to the OPEB Plan. Typically, funding policies require the annual Normal Cost (i.e., the present value of the current year benefit accruals) plus a portion of the Unfunded Accrued Liability (UAL) (i.e., the excess of Actuarial Accrued Liability over Plan Assets) to be funded via an amortization payment.

In establishing this Funding Policy, the City considered published guidance from the Texas Pension Review Board, the Conference of Consulting Actuaries Public Plans Community and the Government Finance Officers Association. A detailed summary of this guidance, including many of the terms and concepts utilized in the Funding Policy below, is located in the Appendix of this document.

Effective with the fiscal year beginning October 1, 2021, the City may use the following Funding Policy based on the results of the preceding GASB No 74 valuation (e.g., the January 1, 2021 valuation for the fiscal year beginning October 1, 2021):

**1. Methods** – The City shall use the following methods.

a. **Recommended Contribution** – The City shall determine the annual contribution using the **Actuarially Determined Contribution (ADC) Method**.

- i. **Funded Ratio Less Than 95%** – If the ratio of Plan Assets to the Actuarial Accrued Liability is less than 95%, the ADC shall be determined as the sum of the Normal Cost plus an amortization of the Unfunded Accrued Liability (UAL) as further discussed below.

In addition, OPEB benefit payments will be paid directly by the City, and the City will not receive reimbursement from the OPEB Prefunding Trust.

- ii. **Funded Ratio Between 95% and 100%** – If the ratio of Plan Assets to the Actuarial Accrued Liability is at least 95% and less than 100%, then:

1. if there is any portion of the amortization period of the UAL from the prior valuation (i.e., one or two years remaining), then the ADC shall be determined as the sum of the Normal Cost plus an amortization of the UAL; or
2. if there is no amortization of the UAL remaining from the prior valuation (i.e., there are zero years remaining), then the ADC shall be equal to sum of the Normal Cost plus interest on the UAL at the valuation interest rate.

In addition, OPEB benefit payments will be paid directly by the City, but the City will receive reimbursement from the OPEB Prefunding Trust.

- iii. **Funded Ratio 100% or Greater** – If the ratio of Plan Assets to the Actuarial Accrued Liability is at least 100%, the ADC shall be equal to the Normal Cost and there shall not be an adjustment for the amortization of the UAL. Furthermore, the amount of the Normal Cost shall be offset by Plan Assets in excess of the Actuarial Accrued Liability, but such offset shall not result in an ADC of less than \$0.

In addition, OPEB benefit payments will be paid directly by the City, but the City will receive reimbursement from the OPEB Prefunding Trust.

Each fiscal year, the City budgets a contribution for the OPEB Prefunding Trust (e.g., at the date of adoption of this Funding Policy, the City has budgeted approximately \$1,332,000 for FY22). To the extent that the budgeted OPEB contribution exceeds the ADC described under any of the above scenarios, then

the contribution to the OPEB Prefunding Trust shall exceed the ADC but not in excess of the amount required to achieve a Funded Ratio of 100% plus the amount of the Normal Cost. *In this event, any remaining portion of the budgeted contribution or excess available retiree obligation funding shall be contributed to the Texas Municipal Retirement System to fund the City's pension benefits.*

- b. **Cost Method** – The actuarial cost method shall continue to be the Entry Age Normal Level Percent of Pay method.
- c. **Asset Method** – The City shall use the Market Value of Assets rather than a smoothed value of assets.

Market Value of Assets as of the valuation date equals Fair Value plus any receivable contributions made or to be made for a prior plan year. The Plan Assets shall be set equal to the Market Value of Assets.

- d. **Amortization Method** – The amortization method shall be determined as follows:

Amortization Method	City's Method
Closed Period vs. Open Period	Closed Period
Level Dollar vs. Level Percent	Level Dollar
Single vs. Layered	Single
Amortization Period	3 years

## 2. Other Considerations

- a. **Actuarial Experience Studies** - The City participates in to the Texas Municipal Retirement System (TMRS) which already performs actuarial experience studies at least once every five (5) years. Such experience studies examine the Retirement System's actual experience relative to the expected experience based on the actuarial assumptions in effect. The OPEB plan will incorporate any new demographic assumptions and economic assumptions applicable to the OPEB Plan that are adopted by TMRS as a result of an experience study. The OPEB Plan's investment return assumption (i.e., the discount rate) shall be reevaluated at the same time as each TMRS experience study, and the City shall adopt a new investment return assumption, if warranted at such time.
- b. **Risk-Sharing** – If the ADC exceeds the amount of the budgeted OPEB contribution or if the ADC becomes otherwise untenable, then the City reserves the right to examine any combination of the following approaches to adjust the ADC or otherwise restore the ADC to a sustainable level:

- i. adjusting the funding policy (e.g., use longer amortization periods that remain within the recommended ranges) while still meeting the Primary Funding Objectives,
- ii. increasing the retirees' cost-sharing contributions to the OPEB Plan for medical and dental coverage to restore the ADC to a sustainable level,
- iii. reducing future benefits to restore the ADC to a sustainable level, and/or
- iv. limiting the contribution to the amount of the budgeted OPEB contribution.

