

TITUS COUNTY TEXAS
INVESTMENT POLICY

The attached investment policy was reviewed and adopted in open court at a regular meeting of the Titus County Commissioners' Court this 26th day of September 2022.

12th/BS

ABSENT

Brian Lee, County Judge

4112

Jeff Parchman, Commissioner, Precinct #1

J Fitch

John Fitch, Commissioner, Precinct #2

Dana Applewhite

Dana Applewhite, Commissioner, Precinct #3

Jimmy Parker

Jimmy Parker, Commissioner, Precinct #4



TITUS COUNTY INVESTMENT POLICY

I. INVESTMENT AUTHORITY AND SCOPE OF POLICY

General:

This policy serves to satisfy the statutory requirement of the Local Government Code 116.112 and Government Code Chapter 2256 to define and adopt a formal investment policy. This policy will be reviewed and adopted annually according to Government Code 2256.005(E).

Funds Included:

This investment policy applies to all financial assets of all funds of Titus 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 Treasurer, unless expressly prohibited by law or unless it is in contravention of any depository contract between Titus County and any depository bank.

County's Investment Officer:

The County Investment Officer(s), under the direction of the Titus 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 to serve as the investment officer and may designate an investment committee.

If the investment officer has a personal business relationship - or is related within the second degree by affinity or consanguinity - to an entity seeking to sell an investment to the county, the investment officer must file a statement disclosing that relationship with the Texas Ethics Commission and with Commissioners' Court.

II. INVESTMENT OBJECTIVES

General:

Funds of the County will be invested in accordance with federal and state laws and this investment policy. The County will invest according to the investment strategies for each fund as they are adopted by Commissioners Court. See Investment Strategies section of this document.

Safety:

Titus County is concerned about the return of its principal; therefore, safety of principal is the primary objective in any investment transaction.

Liquidity:

The County's investment portfolio must be structured in conformance with an asset/liability plan which provides for the liquidity necessary to pay obligations as they become due.

Diversification:

It will be the policy of Titus County to diversify its portfolio to manage the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer or a specific class of investments. Commissioners' Court recognizes that in a diversified portfolio, occasional measured losses are inevitable, and must be considered within the context of the overall portfolio's investment.

Yield:

It will be the objective of Titus 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 and all state and federal laws governing investment of public funds.

Maturity:

The investment policy must state the maximum stated maturity of any individual investment. For pooled funds, the policy must state the maximum average dollar-weighted maturity allowed. Portfolio maturities will be structured to meet the obligations of the County first and then to achieve the highest rate of return. 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 each fund. The maximum allowable stated maturity of any individual investment owned by the County is three years.

Quality and Capability of Investment Management:

It is the County's policy to provide training required by the Public Funds Investment Act and other 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 and capability of the County Investment Officer in making investment decisions.

Monitoring Rating Changes

An investment that requires a minimum rating under these statutes will be monitored by the investment officers with the possible assistance of brokers and banking institutions. The County shall take all

prudent measures that are consistent with its investment policy to liquidate an investment that does not have a minimum rating.

III. INVESTMENT STRATEGIES

The County maintains controls over three types of funds: operating funds, debt service funds, and capital project funds. For each of these funds, the primary objectives for the investment strategy of the County are as follows:

1. Understanding of the suitability of the investment to financial requirements of the County;
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.

For operating funds and pooled funds, the County's investment strategy shall include the above prioritized objectives along with emphasis on assuring that the anticipated cash flows are matched with the investment liquidity. The secondary objective is to create a portfolio structure which will experience limited volatility during economic cycles. This may be accomplished by purchasing high quality, short to medium term securities, which will complement each other in a laddered or barbell maturity structure based on anticipated cash flows.

For debt service funds and capital project funds, the County's investment strategy shall include the above prioritized objectives with emphasis on matching the investment maturities with the anticipated due dates of obligations.

In accordance with the Public Funds Investment Act, investment strategies will be reviewed and adopted at least annually.

IV. INVESTMENT COMMITTEE

The Commissioners Court may appoint a committee to include the county treasurer, county auditor, and county judge and if so desired, a member of the commissioners' court to serve in an advisory capacity. See Exhibit A. The county auditor will serve as the chairperson of such committee. In making reports and recommendations to the court, the committee shall be governed by the following guidelines:

1. Investments are not to be viewed as a profit center, but rather, as the timely return of capital.
2. Securities will only be purchased from brokers who meet the following requirements:
 - A. Approval by the committee or by commissioners' court if no committee is approved,
 - B. Approved background check, and
 - C. Agreement on file signed by broker to comply with Titus County investment policies. See Exhibit B.

