

## TYLER COUNTY INVESTMENT POLICY

### **A. OBJECTIVES AND PRIORITIES**

The objectives of the Tyler County Commissioners' Court investment policy are as follows and in the following order of priority:

1. To comply with the laws of the State of Texas as defined in Government Code 10 (Chapter 2256), known as the Public Funds Investment Act (short title).
2. To provide for the preservation and safety of principal of all Tyler County funds.
3. To provide sufficient funds to meet the cash needs of the continuing operation of Tyler County.
4. To attain a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs, and consistent with current and future bank depository contracts.
5. To require diversification in the types, issuers, and maturities of Tyler County investments with due consideration to the quality of the investment.
6. To pursue an active versus / passive portfolio management philosophy; securities may be sold or exchanged before they mature if market conditions present an opportunity for Tyler County to benefit from the trade or if necessary to meet the cash needs of Tyler County. Under this investment policy, all investments will be made with the intent of pursuing, at the time of purchase, the best rate of return on securities held until maturity, and not with the intent of speculative trading.
7. To maintain the highest professional and ethical standards, with capable and high quality investment management, as custodians of the public trust.

## **B. INVESTMENT SCOPE**

This investment policy applies to all cash assets of Tyler County at the present time, 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 Tyler County and its depository bank.

## **C. INVESTMENT STRATEGY**

Tyler County Commissioners' Court has adopted an investment strategy for each of the funds under its control. Those are incorporated into this investment policy as Appendix A.

## **D. INVESTMENT RESPONSIBILITY AND CONTROL**

### **COUNTY INVESTMENT OFFICER**

In accordance with Government Code 10 (Chapter 2256), the County Treasurer, under the direction of the Tyler County Commissioners' Court, and with the tandem agreement of the County Auditor shall be the Tyler County Investment Officers and may invest County funds that are not immediately required to pay the obligations of the County. The Investment Officers are hereby bestowed all of the obligations and authorities contained in this Tyler County Investment Policy.

The County Treasurer/ County Auditor shall develop and maintain written administrative procedures for the operation of the investment program, consistent with this investment policy. It is Tyler County's policy that the Treasurer and Auditor earn and maintain current certification as a Level II Investment Officer. Certification training must include education in investment controls, security risks, strategy risks, and market risks and must be in compliance with Government Code 10, Chapter 2256.

### **STANDARD OF CARE**

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 the probable income to be derived. In determining whether the Investment Officers have exercised prudence with respect to an investment decision, the determination shall be made taking into consideration the investment of all funds over which the officers have responsibility rather than a consideration as to the prudence of a single investment, and whether the investment decision was consistent with Tyler County's Investment Policy.

#### **ETHICS AND CONFLICTS OF INTEREST**

The Investment Officers shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. The Investment Officers shall disclose to the Tyler County Commissioners' Court any material financial interests in financial institutions that conduct business with Tyler County and any personal financial/investment positions that could be related to the performance of the County's portfolio. The Investment Officers shall subordinate their personal investment transactions to those of the County, particularly with regard to the timing of purchases and sales.

#### **SUBJECT TO AUDIT**

The Tyler County Treasurer is subject to audit by the Tyler County Auditor. In addition, it is the policy of Tyler County Commissioners' Court, at a minimum, to have an annual audit of all County funds by an independent auditing firm. The Tyler County Treasurer and the County's investment procedures shall be subject to an annual compliance audit and any special audits as required.

#### **E. INVESTMENT DIVERSIFICATION**

It is the intent of the County to diversify the investment instruments within the portfolio to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions or maturities. The asset allocation in the portfolio should, however, be flexible depending upon the outlook for the economy and the securities markets. Diversification to avoid over concentration in a specific instrument does not apply to U.S. Treasury securities.

