



City of South Padre Island, Texas

Request for Proposals for Investment Advisory Services

PART I

GENERAL INFORMATION

PURPOSE:

The City of South Padre Island, Texas is seeking proposals from investment advisors who are registered with the Securities and Exchange Commission and the Texas State Securities Board to provide non-discretionary portfolio management services for the City's approximately \$15,000,000 investment portfolio. The initial contract period will begin January 1, 2014, and end September 30, 2015. At the City's option, the contract may be renewed for three (3) additional one year periods.

This Request for Proposals (RFP) is designed to present interested firms with the description of the City's current investment policy, the services we require, and a format for responding to our request.

BACKGROUND:

Texas Government Code, Chapter 2256 – "Public Funds Investment Act" and the City's Investment Policy govern the investment of the City's funds. The City's primary investment objectives in order of importance are **safety, liquidity, public trust, and yield.**

We are, therefore, seeking advisors who demonstrate extensive experience, especially with fixed-income securities, to provide certain services related to the investment of City funds, including the execution of securities purchases/sales for the City's operating and bond funds, investment advice, investment reporting, and annual review of the City's investment policy.

The City Manager and Finance Director oversee the investment process. The City Council reviews investment reports and recommendations regarding policy and procedures. The City Manager and Finance Director are the designated as investment officers. The advisor will receive instructions regarding securities purchases/sales from authorized City staff.

CITY PROFILE:

The City of South Padre Island is a unique, friendly seaside resort community that values its residents and tourists, preserves and protects the natural environment, and provides for quality sustainable growth and development that is highly diverse and responsive to changing economic conditions. The City is located on a 34-mile long sub-tropical Island, in Cameron County, on the Gulf Coast of Texas, 25 miles north of the Mexican Border. The island is a half-mile wide at its widest point and

"A Certified Retirement Community"



City of South Padre Island, Texas

Request for Proposals for Investment Advisory Services

only the island's southernmost 5 miles are developed. The City was incorporated in 1973 and is linked to the Texas mainland by Texas' longest bridge. The 2.5 mile long, four-lane divided, toll-free Queen Isabella Causeway was completed in 1974. The City operates as a home rule law municipality pursuant to the laws of the State of Texas.

Tourism is the principal industry in the City, with an estimated 5.1 million visitors coming to the island annually. Water resources have been the dominant factor in the development of the City. The Gulf provides approximately 23 miles of beach front in Cameron County, approximately 5 miles of which is situated in the City. As noted, the island has become popular for vacationers and retirees. The Gulf also provides a means for shipping cargo, for fishing interests (both commercial and sporting) and for boating. The body of water between Padre Island and the mainland is the Laguna Madre, providing bay front property for development. The intercoastal waterway located in the Laguna Madre is maintained by the US Army Corps of Engineers as a water route for shipping.

DEFINITIONS:

The following definitions shall be used for identified terms throughout the specification and proposal document:

- Agreement – a mutually binding legal document obligating the Contractor to furnish the goods, equipment or services, and obligating the City to pay for it.
- City – identifies the City of South Padre Island, Cameron County, Texas.
- Contractor – a person or business enterprise providing goods, equipment, labor and/or services to the City as fulfillment of obligations arising from a contract or purchase order.
- Deliverables – the goods, products, materials, and/or services to be provided to the City by vendor if awarded agreement.
- Goods - represent materials, supplies, commodities and equipment.
- Proposal – complete, properly signed response to a Solicitation that if accepted, would bind the Proposer to perform the resulting agreement.
- Proposer - identified throughout this specification shall describe persons and entities that consider themselves qualified to provide the goods, equipment or services.
- Services – work performed to meet a demand. The furnishing of labor, time, or effort by the vendor and their ability to comply with promised delivery dates, specifications, and technical

“A Certified Retirement Community”



City of South Padre Island, Texas

Request for Proposals for Investment Advisory Services

assistance specified.

- Subcontractor - any person or business enterprise providing goods, equipment, labor, and/or services to a Contractor if such goods, equipment, labor, and/or services are procured or used in fulfillment of the Contractor's obligations arising from a contract with the City.
- Vendor (sometimes referred to as Contractor) – a person or business enterprise providing goods, equipment, labor and/or services to the City as fulfillment of obligations arising from an agreement or purchase order.

CONFLICT OF INTEREST:

Effective March 1, 2006, chapter 176 of the Texas Local Government Code (House Bill 914) requires that any vendor or person considering doing business with a local government entity disclose the vendor or person's affiliation or business relationship that might cause a conflict of interest with a local government entity. The Conflict of Interest Questionnaire form is available from the Texas Ethics Commission at www.ethics.state.tx.us. Completed conflict of Interest Questionnaires may be mailed or delivered by hand to the City Secretary. If mailing a completed form, please mail to:

City of South Padre Island, Texas
Susan Hill - City Secretary
4601 Padre Blvd.
South Padre Island, Texas 78597

Any attempt to intentionally or unintentionally conceal or obfuscate a conflict of interest may automatically result in the disqualification of the vendor's Proposal.

"A Certified Retirement Community"



City of South Padre Island, Texas Request for Proposals for Investment Advisory Services

CLARIFICATION:

For clarification of specifications, proposers may contact:

Darla Jones
Interim City Manager
City of South Padre Island
Telephone: 956-761-8107
djones@myspi.org

or

Rodrigo Gimenez
Finance Director
City of South Padre Island
Telephone: 956-761-8130
rgimenez@myspi.org

The individuals listed above may be contacted by telephone or visited for clarification of the specifications only. No authority is intended or implied that specifications may be amended or alterations accepted prior to proposal opening without written approval of the City of South Padre Island through the City Manager's office.

“A Certified Retirement Community”



City of South Padre Island, Texas Request for Proposals for Investment Advisory Services

PART II PROPOSAL INSTRUCTIONS

PROPOSAL SCHEDULE:

It is the City's intent to comply with the following timeline:

- Request for Proposals released October 25, 2013
- Deadline for Questions November 1, 2013
- City Response to Submitted Questions November 8, 2013

- Sealed responses to the RFP due by **3:00 p.m. November 22, 2013**

NOTE: These dates represent a tentative schedule of events. The City reserves the right to modify these dates at any time, with appropriate notice to known Proposers.

All questions regarding the RFP shall be submitted in writing (either e-mail, fax, or regular mail) by **5:00 p.m. on November 1, 2013** to the above named City Contacts.

All questions submitted and the City's response will be provided to known interested firms by **5:00 p.m. on November 8, 2013**.

PROPOSAL DUE DATE:

Sealed Proposals are due no later than **3:00 p.m. on November 22, 2013**, to the City of South Padre Island.

**City of South Padre Island, Texas
Attn: Susan Hill
City Secretary
4601 Padre Blvd.
South Padre Island, Texas 78597**

"A Certified Retirement Community"



City of South Padre Island, Texas Request for Proposals for Investment Advisory Services

Proposals received after this time and date will not be considered.

Sealed Proposals shall be clearly marked **“DO NOT OPEN – Investment Advisor Services”**.

Facsimile or electronically transmitted Proposals are **not acceptable**.

Each Proposal shall contain two (2) bound originals and one (1) copy.

Results of the submitted Proposals will be available after the City Council selects the successful advisor.

“A Certified Retirement Community”



City of South Padre Island, Texas

Request for Proposals for Investment Advisory Services

PART III

PROPOSAL FORMAT:

It is intended that this RFP describe the requirements and Proposal format in sufficient detail to secure comparable Proposals. Interested and qualified firms shall:

- Submit two (2) bound originals and one (1) copy of materials that demonstrate the Proposer's ability to meet City requirements as specified in this Request for Proposals.
- Responding firms shall submit Proposals in the following format and sequence:

Organization:

- Describe the organization, date founded, ownership of your firm, as well as any subsidiaries and affiliates relevant to the City.
- Describe the experience of the firm in serving as cash management advisor for municipalities and other public entities, including average investment yields.
- Describe any censure, arbitration, or litigation involving institutional business your firm conducts with governmental investors at this time or within the past ten years.

