

**BEE COUNTY**

**INVESTMENT POLICY**

**SEPTEMBER 2011**

# Bee County, Texas

## Investment Policy

### I. Investment Authority and Scope of Policy

#### General Statement

This policy serves to satisfy the statutory requirements of Local Government Code 116.112 and Government Code 2256 to define and adopt a formal investment policy. This policy will be reviewed and adopted by resolution at least annually according to Section 2256.005(e).

#### Funds Included

This investment policy applies to all financial assets of all funds of Bee 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 Bee County and any depository bank.

#### County Investment Officer

In accordance with Sec. 116.112(a), Local Government Code and/or Chapter 2256, Sec. 2256.005(f) and (g), Government Code, the County Investment Officer, under the direction of the Bee County Commissioners Court, may invest County funds that are not immediately required to pay obligations of the County. The commissioners' court shall designate by resolution one or more officers or employees as investment officer.

If the investment officer 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 investment officer 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).

### II. Investment Objectives

#### General Statement

Funds of the County will be invested in accordance with federal and state laws, this investment policy and written administrative procedures. The County will invest according to investment strategies for each fund or pooled fund group as they are adopted by Commissioners Court resolution in accordance with Sec. 2256.005(d).

#### Safety and Maintenance of Adequate Liquidity

Bee County is concerned about the return of its principal; therefore, safety of principal is a primary objective in any investment transaction. The County's investment portfolio must be structured in conformance with an asset/liability management plan which provides for liquidity necessary to pay obligations as they become due.

### Diversification

It will be the policy of Bee County to diversify its portfolio to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer or a specific class of investments. Investments of the County shall always be selected that provide for stability of income and reasonable liquidity.

### Yield

It will be the objective of the County to 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 or pooled fund group, and state and federal law governing investment of public funds.

### Maturity

Portfolio maturities will be structured to meet the obligations of the County first and then to achieve the highest return of interest. When the County has funds that will not be needed to meet current-year obligations, maturity restraints will be imposed based upon the investment strategy for all funds in aggregate. The maximum allowable stated maturity of any individual investment owned by the County shall be as follows:

1. For the aggregate of all funds, the maximum allowable stated Maturity of any individual investment is 5 ½ years (Five Years and Six Months).

#### Provided:

- a. The coupon (s) rate of such individual investment is significantly higher than the current market yield for similar investments of like maturity;
  - b. The investment provides for the earlier call or periodic payment of principal; and
  - c. There exists a high probability that the investment will be called or prepaid at an earlier date.
2. Notwithstanding anything contained in item 1 above, the maximum average dollar-weighted maturity of all funds in the aggregate shall not be more than 5 years and maturities will be structured to meet the planned obligations of the County as evidenced by a written Asset-Liability Plan signed by the Bee County Investment Officer; and
  3. For pooled funds, the maximum average dollar-weighted maturity allowed is 90 days (maximum allowed by Texpool).

### Quality and Capability of Investment Management

It is the County's policy to provide training required by the Public Funds Act, Sec. 2256.008 and periodic training in investments for the County Investment Officer through courses and seminars offered by professional organizations and associations in order to insure the quality, capability and currency of the County Investment Officer in making decisions.

### 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 fund/pooled group of funds under Bee County's control. Each investment strategy must describe the investment objectives for the particular fund/pooled group of funds using the following priorities of importance:

1. Understanding 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; and
7. Maturity restrictions.

In accordance with the Public Funds Investment Act, Section 2256.005(e), investment strategies will be reviewed and adopted by resolution at least annually.

**III. Authorized Investment Instruments**

The Bee County Investment Officer shall use any or all of the following authorized investment instruments consistent with governing law including Texas Government Code 2256.009(b):

- A. Obligations of the United States and its agencies and instrumentalities;
- B. Direct obligations of this state or its agencies and instrumentalities;
- C. Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, this state or the United States 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 states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent.
- E. Certificates of Deposit in accordance with the County's depository agreement and is:
  1. guaranteed or insured by the Federal Deposit Insurance Corporation or its successor;
  2. secured by obligations that are described by Section 2256.009(a) of the Public Funds Investment 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 the certificates, but excluding those mortgage backed securities of the nature described by Section 2256.009(b) of the Public Funds Invest Act; or
  3. secured in any other manner and amount provided by law for deposits of the County.
- F.\* A fully collateralized repurchase agreement, as defined in the Public Funds Investment Act, if it:
  1. has a defined termination date;
  2. is secured by obligations described by Section 2256.009(a)(1) of the Public Funds Investment Act; and
  3. requires the securities being purchased by the county to 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; and

4. is placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in this state.

