

**TARRANT COUNTY, TEXAS**

**INVESTMENT POLICY**

ORIGINALLY ADOPTED MAY 20, 1997

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# TARRANT COUNTY, TEXAS INVESTMENT POLICY

## **I. Investment Authority and Scope of Policy**

### **A. Formal Adoption**

This Investment Policy and strategies are authorized by Tarrant County Commissioners Court in accordance with Chapter 2256, Texas Government Code, the Public Funds Investment Act and the statutory requirements of Local Government Code 116.112. See *Attachment A*: Resolution to Adopt Investment Policy. This policy will be reviewed and adopted by resolution at least annually according to Section 2256.005(e).

### **B. General Policy Statement**

It is the policy of Tarrant County, giving due regard to the safety and risk of an investment, that all available funds under the custody and control of the County Auditor shall be invested in conformance with state and federal regulations, including the Public Funds Investment Act and adopted Investment Policy. Furthermore, such activities shall be designed to adhere to guidelines and standards promulgated by such professional organizations as the American Institute of Certified Public Accountants (AICPA), the Governmental Accounting Standards Board (GASB) and the Government Finance Officers Association (GFOA). The County will invest according to investment strategies for each fund as they are adopted by Commissioners Court in accordance with Sec. 2256.005(d). See *Attachment B* for Investment Strategy.

### **C. Scope**

This Investment Policy applies to all financial assets of all funds of Tarrant County, Texas, at the present time and any funds to be created in the future and any other funds held in custody by the County Auditor, unless expressly prohibited by law or unless it is in contravention of any depository contract between Tarrant County and any depository bank.

### **D. County's Investment Officer**

In accordance with a Constitutional Amendment passed in 1984, the County Auditor is the Treasurer for Tarrant County. By adoption of this policy, Commissioners Court expressly designates the County Auditor (Auditor) as the official Investment Officer to handle the investment of County funds.

The Auditor may delegate authority to one or more employees to be responsible for investment transactions. The Auditor may, in accordance with this policy, invest County funds that are not immediately required to pay obligations of the County in accordance with Sec. 116.112(a) Local Government Code and/or Chapter 2256, Sec. 2256.005(f) and (g). All investment decisions shall be Governed by the following objectives in order of priority:

- (a) preservation and safety of principal,
- (b) liquidity, and
- (c) yield.

If the Auditor has a personal business relationship with an entity, or is related within the second degree by affinity or consanguinity to an individual seeking to sell an investment to the County, the Auditor must file a statement disclosing that personal business interest or relationship with the Texas Ethics Commission and the Commissioners Court in accordance with Government Code 2256.005(i).

It is the County's policy to provide training required by the Public Funds Investment Act, Section 2256.008, and periodic training in investments for the Auditor and other persons designated by the Auditor to ensure the quality, capability, and current knowledge of the Auditor in making investment decisions.

## **II. Investment Objectives**

### **A. Safety of Principal**

The primary objective of all investment activity is the preservation of capital and the safety of principal in the overall portfolio. Each investment transaction shall seek to ensure first that capital losses are avoided, whether they are from securities defaults or erosion of market value.

### **B. Maintenance of Adequate Liquidity**

The investment portfolio will remain sufficiently liquid to meet the cash flow requirements that might be reasonably anticipated. Liquidity shall be achieved by matching investment maturities with forecasted cash flow requirements; investing in securities with active secondary markets; and maintaining appropriate portfolio diversification.

### **C. Diversification**

The investment portfolio will be diversified to eliminate the risk of loss resulting from overconcentration of assets in a specific maturity, a specific issuer or a specific class of investments. Tarrant County's investments will always be selected to provide for stability of income and reasonable liquidity.

**D. Yield**

Tarrant County will earn the maximum rate of return allowed on its investments within the policies imposed by its safety and liquidity objectives, investment strategies for each fund, and state and federal laws governing investment of public funds. No investments shall be made for the purpose of trading or speculation, such as anticipating an appreciation of capital through changes in market interest rates.

The benchmark for comparing the performance of the County's investment portfolio will be the 90-day moving average of the yield of the 90-day Treasury bill on the last day of the month being reported. The 90-day Treasury bill is the simplest, safest security a portfolio can own. The 90-day moving average of its yield represents the return of a purely passive management approach in which equal amounts of the portfolio are invested in every month's current Treasury bill. As one month's investment matures, it is automatically invested in the new 90-day Bill. The County's objective is to exceed the 90-day moving average of the Treasury bill each month through active portfolio management.