Personnel:

- Identify the key personnel of your staff committed to the public sector and their credentials.
- Provide biographical information on investment professionals who will be directly involved in providing services to the City. Describe their relationship to your firm, their responsibilities, their investment experience, specifically, in public sector cash management, and their years of service.
- Describe efforts your firm makes to keep portfolio managers informed of developments relevant to government investment managers.

Investment Management Approach:

- Describe your firm's approach to fulfilling the requirements of the City's Investment Policy.
- Describe the primary strategies utilized to add value to the portfolio.

"A Certified Retirement Community"



City of South Padre Island, Texas

Request for Proposals for Investment Advisory Services

- Describe your procedures for portfolio review, investment management, and client contact.
- Describe how your firm maintains compliance with Texas Government Code, Chapter 2256 (Public Funds Investment Act).

Reporting:

- Describe and submit samples of the records, investment reports, and market commentary that would be provided and their frequency. Include methods and formulas (including software) used to calculate yield and performance.
- Describe the process the firm would go through to assist in identifying appropriate industry benchmarks.

Fees:

- Provide Base rate for quarterly investment portfolio reporting.
- Provide Hourly rate for investment advisory services, including:
 - Recommendations for investment policy and strategy;
 - Consultation and execution of security purchases.
- The City reserves the right to clarify and/or negotiate fees prior to contract approval.

Other Considerations:

- Describe the firm's experience in developing Texas PFIA-compliant investment policies.
- Describe the firm's approach to managing relationships with the broker/dealer community.
- Describe any assistance the firm would provide in reviewing custodial and safekeeping agreements.
- Describe the training and education services provided to City staff.
- Describe the nature and frequency of meetings the firm would recommend to keep City staff informed.

"A Certified Retirement Community"



City of South Padre Island, Texas

Request for Proposals for Investment Advisory Services

Other Information:

- Provide a copy of the firm's ADV on file with the SEC or the State Securities Board of Texas.
- Provide proof of registration with the State Securities Board of Texas and/or the Securities and Exchange Commission.
- Provide a list of at least three (3) Texas public client references, including contact persons and telephone numbers.

Standard Agreement:

- Provide a standard Services Agreement as would customarily be executed between your firm and clients reflecting the goods and services specified in this Request for Proposals. The Agreement shall include a cancellation clause allowing either party to cancel upon 30 days written notice.
- Agreement Term shall reflect an initial contract period to begin January 2014 ending September 2015 with an option for three (3) one-year renewals upon City Council approval.
- A Responder may withdraw their Proposal by submitting a written request for its withdrawal by the signature of an authorized individual to the Purchasing Agent any time prior to the submission deadline. The prospective Responder may thereafter offer a new Proposal prior to the deadline. Modifications offered in any manner will not be considered if submitted after the deadline.

CLARIFICATION OF PROPOSAL:

The City, in its sole discretion, expressly reserves the right to request and/or require any additional information from the Proposer(s) that it may deem relevant with respect to this RFP. The contents of the Proposal and any clarification or counter-Proposal thereto submitted by the successful vendor shall become part of the contractual obligation and incorporated by reference into the ensuing contract.

"A Certified Retirement Community"



City of South Padre Island, Texas

Request for Proposals for Investment Advisory Services

BEST VALUE EVALUATION:

All proposals received shall be evaluated based on the best value for the City. Best value shall be determined by considering all or part of the criteria listed below, as well as any relevant criteria specifically listed in the solicitation.

- Proposal price;
- Reputation of the Proposer and of Proposer's goods and services;
- The quality of the Proposer's goods or services;
- The extent to which the goods or services meet the City's needs;
- Proposer's past relationship with the City. All vendors shall be evaluated on their past performance and prior dealings with the City to include, but not limited to, failure to meet specifications, poor quality, poor workmanship, and late delivery.

EVALUATION PROCESS:

- A committee comprised of City Staff and others as appropriate will review the Proposals and may develop a short list of firms.
- Interviews and/or demonstrations may be conducted with any responding firms/teams to discuss their qualifications, resources, and availability to provide the services requested.
- The City will not provide compensation or defray any cost incurred by any firm related to the Proposal or this request.
- The City reserves the right to request additional information or to meet with representatives from proposing organizations to discuss points in the proposal after submission, any and all of which may be used in forming a recommendation.
- The City reserves the right to negotiate with any and all persons or firms. The City also reserves the right to reject any or all Proposals, or to accept any Proposal deemed most advantageous, or to waive any irregularities or informalities in the Proposal received, and to revise the process and/or schedule as circumstances require.

AGREEMENT:

The term of this Agreement shall be for a twenty-one (21) month period of time from the date of award. Prices shall be firm for the duration of the Agreement. This Agreement may be renewed for

"A Certified Retirement Community"



City of South Padre Island, Texas

Request for Proposals for Investment Advisory Services

three (3) additional periods of time not to exceed twelve months for each renewal provided both parties agree.

CANCELLATION:

Either party reserves the right to cancel the Agreement without penalty by providing 30 days prior written notice to the other party. Termination under this paragraph shall not relieve the Contractor of any obligation or liability that has occurred prior to cancellation.

NOTE: This Agreement is subject to cancellation, without penalty, at any time the City deems the vendor to be non-compliant with contractual obligations.

“A Certified Retirement Community”



City of South Padre Island, Texas

Request for Proposals for Investment Advisory Services

PART IV SCOPE OF WORK

SCOPE:

These specifications cover only the general requirements as to the provision of nondiscretionary portfolio management services for the City's approximately \$15,000,000 investment portfolio.

MINIMUM SERVICE REQUIREMENTS:

The Investment Advisor shall:

- Be a registered Investment Advisor as defined and regulated by the Securities and Exchange Commission or the Texas State Securities Board;
- Be either completely independent of any financial institution or securities brokerage firm; or fully and continuously disclose any relationships with such financial institution or securities brokerage firm, and further disclose any commissions, bonuses, or soft-dollar payments resulting from the firm's relationship with the City;
- Take no possession of City funds or investment securities, nor have access to or control over such funds or securities;
- Comply with Texas State law and the ordinances and policies of the City;
- Review and recommend changes to the City's Investment Policy;
- Assist in developing and implementing investment strategies that will enhance portfolio performance under current and anticipated changes in market conditions within the parameters of established investment policies and cash flow needs. Make presentations to the City Council, as needed, to support recommendations relating to investment strategy;
- Provide non-discretionary management of the City's investment portfolio by acting solely in an advisory and administrative capacity within the guidelines of the City's Investment Policy and at the direction of authorized City staff;
- Provide timely assessments of the fixed income market;
- Execute securities purchases/sales upon verbal instructions from authorized City staff. After a trade is executed, the advisor must confirm to the City by fax or email all details of the trade. The City is responsible for instructing the Bank to either accept or deliver securities transacted;

"A Certified Retirement Community"



City of South Padre Island, Texas

Request for Proposals for Investment Advisory Services

- Assist the City in developing and maintaining an authorized broker/dealer list and creating a competitive environment for each trade;
- Provide monthly and quarterly portfolio reports in a format acceptable to the City and compliant with State law;
- Assist with cash flow modeling to enhance investment strategies;
- Provide market analysis and commentary, including economic trends, to assist the City with investment strategies;
- Attend periodic meetings as requested.
- The above list is not meant to constitute an exhaustive list of duties. The contract negotiated with the firm may include other services. Proposers are also invited to describe other services or functions that they would recommend to the City's Investment Program.

“A Certified Retirement Community”



City of South Padre Island, Texas Request for Proposals for Investment Advisory Services

CITY OF SOUTH PADRE ISLAND INVESTMENT POLICY:

Attachment A, to these specifications is a current presentation of the City of South Padre Island Investment Policy.

RECENT INVESTMENT REPORT:

Attachment B to these specifications are a presentation of the recent City of South Padre Island Investment Report.

ALTERNATE/OPTIONAL PROPOSALS:

Proposers are encouraged to submit alternate or optional proposals reflecting the ability of the firm to meet or exceed City requirements listed herein. Alternate approaches will be considered in selection. All proposals which delineate from specified City requirements shall be clearly noted as such in response.