The City reserves the right to amend, modify or replace this Funding Policy.

## Glossary of Actuarial Terms

<b>Actuarial Accrued Liability or Accrued Liability (AAL)</b>	This is computed differently under different actuarial cost methods. Generally, the Actuarial Accrued Liability or Accrued Liability represents the portion of the Present Value of Future Benefits attributed to periods of service preceding the valuation date.
<b>Actuarial Gain (Loss)</b>	A measure of the difference between actual experience and that expected based on the actuarial assumptions during the period between two actuarial valuation dates, as determined in accordance with the particular actuarial cost method used.
<b>Actuarial Value of Assets (AVA)</b>	The value of assets used by an actuary for an actuarial valuation. The AVA can be set equal to the Market Value of Assets, or the AVA can be set equal to a smoothed value of assets that is designed to smooth volatility in the Market Value of Assets over a period of years (e.g., a three to ten year period).
<b>Entry Age Normal Actuarial Cost Method</b>	An actuarial cost method under which the Present Value of Future Benefits of each individual included in an actuarial valuation is allocated on a level basis over the earnings or service of the individual between entry age and assumed exit ages. The portion of this actuarial present value allocated to the year of service during the valuation year is called the Normal Cost. The portion of this present value not provided for at a valuation date by the Present Value of Future Normal Costs is called the Accrued Liability.
<b>Market Value of Assets</b>	Market Value of Assets as of a valuation date equals Fair Value plus any receivable contributions made or to be made for a prior plan year.
<b>Normal Cost</b>	Computed differently under different actuarial cost methods, the Normal Cost generally represents the portion of the actuarial Present Value of Future Benefits attributed to the current year of service for active employees.
<b>OPEB Plan</b>	An OPEB Plan or Other Post-Employment Benefit Plan is a plan that provides post-retirement benefits other than pension benefits. Such plans typically provide post-retirement medical coverage, including prescription drug coverage, dental coverage and life insurance benefits.
<b>Plan Assets</b>	Used interchangeably with Actuarial Value of Assets. See definition of Actuarial Value of Assets above.

**Present Value of Future Benefits**

Future benefits include all benefits estimated to be payable to plan members (retirees and beneficiaries, terminated employees entitled to benefits but not yet receiving them, and current active members) as a result of their service through the valuation date and their expected future service. The actuarial Present Value of Future Benefits as of the valuation date is the present value of the cost to finance benefits payable in the future, discounted to reflect the expected effects of the time value (present value) of money and the probabilities of payment.

**Present Value of Future Normal Costs**

The difference between the Present Value of Future Benefits and the Actuarial Accrued Liability under a given actuarial cost method.

**Unfunded Accrued Liability (UAL)**

The excess, if any, of the Actuarial Accrued Liability over the Actuarial Value of Assets.

## Appendix

### Published Guidance on Key Elements of a Funding Policy

The Funding Policy determines the manner in which plan liabilities and assets are measured for purposes of determining the annual contributions to the OPEB Plan. Typically, funding policies require the annual Normal Cost (i.e., the present value of the current year benefit accruals) plus a portion of the Unfunded Accrued Liability (UAL) (i.e., the excess of Actuarial Accrued Liability over Plan Assets) to be funded via an amortization payment.

Published guidance by the following entities has been considered in developing the Funding Policy:

1. **Texas PRB’s “Guidance for Developing a Funding Policy” adopted on October 17, 2019** – This guidance is intended to assist public entities in Texas in developing a policy that meets the requirements of Texas Government Code §802.2011 **which does not apply to OPEB plans**, but is useful to consider when establishing a funding policy for a OPEB plan;
2. **Conference of Consulting Actuaries Public Plans Community (CCA PPC) “Actuarial Funding Policies and Practices for Public Pension Plans” published in October 2014** – This publication is a “white paper” that develops principal elements and parameters of actuarial funding policy for U.S. public pension plans. The white paper states, “While this white paper develops guidance primarily for pension plans, we believe the general policy objectives presented here are applicable to the funding of OPEB plans as well.” The guidance offered in the white paper “is not intended to supplant or replace the applicable Actuarial Standards of Practice (ASOPs)” and is “nonbinding and advisory only”, but is intended as advice to actuaries and retirement boards in setting funding policy. The white paper develops a Level Cost Allocation Model that recommends actuarial funding methods for measuring both plan liabilities and plan assets, as well as recommends amortization periods for funding the UAL. These recommendations are discussed further below; and
3. **Government Finance Officers Association’s Best Practice “Sustainable Funding Practices for Defined Benefit Pensions and Other Postemployment Benefits” approved by the GFOA’s Executive Board in January 2016** – This paper includes recommendations for best practices for adopting a funding policy for Pension and OPEB plans and incorporates by reference the GFOAs’ Best Practice “Core Elements of Funding Policy” published in 2013 which also recommends parameters for a funding policy.