Tyler County recognizes that investment risks can result from issuer defaults, market price changes or various technical complications leading to temporary illiquidity. Portfolio diversification is employed as a way to control risk. The Investment Officers are expected to display prudence in the selection of securities as a way to minimize default risk. No individual investment transaction shall be undertaken that jeopardizes the total capital position of the overall portfolio. In the event of default by a specific issuer, the Investment Officer shall review, and if appropriate, proceed to liquidate securities having comparable credit risks. To control market price risks, volatile investment instruments shall be avoided.

#### **F. YIELD**

The Investment Officer shall strive to earn a competitive total return on the portfolio consistent with the objectives and priorities stated in this policy and the Investment Strategy outlined in Appendix A. Total return shall mean the interest or dividend payments and appreciation or depreciation of the principal of the investment.

## **G. LIABILITY**

The Tyler County Investment Officers shall not be responsible for any loss of the County's funds through the failure or negligence of any depository, nor any loss resulting from normal fluctuations in market value of investments or collateral securities. Nothing in this section shall release the Investment Officers from responsibility for misappropriation of funds by them.

## **H. INVESTMENT MATURITIES**

The timely and predictable return of principal shall be a priority of the Investment Officers. It is recognized that some securities authorized for investment are not best described by the term "maturity"; instead, terms such as average life, weighted average maturity or expected maturity are more descriptive. In this regard, the term "expected maturity" shall be used to mean the point in time when all accrued interest and principal is expected, at the time of purchase, to be returned to the County. The Investment Officer shall be responsible for a determination of expected maturity and shall report any significant deviation as specified in paragraph M. Reporting and Performance.

Notwithstanding the expected maturity of an investment, the maximum allowable stated maturity of an individual investment for Tyler County General funds and other operating funds shall not exceed two years, unless a temporary extension of maturities is approved by Commissioners' Court.

Debt service funds in individual investments shall have maximum stated maturities of five years unless a temporary extension of maturities is approved by Commissioners' Court.

For pooled fund groups, the maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio shall be two years.

## **I. AUTHORIZED INVESTMENTS**

Within the guidelines provided in Government Code 10 (Chapter 2256), Public Funds Investment Act (short title), and subject to such other restrictions as may be imposed by the Commissioners' Court by resolution or order, the Commissioners' Court of Tyler County, Texas has hereby adjudged and decreed that the following investments are allowed for Tyler County funds:

1. Obligations of, or Guaranteed by, Governmental Entities. Authorization: Government Code 10, Chapter 2256, Subchapter A, Section 2256.009.

(a) obligations 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; and,
- (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.

## 2. Certificates of Deposit.

Authorization: Government Code 10, Chapter 2256, Subchapter A, Section 2256.010.

A certificate of deposit is an authorized investment for Tyler County if the certificate of deposit is issued by a State or National bank domiciled in this state, a Savings and Loan Association domiciled in this state or a Federal Credit Union that is domiciled in this state and is:

- (a) guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, Federal Savings and Loan Insurance Corporation, or the National Credit Union Share Insurance Fund or its successor
- (b) secured by obligations that are described by 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 not authorized as investments under Section 2256.009, or
- (c) secured in any other manner and amount provided by law for deposits of the investing entity.

## 3. Repurchase Agreements.

Authorization: Government Code 10, Chapter 2256, Subchapter A, Section 2256.011.

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 I.1 above, at a market value at the time the funds are disbursed of not less than the principal amount of the funds disbursed.

A fully collateralized repurchase agreement is an authorized investment for Tyler County if the repurchase agreement:

- (a) has a defined termination date;
- (b) is secured by obligations described in I.1 above;
- (c) requires the securities being purchased by Tyler County be pledged to Tyler County, held in Tyler County's name, and deposited at the time the investment is made with Tyler County or with a third party selected and approved by Tyler 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.

Reverse security repurchase agreements are not allowed under this investment policy.

#### 4. Commercial Paper

Authorization: Government Code 10, Chapter 2256, Subchapter A, Section 2256.013

Commercial paper is an authorized investment if the commercial paper:

- a) has a stated maturity of 270 days or fewer from the date of its issuance; and
- b) 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.