“A Certified Retirement Community”



City of South Padre Island, Texas

Request for Proposals for Investment Advisory Services

PART V INVOICING AND PAYMENT

INVOICING: Contractor shall submit one original and one copy of each invoice on a quarterly basis to the following address:

**City of South Padre Island, Texas
Accounts Payable
4601 Padre Blvd.
South Padre Island, Texas 78597**

PROMPT PAYMENT POLICY: Payments shall be made within thirty days after the City receives the supplies, materials, equipment, or the day on which the performance of services was completed or the day on which the City receives a correct invoice for the supplies, materials, equipment or services, whichever is later.

The Contractor may charge a late fee (fee shall not be greater than that which is permitted by Texas law) for payments not made in accordance with this prompt payment policy; however, this policy does not apply to payments made by the City in the event:

- ☐ There is a bona fide dispute between the City and Contractor concerning the supplies, materials, services or equipment delivered or the services performed that causes the payment to be late; or
- ☐ The terms of a federal agreement, grant, regulation, or statute prevent the City from making a timely payment with Federal Funds; or
- ☐ There is a bona fide dispute between the Contractor and a subcontractor or between a subcontractor and its suppliers concerning supplies, material, or equipment delivered or the services performed which caused the payment to be late; or
- ☐ The invoice is not mailed to the City in strict accordance with instructions, if any, on the purchase order or agreement or other such contractual agreement.

“A Certified Retirement Community”

Attachment A

City of South Padre Island Investment Policy

CITY OF SOUTH PADRE ISLAND

And

SOUTH PADRE ECONOMIC DEVELOPMENT

CORPORATION

INVESTMENT POLICY

INTRODUCTION

The purpose of this document is to set forth specific investment policy and strategy guidelines for the City of South Padre Island (the “City”) and the South Padre Island Economic Development Corporation (the “EDC”) in order to achieve the goals of safety, liquidity, public trust, and yield for all investment activity. The City Council of the City and Board of Directors of the EDC shall review its investment strategies and policy not less than annually. This Policy serves to satisfy the statutory requirement (specifically the Public Funds Investment Act, Government Code chapter 2256, (the “PFIA”) to define, adopt and review a formal investment strategy and policy.

Throughout this Investment Policy, the City and EDC shall be collectively referred to as “SOUTH PADRE.”

INVESTMENT POLICY

I. SCOPE

This Investment Policy applies to all financial assets of SOUTH PADRE. The funds are accounted for in SOUTH PADRE'S Comprehensive Annual Financial Report (CAFR) and include (but are not limited to):

- General Fund
- Special Revenue Funds
- Debt Service Funds
- Capital Projects Funds
- Economic Development Funds

II. OBJECTIVES

SOUTH PADRE shall manage and invest its cash with the objectives (listed in order of priority): Safety, Liquidity, Public Trust, and Yield. The safety of the principal invested always remains the primary objective. All investments

shall be designed and managed in a manner responsive to the public trust and consistent with State and Local law.

SOUTH PADRE shall utilize cash management procedures which include collection of accounts receivable, vendor payment in accordance with invoice terms, and prudent investment of available cash. Cash management is defined as the process of managing monies in order to ensure maximum cash availability and interest earnings on short-term investment of idle cash.

Safety

The primary objective of SOUTH PADRE'S investment activity is the preservation of capital in the overall portfolio. Each investment transaction shall be conducted in a manner to avoid capital losses, whether they are from securities defaults or erosion of market value.

Liquidity

The investment portfolio shall be structured such that SOUTH PADRE is able to meet all obligations in a timely manner. This shall be achieved by matching investment maturities with forecasted cash flow requirements, maintaining adequate levels of highly liquid investments and by investing in securities with active secondary markets.

Public Trust

In addition to achieving the stated objectives, all participants in SOUTH PADRE'S investment process shall seek to act responsibly as custodians of the public trust. Investment Officers shall avoid any transaction which might impair public confidence in SOUTH PADRE'S ability to govern effectively.

Yield

The investment portfolio shall be designed with the objective of regularly exceeding the average rate of return on three-month U.S. Treasury Bills. The investment program shall seek to augment returns above this threshold consistent with risk limitations identified herein and prudent investment

policies. To determine portfolio performance, this Policy established “weighted average yield to maturity” as the standard calculation.

INVESTMENT STRATEGY

SOUTH PADRE maintains portfolios which utilize four specific investment strategy considerations designed to address the unique characteristics of the fund groups represented in the portfolios:

- A. Investment strategies for operating fund and commingled pools containing operating funds have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. The secondary objective is to create a portfolio structure which will experience minimal volatility during economic cycles. This may be accomplished by purchasing high quality, short to medium-term investments that will complement each other in a ladder or barbell maturity structure with a maximum maturity of two years. The dollar weighted average maturity of 365 days or less will be calculated using the stated final maturity date of each investment. Funds shall be managed and invested with the objectives (listed in order of priority): Safety, Liquidity, Public Trust, and Yield.
- B. Investment strategies for debt service funds shall have as the primary objective the assurance of investment liquidity adequate to cover the debt service obligation on the required payment date. Investments purchased shall not have a stated final maturity date which exceeds the debt service payment date. Funds shall be managed and invested with the objectives (listed in order of priority): Safety, Liquidity, Public Trust, and Yield.
- C. Investment strategies for debt service reserve funds shall have as the primary objective the ability to generate a dependable revenue stream to the appropriate debt service fund from investments with a low degree of volatility. Investments should be of high quality and, except as may be required by the bond ordinance specific to an individual issue, of short to intermediate-term maturities with a maximum maturity of five years. Funds shall be managed and invested with the

objectives (listed in order of priority): Safety, Liquidity, Public Trust, and Yield.

- D. Investment strategies for special projects or special purpose fund portfolios will have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. These portfolios should include at least 10% in highly liquid investments to allow for flexibility and unanticipated project outlays. The stated final maturity dates of investments held should not exceed the estimated project completion date. Funds shall be managed and invested with the objectives (listed in order of priority): Safety, Liquidity, Public Trust, and Yield.
- E. Investment strategies for Economic Development Funds will consider that these fund balances are designated for economic development projects and will be scheduled by the South Padre Economic Development Corporation. In addition to considerations addressed in the balance of this Investment Policy, the maximum weighted average maturity of Economic Development Funds shall not exceed two years. The maximum maturity of an individual investment shall not exceed three years. To ensure adequate liquidity for unanticipated cash needs, a portion of the fund balances shall be invested in financial institution deposits, constant dollar investment pools, or money market mutual funds. Any term-specific investments shall be matched with anticipated cash requirements. Funds shall be managed and invested with the objectives (listed in order of priority): Safety, Liquidity, Public Trust, and Yield.

III. RESPONSIBILITY AND CONTROL

Delegation of Authority and Training

The City Manager and Finance Director are designated as Investment Officers for the CITY OF SOUTH PADRE. The City Manager shall approve all strategic investment programs prior to implementation. The City's Finance Director is responsible for day-to-day cash management activities, including, but not limited to, transfers between the City's Primary

Depository and authorized local government investment pools. The City's Finance Director shall establish procedures for the operation of the cash management and investment programs, consistent with this Investment Policy.

In order to ensure qualified and capable investment management, each Investment Officer shall attend at least one training session, from an independent training source, and containing at least 10 hours of instruction relating to the Officer's responsibility under the PFIA within 12 months after assuming duties. Thereafter, each Investment Officer shall additionally attend at least one training session, from an independent training source, and containing at least 10 hours of instruction relating to the Officer's responsibility under the PFIA not less than once in a two-year period that begins on the first day of the City's fiscal year and consists of the two consecutive fiscal years after that date.

The approved independent sources of training are: Government Finance Officers' Association of Texas, Government Treasurers' Organization of Texas, Government Finance Officers' Association, University of North Texas, and the Texas Municipal League.

Internal Controls

The City's Finance Director is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of SOUTH PADRE are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Accordingly, the City's Finance Director shall establish a process for annual independent review by an external auditor in conjunction with the annual audit to assure compliance with policies and procedures. The internal controls shall address the following points:

- A. Control of collusion.
- B. Separation of transaction authority from accounting and record keeping.
- C. Custodial safekeeping.
- D. Avoidance of physical delivery securities.
- E. Clear delegation of authority to subordinate staff members.
- F. Written confirmation for telephone (voice) transactions for investments and wire transfers.