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 a 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.

G.\* A bankers' acceptance if it:

1. has a stated maturity of 270 days or fewer from the date of its issuance;
2. will be, in accordance with its terms, liquidated in full at maturity;
3. is eligible for collateral for borrowing from a Federal Reserve Bank; and
4. is accepted by a bank organized and existing under the laws of the United States or any state, if the short-term obligations of the bank, or of a bank holding company of which the bank is the largest subsidiary, are rated not less than A-1 or P-1 or an equivalent rating by at least one nationally recognized credit rating agency.

H.\* Commercial paper is an authorized investment under this subchapter if the commercial paper:

1. has a stated maturity of 270 days or fewer from the date of its issuance; and
2. is rated not less than A-1 or P-1 or an equivalent rating by at least:
  - a. two nationally recognized credit rating agencies; or
  - b. 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.

I.\* Mutual funds and money market funds with limitations described below:

1. A no-load money market mutual fund is authorized if it:
  - a. is regulated by the Securities and Exchange Commission;
  - b. has a dollar-weighted average stated maturity of 90 days or fewer; and
  - c. includes in its investment objectives the maintenance of a stable net asset value of \$1.00 for each share.
2. A no-load mutual fund is authorized if it:
  - a. is registered with the Securities and Exchange Commission;
  - b. has an average weighted maturity of less than two years;
  - c. is invested exclusively in obligations approved by this subchapter;
  - d. is continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent; and
  - e. conforms to the requirements set forth in Sections 2256.016(b) and (c) relating to the eligibility of investments pools to receive and invest funds of investing entities.
3. Relative to mutual funds and money market mutual funds, the county may not:

- a. invest in the aggregate more than 80 percent of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, in money market mutual funds or mutual funds, either separately or collectively;
- b. invest in the aggregate more than 15 percent of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, in mutual funds;
- c. invest any portion of bond proceeds, reserves and funds held for debt service, in mutual funds; or
- d. invest its funds or funds under its control, including bond proceeds and reserves 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 assets of the mutual fund or money market mutual fund.

J.\* Eligible Investment Pools (as discussed in the Public Funds Investment Act, Sec. 2256.016-2256.019) if the Commissioners Court by resolution authorizes investment in the particular pool. An investment pool shall invest the funds it receives from entities in authorized investments permitted by the Public Funds Investment Act. A county by contract may delegate to an investment pool the authority to hold legal title as custodian of investments purchased with its local funds.

K. **Prohibited:** The Bee County Investment Officer has no authority to use any of the following investment instruments which are strictly prohibited:

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

\* **Specific Approval Required:** These instruments, while allowed by law are not authorized unless the Commissioners Court approves the specific investment prior to purchase.

\* **Credit Rating Monitoring Procedure:** *The Investment Officer shall monitor, on no less than a monthly basis, the credit rating on such investments in the portfolio, as may be authorized and classified under sub-sections D, F, G, H, I, and J of Section III above, based upon information from a nationally recognized rating agency to be consistent with the provisions of 2256.21 and 2256.005 (b)(4)(F). If any such security falls below the minimum rating required by this policy, the Investment Officer shall notify the Commissioners' Court of the loss of rating, conditions affecting the rating, and possible loss of principal and liquidate the security, as soon as possible, after the loss of that rating if the Court chooses to do so.*

**IV. Investment Responsibility and Control**

**A. Investment Institutions Defined**

The Bee County Investment Officer shall invest County funds with any or all of the following institutions or groups consistent with federal and state law and the current Depository Bank contract:

1. Depository Bank
2. Public Funds Investment Pools:
  - a. Texpool
3. Government Securities Brokers and Dealers approved by the Commissioners Court.

