

## INVESTMENT POLICY

### I. Policy

It is the policy of the District to invest funds in a manner which will provide the highest, reasonable investment return with the maximum security of principal while meeting the daily cash flow demands of the District and conforming to all federal, state, and local statutes governing the investment of public funds. It is also the policy of the District that the administration of its funds and the investment of those funds shall be handled as its highest public trust.

The Investment Policy shall be adopted by Resolution as part of the Financial Management Policies. The policy shall be reviewed and adopted by Resolution annually by the Board of Directors.

### II. Purpose

The purpose of this policy is to comply with Chapters 2256 and 2257 of the Texas Government Code, which requires the adoption of a written investment policy regarding the investment of funds. The investment policy addresses the methods, procedures and practices that must be exercised to ensure effective and judicious fiscal management of the District's funds.

### III. Scope

This investment policy applies to all financial assets and funds of the District. Funds are defined in the District's audited Annual Financial Report. Funds are created by the Board unless specifically exempted by the Board and this policy.

### IV. General Objectives

The primary objectives, in priority order, of the District's investment activities shall be safety, liquidity, diversification, and yield.

**Safety** - Safety of the principal is the foremost objective of the District. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

**Liquidity** - The investment portfolio will remain sufficiently liquid to meet all operating requirements which might be reasonably anticipated.

**Diversification** - Diversification of the portfolio will include diversification by maturity and market sector.

**Yield** - The investment portfolio shall be designed with the objective of attaining a market rate of return, taking into account the investment risk constraints and liquidity needs. Market rate of return may be defined as the average yield of the current six-month US Treasury Bill. Return on investment is of secondary importance compared to the safety and liquidity objectives described above.

Effective cash management is recognized as essential to good fiscal management. Cash Management is defined as the process of managing monies in order to ensure maximum cash availability. The District will effectively collect account receivables, practice prudent investment of its available cash, disburse payments in accordance with invoice terms and manage banking services.

### V. Prudence

The standard of prudence to be used by investing officials shall be the "prudent person" rule and shall be applied in the context of managing an overall portfolio. 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 their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the expected income to be derived."

**Limitation of Personal Liability** - Investment officials acting in accordance with this policy and in accord with the Prudent Person Rule shall be relieved of personal liability in the management of the portfolio provided that deviations from expectations for a specific security's credit risk or market price change is reported in a timely fashion and the appropriate action is taken to control unfavorable developments.

**Ethics and Conflicts of Interest** - Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution and management of the investment program, or that could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose any material interests in financial institutions that conduct business with the District. An investment official who has a personal business relationship with an organization seeking to sell an investment to the District shall file a statement disclosing that personal business interest. An investment official who is related within the second degree by affinity or consanguinity to an individual seeking to sell an investment to the District shall file a statement disclosing the relationship. A statement required under this subsection must be filed with the Texas Ethics Commission.

#### **VI. Delegation of Authority**

The Board of Directors will appoint an Investment Officer. Responsibility for the operation of the investment program is hereby delegated to the Investment Officer, who shall act in accordance with established procedures and internal controls for the operation of the investment program consistent with this investment policy. The Investment Officer shall be responsible for all investment transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials. No person may engage in an investment transaction except as provided under the terms of this policy and established written procedures.

**Training** - Investment Officials (an Investment Committee made up of the President, Treasurer and Investment Officer) must complete at least 10 hours of investment training within 12 months of taking office or assuming duties, and shall attend a PFIA certified investment training course not less than once in a two year period.

#### **VII. Internal Controls**

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

#### **VIII. Safekeeping and Custody**

**Authorized Financial Dealers and Institutions** - The Investment Officer will maintain a list of financial institutions and security broker/dealers authorized to provide investment/depository services.

Those firms that request to become qualified bidders for securities transactions must provide one or more of the following as applicable: audited financial statements, proof of National Association of Security Dealers certification, trading resolution, proof of state registrations, certification of having read the entity's investment policy and depository contracts.

**Depository Agreement** - The District shall follow Section 105 of the Local Government Code when entering into a depository agreement for normal banking services including disbursements, collections, and safekeeping. Other banking institutions from which the District may purchase certificates of deposit will

also be designated as a depository.

**Delivery vs Payment** - All trades except for investment pools and mutual funds will be executed by delivery vs payment to ensure that securities are deposited in an eligible financial institution prior to the release of funds. Securities and collateral will be held in the District's name by a third-party custodian as evidenced by safekeeping receipts of the institution with which the securities are deposited.

#### **IX. Authorized and Suitable Investments**

**Eligible Investments** - Assets of the District may be invested in the following instruments as authorized by the Public Funds Investment Act (Section 2256). Only those instruments listed in this section are authorized and will be used as needed to maintain an appropriate diversified portfolio:

- a. Local Government Investment Pools which meets the requirements of Chapters 2256.016-2256.019 of the Public Funds Act and are rated no lower than AAA or AAA- or an equivalent rating by at least one nationally recognized rating service.
- b. Obligations of the United States or its agencies and instrumentalities.
- c. Certificates of Deposit CDs issued by a depository institution that has its main office or a branch in Texas. The CD must be guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor and secured by obligations in a manner and amount as provided by law.
- d. No-load Money Market Mutual Funds that 1) are registered and regulated by the Securities and Exchange Commission, 2) have a dollar weighted average stated maturity of 90 days or fewer, 3) seek to maintain a net asset value of \$1 per share, and 4) are rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service. The City may not invest in money market mutual funds in the aggregate more than 80 percent of its monthly average fund balance.

**Collateralization** - Collateralization will be required on all funds on deposits with a depository bank, other than investments. To anticipate market changes and provide a level of security, the collateralization level will be not less than one hundred two percent (102%) of market value of principal and accrued interest.

#### **X. Investment Parameters**

**Diversification** - See Section IV; General Objectives

**Maximum Maturities** - To the extent possible, the District shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the District will not directly invest in securities maturing more than 13 months from the date of purchase. Reserve funds may be invested in securities up to 2 years if the maturity of such investments are made to coincide as nearly as practicable with the expected use of the funds.

#### **XI. Investment Strategies**

The District maintains separate portfolios for individual funds that are managed according to the terms of this Policy. The investment strategy for portfolios established after the annual Investment Policy review and adoption will be managed to ensure that it will meet all the requirements established by the District's investment policy and the Public Funds Investment Act.

The District's portfolio is maintained to meet anticipated cash needs for operations, capital projects and debt service. In order to ensure the ability to meet obligations and to minimize potential liquidation losses, the dollar-weighted average stated maturity of the investment portfolio shall not exceed one (1) year. The objectives of this portfolio are to ensure safety of principal; ensure adequate investment liquidity; limit market and credit risk through diversification; and attain the best feasible yield in accordance with the

objectives and restrictions set for in this Policy.

## **XII. Reporting**

**Methods** - As required by Government Code 2256.023, on a quarterly basis, the Investment Officer shall prepare and submit to the Board, a written report of investment transactions that have occurred since the previous report and, the market value of current investments.

**Performance Standards** - The investment portfolio shall be managed in accordance with the objectives specified in this policy (safety, liquidity, diversification, and yield). The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. The Investment Officer shall determine whether market yields are being achieved by comparing the portfolio market yield to the three (3) month U.S. Treasury Bill, the six (6) month U.S. Treasury Bill and the two (2) year U.S. Treasury Note.