**E. Maturity**

Portfolio maturities will be structured to meet the obligations of the County first and then to achieve the highest return. When County funds will not be needed to meet current year obligations; maturity restraints will be imposed based upon the investment strategy of each fund. The maximum allowable stated maturity of any individual investment owned by the County is five years. This restriction is in effect unless specific authorization by Commissioners Court is obtained.

**F. Investment Strategies**

In accordance with the Public Funds Investment Act, Section 2256.005(d), a separate written investment strategy will be developed for each of the funds under Tarrant County's control. Each investment strategy must describe the investment objectives for the particular fund using the following priorities of importance:

- (1) understanding of the suitability of the investment to the financial requirements of the entity
- (2) preservation and safety of principal
- (3) liquidity
- (4) marketability of the investment if the need arises to liquidate the investment before maturity
- (5) diversification of the investment portfolio
- (6) yield
- (7) maturity restrictions

*Attachment B* includes investment strategies for all funds. In accordance with the Public Funds Investment Act, Section 2256.005(e), investment strategies will be reviewed and adopted at least annually by Commissioners Court resolution.

### III. Investment Policies

#### A. Authorized Investments.

Investments described below are authorized by Chapter 2256, Texas Government Code as eligible for Tarrant County. Any additional restrictions or limitations for each type of specific investment are listed. Certain securities authorized by the Public Funds Investment Act are prohibited by Commissioners Court and this policy. These are shown in **B. Prohibited Investments.**

Except as provided by Government Code 2256.009(b), County funds governed by this policy may be invested in:

1. Obligations of the United States or its agencies and instrumentalities and other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the United States or its agencies, and instrumentalities: including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by explicit full faith and credit of the United States:

- US Treasury Bills
- US Treasury Notes
- US Treasury Bonds
- Government National Mortgage Association (GNMA)
- Student Loan Marketing Association (SLMA)
- Any other security with an explicit guarantee by the United States Federal Government as to the payment of principal and interest, currently including :
  - Federal National Mortgage Association (FNMA)
  - Federal Home Loan Mortgage Corporation (FHLMC)

2. Other obligations of the United States or its respective agencies and instrumentalities. Specific United States Government Agency Securities include:

- Federal Home Loan Bank (FHLB)
- Federal Farm Credit Bank (FFCB)
- Floating rate securities will be allowed as long as the pricing "reset" period is every 30 days or less. "Inverse floaters" will not be allowed.

3. Direct obligations of the State of Texas or its agencies and instrumentalities.

4. Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by at least one nationally recognized investment rating firm not less than A or its equivalent.

5. A certificate of deposit or share certificate is an authorized investment if the certificate is issued by a depository institution that has its main office or a branch office in Texas and is:

- (a) guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or its successor or the National Credit Union Share Insurance Fund or its successor;
- (b) secured by obligations that are described by Section 2256.009(a) of the Public Funds Act, including mortgage backed securities directly issued by a federal agency or instrumentality that have a market value of not less than the principal amount of certificates, but excluding those mortgage backed securities of the nature described by Section 2256.009(b); or
- (c) secured in any other manner and amount provided by law for deposits of the investing entity.

6. A fully collateralized repurchase agreement, as defined in the Public Funds Investment Act, if it:
  - (a) has a defined termination date
  - (b) is secured by a combination of cash and/or obligations described by Section 2256.009(a)(1) of the Public Funds Investment Act and allowed by this policy. Specifically, full faith and credit US Government securities with a final maturity date of five years or less from the date of the inception of the agreement with a market value of 102 percent of the principal amount of the funds disbursed are acceptable
  - (c) requires the securities being purchased by the County be pledged to the County, held in the County's name, and deposited at the time the investment is made with the County or with a third party selected and approved by the County
  - (d) is placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the state of Texas

A signed PSA Master Repurchase Agreement must be on file between each counterparty broker/dealer and the County prior to execution of any transactions of this type.

Collateral value must be maintained at not less than 102% of the value of the investment, plus interest earned on the County's investment for US Treasury Securities and US Agency and Instrumentalities.

On occasion, the County may elect to “reverse” certain of its portfolio securities under the terms of a “reverse repurchase agreement” or “portfolio lending” program. This authority shall be restricted, requiring written authorization from the Auditor. Notwithstanding any law, the term of any reverse security repurchase agreement may not exceed 90 days after the date the reverse security repurchase agreement is delivered.

Money received by the County under the terms of a reverse security repurchase agreement shall be used to acquire additional authorized investments, but the term of the authorized investments acquired must mature not later than the expiration date stated in the reverse security repurchase agreement.

No more than 50% of the entire portfolio will be invested under this type of agreement with a single broker.