**B. Qualifications for approval of Brokers/Dealers**

In accordance with 2256.005(k), a written copy of this investment policy shall be presented to any person seeking to sell to the county an authorized investment. The registered principal of the business organization seeking to sell an authorized investment shall execute a written instrument, substantially to the effect that the registered principal has:

1. received and thoroughly reviewed the County's Investment Policy; and
2. acknowledged that his/her organization has implemented reasonable procedures and controls in an effort to preclude imprudent investment activities arising out of investment transactions conducted between the county and his/her organization. The Investment Officer will not buy any securities from a person who has not delivered to the county an instrument in substantially the form provided above according to Section 2256.005(1).
3. Commissioners Court will review applications of broker/dealers who desire to become qualified bidders for investment transactions. Approval will be based on the compliance with the following criteria:
  - a. Institutional investment experience
  - b. Experience with local governments
  - c. Good references from public fund investment officers
  - d. Adequate capitalization per the Capital Adequacy Guidelines for government Securities Dealers published by the New York Federal Reserve Bank.
  - e. Regulation by the Securities & Exchange Commission
  - f. Membership in good standing in the National Association of Securities Dealers, Inc.(when applicable)
  - g. Licensure from the State of Texas

**C. Standards of Operation**

The County Investment Officer shall develop and maintain written administrative procedures for the operation of the investment program, consistent with this investment policy.

**D. Delivery vs. Payment**

It will be the policy of the County that all Treasury Bills, notes and bonds and Government Agencies' securities shall be purchased using the "Delivery vs. Payment" (DVP) method through the Federal Reserve System. By so doing, County funds will not be released until the County has received, through the Federal Reserve wire, the securities purchased.

E. Independent Audit

In accordance with Government Code Sec. 2256.005 (m), the County will perform a compliance audit of management controls on investments and adherence to the County's established investment policies.

F. Standard of Care

In accordance with Government Code 2256.006, investments shall be made with judgement and care, under prevailing circumstances, 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. Investment 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 an investment officer 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 officer had responsibility rather than a consideration as to the prudence of a single investment; and
2. Whether the investment decision was consistent with the written investment policy of the county.

V. Investment Reporting and Performance Evaluation

A. Quarterly Reports

In accordance with Government Code 2256.023, not less than quarterly, the investment officer shall prepare and submit to 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 by the investment officer of the county;
3. Be signed by the investment officer of the county;
4. Contain a summary statement of each fund or pooled fund group that states the:
  - a. Beginning market value for the reporting period;
  - b. Additions and changes to the market value during the period; and
  - c. Ending market value for the period;
5. State the book value and market value of each separately invested asset at the beginning and end of the reporting period by the type of asset and fund type invested;
6. State the maturity date of each separately invested asset that has a maturity date;
7. State the account or fund or pooled group fund in the county for which each individual investment was acquired; and
8. 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; and
  - b. Relevant provisions of this chapter.
9. State the annualized, total-and-fully-accrued rate of return for book value and the annualized, total-and-fully-accrued, marked-to-market rate of return for market value.



B. Performance Objective

When Bee County makes investments other than those held in the Depository Bank or a Public Funds Investment Pool (such as Tex Pool), it shall do so with the objective of exceeding the rate of return then available at said Depository Bank or Public Funds Investment Pool.

VI. Investment Collateral and Safekeeping

A. Collateral or Insurance

The Bee County Investment Officer shall insure that all county funds are fully collateralized or insured pursuant to federal and state law (Texas Government Code Sec. 2257 and Local Government Code Sec. 116.051 et. al) and the current Bank Depository Contract.

B. Safekeeping

All purchased securities shall be held in safekeeping by the County, or a County account in a third party financial institution, or with the Federal Reserve Bank. All certificates of deposit, insured by the FDIC, purchased outside the Depository Bank shall be held in safekeeping by either the County or a County account in a third party financial institution. All pledged securities by the Depository Bank shall be held in safekeeping by the County, or a County account in a third party financial institution, or with a Federal Reserve Bank.