Prudence

The standard of prudence to be applied to the Investment Officers shall be the "prudent person" rule, which states: "Investments shall be made with judgment and care under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation but for investment, considering the probable safety of their capital as well as the probable income to be derived." In determining whether an Investment Officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration:

- A. The investment of all funds, or funds under SOUTH PADRE'S control, over which the Officer had responsibility rather than a consideration as to the prudence of a single investment.
- B. Whether the investment decision was consistent with the written Investment Policy of SOUTH PADRE.

The Investment Officer, acting in accordance with written procedures and exercising due diligence, shall not be held personally responsible for a specific security's credit risk or market price changes, provided that these

deviations are reported immediately to the City Manager and/or the Council and that appropriate action is taken to control adverse developments.

Ethics and Conflicts of Interest

Investment Officers shall refrain from personal business activity that could conflict with proper execution of the investment program, or that could impair the ability to make impartial investment decisions and shall disclose to the City Manager any material financial interests in financial institutions that conduct business with SOUTH PADRE. They shall further disclose positions that could be related to the performance of SOUTH PADRE'S portfolio. Investment Officers shall subordinate their personal financial transactions to those of SOUTH PADRE, particularly with regard to timing of purchases and sales.

An Investment Officer who has a personal business relationship with an organization seeking to sell an investment to SOUTH PADRE shall file a statement disclosing that personal business interest. An Investment Officer who is related within the second degree by affinity or consanguinity to an individual seeking to sell an investment to SOUTH PADRE shall file a statement disclosing that relationship. A statement required under this subsection must be filed with the Texas Ethics Commission and the governing bodies of SOUTH PADRE.

Quarterly Reporting

The Investment Officers shall submit a signed quarterly investment report, crafted in compliance with the PFIA, to the City Manager and each respective governing body, that summarizes current market conditions, economic developments and anticipated investment conditions. The report shall summarize investment strategies employed in the most recent quarter, and describe the portfolio in terms of investment instruments, maturities, risk characteristics, and shall explain the total investment return for the quarter.

At the end of the fiscal year, the Investment Officers shall include information incorporating the full year's investment portfolio activity and performance.

Methods

The quarterly investment report shall include a succinct management summary that provides a clear picture of the status of the current investment portfolio and transactions made over the last quarter. This management summary will be prepared in a manner which will allow SOUTH PADRE to ascertain whether investment activities during the reporting period have conformed to the Investment Policy. The report will include the following:

- A. A listing of individual investments held at the end of the reporting period by maturity date.
- B. Unrealized gains or losses resulting from appreciation or depreciation by listing the beginning and ending book and market value of investments for the period.
- C. Average weighted yield to maturity of portfolio on entity investments as compared to applicable benchmarks.
- D. Listing of investments held by fund.
- E. The percentage of the total portfolio which each type of investment represents.
- F. Statement of compliance of SOUTH PADRE'S investment portfolio with State Law and the Investment Strategy and Policy approved by the governing bodies.

Active Portfolio Management

SOUTH PADRE shall pursue an active versus a passive portfolio management philosophy. That is, investments may be sold before they mature if market conditions present an opportunity for SOUTH PADRE to benefit from the trade. The Investment Officers will routinely monitor the contents of the portfolio, the available markets, and the relative value of competing instruments, and will adjust the portfolio accordingly.

SOUTH PADRE is not required to liquidate investments that were authorized investments at the time of purchase but no longer meet one or more requirements of this Policy.

Not less than quarterly, the Investment Officer will obtain the current credit rating for each held investment from a reliable source to ensure that the investment has maintained the required minimum rating. An investment that requires a minimum rating does not qualify as an authorized investment during the period the investment does not have the minimum rating. SOUTH PADRE shall take all prudent measures that are consistent with this Investment Policy to liquidate an investment that does not have the minimum rating.

Investments

Assets of SOUTH PADRE may be invested in the following instruments.

1. Authorized

- A. Obligations of the United States of America, its agencies and instrumentalities.
- B. Direct obligations of the State of Texas and agencies thereof.
- C. Other obligations, the principal of and interest on which are unconditionally guaranteed by the State of Texas or United States of America or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States.
- D. Obligations of the States, agencies thereof, Counties, Cities, and other political subdivisions of any state having been rated as investment quality by a nationally recognized investment rating firm, and having received a rating of not less than "A" or its equivalent.

- E. Certificates of deposit and other evidences of deposit at a financial institution that, a) has its main office or a branch office in Texas and is guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, b) is secured by obligations described in Section V. SAFEKEEPING AND CUSTODY and in a manner and amount provided by law for deposits of SOUTH PADRE, or c) is executed through a depository institution or an approved broker that has its main office or a branch office in Texas that meets the requirements of the PFIA.
- F. Fully collateralized direct repurchase agreements with a defined termination date secured by cash or obligations of the United States or its agencies and instrumentalities pledged with a third party, selected by the City's Finance Director, other than an agency for the pledger. Repurchase agreements must be purchased through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in Texas.
- G. Texas local government investment pools that seek to maintain a stable dollar asset value, would be described as "government" portfolios, are specifically authorized by the governing bodies of the City of South Padre Island and the South Padre Economic Development Corporation, and comply with the requirements of State law.
- H. Investment pools that provide fixed maturity, fixed yield investments, are specifically authorized by the governing bodies of the City of South Padre Island and the South Padre Economic Development Corporation, and comply with the requirements of State law.
- I. SEC registered, no load, government money market mutual funds that comply with the requirements of State law.

2. Not Authorized

SOUTH PADRE'S authorized investment options are more restrictive than those allowed by State law. State law specially prohibits investment in the following investment securities.

- A. Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal.
- B. Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest.
- C. Collateralized mortgage obligations that have a stated final maturity date of greater than 10 years.
- D. Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

3. Holding Period

SOUTH PADRE intends to match the holding periods of investment funds with liquidity needs of SOUTH PADRE. In no case will the average maturity of investments of SOUTH PADRE'S operating funds exceed one year. The maximum final stated maturity of any investment shall not exceed five years.

4. Risk and Diversification

SOUTH PADRE recognizes that investment risks can result from issuer defaults, market price changes or various technical complications leading to temporary illiquidity. Risk is controlled through portfolio diversification which shall be achieved by the following general guidelines:

- A. Risk of issuer default is controlled by limiting investments to those instruments allowed by the PFIA, which are described herein.
- B. Risk of market price changes shall be controlled by avoiding over-concentration of assets in a specific maturity sector, limitation of average maturity of operating funds investments to one year, and avoidance of over-concentration of assets in specific instruments.

C. All investment funds shall be placed directly with qualified investment providers as authorized by this Investment Policy and the PFIA.

IV. SELECTION OF QUALIFYING INSTITUTIONS

All financial institutions, broker/dealers and investment providers who desire to become qualified for investment transactions must provide an Investment Provider Certificate in compliance with the PFIA.

Primary Depository

In compliance with State legislation, a Primary Depository shall be selected through SOUTH PADRE'S banking services procurement process, which shall include a formal request for application (RFA). In selecting a Primary Depository, the credit worthiness of institutions shall be considered, and the City's Finance Director shall conduct a review of prospective depository's credit characteristics and financial history.

Broker/Dealers

For broker/dealers of investment securities, SOUTH PADRE may select any dealers reporting to the Market Reports Division of the Federal Reserve Board of New York, also known as the "Primary Government Security Dealers." Other non-primary firms may be utilized if analysis reveals that such firms are adequately financed to conduct public business. Any broker/dealer must have been authorized by the City Council to execute transactions with SOUTH PADRE prior to any such transaction.