7. Commercial paper is an authorized investment under this subchapter if it:
  - (a) has a stated maturity of 365 days or fewer from the date of issuance
  - (b) is rated not less than A- I or P- I or an equivalent rating by at least two nationally recognized credit rating agencies or one nationally recognized credit rating agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state
  - (c) if the issuer has senior debt outstanding, such debt must be rated at least A+ and/or A
8. Mutual funds *and* money market mutual funds authorized as described below.
  - (a) No-load money market mutual funds are authorized if:
    - (i) is registered with and regulated by Securities and Exchange Commission
    - (ii) provides the investing entity with a prospectus and other information required by the Securities and Exchange Act of 1934 or the Investment Company Act of 1940
    - (iii) complies with federal Securities and Exchange Commission Rule 2a-7, promulgated under the Investment Company Act of 1940

- (b) No-load mutual funds are authorized if:
  - (i) is registered with the Securities and Exchange Commission
  - (ii) has an average weighted maturity of less than two years; and
  - (iii) either: (A) has a duration of one year or more and is invested exclusively in obligations approved by Chapter 2256.014 of the Government Code; or (B) has a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities
  - (iv) invest dollar-for-dollar all County funds without sales commissions or loads
- (c) For mutual funds or money market mutual funds, the County may not:
  - (i) invest in the aggregate more than 80 percent of its monthly average fund balance, excluding bond proceeds and other funds held for debt service in money market mutual funds or mutual funds, either separately or collectively
  - (ii) invest in the aggregate more than 15 percent of its monthly average fund balance, excluding bond proceeds and other funds held for debt service, in mutual funds
  - (iii) invest any portion of bond proceeds, and funds held for debt service in mutual funds
  - (iv) invest its funds or funds under its control including bond proceeds and other funds held for debt service, in any one mutual fund or money market mutual fund in an amount that exceeds 10 percent of the total asset of the mutual fund or money market mutual fund

9. Investment Pools are eligible, as defined in Section 2256.016 of the Texas Government Code provided that:

- (a) Investment in the particular pool has been authorized by Commissioners Court by resolution
- (b) The pool shall have furnished the Auditor an offering circular containing the information required by Section 2256.016(b) of the Government Code
- (c) The pool shall furnish the Auditor or other authorized representatives of the County investment transaction confirmations with respect to all investments made with it and monthly reports that contain the information required by Section 2256.016(c) of the Government Code
- (d) The pool's assets consist exclusively of the obligations that are allowed under this policy and described by 1-8 above
- (e) The investment philosophy and strategy are consistent with this policy and the County's ongoing investment strategy
- (f) The pool must be continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service.
- (g) An investment pool may invest its funds in money market mutual funds to the extent permitted by and consistent with this subchapter and the investment policies and objectives adopted by the investment pool.

The Auditor will consider other characteristics of pools before submitting them for Commissioners Court approval. These characteristics include the size of the pool, number of participants and the size of their deposits, and the pool's use of reverse repurchase agreements. In general, the County will avoid pools with less than \$750 million in deposits and a small number of participants because of possible instability in the pools and the resulting threat to County's funds. See *Attachment C* for a current listing of authorized pools.



## **B. Prohibited Investments**

The Auditor has no authority to use any investment instruments, which are strictly prohibited by the Public Funds Investment Act, Section 2256.009(b).

### **1. Specific exclusions under 2256.009 are:**

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

### **2. County Exclusions:**

The Auditor also has no authority to invest in the following securities, which are authorized under the Public Funds Investment Act, but prohibited by this Policy and Commissioners Court:

- Bankers' acceptances
- Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States
- Options or future contracts

## **C. Protection of Principal**

The County will seek to control the risk of loss due to the failure of a security issuer or grantor. Such risk will be controlled by investing only in the safest types of securities as defined in this Policy by pre-qualifying the financial entities with which the County does business; by collateralization as required by law; and through portfolio diversification by maturity and type. The purchase of individual securities will be executed delivery versus payment (DVP) through the County's Safekeeping Agent. By so doing, County funds are not released until the County has received, through the Safekeeping Agent, the securities purchased. Similarly on sales, securities are not released until funds are received.

### **1. Diversification by Investment Type**

Diversification by investment type will be maintained by ensuring an active efficient secondary market in portfolio investments and by controlling the market and opportunity risks associated with specific investment types.

However, the County's currently eligible investments are all virtually "riskless", given their inherent individual creditworthiness and the maturity limitations, which the County has imposed. In such circumstances, simply requiring some designed "mixture" of security types neither improves the portfolio's level of safety nor enhances its yield. Therefore, no maximums or minimums are currently observed with regard to the County's portfolio mix.

In the event that the County's **Authorized Investments** are modified by the addition of other investments or changes in maturity parameters, the question of diversification will be reviewed, and appropriate regulatory and/or administrative actions will be taken at that time.

