



**BEXAR COUNTY, TEXAS  
INVESTMENT POLICY**

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## Section 1

### Introduction

#### 1.1 General Information

It is the policy of Bexar County, Texas (the “County”) that after allowing for the anticipated cash flow requirements of the County and giving due consideration to the safety and risk of investment, all available funds shall be invested in conformance with these legal and administrative guidelines, seeking to optimize interest earnings to the maximum extent possible.

Effective cash management is recognized as essential to good fiscal management. Investment interest is a source of revenue to County funds. The County’s investment portfolio shall be designed and managed to maximize this revenue source, to be responsive to public trust, and to be in compliance with legal requirements and limitations.

#### 1.2 Objectives

Investments shall be made with the primary objectives of:

- \* **Safety** and preservation of principal;
- \* Maintenance of sufficient **liquidity** to meet operating needs;
- \* Optimization of **interest earnings** on the portfolio; and
- \* **Public trust** from prudent investment activities;

## Section 2

### Purpose

The terms of this investment policy (“Policy”) comply with the terms of Texas Government Code, Chapter 2256 (“Public Funds Investment Act”) Chapter 2256, Section 2256.005(a), requires each County to adopt a written investment policy regarding the investment of its funds and funds under its control. This Policy addresses the methods, procedures and practices that must be exercised to ensure effective and judicious fiscal management of the County’s funds.

## Section 3

### Scope

This Policy shall govern the investment of all financial assets of the County. These funds are accounted for in the County's Comprehensive Annual Financial Report ("CAFR") and include:

- A. General Fund;
- B. Special Revenue Funds;
- C. Capital Projects Funds;
- D. Enterprise Funds;
- E. Venue Funds
- F. Trust and Agency Funds generated by fees to County for its administration and accounting of trust funds and registry funds for County and District Courts pursuant to Texas Local Government Code, Sections 117.054 and 117.055;
- G. Debt Service Funds, including reserves and sinking funds, to the extent not required by law or existing contract to be kept segregated and managed separately
- H. Any new fund created by the County, unless specifically exempted from this Policy by the Bexar County Commissioners Court ("Commissioners Court") or by law.

*The County will consolidate cash balances from all funds to maximize investment earnings. In addition the County may purchase certain investments with the available balance of a specific fund for the sole benefit of such fund. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.*

This Policy shall apply to all transactions involving the financial assets and related activity for all the foregoing funds. This Policy does not apply to the assets administered for the benefit of County officials and employees by outside agencies under deferred compensation programs or a public retirement system.

## Section 4

### Investment Objectives

#### **4.1 General Statement [PFIA 2256.0006(a)(1-3)]**

The County shall manage and invest its cash with 4 primary objectives, listed in order of priority: (1.) safety of principal; (2.) liquidity; (3.) yield and (4.) **public trust**. The safety of the principal invested always remains the primary objective. All investments shall be designed and managed in a manner responsive to the public trust and consistent with state and local law.

The County shall maintain a comprehensive cash management program, which includes collection of account receivables, vendor payments in accordance with invoice terms, and prudent investment of available cash. Cash management is defined as the process of managing monies in order to insure maximum cash availability and maximum earnings on short-term investment of idle cash.

#### **4.2 Safety of Principal[PFIA 2256.005(B)(2)]**

The safety of the principal is the foremost objective of the County's investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the County's overall portfolio. The objective will be to mitigate credit and interest rate risk.

- A. Credit Risk – The County will minimize credit risk, the risk of loss due to the failure of the issuer or backer of the investment, by:
  - (1.) Limiting investments to the safest types of investments;
  - (2.) Pre-qualifying the financial institutions and broker/dealers with which the County will do business; and
  - (3.) Diversifying the investment portfolio so that potential losses on individual issuers will be minimized.
  
- B. Interest Rate Risk – the County will minimize the risk that the interest earnings and the market value of investments in the portfolio will fall due to changes in general interest rates, by:
  - (1.) Structuring the investment portfolio so that investments mature to meet cash requirements for ongoing operations, thereby avoiding the need to liquidate investments prior to maturity;
  - (2.) Investing operating funds primarily in certificates of deposit, shorter-term securities, no-load money market mutual funds, and public funds investment pools functioning as money market mutual funds; and
  - (3.) Diversifying maturities and staggering purchase dates to minimize the impact of market movements over time.