V. SAFEKEEPING AND CUSTODY

Insurance and Collateral

All depository deposits shall be insured or collateralized in compliance with applicable State law. SOUTH PADRE reserves the right, in its sole discretion, to accept or reject any form of insurance or collateralization pledged towards depository deposits. Financial institutions serving as

SOUTH PADRE depositories will be required to sign a depository agreement with SOUTH PADRE. The collateralized deposit portion of the agreement shall define SOUTH PADRE'S rights to the collateral in case of default, bankruptcy, or closing and shall establish a perfected security interest in compliance with Federal and State regulations, including:

- The agreement must be in writing;
- The agreement has to be executed by the depository and SOUTH PADRE contemporaneously with the acquisition of the asset;
- The agreement must be approved by the Board of Directors or authorized Committee of the depository and a copy of the meeting minutes must be delivered to SOUTH PADRE; and
- The Agreement must be part of the depository's "official record" continuously since its execution.

Insurance, Pledged Collateral or Purchased Securities - With the exception of deposits secured with irrevocable letters of credit at 100% of amount, all deposits of SOUTH PADRE funds with eligible depositories shall be secured by pledged collateral with a market value equal to or greater than 102% of the deposits, less any amount insured by the FDIC. Repurchase agreements shall be documented by a specific agreement noting the "purchased securities" in each agreement. Collateral pledged and purchased securities shall be held at an independent safekeeping agent approved by SOUTH PADRE and reports of said securities reviewed at least monthly to assure the market value equals or exceeds the related SOUTH PADRE investment.

Evidence of the pledged collateral shall be maintained by the City's Finance Director or a third party financial institution.

Custodial Agreement

Collateral pledged to secure deposits of SOUTH PADRE shall be held by a safekeeping institution in accordance with a custodial agreement which clearly defines the procedural steps for gaining access to the collateral should

SOUTH PADRE determine that SOUTH PADRE'S funds are in jeopardy. The custodial institution, or Custodian, shall be the Federal Reserve Bank or an institution not affiliated with the firm pledging the collateral. A custodial receipt shall be issued to SOUTH PADRE listing the specific investment, CUSIP, rate, maturity, and other pertinent information.

Collateral Defined

SOUTH PADRE shall accept only the following as collateral:

- A. FDIC insurance coverage.
- B. A bond, certificate of indebtedness, debenture or letter of credit of the United States or its agencies and instrumentalities, or other evidence of indebtedness of the United States that is guaranteed as to principal and interest by the United States or its agencies and instrumentalities.
- C. Obligations, the principal and interest on which, are conditionally guaranteed or insured by the State of Texas.
- D. A bond of a county, city or other political subdivision of the State of Texas having been rated no less than "A" or its' equivalent by a nationally recognized rating agency, with a remaining maturity of ten (10) years or less.
- E. A letter of credit issued to SOUTH PADRE by the Federal Home Loan Bank.

Subject to Audit

All collateral shall be subject to inspection and audit by the City's Finance Director or SOUTH PADRE'S independent auditors.

Delivery vs. Payment

Investment securities shall be purchased using the delivery vs. payment method. That is, funds shall not be wired or paid until verification has been made that the correct security was received by the safekeeping agent. The security shall be held in the name of SOUTH PADRE or held on behalf of SOUTH PADRE. The safekeeping agent's records shall assure the notation of SOUTH PADRE'S ownership of or explicit claim on the securities. The original copy of all safekeeping receipts shall be delivered to SOUTH PADRE.

VI. INVESTMENT POLICY ADOPTION

SOUTH PADRE Investment Policy shall be annually reviewed and adopted by action of each respective governing body.

Attachment B

City of South Padre Island Quarterly Investment Report

For the Quarter Ended 6-30-2013



QUARTERLY INVESTMENT REPORT

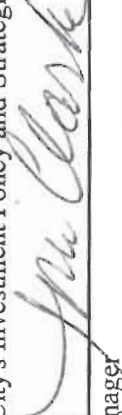
For the Quarter Ended

June 30, 2013

Prepared by

Estrada Hinojosa & Company, Inc.

The investment portfolio of the City of South Padre Island is in compliance with the Public Funds Investment Act and the City's Investment Policy and Strategies.


City Manager


Finance Director

Disclaimer: These reports were compiled using information provided by the City. No procedures were performed to test the accuracy or completeness of this information. The market values included in these reports were obtained by Estrada Hinojosa & Company, Inc. from sources believed to be accurate and represent proprietary valuation. Due to market fluctuations these levels are not necessarily reflective of current liquidation values. Yield calculations are not determined using standard performance formulas, are not representative of total return yields, and do not account for investment advisor fees.

5-15

Strategy Summary:

The Federal Open Market Committee (FOMC) maintained the Fed Funds target range between 0.00% and 0.25% (actual Fed Funds traded +/-10 bps). The FOMC continued Quantitative Easing (QE3), targeting unemployment below 6.5% and inflation less than 2.5%, however they openly discussed the future plan to reduce the amount of easing. The markets reacted quickly with higher Treasury Yield Curve rates and a brief stock market sell-off. Subsequent public comments attempted to calm the fears and reduce the immediate market impact. Domestic and international economic activity remains low to moderate. US employment/unemployment data is a key focal point. Financial institution deposits and laddering targeted cash flows still provide the best interest earnings opportunity.

Quarter End Results by Investment Category:

Asset Type	Ave. Yield	June 30, 2013		March 31, 2013	
		Book Value	Market Value	Book Value	Market Value
Bank Deposits	0.17%	\$ 7,591,274	\$ 7,591,274	\$ 8,140,504	\$ 8,140,504
Pools	0.06%	813,547	813,547	813,379	813,379
CDs/Securities	0.52%	5,170,706	5,170,706	5,165,475	5,165,475
Totals		\$ 13,575,527	\$ 13,575,527	\$ 14,119,358	\$ 14,119,358

Average Yield (1)		Fiscal Year-to-Date Average Yield (2)	
Total Portfolio	0.30%	Total Portfolio	0.30%
Rolling Three Mo. Treas. Yield	0.05%	Rolling Three Mo. Treas. Yield	0.08%
Rolling Six Mo. Treas. Yield	0.10%	Rolling Six Mo. Treas. Yield	0.12%
		Average Quarter End TexPool Yield	0.10%

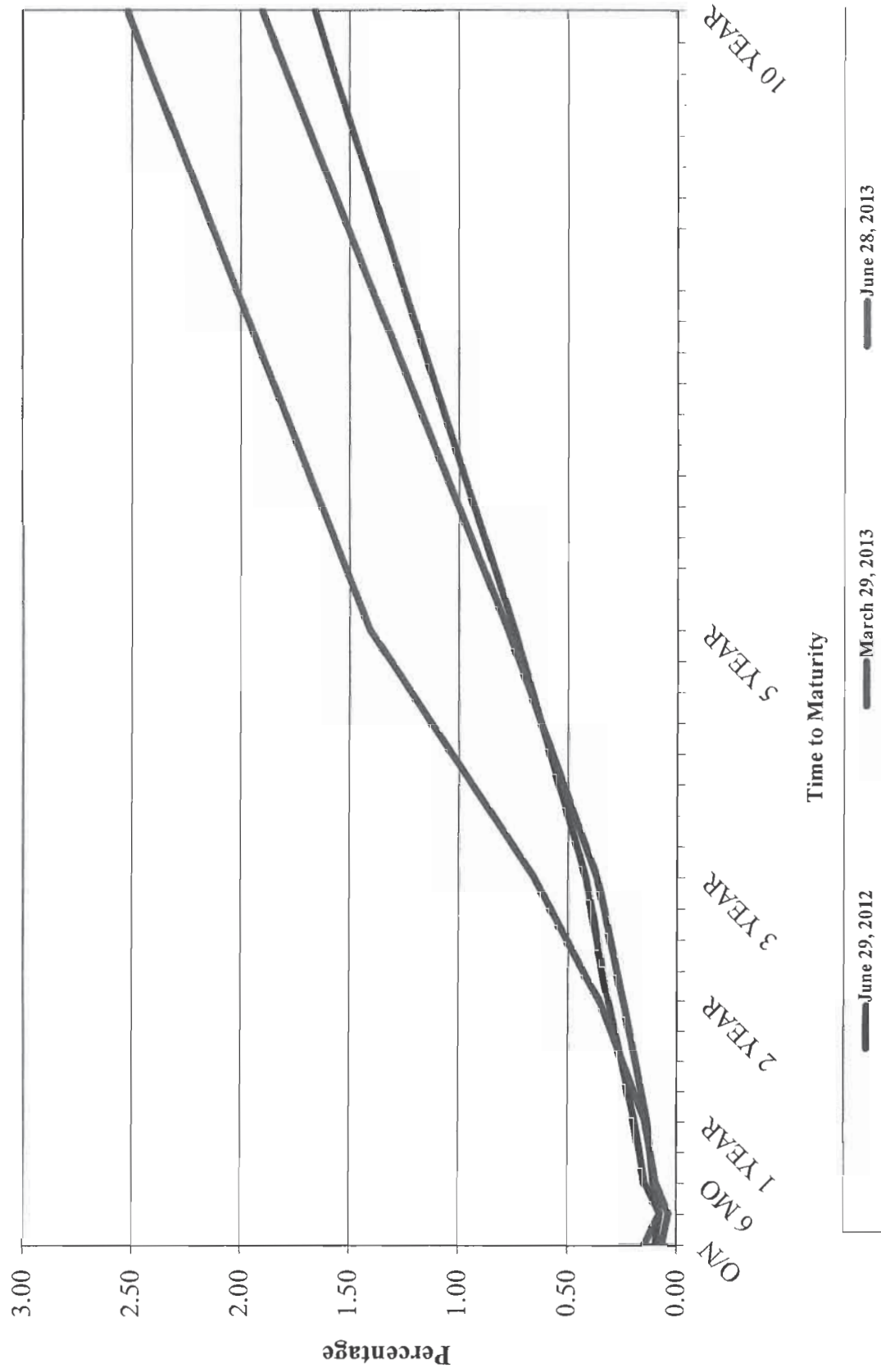
Interest Income (unaudited)

