

COLLIN COUNTY
Investment Policy
Fiscal Year 2012

I. Investment Authority and Scope of Policy

Introduction

This policy serves to satisfy the statutory requirements of Texas Local Government Code Section 116.112 ***Investment of Funds***, and Government Code Chapter 2256 ***Public Funds Investment*** to define and adopt a formal investment policy. This policy will be reviewed and adopted by order annually according to Government Code Section 2256.005(e).

Scope

This policy applies to all financial assets of all funds of the County of Collin, Texas, the Collin County Housing Finance Corporation, the Collin County Parks Foundation, and the Collin County Health Care Foundation, unless expressly prohibited by law or unless it is in contravention of any depository contract between Collin County, Texas and any depository bank.

This policy establishes guidelines for: 1) who can invest County funds, 2) how County funds will be invested, and 3) when and how periodic reviews of investments will be made. In addition to the requirements of this policy, bond funds (as defined by the Internal Revenue Service) shall be managed in accordance with their issuing documentation and all applicable state and federal law.

All investments made with county funds that become unacceptable under Government Code Chapter 2256 guidelines shall be held or liquidated as determined by the Investment Committee to be in the best interest of the financial well-being of the County. According to Government Code Section 2256.017, an entity is not required to liquidate investments that were authorized investments at the time of purchase. (See Attachment A - List of Funds by Fund Type).

Investment Strategies

In accordance with the Public Funds Investment Act, Government Code Section 2256.005(d)(1-6), a separate written investment strategy has been developed for each of the funds or group of funds under Collin County's control. Each investment strategy describes the investment objectives for the particular fund or groups of funds using the following priorities of importance:

1. Understanding of the suitability of the investment to the financial requirements of the entity
2. Preservation and safety of principal
3. Liquidity
4. Marketability of the investment if the need arises to liquidate the investment before maturity
5. Diversification of the investment portfolio
6. Yield

II. Investment Objectives

General Statement

Funds of the County will be invested in accordance with federal and state law, this investment policy, and written administrative procedures. The County will invest according to investment strategies for each fund as they are adopted by order of the Commissioners Court in accordance with Government Code Section 2256.005(d)(1-6).

Safety of Principal and Maintenance of Adequate Liquidity-Government Code Section 2256.005(b)(2)

Collin County is concerned about the return of its principal. Therefore, safety of principal is the primary objective in any investment transaction.

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

Diversification-Government Code Section 2256-005(b)(3)

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

Yield-Government Code Section 2256-005(b)(3)

It is the County's goal to earn the maximum rate of return allowed on its investments within the policy imposed by safety and liquidity objectives, investment strategies for each fund or group of funds, and state and federal law governing investment of public funds.

Maturity-Government Code Section 2256-005(b)(3)

Portfolio maturities will be structured primarily to meet the obligations of the County, and subsequently to achieve the highest return of interest. When the County has funds that exceed current year obligations, maturity restraints will be imposed based upon the

investment strategy for each fund or group of funds. The maximum allowable stated maturity of any individual investment owned by the County is two years, except for the Health Care Foundation and the General Fund, which each are limited to five year maturities. Any other investment situation must be approved by Commissioners Court.

County Investment Officer's Responsibility and Controls

In accordance with Government Code Section 2256.005, the Collin County Commissioners Court shall designate, by resolution, the County Auditor and Budget Director as investment officers to be jointly responsible for the investment of its funds as defined in this investment policy.

The County Auditor shall deposit, withdraw or transfer funds in/out of an investment pool, money market mutual fund, or depository institution to meet the daily operational needs of the County. These transactions shall have approval of the County Judge, County Auditor, and County Budget Director. The governing body of the County retains ultimate responsibility as fiduciary of the assets of the County according to Government Code Section 2256.005(f).

Investment Committee

The Investment Officers, together with two members of Commissioners Court and the First Assistant County Auditor, shall be members of the Investment Committee. The Investment Committee shall review the investment portfolio's status and performance, advise appropriate portfolio adjustments, monitor compliance with the Investment Policy and Investment Strategy Statement, and perform other duties as necessary.