#### **4.3 Liquidity [PFIA 2256.005(B)(2)]**

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that investments mature concurrent with cash needs to meet anticipated

Demands. Because all possible cash demands cannot be anticipated, a portion of the portfolio will be invested in shares of money market mutual funds or public funds investment pools that offer same-day liquidity. In addition, a portion of the portfolio will consist of securities with active secondary or resale markets.

#### **4.4 Yield (Optimization of Interest Earnings) [PFIA 2256.005(B)(3)]**

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above.

#### **4.5 Public Trust**

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

### **Section 5**

#### **Responsibility and Control**

##### **5.1 Delegation of Authority [PFIA 2256.005(F)]**

In accordance with the Public Funds Investment Act, Commissioners Court designates the County Manager as the Chief Investment Officer to handle the investment of the County's funds. The Chief Investment Officer and the designee of the Chief Investment Officer, are authorized to execute investment transactions on behalf of the County. No person may engage in an investment transaction or the management of County funds except as provided under the terms of this Policy as approved by the Commissioners Court. The investment authority granted to the Chief Investment Officer and Designee is effective until rescinded by Commissioners Court or the employment of the Chief Investment Officer or Designee is terminated by Commissioners Court.

##### **5.2. Investment Advisory Committee**

An investment advisory committee ("Committee") composed of two members of Commissioners Court, the County Clerk, the County Auditor and the Tax Assessor-Collector will meet no less than once quarterly to review the quarterly report prepared by the County Budget Officer and review the Investment Objectives, Investment

Responsibility and Control, and Investment Instruments as established by this Policy and the Public Funds Investment Act.

### **5.3 Quality and Capability of Investment Management [PFIA 2256.005(B) (3)]**

The County shall provide periodic training in investments for the designated investment officers and other investment personnel through courses and seminars offered by professional organizations, associations, and other independent sources in order to insure the quality and capability of investment management in compliance with the Public Funds Investment Act.

### **5.4 Training Requirement (PFIA 2256.008)**

In accordance with the Public Funds Investment Act, the Chief Investment Officer, Designee, County Clerk, and County Auditor shall attend an investment training session no less often than once in a two-year period that begins on the first day of the fiscal year and consists of two consecutive fiscal years after that date, and shall receive not less than ten (10) hours of instruction relating to investment responsibilities. The County commenced this training requirement on September 1, 1997. A newly appointed Chief Investment Officer or Designee must attend a training session of at least 10 hours of instruction within twelve (12) months of the date the Chief Investment Officer or Designee takes office or assumes his/her duties. The investment training session shall be provided by an independent source approved by Commissioners Court. For purposes of this policy, an "independent source" from which investment training shall be obtained shall include a professional organization, an institution of higher education or any other sponsor other than a business organization with whom the County may engage in an investment transaction. The training must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with the Public Funds Investment Act. Not later than December 31<sup>st</sup> of each year, the business organization providing the training shall report to the Texas State Comptroller that the requirements under the Public Funds Investment Act, Section 2256.008, were satisfied through the training provided by the business organization.

### **5.5 Internal Controls (Best Practice)**

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

Accordingly, the County Auditor shall establish a process for annual independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following points:

- A. Control of collusion;
- B. Separation of transactions authority from accounting and record keeping;
- C. Custodial safekeeping;
- D. Avoidance of physical delivery securities;
- E. Clear delegation of authority to subordinate staff members;
- F. Written confirmation for telephone (voice) transactions for investments and wire transfers; and
- G. Development of a wire transfer agreement with the depository bank or third party custodian.

#### **5.6. Prudence (PFIA 2256.006)**

The standard of prudence to be applied to the Chief Investment Officer and the Designee shall be the “prudent investor” rule. This rule states that “Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of the person’s own affairs, not for speculation, but for investment, considering the probable safety of his/her capital and the probable income to be derived.” In determining whether the Chief Investment Officer and/or the Designee exercised prudence with respect to an investment decision, the determination shall be made taking into consideration:

- A. The investment of all funds under the County’s control, over which the Chief Investment Officer or Designee had responsibility rather than a consideration as to the prudence of a single investment; and
- B. Whether the investment decision was consistent with this Policy.

#### **5.7 Indemnification (Best Practice)**

The Chief Investment Officer and the Designee, acting in accordance with written procedures and exercising due diligence utilizing the standard of prudence set out in Section 5.6 above, shall not be held personally responsible for a specific investment’s credit risk or market price changes, provided that these deviations are reported immediately and the appropriate action is taken to control adverse developments.