#### 5. Mutual Funds.

Authorization: Government Code 10, Chapter 2256, Subchapter A, Section 2256.014

A no-load money market mutual fund is an authorized investment if the mutual fund:

- a) Is regulated by the Securities and Exchange Commission;
- b) Has a dollar-weighted average stated maturity of 90 days or fewer;
- c) Includes in its investment objectives the maintenance of a stable net asset value of \$1 for each share;

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) Is invested exclusively in U.S. Treasury or Federal agency securities.

6. Public Funds Investment Pools.

Authorization: Government Code 10, Chapter 2256, Subchapter A , Section 2256.016.

A public funds investment pool is eligible for investment of Tyler County funds only if the particular pool is approved by resolution of the Tyler County Commissioners' Court .

**J. INVESTMENT INSTITUTIONS AND REPRESENTATIVES**

The Tyler County Treasurer and Auditor shall invest County funds with any or all of the following institutions or groups consistent with federal and state law and the current bank depository contract:

1. Depository Bank;
2. Other state or national banks domiciled in Texas that are insured by FDIC (or its successor);
3. Savings and loan associations domiciled in Texas that are insured by FSLIC (or its successor);
4. Credit Unions domiciled in Texas that are insured by Credit Union Share Insurance Fund (or its successor);
5. Public funds investment pools; or
6. Government securities brokers and dealers.

**AUTHORIZED INSTITUTIONS AND FIRMS**

Tyler County shall maintain a list of authorized broker/dealers and financial institutions which are approved for investment purposes by the Commissioners' Court. It shall be the policy of the County to place investments with and purchase securities only from authorized institutions and firms. A list of institutions which are approved to do business with the County shall be reviewed periodically and be included as Appendix B to this investment policy.

**BROKER/DEALERS**

Broker/dealers must submit annual audited financial statements to Tyler County and be in good standing with the Financial Industry Regulatory Authority (FINRA). Representatives of brokers/dealers shall be registered with the Texas State Securities Board.

## **K. DELIVERY VS. PAYMENT**

It shall be the policy of the County that all funds involved in the transaction of investment securities be transferred using the delivery vs. payment (DVP) method through the Federal Reserve System. By so doing, County funds or securities are not released by a third party until the counterparty presents the agreed upon transaction.

## **L. SAFEKEEPING**

All purchased securities shall be held in safekeeping by the County, or in a third party financial institution, or with a Federal Reserve Bank.

All certificates of deposit, insured by the U. S. Government, purchased outside the Depository Bank shall be held in safekeeping by either the County or an account in a third party financial institution.

All pledged securities by the Depository Bank shall be held in safekeeping by the County, or in a third party financial institution, or with a Federal Reserve Bank.

All certificates of deposit, pledged by the Depository Bank shall be held in custody of a Federal Reserve Bank for safekeeping, be the subject of a valid pledge agreement designating the County as the beneficiary of the pledge agreement; be insured by the U.S. Government; be described in detail by a safekeeping receipt issued to the County by the Federal Reserve Bank.

## **M. REPORTING and PERFORMANCE**

### **MONTHLY REPORT**

The County Treasurer shall submit to the Commissioners' Court and to the County Auditor monthly investment reports that summarize recent market conditions and anticipated investment conditions.

### **QUARTERLY REPORT**

The County Treasurer shall prepare and submit to Tyler County Commissioners' Court written quarterly reports of investment transactions for all funds for the preceding quarter.

The reports must :

1. Describe in detail the investment position of Tyler County on the date of the report;
2. Be signed by the County Treasurer;
3. Contain a summary statement of each pooled fund group that states beginning market values, changes in market values, and ending market values for the reporting period;



4. 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;
5. State the maturity date of each separately invested asset that has a maturity date;
6. State the fund for which each individual investment was acquired; and
7. State the compliance of the investment portfolio as it relates to the investment strategy expressed in the Tyler County Investment Policy and relevant provisions of Government Code 10, Chapter 2256.