All three sources of published guidance discuss the following key elements of a funding policy.

- **Recommended Contribution** – There are two methods used to determine recommended employer contributions to retirement plans:

- **Fixed Rate Method** – The Fixed Rate method determines the annual employer contribution as a constant percentage (i.e., a fixed rate) of payroll. This method is used to minimize volatility in the contribution amount and does not vary from year-to-year unless certain conditions are met.
- **Actuarially Determined Contribution (ADC) Method** – The ADC is determined as the sum of the Normal Cost plus an amortization of the UAL. The ADC changes each year as the Normal Cost and UAL fluctuate. This volatility permits the plan funding to be adjusted as needed in order to continue funding towards 100% over a set period of time.

As discussed below, the Normal Cost and Actuarial Accrued Liability are determined based upon the actuarial Cost Method that is selected, and the Plan Assets can either be determined using Market Value or a smoothed Actuarial Value of Assets. Lastly, the period(s) over which the UAL is amortized as well as the methods of setting the period(s) (open period vs. closed period and level dollar amortization vs. level percent of pay amortization) are also key components in the determination of the ADC.

**The Texas PRB and GFOA recommend using the ADC method. The CCA PPC white paper is written solely in the context of the ADC method;** however, the white paper indicates that plans that use the Fixed Rate method should also develop an ADC rate for comparison. Similarly, the Texas PRB recommends that if a Fixed Rate method is used, then an ADC rate should be used as a benchmark for determining if the Fixed Rate is reasonable, as well as to identify conditions in which the Fixed Rate should be changed to move towards the ADC rate either via changes to the rate or benefit reductions.

- **Cost Method** – The actuarial cost method is used to allocate the Present Value of Future Benefits to past, current and future service periods.
  - **Actuarial Accrued Liability** – This is the portion of the Present Value of Future Benefits assigned to past service (i.e., service before the actuarial valuation date).
  - **Normal Cost** – This is the portion of the Present Value of Future Benefits that is assigned to the current year of service (i.e., it is the present value of the current year's accruals).
  - **Present Value of Future Normal Costs** – This is the portion the Present Value of Future Benefits that is assigned to future service after the valuation year (i.e., it represents the present value of future years' accruals).

**The PRB, the CCA PPC and the GFOA all recommend that plan liabilities be determined using the Entry Age Normal Level Percent actuarial cost method for plans with pay-related benefits.** Although the City's OPEB Plan benefits are not pay-related, GASB Nos. 74/75 require the use of the Entry Age Normal Level Percent actuarial

cost method. This method funds each individual's benefits over their career as a level percent of pay.

- **Asset Method** – Rather than use the Market Value of Assets in each annual valuation as the measure of Plan Assets, an Actuarial Value of Assets (AVA) can be used to smooth investment gains and losses and thus reduce year-to-year volatility in developing a funding policy contribution. Some AVA methods also place a corridor around the Market Value of Assets to limit the maximum amount of the smoothing during periods in which the market has been very volatile.

**The PRB, the CCA PPC and the GFOA have various recommended ranges for the length of the period over which assets can be smoothed, but all three entities indicate that a 5-year smoothing period is reasonable, with the GFOA stating that a period of 5 years or less is “ideal”.** Furthermore, the CCA PPC and GFOA neither recommend nor discourage a corridor for a 5-year smoothing period (but they do recommend corridors for smoothing periods in excess of 5 years), while the PRB does not state a position on this matter.

- **Amortization Method** – The amortization method determines the manner and period over which the Unfunded Accrued Liability (UAL) is amortized.
  - **Level Dollar vs. Level Percent** – The UAL can be amortized as a:
    - Level Dollar amount, where the amortization installment is fixed each year, or
    - Level Percent amount, where the amortization installment increases each year as payroll increases, but this can sometimes result in negative amortization.
  - **Open Period vs. Closed Period** – The UAL can be amortized over an:
    - Open Period, whereby the amortization period is the same each year (e.g., a 5-year Open Period amortization would use a 5-year amortization for the January 1, 2021 valuation, followed by another 5-year open period on January 1, 2022 and so on without the 5-year period ever changing), or
    - Closed Period, whereby the amortization period reduces each successive period (e.g., a 5-year Closed Period amortization would use a 5-year amortization for the January 1, 2021 valuation, followed by a 4-year Closed Period on January 1, 2022 and so on until the final year of the amortization is reached in the 5<sup>th</sup> year).
  - **Single Amortization vs. Layered Amortization** – The UAL can be amortized using:

- **Single Amortization** – Under the Single Amortization method, the full amount of the UAL is amortized over a single period each year.
- **Layered Amortization** – Under the Layered Amortization method, different amortization layers of the UAL are established at each actuarial valuation, and the sum of the layers is equal to the full UAL. In addition, within a single valuation, multiple layers of UAL can be established for different sources of changes in the UAL. The Layered Amortization method requires that a new amortization base (or layer) be created each year for Actuarial Experience Gains/Losses that occur during the year. In addition, new amortization layers are created in years in which actuarial assumptions or methods are changed and in years in which plan amendments are enacted.

Creating a new amortization layer for each year reduces the volatility of the amortization of the UAL relative to the Single Amortization method, particularly as the Closed Period becomes shorter if a Closed Period amortization method is used. In addition, different amortization periods can be used for different types of layers created in years in which actuarial assumptions or methods are changed and in years in which plan amendments are enacted. This allows the funding of each layer to be better aligned with an appropriate amortization period.

**As shown in the tables below, the Texas PRB, CCA PPC and GFOA all recommend a Layered Amortization approach with Closed Periods but with different amortization periods and different recommendations for Level Dollar versus Level Percent.**

Method	Amortization Methodology		
	Texas PRB	CCA PPC	GFOA
Closed Period vs. Open Period	Closed Period	Closed Period	Closed Period
Level Dollar vs. Level Percent	Level Dollar <sup>1</sup>	Level Percent <sup>2</sup>	Either
Single vs. Layered	Layered	Layered	Layered

Source of Amortization Layers	Amortization Period		
	Texas PRB <sup>1</sup>	CCA PPC <sup>2</sup>	GFOA
Actuarial Experience Gain/Loss	10 to 25 years	15 to 20 years	15 to 25 years <sup>5</sup>
Assumption and Method Changes	10 to 25 years	15 to 25 years	15 to 25 years <sup>5</sup>
Plan Amendments	10 to 25 years	10 to 15 years <sup>3</sup>	15 to 25 years <sup>5</sup>
Transition to New Policy	Not discussed	Up to 30 years <sup>4</sup>	Not discussed

<sup>1</sup> The Texas PRB indicates that “level dollar amounts are preferable unless payroll is expected to decrease in the future”. The Texas PRB also states that 10 to 25 years is the preferable range, and while it indicates that a layered approach is acceptable, it does not provide separate preferred ranges for each of the layers.

<sup>2</sup> The white paper indicates that “level dollar could be appropriate for sponsors and plans that are particularly averse to future cost increases, e.g., utilities setting rates for current rate payers.” Furthermore, the white paper states “level dollar is generally faster amortization than level percent of pay so longer periods may be reasonable.”

<sup>3</sup> The white paper recommends that Plan Amendments be amortized over the actual remaining active future service for amendments affecting active members (where 15 years can be used as an approximation) or over actual remaining retiree life expectancy for amendments affecting inactive members (where 10 years can be used as an approximation).

<sup>4</sup> The white paper indicates that transition policies would allow current fixed period amortization layers with periods not to exceed 30 years to continue with new amortization layers subject to recommended guidelines.

<sup>5</sup> GFOA states that amortization periods should “ideally fall in the 15-20 year range” but “never exceed 25 years”.

- **Other Considerations** – The Texas PRB, CCA PPC and GFOA each recommend other considerations to manage growth in plan liabilities and mitigate other risks.

- **Actuarial Experience Studies** - An actuarial experience study examines a Retirement Plan’s actual demographic and economic experience relative to the expected experience based on the actuarial assumptions used in an actuarial valuation. Adjustments should be made to the actuarial assumptions whenever actual plan experience deviates materially from the assumptions in order to produce the best long-term estimate and to better align the contributions with the long-term expected cost of the plan.

**The GFOA recommends an actuarial experience study be conducted at least once every five years; the Texas PRB indicates that the frequency of actuarial experience studies can be included in the funding policy; and the CCA PPC does not address assumption selection in its white paper.**

- **Risk Mitigation Strategies** – Other strategies can be implemented to mitigate risks, such as the risk of large contribution increases year-to-year, sharing risks with employees via increased employee contributions or benefit reductions in certain scenarios. Managing growth in plan liabilities via restrictions on plan amendments should also be considered.

**The Texas PRB, CCA PPC and GFOA all suggest various strategies for mitigating risks and managing growth in plan liabilities, and the referenced publications for each of these bodies suggest incorporating some risk mitigation strategies into a plan's funding policy.**