This Quarter	\$ 10,039
Fiscal Year to Date	\$ 30,039

- (1) Average Yield calculated using quarter end report yields and adjusted book values and does not reflect a total return analysis or account for advisory fees.
- (2) Fiscal Year-to-Date Average Yields calculated using quarter end report yields and adjusted book values and does not reflect a total return analysis or account for advisory fees.

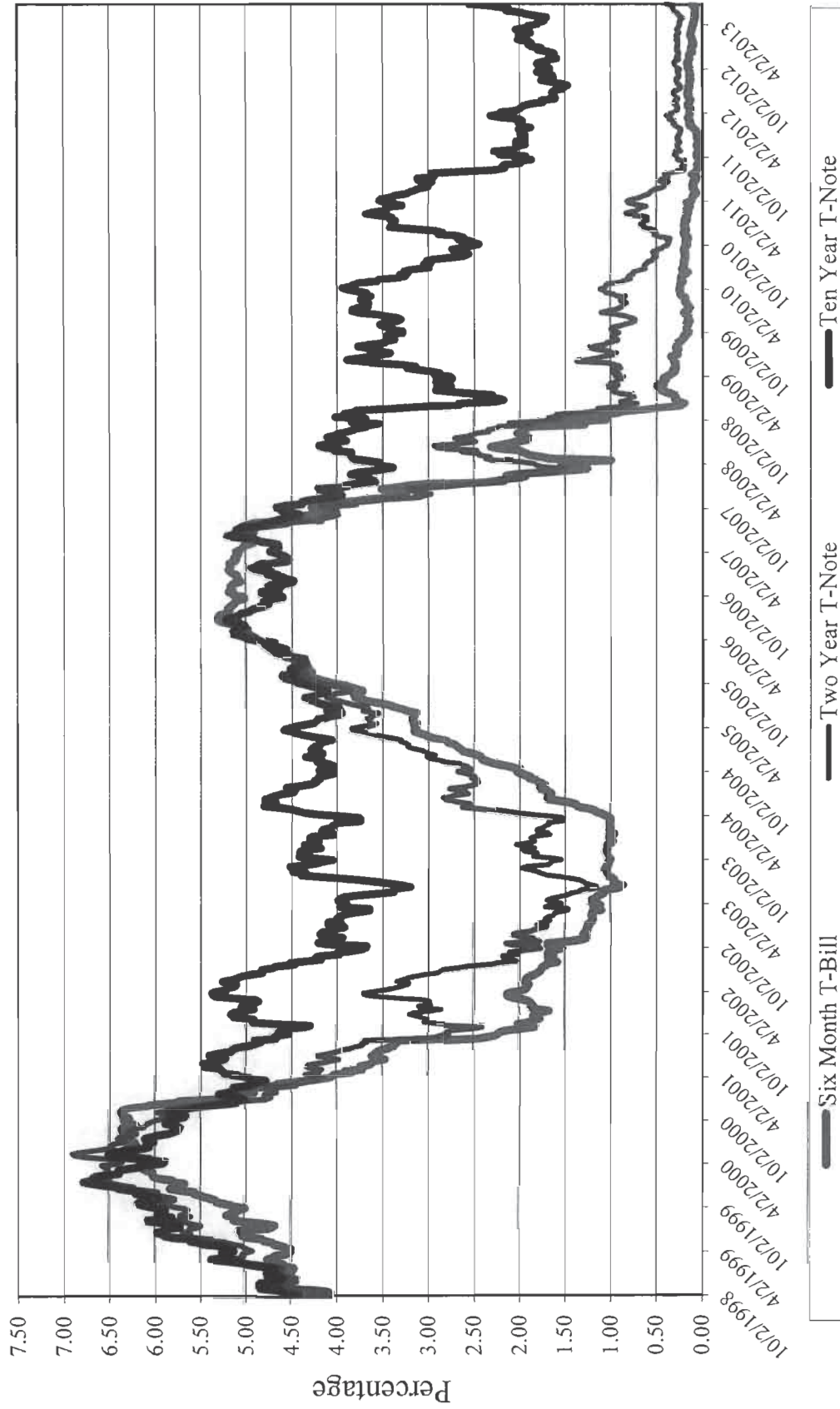
5-16

Treasury Yield Curves

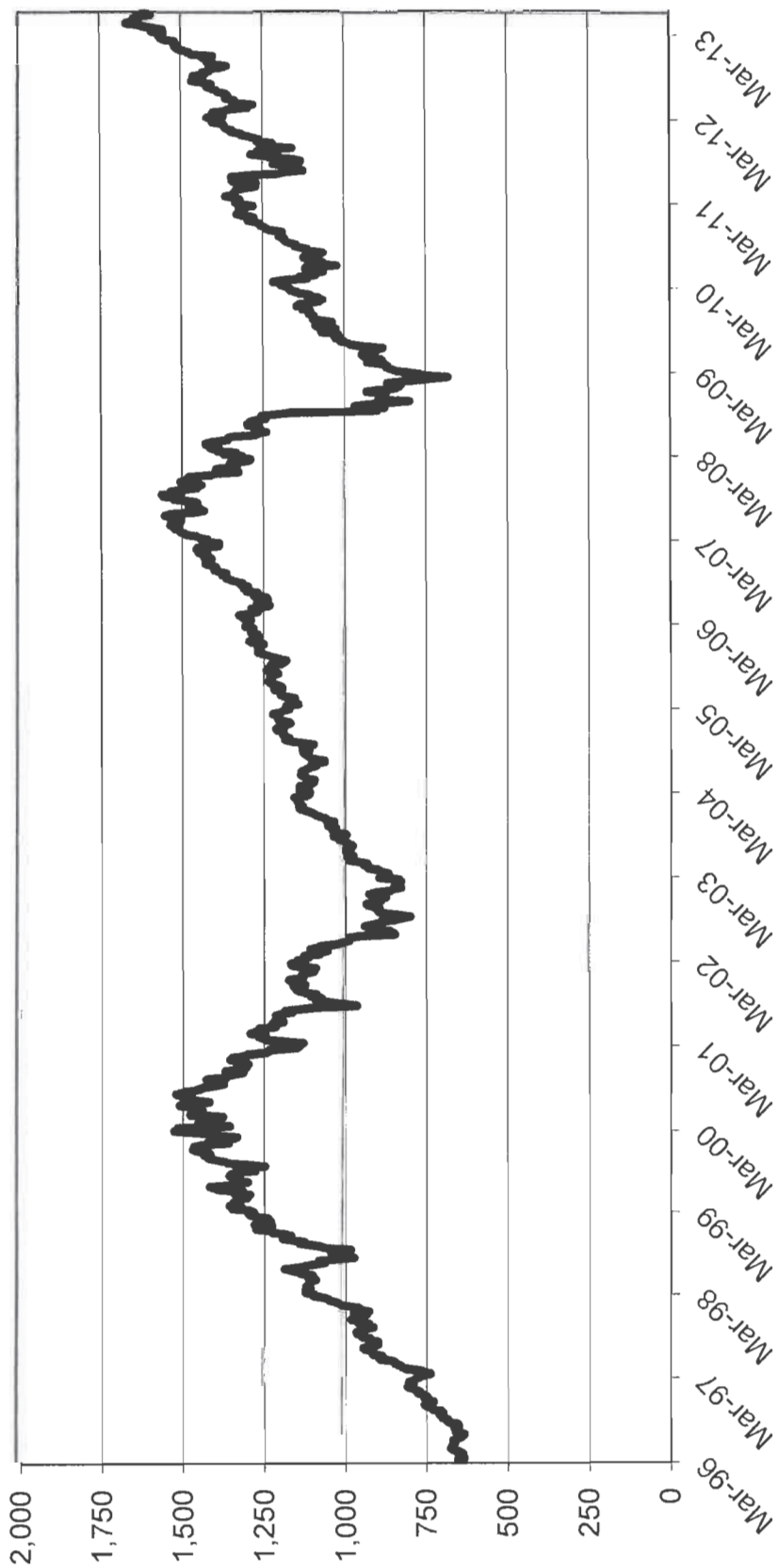


61-5

US Treasury Historical Yields



S&P 500



5-19

Holdings June 30, 2013

Description	Rating	Coupon/ Discount	Maturity Date	Settlement Date	Par Value	Book Value	Market Price	Market Value	Life (days)	Yield
IBC		0.133%	07/01/13	06/30/13	\$ 7,238,885	\$ 7,238,885	1.00	\$ 7,238,885	1	0.13%
FNB		0.253%	07/01/13	06/30/13	84,551	84,551	1.00	84,551	1	0.25%
LSNB		0.148%	07/01/13	06/30/13	48,894	48,894	1.00	48,894	1	0.15%
SPB MMA		1.261%	07/01/13	06/30/13	218,944	218,944	1.00	218,944	1	1.26%
TexasDAILY	AAAm	0.050%	07/01/13	06/30/13	113,923	113,923	1.00	113,923	1	0.05%