The County will diversify its investments by institution. With the exception of US Treasury securities, no more than 50% of the County's total investment portfolio will be invested with a single financial institution. Debt proceeds may be invested in a single security or investment if such an investment is necessary to comply with Federal arbitrage restrictions or to facilitate arbitrage record keeping and calculation.

## **2. Diversification by Investment Maturity**

In order to minimize risk of loss due to interest rate fluctuations, investment maturities will not exceed the anticipated cash flow requirements of the funds. Maturity guidelines are outlined in the investment strategies for each fund. See *Attachment B*

## **3. Ensuring Liquidity**

Liquidity will be achieved by anticipating cash flow requirements, by investing in securities with active secondary markets and by investing in eligible money market mutual funds and local government investment pools.

A security may be liquidated to meet unanticipated cash requirements, to re-deploy cash into other investments expected to outperform current holdings or otherwise adjust the portfolio.

## **4. Collateralization**

The Auditor will ensure all County funds are fully collateralized or insured consistent with federal and state laws and the current Depository Contract. See Section III A. for allowable collateral and collateral levels required for each investment type.

### **(a) Monitoring Collateral Adequacy**

(i) The County will require monthly reports with market values of pledged securities from all financial institutions with which the County has collateralized investments. The Auditor will monitor adequacy of collateralization levels to verify market values and total collateral positions.

(ii) At least weekly monitoring by the Auditor of market values of all underlying securities purchased for County repurchase transactions is required. More frequent monitoring may be necessary during periods of market volatility.

### **(b) Additional Collateral Securities**

(i) If the collateral pledged for a collateralized investment falls below the par value of the deposit plus accrued interest less FDIC insurance, the institution issuing the collateralized investment will be notified by the Auditor and will be required to pledge additional securities no later than the end of the next succeeding business day.

(ii) If the value of the securities underlying a repurchase agreement falls below the margin maintenance levels specified above, the Auditor will request additional securities. If the repurchase agreement is scheduled to mature within five business days and the amount is considered to be immaterial, then the request may not be necessary.

### **(c) Collateral Substitution**

Collateralized certificates of deposit and repurchase agreements often require substitution of collateral. Any broker dealer or financial institution requesting substitution must contact the Auditor for approval and settlement. The substituted security value will be calculated and substitution approved if its value is equal to or greater than the required security level. The Auditor must provide written notification of the decision to the bank or the safekeeping agent holding the security prior to any security release. Substitution is allowable for all transactions, but should be limited, if possible, to minimize potential administrative problems and transfer expense. The Auditor may limit substitutions and assess appropriated fees if substitution becomes excessive or abusive.

## 5. Safekeeping and Custody

All purchased securities will be held in safekeeping by the County, or a County account in a third party financial institution, or with the Federal Reserve Bank. In no instance will securities safekeeping services be provided by a bank that is a “principal” or “counterparty” in the investment transaction itself. Furthermore, bank safekeeping may not be provided by a “parent” or “holding company” bank, which is financially related to any bank, which is a principal in a specific securities transaction.

All investment transactions will be executed on the basis of “delivery versus payment.” By doing so, County funds are not released until the County has received, through (1) the Safekeeping Department of the Depository Bank, selected pursuant to the provisions of Local Government Code Section 116, (2) another banking institution acceptable to and under contract with the County or (3) the Federal Reserve wire, the securities purchased.

## 6. Loss of Credit Rating

An investment that requires a minimum credit rating does not qualify as an **Authorized Investment** during the period the investment does not have the required minimum credit rating, even if the investment had the appropriate rating at the time of purchase. Credit ratings will be monitored continuously with a monthly document approved as backup. The Auditor will take all prudent measures that are consistent with this Policy to liquidate and investment that does not have the minimum rating.

## **IV. Investment Responsibility and Control**

### **A. Investment Institutions Defined**

The Auditor will invest County funds with any or all of the following institutions or groups consistent with federal and state laws and the current Depository Bank contract:

- Depository bank
- Other state or national banks that have a main office or branch office in Texas that are insured by the FDIC
- Public funds investment pools. See *Attachment C* for a listing of current
- authorized pools
- Government securities brokers and dealers selected by credit worthiness (minimum capital requirement \$10,000,000 and at least five years of operation), authorized to provide investment services in the State of Texas. Upon recommendation of the County Auditor, firms not meeting these requirements may be approved by the Commissioners Court if additional factors warrant approval.