V. INVESTMENT TYPES

Authorized:

Titus County Investment Officer(s) shall use any or all of the following authorized investment instruments consistent with governing law:

- A. The following are authorized investments per Government Code 2256.009:
 1. Obligations of the United State or its agencies and instrumentalities;
 2. Direct obligations of the state of Texas or its agencies and instrumentalities;
 3. 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;
 4. 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 Cooperation or by the explicit full faith and credit of the United States.
- B. Certificates of deposit issued by a depository institution that has its main or branch office in this state, per Government Code 2256.010:
 1. Guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, or the National Credit Union Share Insurance Fund or its successor;
 2. Secured by obligations that are described by Section 2256.009 (a), including mortgaged 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); or
 3. Security in any other manner and amount provide by law for deposits of the county.
- C. In addition to the authority to invest funds in certificates of deposit under Section 2256.009(a), an investment in certificates of deposit made in accordance with the following conditions is an authorized investment under this subchapter:
 1. The funds are invested by a County through:
 - A. A broker that has its main or branch office in this state and is selected from a list adopted by the county as required by Section 2256.025; or
 - B. A depository institution that has its main or branch office in this state and that is selected by the County;
 2. The broker or the depository institution select by the county under Subdivision (1) arranges for the deposit of funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the County;
 3. The full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States; and
 4. The county appoints the depository institution selected by the county under Subdivision (1), an entity described by Section 2257.041(d), or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to SEC Rule 15c3-3 (17 C.F.R. Section 240.15c303) as custodian for the county with respect to the certificates of deposit issued for the account of the county.

D. Investment Pools (Government Code Section 2256.019):

1. An entity may invest its funds and funds under its control through an eligible investment pool if the governing body of the entity by resolution authorizes investment in the particular pool. An investment pool shall invest the funds it receives from entities in authorized investments permitted by this subchapter. 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.
2. To be eligible to receive funds from and invest funds on behalf of an entity under this chapter, an investment pool must furnish to the investment officer or other authorized representative of the entity an offering circular or other similar disclosure instrument that contains, at a minimum, the following information:
 - a. The types of investments in which money is allowed to be invested;
 - b. The maximum average dollar-weighted maturity allowed, based on the stated maturity date, of the pool;
 - c. The objectives of the pool;
 - d. The size of the pool;
 - e. The names of the members of the advisory board of the pool and dates their terms expire;
 - f. The custodian bank that will provide safekeeping of the pool's assets;
 - g. Whether the intent of the pool is to maintain a net asset value of one dollar and the risk of market price fluctuation;
 - h. Whether the only source of payment is the assets of the pool at market value or whether there is a secondary source of payment, such as insurance or guarantees, and a description of the secondary source of payment;
 - i. The name and address of the independent auditor of the pool;
 - j. The requirements to be satisfied for an entity to deposit funds in and withdraw funds from the pool and any deadlines or other operating policies required for the entity to invest funds in and withdraw funds from the pool; and
 - k. The performance history of the pool, including yield, average dollar-weighted maturities, and expense ratios.
3. To maintain eligibility to receive funds from and invest funds on behalf of an entity under this chapters, an investment pool must furnish to the investment officer or other authorized representative of the entity:
 - A. Investment transaction confirmations; and
 - B. A monthly report that contains, at a minimum, the following information:
 1. The types and percentage breakdown of securities in which the pool is invested;
 2. The current average dollar weighted maturity, based on the state maturity date, of the pool;
 3. The current percentage of the pool's portfolio in investments that have stated maturities of more than one year; the book value versus the market value of the pool's portfolio, using amortized cost valuation;

4. The size of the pool;
 5. The number of participants in the pool;
 6. The custodian bank that is safekeeping the assets of the pool;
 7. A listing of daily transaction activity of the entity participating in the pool;
 8. The yield and expense ratio of the pool, including a statement regarding how yield is calculated;
 9. The portfolio managers of the pool; and
 10. Any changes or addenda to the offering circular.
4. An entity by contract may delegate to an investment pool the authority to hold legal title as the custodian of the investments purchased with its local funds.
 5. In this section, "yield" shall be calculated in accordance with regulations governing the registration of open-end management investment companies under the Investment Company Act of 1940, as promulgated from time to time by the Federal Securities and Exchange Commission.
 6. To be eligible to receive funds from and invest funds on behalf of an entity under this chapter, a public funds investment pool created to function as a money market mutual funds must mark its portfolio to market daily, and, to the extent reasonably possible, stabilize at a \$1 net asset value. If the ratio of the market value of the portfolio divided by the book value of the portfolio is less than 0.995 or greater than 1.005, portfolio holdings shall be sold as necessary to maintain the ratio between 0.995 and 1.005. In addition to the requirement of its investment policy and any other forms of reporting, a public funds investment pool created to function as a money market mutual fund shall report yield to its investors in accordance with regulation of the Federal Securities and Exchange Commission applicable to reporting by money market funds.
 7. To be eligible to receive funds from and invest funds on behalf of an entity under this chapter, a public funds investment pool must have an advisory board composed:
 - a. Equally of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool, for a public funds investment pool created under Chapter 791 and managed by a state agency; or
 - b. Of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool, for other investment pools.
 8. To maintain eligibility to receive funds from and invest funds on behalf of an entity under this chapter, an investment 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.
 9. If the investment pool operates an internet website, the information in a disclosure instrument must be posted on the website.
 10. To maintain eligibility to receive funds from and invest funds on behalf of an entity under this chapters, an investment pool must make available to the entity an annual audited financial statement of the investment pool in which the entity has funds invested.
 11. If an investment pool offers fee breakpoints on fund balances invested, the investment pool advertising investment rates must include either all levels of return based on the breakpoints provided or state the lowest possible level of return based on the smallest level of funds invested.