#### **5.8 Ethics and Conflicts of Interest [PFIA 2256.005(I)]**

Officers and employees involved in the investment process shall refrain from personal business activity that would conflict with the proper execution and management of the investment program or that would impair their ability to make impartial decisions. Employees and the Chief Investment Officer shall disclose any material interests in

financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with which business is conducted on behalf of the County.

An Investment Officer of the County who has a personal business relationship with an organization seeking to sell an investment to the County shall file a statement disclosing that personal business interest. An Investment Officer who is related within the second degree by affinity or consanguinity to an individual seeking to sell an investment to the County shall file a statement disclosing that relationship. A statement required under this subsection must be filed with the Texas Ethics Commission and the Commissioners Court pursuant to Public Funds Investment Act, Section 2256.005 (i).

## **5.9 Investment Advisors**

The County may contract with an investment advisor, who shall adhere to the spirit, philosophy and specific term of this Policy and shall invest within the same "Standard of Prudence". The investment advisor must be registered with the Securities and Exchange Commission (SEC) under the Investment Advisors Act of 1940 as well as with the Texas State Securities Board. Advisors may assist the County with the management of its funds and other responsibilities including, but not limited to: review of investment policy, development of appropriate investment strategies, security analysis, trade execution, security clearance, broker dealer compliance, investment reporting and security documentation.

## **Section 6**

### **Suitable and Authorized Investments**

#### **6.1 Portfolio Management**

The County currently has a "buy and hold" portfolio strategy. Maturity dates are matched with cash flow requirements and investments are purchased with the intent to be held until maturity. However, investments may be liquidated prior to maturity for the following reasons:

- A. To minimize the potential loss of principal on a security whose credit quality has declined;
- B. In order to "swap into" another security which would improve the quality, yield, or target duration of the portfolio; or
- C. Cash flow needs of the County require that the investment be liquidated.

## **6.2 Investments [PFIA 2256.005(B)(4)(A)]**

County funds governed by this Policy may be invested in the instruments described below, all of which are authorized by the Public Funds Investment Act. Investment of County funds in any instrument or security not authorized for investment under the Public Funds Investment Act is prohibited. The County will not be required to liquidate an investment that becomes unauthorized subsequent to its purchase.

### **A. Obligations of, or Guaranteed by, Governmental Entities**

- (1.) Except as provided by Subsection (2.) below, the following are authorized investments under the Public Funds Investment Act, Subchapter A:
  - (a.) obligations, including letters of credit, of the United States or its agencies and instrumentalities;
  - (b.) direct obligations of this state or its agencies and instrumentalities;
  - (c.) 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;
  - (d.) 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;
  - (e.) 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;
  - (f.) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation (or its successor) the National Credit Union Share Insurance Fund (or its successor).
- (2.) The following are not authorized investments under the Public Funds Investment Act (Section 2256.009(b)):
  - (a.) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal;

- (b.) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest;
- (c.) collateralized mortgage obligations that have a stated final maturity date of greater than 10 years; and
- (d.) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

#### B. Certificates of Deposit and Share Certificates

- (1.) A certificate of deposit or share certificate is an authorized investment under the Public Funds Investment Act, Subchapter A, if the certificate is issued by a depository institution that has its main office or a branch office in this state and is:
  - (a.) guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor;
  - (b.) secured by obligations that are described in the Public Funds Investment Act, Section 2256.009(a), 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); or
  - (c.) secured in any other manner and amount provided by law for deposits of the investing entity.
- (2.) In addition to the authority to invest funds in certificates of deposit under Subsection (1), an investment in certificates of deposit made in accordance with the following conditions is an authorized investment under the Public Funds Investment Act, Subchapter A:
  - (a.) the funds are invested by an investing entity through a broker that has its main office or a branch office in Texas and is selected from a list adopted by the County or a depository institution that has its main office or a branch office in this state and that is selected by the County;
  - (b.) the broker or depository institution selected by the County under Subdivision (a) arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the County;

- (c.) 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
- (d.) the depository institution selected by the County under Subdivision (1), or a clearing broker-dealer registered with the Securities and Exchange Commission (SEC) and operating pursuant to SEC rule 15c3-3, acts as custodian for the investing entity with respect to the certificates of deposit issued for the account of the investing entity.