1. Investment selection for all funds will be based on legality, appropriateness, liquidity and risk/return considerations. All County investment portfolios will be actively managed to enhance overall interest income. Investment Advisors shall adhere to the spirit, philosophy and specific term of this Policy and shall invest within the same Standard of Care. Investment Broker/Dealers shall adhere to the spirit, philosophy and specific term of this Policy and shall avoid recommending or suggesting transactions outside that Standard of Care.

2. Selection of Investment Advisors and Broker/Dealers will be performed by the Auditor. The Auditor will establish criteria to evaluate Investment Advisors and Broker/Dealers, including:

- a) adherence to the County's policies and strategies
- b) investment performance and transaction pricing within accepted risk constraints
- c) responsiveness to the County's request for services, information and open communication
- d) understanding of the inherent fiduciary responsibility of investing public funds
- e) similarity in philosophy and strategy with the County's objectives
- f) continued competitive pricing

3. In accordance with 2256.005(k), broker/dealers eligible to transact investment business with the County will be presented a written copy of this Investment Policy. Additionally, the registered principal of the business organization seeking to transact investment business shall execute a written instrument substantially to the effect that the registered principal has:

- a) received and thoroughly reviewed this Investment Policy, and
- b) acknowledged that the organization has implemented reasonable procedures and controls in an effort to preclude imprudent investment activities arising out of investment transactions with the County

The County will not enter into an investment transaction with a Broker/Dealer prior to receiving the written instrument described above according to Section 2256.005(l).

Also, all financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Auditor with the following:

- a) audited financial statements
- b) proof of National Association of Security Dealers certification
- c) trading resolution
- d) proof of State of Texas registration, and
- e) completed broker/dealer questionnaire

An annual review of the financial condition and registrations of qualified bidders will be conducted by the Auditor. Securities dealers will be dropped or continued on the eligible list of bidders, based on an evaluation using the following criteria:

- (a) number of transactions competitively won
- (b) prompt and accurate confirmation of transactions
- (c) efficient securities delivery
- (d) accurate market information, and
- (e) account serving

A current audited financial statement is required to be on file for each financial institution and broker dealer in which the County invests.

## **B. Standards of Operation**

The Auditor has developed and maintains written administrative procedures for the operation of the investment program, consistent with this Investment Policy.

All in investment transactions governed by this Policy will be competitively bid, whether the transaction is executed by the Auditor or by a contracted Investment Advisor. Quotes may be solicited orally, if documented contemporaneously.

## **C. Wire Transactions**

All wire transactions required to execute the aforementioned purchase and sale transactions shall be supported by written instructions to the County Depository, unless the timely preparation of such written instructions would hinder the orderly completion of the transaction. In such cases the County will prepare follow-up letters confirming the oral instructions, and forward such written instructions to the bank without undue delay, either by mail or facsimile transmission. Other wire procedures shall be established pursuant to banking systems and policies and procedures approved by the Auditor.

## **D. Standards of Care**

In accordance with Government Code 2256.006, investments will be made with judgment and care, under prevailing circumstance, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived. Investments of funds shall be governed by the following investment objectives, in order of priority; preservation and safety of principal; liquidity; and yield.

In determining whether the Auditor has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration:

1. the investment of all funds, or funds under the County's control, over which the Auditor had responsibility, rather than a consideration as to the prudence of a single investment
2. whether the investment decision was consistent with the written Investment Policy of the County

The Auditor and designees acting in accordance with this Policy and any written procedures, and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

While the County will strive to avoid investment losses, the occurrence of a "book" or "accounting" loss does not necessarily indicate an inappropriate investment activity or faulty portfolio management strategy. In fact, occurrence of a "book" loss may actually be part of a transaction producing an aggregate gain. In other cases, occurrence of a smaller "book" loss may be preferable to occurrence of a much larger potential loss. No legal or administrative prohibitions are imposed against occurrence of portfolio losses, so long as such transactions can be justified in the overall portfolio management process.

#### **E. Audit Control**

The Auditor shall establish a system of internal controls over the investment activities of Tarrant County consistent with this Investment Policy. The Commissioners Court, at a minimum, will have an annual financial audit of all County funds by an independent auditing firm, as well as an annual compliance audit of management controls on investments and adherence to the entity's established investment policies in accordance with Gov. Code 2256.005(m).