TexPool	AAAm	0.058%	07/01/13	06/30/13	699,624	699,624	1.00	699,624	1	0.06%
Comerica CD		0.590%	12/19/13	06/18/12	3,520,706	3,520,706	100.00	3,520,706	172	0.59%
Independent Bank CD		0.375%	02/03/14	01/31/13	650,000	650,000	100.00	650,000	218	0.38%
Independent Bank CD		0.375%	03/03/14	01/31/13	500,000	500,000	100.00	500,000	246	0.38%
Independent Bank CD		0.375%	04/01/14	01/31/13	500,000	500,000	100.00	500,000	275	0.38%
					<u>\$ 13,575,527</u>	<u>\$ 13,575,527</u>				
									<u>75</u>	<u>0.30%</u>
									(1)	(2)

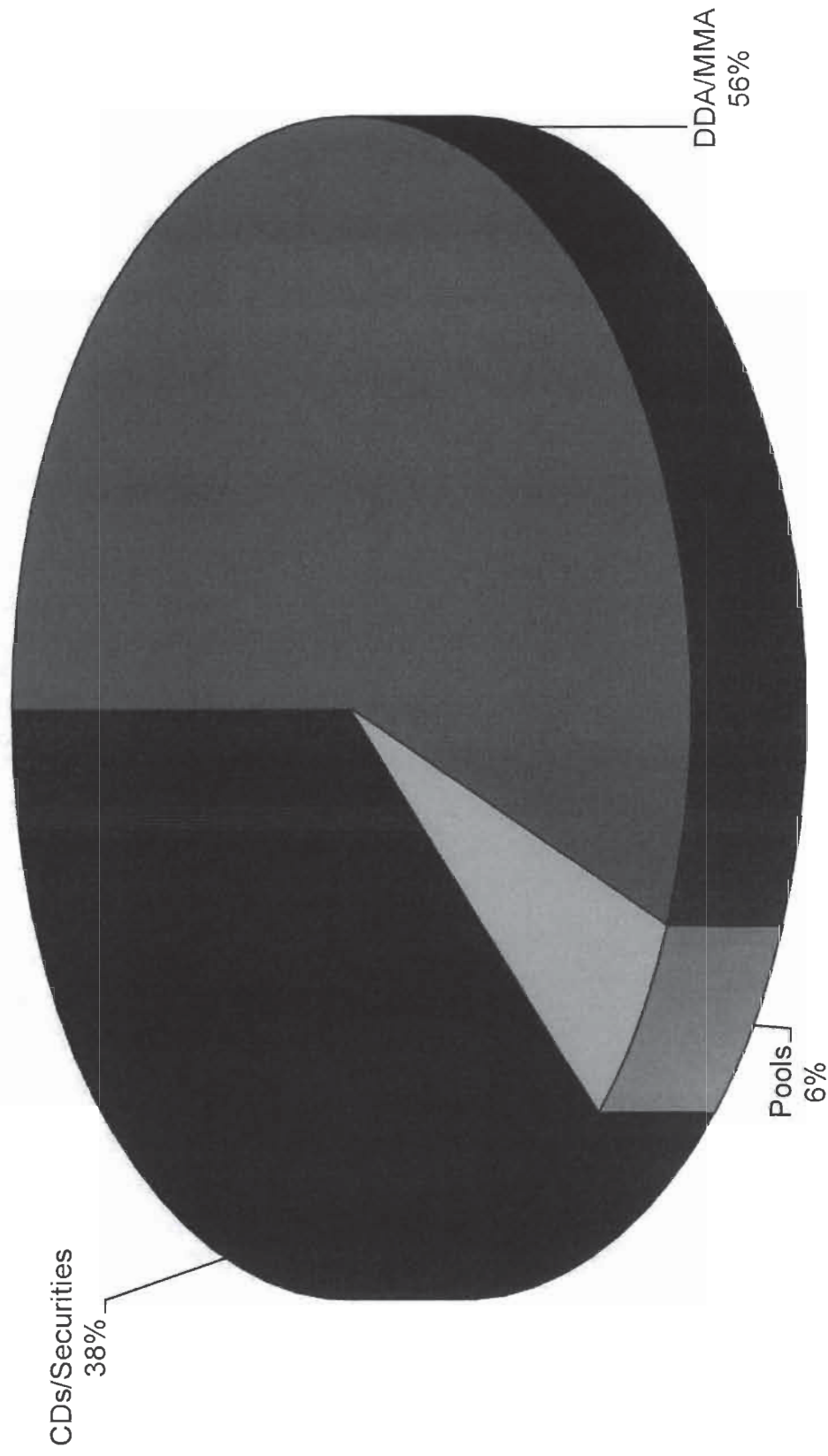
(1) **Weighted average life** - For purposes of calculating weighted average life bank, pool, and money market balances are assumed to have a one day maturity.

(2) **Weighted average yield to maturity** - The weighted average yield to maturity is based on adjusted book value, realized and unrealized gains/losses and investment advisory fees are not considered. The yield for the reporting month is used for bank, pool, and money market balances.

(3) IBC, FNB and SPB Yields Estimated.