### C. Repurchase Agreements

- (1.) A fully collateralized repurchase agreement is an authorized investment under the Public Funds Investment Act, Subchapter A, if the repurchase agreement:
  - (a.) has a defined termination date;
  - (b.) is secured by cash and obligations described by Public Funds Investment Act, Section 2256.009(a)(1); and
  - (c.) 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
  - (d.) is placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in this state.
- (2.) In this section, "repurchase agreement" means a simultaneous agreement to buy, hold for a specified time, and sell back at a future date obligations described in the Public Funds Investment Act, Section 2256.009(a)(1), at a market value at the time the funds are disbursed of not less than the principal amount of the funds disbursed. The term includes a direct security repurchase agreement and a reverse security repurchase agreement.
- (3.) Notwithstanding any other law, the term of any reverse security repurchase agreement may not exceed 90 days after the date the reverse security repurchase agreement is delivered.
- (4.) Money received by an entity 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.

#### D. Securities Lending

- (1.) A securities lending program is an authorized investment under the Public Funds Investment Act, Subchapter A, if it meets the conditions provided by Public Funds Investment Act, Section 2256.0115.
- (2.) To qualify as an authorized investment under the Public Funds Investment Act, Subchapter A:
  - (a.) the value of securities loaned under the program must be not less than 100 percent collateralized, including accrued income;
  - (b.) a loan made under the program must allow for termination at any time;
  - (c.) a loan made under the program must be secure by:
    - (i) pledged securities described in Public Funds Investment Act, Section 2256.009;
    - (ii) pledged irrevocable letters of credit issued by a bank that is:
      - (a.) organized and existing under the laws of the United States or any other state; and
      - (b.) continuously rated by at least 1 nationally recognized investment rating firm at not less than A or its equivalent; or
    - (iii) cash invested in accordance with Public Funds Investment Act, Section:
      - (a.) 2256.009;
      - (b.) 2256.013;
      - (c.) 2256.014; or
      - (d.) 2256.016
  - (d.) the terms of a loan made under the program must require that the securities being held as collateral be:

- (i) pledged to the County;
  - (ii) held in the County's name; and
  - (iii) deposited at the time the investment is made with the County or with a third party selected by or approved by the County;
- (e.) a loan made under the program must be placed through:
  - (i) a primary government securities dealer, as defined by 5 C.F.R. Section 6801.102(f), as that regulation existed on September 1, 2003; or
  - (ii) a financial institution doing business in this state; and
- (f.) an agreement to lend securities that is executed under Public Funds Investment Act, Section 2256.0115, must have a term of 1 year or less.

#### E. Commercial Paper

Commercial paper is an authorized investment under the Public Funds Investment Act, Subchapter A, 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.

#### F. Mutual Funds

- (1.) A no-load money market mutual fund is an authorized investment under the Public Funds Investment Act, Subchapter A, if the mutual fund:
  - (a.) is registered with and regulated by the Securities and Exchange Commission;
  - (b.) provides the investing entity with a prospectus and other information required by the Securities Exchange Act of 1934 (15 U.S.C. Section 78a et

seq.) or the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.);

- (c.) has a dollar-weighted average stated maturity of 60 days or fewer; and
  - (d.) includes in its investment objectives the maintenance of a stable net asset value of \$1.00 for each share.
- (2.) In addition to a no-load money market mutual fund permitted as an authorized investment in Subsection (1.) above, a no-load mutual fund is an authorized investment under the Public Funds Investment Act, Subchapter A, if the mutual fund:
- (a.) is registered with the Securities and Exchange Commission;
  - (b.) has an average weighted maturity of less than 2 years;
  - (c.) is invested exclusively in obligations approved by the Public Funds Investment Act, Subchapter A;
  - (d.) is continuously rated as to investment quality by at least 1 nationally recognized investment rating firm of not less than AAA or its equivalent, and
  - (e.) conforms to the requirements set forth in the Public Funds Investment Act, Sections 2256.016(b) and (c), relating to the eligibility of investment pools to receive and invest funds of investing entities.
- (3.) The County is not authorized by this section to:
- (a.) 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 described in Subsection (2.) above;
  - (b.) invest any portion of bond proceeds, reserves and funds held for debt service, in mutual funds described in Subsection (2.) above; or
  - (c.) invest its funds or funds under its control, including bond proceeds and reserves and other funds held for debt service, in any 1 mutual fund described in Subsection (1.) or (2.) above in an amount that exceeds ten (10) percent of the total assets of the mutual fund.