## **V. Investment Reporting and Performance Evaluation**

### **A. Quarterly Report**

In accordance with Government Code 2256.023, not less than quarterly, the Auditor will provide to the Commissioners Court a written report of investment transactions for all funds for the preceding reporting period within a reasonable time after the end of the period. The report must:

- (1) describe in detail the investment position of the County on the date of the report
- (2) be prepared and signed by the Auditor
- (3) contain a summary statement of each pooled fund group that states the:
  - (a) beginning market value for the reporting period
  - (b) ending market value for the period
  - (c) fully accrued interest for the period
- (4) state the book value and market value of each separately invested asset at the end of the reporting period by the type of asset and fund type invested
- (5) state the maturity date of each separately invested asset that has a maturity date
- (6) state the account or fund or pooled group fund in the County for which each individual investment was acquired
- (7) state the compliance of the investment portfolio of the County as it relates to:
  - (a) the investment strategy expressed in the County's Investment Policy
  - (b) relevant provisions of this chapter

### **B. Notification of Investment Changes**

It shall be the duty of the Auditor of Tarrant County, Texas to notify the Commissioners Court of any significant changes in current investment methods and procedures prior to their implementation, regardless of whether they are required by this policy or not.

Court Order # 76364

76364      **REVISED TARRANT COUNTY INVESTMENT POLICY IN  
ACCORDANCE  
WITH CHAPTER 2256, TEXAS GOV. CODE, THE PUBLIC  
FUNDS INVESTMENT  
ACT & STATUTORY REQUIREMENTS OF LOCAL GOV.  
CODE 116.112  
RESOL.                      -                      AUDITOR'S                      OFC.  
APPROVED**

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**May 20, 1997**

**The full order text for this document is unavailable, please visit the County  
Clerk Commissioners Court Office for additional details.**

This Court Order is located in Volume 110 on page 494 of the Commissioners Court Minutes.



## **INVESTMENT STRATEGY**

Currently, all funds are invested as a single pool. The general strategy for this pool is indicated in the following discussion of the OPERATING (GENERAL FUND PORTFOLIO). Within this portfolio are amounts from the Interest and Sinking Fund, Capital Project Funds, General Liability/Workers' Compensation, and Errors & Omissions Funds. Depending on market conditions, the County's investment portfolio may continue to be combined into a single pool or it may be invested into five separate pools per the following strategies.

### **OPERATING (GENERAL FUND PORTFOLIO)**

The primary objective of this fund is to ensure liquidity to allow the payment of County obligations as they become due, without the need for liquidating security positions prior to stated maturity dates.

#### **Suitability**

Any investment authorized by this policy is suitable for the Operating Pool.

#### **Preservation of Principal**

All investments will be in high quality securities with no perceived default risk.

#### **Liquidity**

The Operating Pool requires the greatest short term liquidity of any of the fund types. Short term investment pools and money market mutual funds will provide daily liquidity and may be used as a competitive alternative to fixed maturity investments. Investment maturities will be scheduled or "staggered" to correspond with expected cash requirement dates. Cash requirement dates are weekly claim payments and payroll dates. To enhance the ability to liquidate investments prior to final maturity, the following general rule will be applied: "The longer the maturity, the higher the quality of the investment."

#### **Marketability**

Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash requirement.

#### **Diversification**

Investment maturities will be staggered throughout the budget cycle.

#### **Yield**

Attaining a competitive market yield for comparable highly secure and highly liquid securities will be the objective. The benchmark or target yield will be the three month US Treasury bill rate as determined at the weekly auctions, calculated on a monthly basis.

## **Interest and Sinking Fund**

Interest and Sinking Funds will be invested to ensure adequate funding for each consecutive debt service payment. Investments will be made in such a manner as not to exceed an unfunded debt service date with the maturity of any investment. An unfunded debt service date is defined as a coupon or principal payment date that does not have cash or investment securities available to satisfy such payment. The majority of these payments are on two dates during the fiscal year, January 15 and July 15.

### **Suitability**

Any investment authorized by the policy is suitable for the Interest and Sinking Fund.

### **Preservation of Principal**

All investments will be in high quality securities with no perceived default risk. Market risk will be minimized by managing the Debt Service's portfolio to not exceed the debt service payment schedule.

### **Liquidity**

Interest and Sinking funds have predictable payment schedules. Accordingly, maturities will be scheduled to coincide with debt service payment dates.

### **Marketability**

Securities with active and efficient secondary markets are not necessary, as the event of an unanticipated cash requirement is not probable.

### **Diversification**

Diversification will be achieved by staggering the maturity of fixed rate investments.

### **Yield**

Attaining a competitive market yield for comparable highly secure securities will be the objective. The benchmark or target yield will be the six month US Treasury bill rate as determined at the weekly auctions, calculated on a monthly basis.

### **Maturity Restriction**

Investments with final stated maturities beyond five years will be prohibited.