Training Requirements

The Investment Officers and members of the Investment Committee shall attend at least 10 hours of instruction relating to the treasurer's or officer's responsibilities within 12 months after taking office or assuming duties; and attend an investment training session not less than once in a two-year period and receive not less than 10 hours of instruction relating to investment responsibilities from an independent source approved by the Commissioners Court. Training must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with Government Code Section 2256.008(c).

If an investment officer has a personal business relationship with an entity, or is related within the second degree by affinity or consanguinity to an individual seeking to sell an investment to the County, the investment officer must file a statement disclosing that personal business interest, or relationship, with the Texas Ethics Commission and the Commissioners Court in accordance with Government Code Section 2256.005(i).

III. Investment Policies

Authorized Investments

The Collin County Investment Officers shall use any or all of the following authorized investment instruments consistent with governing law under Government Code Section 2256.009(a):

1. ~~1.~~ Obligations, including letters of credit, of the United States or its agencies and instrumentalities
2. Direct obligations of this state or its agencies and instrumentalities
3. Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States
4. Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of this state or the United States or their respective agencies and instrumentalities
5. 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
6. Bonds issued, assumed, or guaranteed by the State of Israel
7. Certificates of deposit issued by a state or national bank, a savings and loan association domiciled in this state, or a state or federal credit union domiciled 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 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 of the nature described by section 2256.009(b)
 - c. Secured in any other manner and amount provided by law for deposits of the investing entity
 - d. Solicited by bid orally, in writing, electronically, or any combination of methods Outlined under Government Code Section 2256.005(c)(1-4)
8. Fully collateralized repurchase agreements, as defined in the Public Funds Investment Act, Government Code Section 2256.011(a)(1-4), (b), (c), and (d), is an authorized investment if the repurchase agreement:
 - a. Has a defined termination date

- b. Is secured by obligations described by Section 2256.009(a)(1) of the Public Funds Investment Act
- 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
- d. Is placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in this state

The term of any reverse security repurchase agreement may not exceed 90 days after the date the reverse security repurchase agreement is delivered, unless otherwise specified by law.

Money received by the County under the terms of a reverse security repurchase agreement shall be used to acquire additional authorized investments, but the term of the authorized investments acquired must mature not later than the expiration date stated in the reverse security repurchase agreement.

Although Government Code permits participation in reverse purchase agreements, the County has decided NOT to engage into such agreements, during Fiscal Year 2012.

~~79.~~ Money market mutual funds registered with and regulated by the Securities and Exchange Commission and fully conforms with Government Code Sections 2256.014 and 2256.016(b) and (c) relating to the eligibility of investment pools to receive and invest funds of investing entities

~~810.~~ Investment pools, as discussed in the Public Funds Investment Act, Government Code Section 2256.016-2256.019, are eligible if the Commissioner's Court, by order, 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. 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

The County expressly allows money market mutual funds and eligible investment pools authorized by the Commissioner's Court to invest to the full extent permissible within the Public Funds Investment Act.

Prohibited

As outlined under Government Code Section 2256.009, the Collin County Investment Officers have no authority to use any of the following investment instruments, which are strictly prohibited:

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

IV. Investment Responsibility and Control

Investment Advisors and Providers

The Collin County Investment Officers shall invest county funds consistent with federal and state law, the County's Investment Policy, and the current depository bank contract with any or all of the following institutions or groups:

1. Depository bank
2. Other state bank, national bank, savings and loan association, or a state or federal credit union domiciled in Texas insured in full by either Federal Savings and Loan Insurance Corporation or Federal Deposit Insurance Corporation
3. TexPOOL, TexSTAR, and Wells Fargo Choice IV Public Funds Account upon passage of a resolution by the Commissioner's Court as well as the required Inter-local agreement
4. Government securities brokers and dealers approved by Commissioner's Court (See Attachment C-Approved list of Agreement in Principal Candidates)
5. Money Market Mutual funds reviewed and recommended by the Investment Committee and approved by the Commissioner's Court

Qualifications of Approval of Brokers/Dealers

Investment advisors and investment providers shall adhere to the spirit, philosophy and specific terms of this policy and shall invest within the same "Standard of Care" whereby the primary objective is the preservation and safety of principal.