#### G. Guaranteed Investment Contracts

- (1.) A guaranteed investment contract is an authorized investment for bond proceeds under the Public Funds Investment Act, Subchapter A, if the guaranteed investment contract:
  - (a.) has a defined termination date;
  - (b.) is secured by obligations described in the Public Funds Investment Act, Section 2256.009(a)(1), excluding those obligations described by Section 2256.009(b), in an amount at least equal to the amount of bond proceeds invested under the contract; and
  - (c.) is pledged to the County and deposited with the County or with a third party selected and approved by the County.
- (2.) Bond proceeds, other than bond proceeds representing reserves and funds maintained for debt service purposes, may not be invested under the Public Funds Investment Act, Subchapter A, in a guaranteed investment contract with a term of longer than 5 years from the date of issuance of the bonds.
- (3.) To be eligible as an authorized investment:
  - (a.) the governing body of the entity must specifically authorize guaranteed investment contracts as an eligible investment in the order, ordinance, or resolution authorizing the issuance of bonds;
  - (b.) the County must receive bids from at least 3 separate providers with no material financial interest in the bonds from which proceeds were received;
  - (c.) the County must purchase the highest yielding guaranteed investment contract for which a qualifying bid is received;
  - (d.) the price of the guaranteed investment contract must take into account the reasonably expected drawdown schedule for the bond proceeds to be invested; and
  - (e.) the provider must certify the administrative costs reasonably expected to be paid to third parties in connection with the guaranteed investment contract.

#### H. Investment Pools

- (1.) The County may invest its funds and funds under its control through an eligible investment pool if Commissioners Court by order or resolution, as appropriate, 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, Subchapter A. and 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 the County under the Public Funds Investment Act, an investment pool must furnish to the County's Chief Investment Officer or Designee 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 maximum stated maturity date any investment security within the portfolio has;
  - (d.) the objectives of the pool;
  - (e.) the size of the pool;
  - (f.) the names of the members of the advisory board of the pool and the dates their terms expire;
  - (g.) the custodian bank that will safekeep the pool's assets;
  - (h.) whether the intent of the pool is to maintain a net asset value of \$1.00 and the risk of market price fluctuation;
  - (i.) 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;
  - (j.) the name and address of the independent auditor of the pool;
  - (k.) the requirements to be satisfied for the County to deposit funds in, and withdraw funds from, the pool and any deadlines or other operating policies required for the County to invest funds in and withdraw funds from the pool; and
  - (l.) 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 the County under the Public Funds Investment Act, an investment pool must furnish to the County's Chief Investment Officer or Designee:
- (a.) investment transaction confirmations; and
  - (b.) a monthly report that contains, at a minimum, the following information:
    - (i) the types and percentage breakdown of securities in which the pool is invested;
    - (ii) the current average dollar-weighted maturity, based on the stated maturity date, of the pool;
    - (iii) the current percentage of the pool's portfolio in investments that have stated maturities of more than one year;
    - (iv) the book value versus the market value of the pool's portfolio, using amortized cost valuation;
    - (v) the size of the pool;
    - (vi) the number of participants in the pool;
    - (vii) the custodian bank that is safekeeping the assets of the pool;
    - (viii) a listing of daily transaction activity of the entity participating in the pool;
    - (ix) the yield and expense ratio of the pool, including a statement regarding how yield is calculated;
    - (x) the portfolio managers of the pool; and
    - (xi) any changes or addenda to the offering circular.
- (4.) The County, by contract, may delegate to an investment pool the authority to hold legal title as custodian of 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, the County under the Public Funds Investment Act, a public funds investment pool created to function as a money market mutual fund 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 requirements 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 regulations 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 the County under the Public Funds Investment Act, 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 the County under the Public Funds Investment Act, 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 pool operates a website, it must provide all information required in the offering circular, transaction confirmations and monthly statements, mark to market data and net asset value on the website
- (10.) To maintain eligibility to receive funds from and invest funds on behalf of the County under this chapter, an investment pool must make available to the County an annual audited financial statement of the investment pool in which the County has funds invested.
- (11.) If an investment pool offers fee breakpoints based on fund balances invested, the investment pool in 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.

### **6.3 Effect of Loss of Required Rating [PFIA 2256.021]**

All prudent measures will be taken to liquidate an investment that is downgraded to less than the required minimum rating.

## **Section 7**

### **Investment Parameters**

#### **7.1 Maximum Maturities [PFIA 2256.005(B)(4)(B)]**

The longer the maturity of investments, the greater their price volatility. Therefore, it is the County's policy to concentrate its investment portfolio in shorter-term securities in order to limit principal risk caused by changes in interest rates.

The County attempts to match its investments with anticipated cash flow requirements. The County will directly invest in securities with maturities allowed by the Texas Public Funds Investment Act.