## **CAPITAL PROJECT FUNDS**

Many of these projects are funded by the issuance of debt securities by the County. A portion of these are building construction projects that have extended construction schedules. The investment maturity of debt proceeds (excluding debt service funds) shall generally be limited to the anticipated cash flow requirement or the temporary period, as defined by Federal Tax law, which is generally three years. During the temporary period, debt proceeds may be invested at an unrestricted yield. After the expiration of the temporary period, debt proceeds subject to yield restriction will be invested considering the anticipated cash flow requirements of the fund and market conditions to achieve compliance with applicable regulations.

### **Suitability**

Any investment authorized by the policy is suitable for this portfolio.

### **Preservation of Principal**

All investments will be in high quality securities with no perceived default risk. Market risk will be minimized by managing the Capital Projects Funds portfolio to coincide with the anticipated expenditure schedule.

### **Liquidity**

To the extent cash draw down schedules can be obtained and verified, investments maturities will be scheduled to correspond with these schedules. To ensure liquidity, investment pools, mutual funds and other short term investments will be used. Structured Flexible Repurchase Agreements may be utilized. These investments are term repurchase agreements with a pre-authorized draw schedule.

Additionally, due to current regulations governing allowable investment yield on unexpended bond proceeds, municipal securities may be utilized in this fund in circumstances where interest earnings would otherwise be "rebated" to the federal government.

### **Marketability**

Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash requirement.

### **Diversification**

Diversification will be achieved by staggering the maturity of fixed rate investments.

### **Yield**

Attaining a competitive market yield for comparable highly secure securities will be the objective. The benchmark or target yield will be the one year US Treasury bill rate as determined at the weekly auctions, calculated on a monthly basis.

### **Maturity Restriction**

Investments with final stated maturities beyond five years will be prohibited.

## **GENERAL LIABILITY/WORKERS'COMPENSATION FUNDS**

The County initiated a formalized risk management program on September 1, 1988. In 1989, the County issued Certificates of Obligation to "Pre-fund" the cash requirements of the County's self insurance program. The occurrence of workers' compensation claims can be trended, while the timing of general liability claims is much harder to estimate. Since both activities were funded through the issuance of tax-exempt debt, the net remaining balance must be viewed together.

### **Suitability**

Any investment authorized by the policy is suitable for this portfolio.

### **Preservation of Principal**

All investments will be high quality securities with no perceived default risk. Market risk will be managed by (1) not exceeding the highest average monthly draw schedule for workers' compensation and (2) managing the weighted average days to maturity for the general liability reserve fund to less than 365 days.

### **Liquidity**

A significant portion of the workers' compensation funds will be maintained in investment pools or mutual funds to ensure liquidity. The remainder will be invested in short term securities with maturity dates that correspond with trends for workers' compensation payments. The general liability reserve will be invested in intermediate high quality securities. A single repurchase agreement may be used if disbursements are allowed in the amount necessary to satisfy any expenditure request; this investment structure is commonly referred to as a flexible repurchase agreement. Large settlements are usually known far enough in advance to accommodate this type of investment. Additionally, due to current regulations governing allowable investment yield on unexpended bond proceeds, municipal securities may be used in this fund in circumstances where interest earnings would otherwise be "rebated" to the federal government.

### **Marketability**

Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash requirement.

### **Diversification**

Investment maturities will be staggered throughout the budget cycle.

### **Yield**

Attaining a competitive market yield for comparable highly secure securities will be the objective. The benchmark or target yield will be the six month US Treasury bill rate as determined at the weekly auctions, calculated on a monthly basis.

### **Maturity Restriction**

Investments with final stated maturities beyond five years will be prohibited.

## **ERRORS AND OMISSIONS FUNDS**

These funds are collected by the District and County Clerks to provide protection from liability for errors and omissions. These funds replace commercially available insurance. Claims against this fund and new cash inflows are infrequent.

### **Suitability**

Any investment authorized by the policy is suitable for this portfolio.

### **Preservation of Principal**

All investments will be in high quality securities with no perceived default risk. Market risk will be minimized by managing the weighted average days to maturity for the Errors and Omissions fund to less than 365 days.

### **Liquidity**

Unexpected significant cash requirements in this fund are rare. Investments will be scheduled beginning with six month maturities. Incoming cash receipts will be added to investment pools or mutual funds for unexpected cash needs.

### **Diversification**

The maturity of fixed rate investments will be staggered.

### **Yield**

Attaining a competitive market yield for comparable highly secure securities will be the objective. The benchmark or target yield will be the six months US Treasury bill rate as determined at the weekly auctions, calculated on a monthly basis.

### **Maturity Restriction**

Investments with final stated maturities beyond five years will be prohibited.

**LIST OF AUTHORIZED MUTUAL FUNDS AND INVESTMENT POOLS  
FOR INVESTMENT OF COUNTY FUNDS**

INVESTMENT POOLS

TEXPOOL  
LOGIC  
LONE STAR  
TEXAS CLASS  
TEXSTAR

MUTUAL FUNDS

NONE.