The County may invest its funds and funds under its control through an eligible investment pool 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 in this policy.

Prohibited:

Titus County Investment Officers have NO AUTHORITY to purchase and are prohibited from purchasing any of the following investment instruments which are strictly prohibited:

- A. Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-back 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 2 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.

VI. INVESTMENT RESPONSIBILITY AND CONTROL

Investment Institutions Defined:

Titus County Investment Officers shall invest County funds with any or all of the following institutions or groups consistent with federal and state law and the current depository contract:

1. Depository Bank;
2. Other state or national banks or state or federal credit unions that are insured by FDIC or NCUSIF;
3. Public funds investment pools;
4. Government Securities brokers and dealers

Qualifications for Approval of Broker/Dealers:

In accordance with Section 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 investment policy of the County; and
2. Acknowledged that the 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 the organization.

The investment officer may not buy any securities from a person who has not delivered to the County an instrument in substantially the form provided above according to this section. See Exhibit B.

Standards of Operation:

The investment officer shall develop and maintain written procedures for the operation of the investment program consistent with this investment policy. See Investment Strategies section of this document.

Delivery versus Payment:

According Section 2265.005 (b4E), it will be the policy of the County that all securities, except for investment pool funds and mutual funds, will settle using the "Delivery vs. Payment" (DVP) basis through the Federal Reserve System. By doing so county funds are not released until the County has received, through the Federal Reserve wire, the securities purchased.

Audit Control:

The county investment officers will establish liaison with the county auditor in preparing investment forms to assist with the accounting and auditing control. The investment officers are subject to audit by the Titus County Auditor and the outside auditing firm. It is the policy of the Titus County Commissioners' Court to have an annual audit of all County funds and investments.

Standard of Care – Prudence

Investments shall be made with judgment 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 probable income to be derived. Investment funds shall be governed by the following investment objectives, in order of priority:

1. Preservation and safety of principal;
2. Liquidity; and
3. Yield.

In determining whether an investment officer has exercised prudent care with respect to an investment decision, the determination shall be made by taking into consideration:

1. The investment of all funds, or funds under the entity's controls, over which the office has 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.

VII. INVESTMENT REPORT AND PERFORMANCE EVALUATION

Quarterly Reports:

In accordance with Government Code 2256.023, at least quarterly, the investment officer shall prepare and submit 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 jointly by all investment officers of the county;
3. Signed by each of the investment officers of the county;
4. 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; and
 - c. Fully accrued interest for the reporting 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 separate invested asset that has a maturity date;
7. State the account for 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 of the local government code and the Public Funds Investment Act.

If the County invests in other than money market mutual funds, investment pools or accounts offered by its depository bank in the form of certificates of deposit, or money market accounts or similar accounts, the reports prepared by the investment officers under this section shall be formally reviewed at least annually by an independent auditor, and the result of the review shall be reported to Commissioners' Court by that auditor.

Notification of Investment Change:

Any significant changes in current investment methods and procedures shall be made a part of the open records of the Titus County Commissioners' Court prior to any implementation of the same.

VIII. INVESTMENT COLLATERAL AND SAFEKEEPING

Collateral or Insurance:

Pursuant to the requirements of Government Code 2256 and 2257, it is the policy of Titus County to require full collateralization of all County investments and funds on deposit with a depository bank consistent with federal and state laws and in compliance the current bank depository contract in one or more of the following manners:

- 1) FDIC Insurance coverage;
- 2) Obligations of the United States or its agencies and instrumentalities;
- 3) Obligations of the State of Texas or its agencies and instrumentalities;
- 4) Other obligations, the principal and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies and instrumentalities;
- 5) Letters of Credit issued by the Federal Home Loan Bank of Dallas;

- 6) Obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than "A" or its equivalent; or
- 7) Any other manner allowed by the Government Code Chapter 2257 (Public Funds Collateral Act) upon approval of the Titus County Commissioners' Court.

The investment officer or designee will approve and release all pledged collateral. Collateral will be monitored at least monthly to assure the market value of the pledged securities exceeds investment and /or the related bank balances. Titus County, at its discretion, reserves the right to require a higher level of collateralization for certain investment securities.

Safekeeping:

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