Because no secondary market exists for repurchase agreements, the maximum maturity shall be 120 days except in the case of a flexible repurchase agreement for bond proceeds. The maximum maturity for such an investment shall be determined in accordance with project cash flow projections and the requirements of the governing bond ordinance.

The composite portfolio will have a weighted average maturity of 365 days or less. This dollar-weighted average maturity will be calculated using the stated final maturity dates of each security. The Chief Investment Officer shall re-evaluate this strategy on an annual basis. [PFIA 2256.005(b)(4)(C)]

#### **7.2 Diversification [PFIA 2256.005(B)(3)]**

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

- A. Avoiding concentrating a significant portion of investable funds in a specific issuer or business sector (excluding U.S. Treasury securities and certificates of deposit that are fully insured and collateralized in accordance with state and federal law);
- B. Limiting investments that have higher credit risks (example: commercial paper);
- C. Investing in investments with varying maturities; and

- D. Continuously investing at least 10% of the portfolio in readily available funds such as local government investment pools, money market funds or overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

## **Section 8**

### **Selection of Banks and Dealers**

#### **8.1 Depository (Local Government Code, Section 116.021(a))**

The County shall select a bank(s) in Bexar County to act as the depository for the County's public funds in accordance with the provisions of the Texas Local Government Code, Chapter 116, Subchapter B. The selection of a depository will be based on the following criteria:

- A. Technical ability;
- B. Lowest net banking service cost, consistent with the ability to provide an appropriate level of service;
- C. *The credit worthiness and financial stability of the bank.*

#### **8.2 Authorized Brokers/Dealers (PFIA 2256.025)**

The Committee shall, at least annually make a recommendation to the Commissioners Court for approval of a list of qualified broker/dealers and financial institutions authorized to engage in investment transactions with the County. Those firms that request to become qualified bidders for investment transactions will be required to provide a completed broker/dealer questionnaire that provides information regarding creditworthiness, experience and reputation. Authorized firms may include primary dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (Uniform Net Capital Rule), and qualified depositories. All other investment providers, including financial institutions, banks, money market mutual funds, and local government investment pools, must sign a certification acknowledging that the organization has received and reviewed the Policy and that reasonable procedures and controls have been implemented to preclude investment transactions that are not authorized by the Policy.

If the County has contracted with a Registered Investment Advisor for the management of its funds, the advisor shall be responsible for performing due diligence on and

maintaining a list of broker/dealers with which it shall transact business on behalf of the County. The advisor shall annually present a list of its authorized broker/dealers to the County for review and likewise shall execute the aforementioned written instrument stating that the advisor has reviewed the County's investment policy and has implemented reasonable procedures and controls in an effort to preclude imprudent investment activities with the County. The advisor shall obtain and document competitive bids and offers on all transactions and present these to the County as part of its standard trade documentation.

### **8.3 Competitive Bids (Best Practice)**

It is the policy of the County to obtain at least 3 offers for all individual investment purchases and sales except for transactions with money market mutual funds and public funds investment pools. The Chief Investment Officer shall develop and maintain procedures for ensuring competition in the investment of the County's funds.

### **8.4 Delivery vs. Payment [PFIA 2256.005(B)(4)(E)]**

Securities shall be purchased using the **delivery vs. payment** basis with the exception of investment pool funds and mutual funds. Funds will be released after notification that the purchased security has been received.

## **Section 9**

### **Safekeeping Of Securities and Collateral**

#### **9.1 Safekeeping and Custodian Agreements (Best Practice)**

The County shall contract with a bank or banks for the safekeeping of securities either owned by the County as part of its investment portfolio or held as collateral to secure demand or time deposits. Securities owned by the County shall be held in the County's name as evidenced by safekeeping receipts of the institution holding the securities.

#### **9.2 Collateral Policy (PFIA 2257.023)**

Consistent with the requirements of Texas Government Code, Chapter 2257, Public Funds Collateral Act ("Public Funds Collateral Act"), it is the policy of the County to require full collateralization of all County funds on deposit with a depository bank, other than investments. If it is necessary for the County's depositories to pledge collateral to secure the County's deposits, (1) the collateral pledge agreement must be in writing, (2) the collateral pledge agreement must be approved by the depository's board of directors or loan committee, (3) the depository's approval of the collateral pledge agreement must be reflected in the minutes of the meeting of the depository's board or loan committee approving the same, and (4) the collateral pledge agreement must be kept in the official records of the depository. The depository must approve the collateral pledge agreement