**LIST OF APPROVED BANKS AND BROKER/DEALERS FOR  
INVESTMENT-OF COUNTY FUNDS**

PAINWEBBER  
CITIGROUP GLOBAL MARKETS (SMITH BARNEY)  
CANTOR FITZGERALD  
MULTI-BANK SECURITIES, INC.

## **GLOSSARY**

**BROKER:** A broker brings buyers and sellers together for a. commission paid by the initiator of the transaction or by both sides.

**COLLATERAL:** Securities, evidence of deposit or other property which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

**COUNTERPARTY:** Another party to a transaction. In the case of deposits and investments made by governmental entities, a counterparty could be the issuer of a security, a financial institution holding a deposit, a broker-dealer selling securities, or a third party holding securities or collateral.

**DEALER:** A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for the dealer's own account.

**DELIVERY VERSUS PAYMENT:** There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities.

**FEDERAL HOME LOAN BANKS:** The institutions that regulate and lend to savings and loan associations.

**FEDERAL HOME LOAN MORTGAGE CORPORATION (FHLMC):** A U.S. Corporation and instrumentality of the U.S. Government. Through its purchases of conventional mortgages, it provides liquidity to the mortgage markets, much like FNMA. FHLMC's securities are highly liquid and widely accepted. FHLMC assumes and guarantees that all security holders will receive timely payment of principal and interest.

**FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA):** FNMA, like GNMA, was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing & Urban Development. It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans in addition to fixed-rate mortgages. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.



**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.

**FEDERAL FARM CREDIT BANK (FFCB):** The Farm Credit Administration which operates as an independent agency of the U.S. government, oversees the Farm Credit System, which operates in all states plus Puerto Rico. Under this system, the country is divided into 12 farm credit districts. In each, there is a Federal Land Bank, a Federal Intermediate Credit Bank, and a Bank for Cooperatives; each bank supplies specific types of credit to qualified borrowers in its district. Since January 1979, the 36 banks plus a Central Bank for Cooperatives have obtained funds by issuing securities on a consolidated basis under the name of the Federal Farm Credit Bank (FFCB). All bonds and notes issued by the FFCB must be secured by acceptable collateral in the form of cash, Treasury securities, and notes or other obligations of borrowers from these banks. Although FFCB securities are not guaranteed either directly or indirectly by the U.S. government, nevertheless, given the semiofficial status of the FFCB's and the government's high sensitivity to farmers' needs, it is highly unlikely that the government would permit a FFCB default.

**GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA. or Ginnie Mae):** Securities guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations and other institutions. Security holder is protected by full faith and credit of the U.S. Government.

**LIQUIDITY:** A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value.

**MASTER REPURCHASE AGREEMENT:** A written contract covering all future transactions between the parties to repurchase-reverse repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

**MATURITY:** The date upon which the principal or stated value of an investment becomes due and payable.

**PORTFOLIO:** Collection of securities held by an investor.

**PRIMARY DEALER:** A group of government securities dealers that submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight.

**RATE OF RETURN:** The yield obtainable on a security, based on its purchase price or its current market price.

**REPURCHASE AGREEMENT:** A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate the buyer for this. Dealers use repurchase agreements extensively to finance their positions.

**SAFEKEEPING:** A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held for protection.

**STUDENT LOAN MARKETING ASSOCIATION (SLMA):** "Sallie Mae" is a publicly traded stock company that guarantees securities backed by pools of student loans traded in secondary markets. SLMA's guarantee carries the full faith and credit of the U.S. government. SLMA was created in 1972 to increase the availability of educational loans to institutions of higher learning.

**TREASURY BILL:** A discount security issued by the U.S. Treasury to finance the national debt that matures from three months to one year.

**TREASURY BONDS:** Long-term U.S. Treasury securities having initial maturities of more than ten years.

**TREASURY NOTES:** Intermediate term U.S. Treasury securities having initial maturities of from one to ten years.

**YIELD:** The rate of annual income return on an investment, expressed as a percentage. INCOME YIELD is obtained by dividing the current dollar income by the current market price for the security. NET YIELD OR YIELD TO MATURITY is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the security.

**LIST OF APPROVED TRAINING PROVIDERS**

UNIVERSITY OF NORTH TEXAS  
ANY STATE UNIVERSITY  
TEXAS ASSOCIATION OF COUNTY AUDITORS  
TEXAS ASSOCIATIONS OF COUNTIES  
GOVERNMENT TREASURERS' ORGANIZATION OF TEXAS