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### County Investment Officer

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### Yield

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### Maturity

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#### Provided:

- a. The coupon (s) rate of such individual investment is significantly higher than the current market yield for similar investments of like maturity;
  - b. The investment provides for the earlier call or periodic payment of principal; and
  - c. There exists a high probability that the investment will be called or prepaid at an earlier date.
2. Notwithstanding anything contained in item 1 above, the maximum average dollar-weighted maturity of all funds in the aggregate shall not be more than 5 years and maturities will be structured to meet the planned obligations of the County as evidenced by a written Asset-Liability Plan signed by the Bee County Investment Officer; and
  3. For pooled funds, the maximum average dollar-weighted maturity allowed is 90 days (maximum allowed by Texpool).

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- C. Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, this state or the United States 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 states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent.
- E. Certificates of Deposit in accordance with the County's depository agreement and is:
  1. guaranteed or insured by the Federal Deposit Insurance Corporation or its successor;
  2. secured by obligations that are described by Section 2256.009(a) of the Public Funds Investment 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 the certificates, but excluding those mortgage backed securities of the nature described by Section 2256.009(b) of the Public Funds Invest Act; or
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  1. has a defined termination date;
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1. has a stated maturity of 270 days or fewer from the date of its issuance;
2. will be, in accordance with its terms, liquidated in full at maturity;
3. is eligible for collateral for borrowing from a Federal Reserve Bank; and
4. is accepted by a bank organized and existing under the laws of the United States or any state, if the short-term obligations of the bank, or of a bank holding company of which the bank is the largest subsidiary, are rated not less than A-1 or P-1 or an equivalent rating by at least one nationally recognized credit rating agency.

H.\* Commercial paper is an authorized investment under this subchapter if the commercial paper:

1. has a stated maturity of 270 days or fewer from the date of its issuance; and
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- b. invest in the aggregate more than 15 percent of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, in mutual funds;
- c. invest any portion of bond proceeds, reserves and funds held for debt service, in mutual funds; or
- d. invest its funds or funds under its control, including bond proceeds and reserves 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 assets of the mutual fund or money market mutual fund.

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  - d. Adequate capitalization per the Capital Adequacy Guidelines for government Securities Dealers published by the New York Federal Reserve Bank.
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The County Investment Officer shall develop and maintain written administrative procedures for the operation of the investment program, consistent with this investment policy.

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E. Independent Audit

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V. Investment Reporting and Performance Evaluation

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3. Be signed by the investment officer of the county;
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  - a. Beginning market value for the reporting period;
  - b. Additions and changes to the market value during the period; and
  - c. Ending market value for the period;
5. State the book value and market value of each separately invested asset at the beginning and end of the reporting period by the type of asset and fund type invested;
6. State the maturity date of each separately invested asset that has a maturity date;
7. State the account or fund or pooled group fund in the county for which each individual investment was acquired; and
8. 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; and
  - b. Relevant provisions of this chapter.
9. State the annualized, total-and-fully-accrued rate of return for book value and the annualized, total-and-fully-accrued, marked-to-market rate of return for market value.

B. Performance Objective

When Bee County makes investments other than those held in the Depository Bank or a Public Funds Investment Pool (such as Tex Pool), it shall do so with the objective of exceeding the rate of return then available at said Depository Bank or Public Funds Investment Pool.

VI. Investment Collateral and Safekeeping

A. Collateral or Insurance

The Bee County Investment Officer shall insure that all county funds are fully collateralized or insured pursuant to federal and state law (Texas Government Code Sec. 2257 and Local Government Code Sec. 116.051 et. al) and the current Bank Depository Contract.

B. Safekeeping

All purchased securities shall be held in safekeeping by the County, or a County account in a third party financial institution, or with the Federal Reserve Bank. All certificates of deposit, insured by the FDIC, purchased outside the Depository Bank shall be held in safekeeping by either the County or a County account in a third party financial institution. All pledged securities by the Depository Bank shall be held in safekeeping by the County, or a County account in a third party financial institution, or with a Federal Reserve Bank.