and provide to the County Auditor a copy of the minutes of the meeting of the depository's board or loan committee at which the collateral pledge agreement is approved prior to the deposit of any County funds requiring the pledge of collateral in such financial institution. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 110% of market value of principal and accrued interest on the deposits or investments less an amount insured by the FDIC. At its discretion, the County may require a higher level of collateralization for certain investment securities. Securities pledged as collateral shall be held by an independent third party with whom the County has a current custodial agreement. The County Auditor is responsible for entering into collateralization agreements with third party custodians in compliance with this Policy and the Public Funds Collateral Act. The agreements are to specify the acceptable investment securities for collateral, including provisions relating to possession of the collateral; substitution or release of an investment security; ownership of the investment securities of the bank used to secure a deposit of public funds; and method by which an investment security used to secure a deposit of public funds is valued. Clearly marked evidence of pledged eligible collateral (trust receipt) must be supplied to the County. Collateral shall be reviewed at least monthly to assure that the market value of the pledged securities is adequate.

### **9.3 Collateral Defined**

The County shall accept only the following types of collateral:

- A. Obligations of the United States or its agencies and instrumentalities;
- B. Direct obligations of the State of Texas or its agencies and instrumentalities;
- C. 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;
- D. Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by at least two nationally recognized investment rating firms not less than A or its equivalent with a remaining maturity of 10 years or less;
- E. A surety bond issued by an insurance company rated as to investment quality by a nationally recognized rating firm not less than „A“ and
- F. A letter of credit issued to the County by a federal home loan bank.

### **9.4 Subject to Audit**

All collateral shall be subject to inspection and audit by the County Auditor or the County's independent auditors.

## **Section 10**

### **Performance**

#### **10.1 Performance Standards**

The County's investment portfolio will be managed in accordance with the parameters specified within this Policy. The portfolio shall be designed with the objective of obtaining a rate of return through budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow requirements of the County.

#### **10.2 Performance Benchmark (Best Practice)**

It is the policy of the County to purchase investments with maturity dates coinciding with cash flow needs. Through this strategy, the County shall seek to optimize interest earnings utilizing allowable investments available on the market at that time. Market value will be calculated on a quarterly basis on all securities owned and compared to current book value. The County's portfolio shall be designed with the objective of regularly meeting or exceeding the average rate of return on U.S. Treasury Bills, at a maturity level comparable to the County's weighted average maturity in days.

## **Section 11**

### **Reporting**

#### **11.1 Methods**

The Chief Investment Officer shall prepare an investment report on a quarterly basis that summarizes investment strategies employed in the most recent quarter and describes the portfolio in terms of investment securities, maturities, and shall explain the total investment return for the quarter.

The quarterly investment report shall include a summary statement of investment activity prepared in compliance with generally accepted accounting principles. This summary will be prepared in a manner that will allow the County to ascertain whether investment activities during the reporting period have conformed to the Policy. The report will be provided to the Commissioners Court. The report must include the following:

- 1) Describe in detail the investment position of the entity on the date of the report;

- 2) Be prepared by the County's Investment Officer;
- 3) Be signed by the County's investment officer;
- 4) Contain a summary statement for 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 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 fund group in the state agency or local government 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 agency's or local government's investment policy; and
  - b) relevant provisions of this chapter.

An independent auditor will perform a formal annual review of the quarterly reports with the results reported to Commissioners Court [PFIA 2256.023(d)].

## **11.2 Monitoring Market Value [PFIA 2256.005(B)(4)(D)]**

Market value of all securities in the portfolio will be determined on a quarterly basis. These values will be obtained from a reputable and independent source and disclosed to Commissioners Court in the quarterly report described in Section 11.1 above. The County shall also monitor the credit ratings on securities that require minimum ratings. This may be accomplished through staff research, or with the assistance of broker-dealers, banks, safekeeping agents or the County's investment advisor.

## **Section 12**

### **Policy Adoption**

This Policy shall be adopted by order of Commissioners Court. The Policy shall be subject to revisions consistent with changing laws, regulations, and needs of the County on at least an annual basis. Following Commissioners Court's review of the Policy and investment strategies and any changes thereto, Commissioners Court shall adopt an order stating that it has reviewed the Policy and investment strategies and has approved the changes and modifications.