#### **NOTIFICATION OF INVESTMENT CHANGES**

It shall be the duty of the Tyler County Treasurer to notify the Tyler County Commissioners' Court of any significant changes in current investment methods and procedures prior to their implementation.

#### **N. INVESTMENT COMMITTEE**

Tyler County Commissioners' Court has established an Investment Committee. Members of the Investment Committee are the County Treasurer, who chairs the Committee, the County Judge, one County Commissioner, the County Auditor, the County Clerk, and a non-voting representative of the District Attorney's office.

The Investment Committee shall meet at least quarterly to assess investment strategies and transactions.

#### **O. CHANGE IN POLICY**

The Tyler County Commissioners' Court expressly reserves the right to alter, add to and delete from this Investment Policy as they so choose.

## APPENDIX A

### INVESTMENT STRATEGY

#### **GENERAL FUND**

Suitability - The primary investment objectives of this fund are preservation of principal and liquidity; income is secondary. The investments must be appropriate to meet the needs and circumstances of the Tyler County General Fund. The Investment Officer shall use reasonable judgment to determine whether the investment is applicable to the portfolio needs of Tyler County.

Preservation and Safety of Principal - The Investment Officer shall exercise diligence and thoroughness in making an investment transaction. Receipts for confirmations of trades will include information on trade date, par value, maturity, price, settlement date, description of securities purchased, and they will show Tyler County as the purchaser.

Liquidity - Maturities must be laddered to meet scheduled Accounts Payable and Payroll needs of Tyler County.

Marketability if Liquidation Arises - Investments will be made with the intent of pursuing, at the time of purchase, the best rate of return on securities held until maturity, and not with the intent of speculative trading. Securities, however, may be sold or exchanged before they mature if market conditions present an opportunity to benefit from the trade or if necessary to meet cash needs. Careful consideration will be given to the effect of the sale on the remaining portfolio.

Diversification of Portfolio - The investment portfolio will be diversified to avoid incurring undue concentration in securities of one type or securities of one financial institution, so that no single investment or class of investments can have a disproportionate impact on the total portfolio. This restriction does not apply to U. S. Treasury securities.

Yield - Cash flow forecasts are used to make investment decisions. All available funds should be invested to earn interest for Tyler County. Moderate income volatility is permitted. Financial risk is unacceptable, and because the investment time horizon of the fund is relatively short, exposure to interest rate risk and purchasing power risk will be minimal.

#### **EMERGENCY DISASTER RELIEF FUND**

Suitability - The primary investment objectives of this fund are preservation of principal and liquidity; income is secondary. The investments must be appropriate to meet

unforeseen emergencies. The Investment Officers shall use reasonable judgment to determine whether the investment can be accessible if required.

Preservation and Safety of Principal - The Investment Officers shall exercise diligence and thoroughness in making an investment transaction. Receipts for confirmations of trades will include information on trade date, par value, maturity, price, settlement date, description of securities purchased, and they will show Tyler County as the purchaser.

Liquidity - Investments must be in issuers and denominations that can be readily liquidated in the open market should a need arise for the funds. Securities may be sold before they mature if an emergency need arises.

Diversification of Portfolio - The investment portfolio will be diversified to avoid incurring undue concentration in securities of one type or securities of one financial institution, so that no single investment or class of investments can have a disproportionate impact on the total portfolio. This restriction does not apply to U. S. Treasury securities.

Yield - Investments will be made with the intent of pursuing, at the time of purchase, the best rate of return on securities held until maturity, and not with the intent of speculative trading.

#### **COUNTY AND DISTRICT CLERK RMP FUND**

Suitability - The primary investment objectives of this fund are preservation of principal and liquidity; income is secondary. The investments must be appropriate to meet the needs for which the funds were established.