In accordance with Government Code Section 2256.005(k), a written copy of this investment policy shall be presented to any person seeking to sell to the County an authorized investment, including investment pools and money market mutual funds. The registered

principal of the business organization seeking to sell an authorized investment shall execute a written instrument substantially to the effect that the registered principal has:

1. Received, reviewed, and agreed to adhere to the investment policy of the County
2. Acknowledged that the business organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the County and the organization that are not authorized by the County's investment policy
3. Provided audited financial statements
4. Provided proof of National Association of Securities Dealers (NASD) Certification
5. Provided proof of state registration
6. Completed Broker/Dealer Request for Information (Attachment D)

Selected Investment Advisors and Investment Providers shall provide timely transaction confirmations and monthly activity reports.

The investment officers may not buy any securities from a person who has not delivered to the County an instrument substantially in the form provided above according to Government Code Section 2256 (See Attachment B).

Approval Process of Broker/Dealer

Upon meeting the requirements established under Government Code Section 2256.005(k), which includes the execution of a written instrument as described above, any person offering to engage in an investment transaction with the County may present a written request to the Investment Committee. The investment committee shall review the request and if appropriate present the request to Commissioner's Court for approval.

As specified under Government Code Section 2256.025, The designated investment committee shall present annually a list of qualified investment brokers/Dealers to the Commissioner's Court for review, revisions, and approval. Once the list of qualified brokers/dealers has been adopted, only those named shall engage in investment transactions with the County.

Standards of Operation

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

Delivery vs. Payment-Government Code Section 2256.005(b)(4)(E)

It is the policy of the County that all investments except investment pool funds ~~(TexSTAR, TexPOOL, and Wells Fargo Choice IV with interest Public Funds)~~ shall be purchased using the "Delivery vs. Payment" (DVP) method through the Federal Reserve System. By so doing, County funds are not released until the county has received the securities purchased through the Federal Reserve wire.

~~A competitive bid process, utilizing a minimum of three bids (if available) shall be considered to place government security purchases. Investment bids may be solicited orally, in writing, electronically, or in any combination thereof; and will be subsequently documented in writing if necessary.~~

When competitive offers are sought, the County will send a Request for Offer form to at least three approved and qualified broker/dealers. If a specific maturity date is required, either for cash flow or maturity purposes, offers are requested for instruments which meet those purposes. The County will accept the offer, which, in its sole discretion, is determined to best provide the highest rate of return within the maturity required. Offers will not be accepted which do not meet the specified criteria in the request for offer or where the deadline specified on the offer sheet is not met.

For those situations where market conditions may dictate a change in the offer process noted above, the County may, in order to secure a favorable rate or term, accumulate at least three unsolicited offers of investments for consideration to purchase. The investments considered must be comparable in structure, term, maturity, and rate. Furthermore, the offers accumulated must be no older than 5 business days prior to the date of purchase notification.

Offers may be solicited in any manner provided by law, including e-mail. All offers must be from broker/dealers previously approved by Commissioners Court. All offers received and considered which lead to an acceptance of the offer must be documented and filed for auditing purposes.

Audit Controls

The Collin County Investment Officers (other than the County Auditor) will establish liaison with the Collin County Auditor in preparing investment forms to assist the County Auditor in accounting and audit control. The Investment Officers are subject to audit by the Collin County Auditor's Office. In addition, the Collin County Commissioner's Court, at a minimum, will have an annual financial audit of all county funds by an independent auditing firm, as well as an annual compliance audit of management controls on investments and adherence to the County's established investment policies in accordance with Government Code Section 2256.005(m).

Standard of Care

In accordance with Government Code Section 2256.006, 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. Investment of funds shall be governed by the following investment objectives, in order of priority:

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

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

- The investment of all funds, or funds under the County's control, over which the officer had responsibility rather than a consideration as to the prudence of a single investment; and
- Whether the investment decision was consistent with the written investment policy of the County

V. Investment Reporting and Performance Evaluation

Reporting

In accordance with Government Code Section 2256.023, not less than quarterly, the investment officer shall prepare and submit to the Commissioner's Court a written report of investment transactions for all funds for the preceding reporting period, within a reasonable time after the end of the period. The report must:

1. Describe in detail the investment position of the County on the date of the report
2. Be prepared jointly by all investment officers of the County
3. Be signed by each investment officer of the County
4. Contain a summary statement, prepared in compliance with generally accepted accounting principles, of each pooled fund group that states
 - a. Beginning market value for the reporting period
 - b. Additions and changes to the market value during the period
 - c. Ending market value for the period
 - d. Fully accrued interest for the period
5. State the book value and market value of each separately invested asset at the beginning and end of the reporting period by the type of asset and fund type invested
6. State the maturity date of each separately invested asset that has a maturity date

7. State the account or fund or pooled group fund in the state agency or local government for which each individual investment was acquired
8. State the compliance of the investment portfolio of the County as it relates to:
 - a. The investment strategy expressed in the County's investment policy
 - b. Relevant provisions of Government Code Chapter 2256
9. The County shall seek a third party independent pricing source to determine the value of the County's investment portfolio

The County, in conjunction with its annual financial audit, shall perform a compliance audit of management controls on investments and adherence to the County's Investment Policy and Investment Strategy Statements.

Notification of Investment Changes

It shall be the duty of the County Investment Officers of Collin County, Texas to notify the Collin County Commissioner's Court of any significant changes in current investment methods and procedures prior to their implementation, regardless of whether they are authorized by the policy or not.

VI. Investment Collateral and Safekeeping

Collateral or Insurance

The Collin County Investment Officers shall ensure that all county funds are fully collateralized, or insured, in a manner consistent with federal and state law; and that current bank depository contracts hold one or more of the following:

1. FDIC insurance coverage
2. Obligations of the United States or its agencies and instrumentalities
3. Allowance under Government Code Chapter 2257

Safekeeping

All purchased securities, as well as pledged securities by the depository bank, shall be held in a safekeeping account subject to the control and custody of the County, specifically a third party financial institution with the Federal Reserve Bank or the Federal Home Loan Bank of Dallas.

All certificates of deposit purchased outside the depository bank shall be held in safekeeping, by the issuer, in a county account; and all investments must be fully collateralized at 102 percent of face value.

Investment Strategy by Fund

❖ General Operating Funds

Priority is placed on the preservation and safety of the principal investment. Liquidity must be maintained to ensure adequate access to meet operating requirements. Excess funds shall be invested in the types of investments authorized under this policy (Section III) to maximize earnings with emphasis on marketability. Maturity shall be selected based on meeting the maturity requirements set out for the portfolio. Diversification of investments shall be applied as specified in the general policy.

❖ Debt Service Funds

Priority is placed on the preservation and safety of the principal investment. Liquidity must be maintained to ensure the ability to meet debt payment requirements. Investments shall only be made in the types of instruments authorized under this policy (Section III) to maximize earnings with emphasis on marketability. Maturities shall be selected to meet debt service requirements of the particular debt issue and meet the maturity requirements set out for the portfolio. Diversification of investments shall be applied as specified in the general policy.

❖ Capital Project Bond Funds

Priority is placed on the preservation and safety of the principal investment. Liquidity shall be maintained to meet expenditure requirements of the individual project while maximizing yield when possible. Investments shall only be made in the specific types of instruments authorized by this policy for bond funds with emphasis on marketability. Maturity and diversification shall be applied as specified in the appropriate sections of the general policy.

❖ Special Revenue Funds

Priority is placed on the preservation and safety of the principal investment. Liquidity shall be maintained to meet the expenditure requirements of the specific Special Revenue Fund. Excess funds shall be invested to maximize yield within the bounds of the instruments authorized by the general policy, with emphasis on marketability. Maturity and diversification shall be applied as specified in the appropriate sections of the general policy.

❖ Trust and Agency Funds

Priority is placed on the preservation and safety of the principal investment. Liquidity shall be maintained to meet the expenditure requirements of the specific trust or agency fund. Excess funds shall be invested to maximize yield within the bounds of the instruments authorized by the general policy with emphasis on marketability.

Maturity and diversification shall be applied as specified in the appropriate sections of the general policy.

❖ Internal Service Funds

Priority is placed on the preservation and safety of the principal investment. Liquidity shall be maintained to meet the expenditure requirements of the specific internal service fund. Excess funds shall be invested to maximize yield within the bounds of the instruments authorized by the general policy with emphasis on marketability. Maturity and diversification shall be applied as specified in the appropriate sections of the general policy.