## **Section 13**

### **Investment Strategies By Fund**

#### **13.1 General Fund**

The County's operating expenditures and the revenues to fund those expenditures are accounted for in the County's general fund ("General Fund"). The General Fund is also used to account for revenues restricted by statute for Debt Service Funds, described in Section 13.3 below, and to account for the accumulation of resources for public improvement contingencies. Most of the General Fund is pooled with other County funds for investment purposes. The investment strategy for the General Fund operating funds as well as for the County's investment pool as a whole is the Laddering Approach in compliance with Sec. 1.2 of this Policy.

#### **13.2 Special Revenue Funds**

Operations that are funded with restricted revenues are accounted for as Special Revenue funds, including assets received through federal and state forfeiture programs. The investment strategy for the Special Revenue Funds is the Laddering Approach in compliance with Sec 1.2 of this Policy. State and Local grant funds are funded on a reimbursement basis or on an advance basis for immediate cash needs. These grant funds are not invested.

#### **13.3 Debt Service Funds**

The Debt Service Funds, including those reported in the County's financial statements within the General Fund, are used to account for the accumulation of resources to fund periodic principal and interest payments on outstanding obligations. The revenue stream is predictable and comes from ad valorem taxes and special purpose revenues. The investment strategy for the Debt Service Funds is the Laddering Approach in compliance with Sec 1.2 of this Policy.

#### **13.4 Capital Projects Funds**

Capital Project Funds for the County and the Flood Control District are used to account for construction and other nonrecurring capital expenditure activity. US Treasury Regulations governing investment of most of these funds generally result in a maximum duration of

3 years for the investments. These funds are generally utilized to purchase longer-term securities up to 3 years pursuant to the County's cash flow needs in compliance with Sec. 1.2 of this Policy.

### **13.5 Proprietary Funds**

Internal Service and Enterprise Funds are used to account for central County services, including the County's insurance programs and private-enterprise type activities, such as parking facilities. The operational activity for most of the proprietary funds is included with the County's investment pool using the Laddering Approach as an investment strategy. Funds set aside for claim reserves in the insurance programs such as Workmen's Compensation are available for investing on a long term basis using the Laddering Approach. The average duration of these funds is to be 2 years or less.

### **13.6 District Clerk and County Clerk Registry Funds**

Pursuant to Texas Local Government Code, Chapter 117, Subchapter C, Sections 117.054 and 117.055, the County is entitled to 10% of the interest earned on special or separate accounts established by the County and District Clerks on funds initially deposited in the registry of the courts under Section 117.052. If interest is not earned on the registry funds, the County is entitled to an accounting and administration fee for handling the registry funds in an amount equal to 5% of the withdrawal but not to exceed \$50.00. The fees received by the County under Subchapter C are to be deposited in the General Fund. There are no restrictions as to the investments which can be made with these funds once deposited in the General Fund. The investment strategy to be used is the Laddering Approach.

### **13.7 Venue Funds**

The County utilizes money market accounts, public funds investment pools, and individual investment securities for its Community Venue Project Funds. Capital Improvement and Existing Account funds from prior Bond issuances are invested in the market to the greatest extent possible while still maintaining a certain level of minimum liquidity. Similar to other County funds that are invested (General Fund, Special Revenue, Debt Service, etc.), a Laddering Approach is utilized when investing available Community Venue Project Funds, although a portion may be utilized to purchase securities exceeding 1 year. Moving forward, the County will continue to invest Capital Improvement and Existing Account funds in the market with careful consideration being given to any potential future uses of the funds.

**Section 14**  
**Miscellaneous**

**14.1 Superseding Clause**

This Policy supersedes any prior investment policies adopted by Commissioners Court.

**Appendix A**  
**Texas Public Funds Investment Act**  
**Certification by Investment Provider**

This certification is executed on behalf of the County of Bexar (the “Investor”) and \_\_\_\_\_ (the “Investment Provider”) pursuant to the Public Funds Investment Act, Chapter 2256, Government Code, Texas Codes Annotated (“the Act”) in connection with investment transactions conducted between the Investor and Investment Provider.

The undersigned Qualified Representative of the Investment Provider hereby certifies on behalf of the Investment Provider that:

1. The Investment Provider Qualified Representative is duly authorized to execute this Certification on behalf of the Investment Provider, and
2. The Investment Provider Qualified Representative has received and reviewed the Investment Policy furnished by the Investor, and
3. The Investment Provider has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the Investment Provider and the Investor that are not authorized by the entity's investment policy, except to the extent that this authorization is dependent on analysis of the makeup of the entity’s entire portfolio or requires an interpretation of subjective investment standards.

**Investment Provider Qualified Representative**

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Name (Printed)

\_\_\_\_\_  
Title

\_\_\_\_\_  
Date