Preservation and Safety of Principal - The Investment Officers shall exercise diligence and thoroughness in making an investment transaction. Receipts for confirmations of trades will include information on trade date, par value, maturity, price, settlement date, description of securities purchased, and they will show Tyler County as the purchaser.

Liquidity - Funds must be available to be used in the manner authorized.

Marketability if Liquidation Arises - Investments will be made with the intent of pursuing, at the time of purchase, the best rate of return on securities held until maturity, and not with the intent of speculative trading. Securities, however, may be sold or exchanged before they mature if market conditions present an opportunity to benefit from the trade or if necessary to meet cash needs. Careful consideration will be given to the effect of the sale on the remaining portfolio.

Diversification of Portfolio - Because the funds are subject to fluctuating needs, diversification is limited to highly liquid investment types.

Yield - Cash flow forecasts are used to make investment decisions. All available funds should be invested to earn interest. Enough of the funds will be invested in nonvolatile, liquid investments to ensure payments when due. Moderate income volatility is permitted. Financial risk is unacceptable, and because the investment time horizon of the fund is relatively short, exposure to interest rate risk and purchasing power risk will be minimal.

### **JAIL INTEREST & SINKING FUND**

Suitability – Principal and interest payments are due on a semi-annual schedule and investments must be appropriate to that purpose. The primary investment objectives of this fund are preservation of principal and liquidity.

Preservation and Safety of Principal - The Investment Officers shall exercise diligence and thoroughness in making an investment transaction. Receipts for confirmations of trades will include information on trade date, par value, maturity, price, settlement date, description of securities purchased, and they will show Tyler County as the purchaser.

Liquidity – At the time of purchase, a principal maturity and/or an interest coupon maturity must be guaranteed so as to meet the semi-annual interest and sinking payments scheduled.

### **GRANT FUNDS**

Suitability - Grant requirements state that funds must be disbursed upon receipt. There is no opportunity, therefore, for investment earnings.

Preservation and Safety of Principal - Funds are deposited for safekeeping and disbursed to comply with grant requirements.

Liquidity - Funds must be available to be used in the manner authorized.

### **PAYROLL FUND**

Suitability – These funds serve as a clearing account to meet payroll needs. The only investment suitable is an interest-earning depository bank account to take advantage of float.

Preservation and Safety of Principal – Funds are deposited for safekeeping and the account is debited as checks are cleared.

Liquidity – Funds must be available to cover checks drawn on the account.

## **OTHER FUNDS**

Suitability – Other funds are established by Tyler County so as to meet specific accounting needs. The only investments suitable are interest-earning depository bank accounts when appropriate.

Preservation and Safety of Principal - Funds are deposited for safekeeping and disbursed as needed.

Liquidity – Funds must be available to cover checks drawn on the accounts.

## APPENDIX B

### Tyler County Authorized List of Brokers/Dealers June 9, 2014

<u>INSTITUTION</u>	<u>BROKER/DEALER</u>
1. Funds Management Group, Inc. 4900 Woodway, Suite 545 Houston, TX 77056 800-683-3644	Cash Account Trust Robert L. Ross, President/Asset Servicing Agent Joan Alexander, Senior Vice President/ASA 800-683-3644 713-626-5741
2. UBS Financial Services Inc. 1285 Avenue of the Americas New York, NY 10019 212-713-2000	Richard Ebert, 1st V-President-Investments 10001 Woodloch Forest Drive, Suite 100 The Woodlands, TX 77380 800-522-6222
3. Raymond James and Associates, Inc. 5599 San Felipe Road, Suite 1090 Houston, TX 77056 800-869-9966	Scott Waltmon, Vice President David McLeroy, Vice President 5599 San Felipe Road, Suite 1090 Houston, TX 77056 713-787-2126 800-869-9966
4. Coastal Securities, Inc. 5555 San Felipe Ste 2200 Houston, TX 77056 800-489-3232 713-435-4300	Steven Albert, Managing Director 401 RR 620 South Suite 225 Austin, TX 78734 512-807-2020 800-423-8037