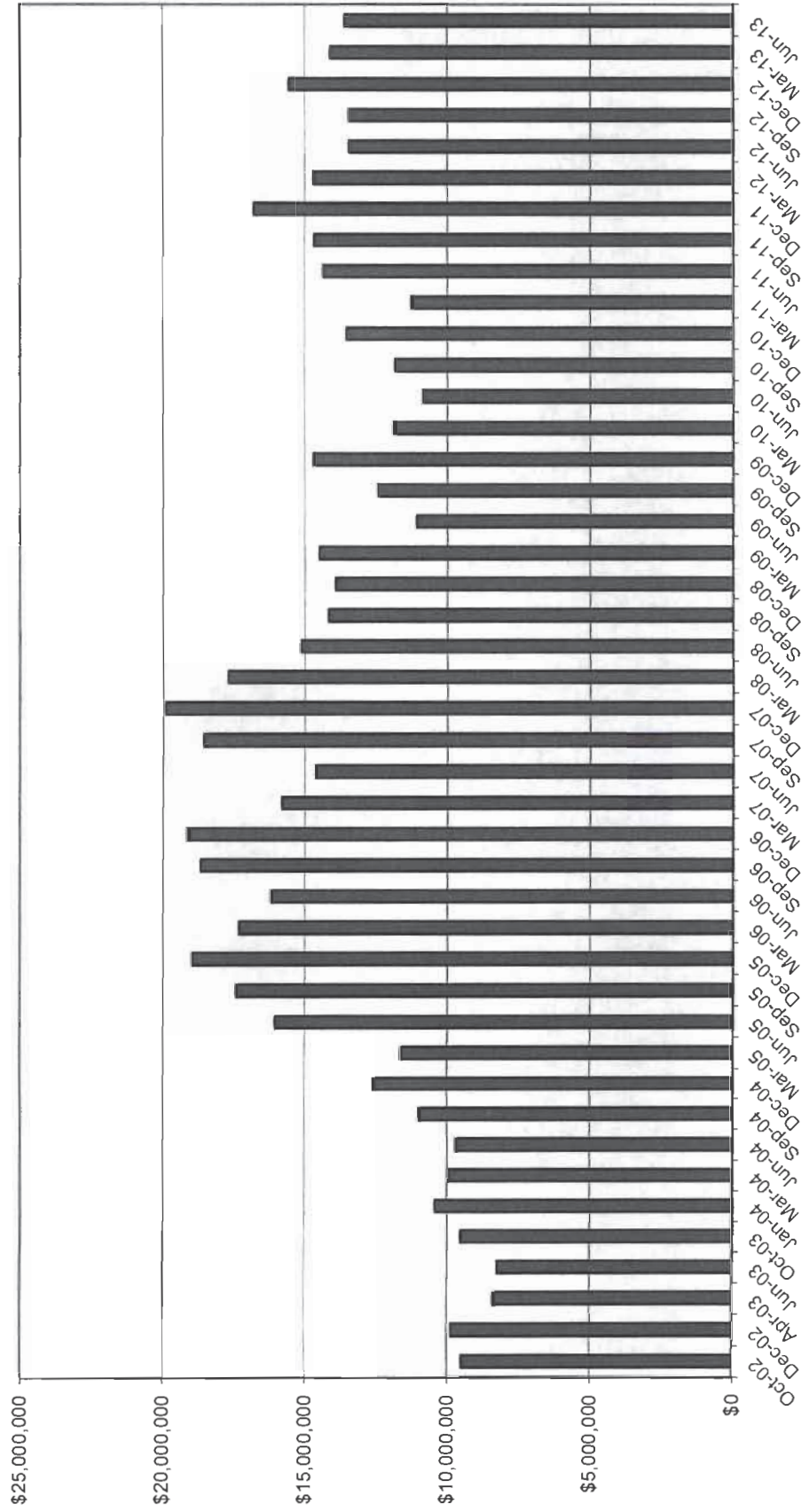
02-5

Portfolio Composition



12-5

Total Portfolio



■ Quarter End Book Value

22-5

Book Value Comparison

Description	Coupon/ Discount	Maturity Date	Settlement Date	March 31, 2013			June 30, 2013		
				Par Value	Book Value	Purchases/ Accruals	Sales/ Maturities	Par Value	Book Value
IBC	0.133%	07/01/13	06/30/13	\$ 7,790,843	\$ 7,790,843	\$ -	\$ (551,958)	\$ 7,238,885	\$ 7,238,885
FNB	0.253%	07/01/13	06/30/13	84,499	84,499	53		84,551	84,551
LSNB	0.148%	07/01/13	06/30/13	46,900	46,900	1,994		48,894	48,894
SPB MMA	1.261%	07/01/13	06/30/13	218,263	218,263	681		218,944	218,944
TexasDAILY	0.050%	07/01/13	06/30/13	113,902	113,902	22		113,923	113,923
TexPool	0.058%	07/01/13	06/30/13	699,477	699,477	146		699,624	699,624
Comerica CD	0.590%	12/19/13	06/18/12	3,515,475	3,515,475	5,231		3,520,706	3,520,706
Independent Bank CD	0.375%	02/03/14	01/31/13	650,000	650,000	-		650,000	650,000
Independent Bank CD	0.375%	03/03/14	01/31/13	500,000	500,000	-		500,000	500,000
Independent Bank CD	0.375%	04/01/14	01/31/13	500,000	500,000	-		500,000	500,000
TOTAL				\$ 14,119,358	\$ 14,119,358	\$ 8,127	\$ (551,958)	\$ 13,575,527	\$ 13,575,527

Market Value Comparison

Description	Coupon/ Discount	Maturity Date	Par Value	March 31, 2013			June 30, 2013		
				Market Price	Market Value	Qtr-to-Qtr Change	Market Price	Market Value	Market Value
IBC	0.133%	07/01/13	\$ 7,790,843	1.00	\$ 7,790,843	\$ (551,958)	1.00	\$ 7,238,885	\$ 7,238,885
FNB	0.253%	07/01/13	84,499	1.00	84,499	53	1.00	84,551	84,551
LSNB	0.148%	07/01/13	46,900	1.00	46,900	1,994	1.00	48,894	48,894
SPB MMA	1.261%	07/01/13	218,263	1.00	218,263	681	1.00	218,944	218,944
TexasDAILY	0.050%	07/01/13	113,902	1.00	113,902	22	1.00	113,923	113,923
TexPool	0.058%	07/01/13	699,477	1.00	699,477	146	1.00	699,624	699,624
Comerica CD	0.590%	12/19/13	3,515,475	100.00	3,515,475	5,231	100.00	3,520,706	3,520,706
Independent Bank CD	0.375%	02/03/14	650,000	100.00	650,000	-	100.00	650,000	650,000
Independent Bank CD	0.375%	03/03/14	500,000	100.00	500,000	-	100.00	500,000	500,000
Independent Bank CD	0.375%	04/01/14	500,000	100.00	500,000	-	100.00	500,000	500,000
TOTAL			\$ 14,119,358		\$ 14,119,358	\$ (543,831)		\$ 13,575,527	\$ 13,575,527

5-23

Fund Allocation

June 30, 2013

Book & Market Value	Consolidated/Operating	Payroll	Police Forfeiture	EDC	EDC Debt Reserve	Totals
IBC	\$ 6,756,611	\$ 5,067	\$ 18,081	\$ 19,828	\$ 439,298	\$ 7,238,885
FNB	84,551					84,551
LSNB				48,894		48,894
SPB MMA	218,944					218,944
TexasDaily	113,923					113,923
TexPool	677,387			22,237		699,624
12/19/13	3,520,706					3,520,706
02/03/14	650,000					650,000
03/03/14	500,000					500,000
04/01/14	500,000					500,000
Totals	\$ 13,022,121	\$ 5,067	\$ 18,081	\$ 90,959	\$ 439,298	\$ 13,575,527

5-24

Fund Allocation

March 31, 2013

Book & Market Value	Consolidated/Operating	Payroll	Police Forfeiture	EDC	EDC Debt Reserve	Totals
IBC	\$ 7,296,429	\$ 12,567	\$ 22,869	\$ 19,821	\$ 439,156	\$ 7,790,843
FNB	84,499					84,499
LSNB				46,900		46,900
SPB MMA	218,263					218,263
TexasDaily	113,902					113,902
TexPool	677,245			22,233		699,477
12/19/13	3,515,475					3,515,475
02/03/14	650,000					650,000
03/03/14	500,000					500,000
04/01/14	500,000					500,000
Totals	\$ 13,555,812	\$ 12,567	\$ 22,869	\$ 88,954	\$ 439,156	\$ 14,119,358

5-25