

COLLIN COUNTY
Investment Policy
Fiscal Year 2015

I. Investment Authority and Scope of Policy

Introduction

This policy serves to satisfy the statutory requirements of Texas Local Government Code (LGC) Section 116.112 **Investment of Funds**, and Government Code (GC) Chapter 2256 **Public Funds Investment** (PFIA) to define and adopt a formal investment policy. This policy will be reviewed and adopted by order annually according to GC 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 Toll Road Authority, and the Collin County Health Care Foundation, unless expressly prohibited by law. Idle funds required to be kept in a non-interest bearing account by agreement with Commissioners Court are not subject to investment.

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 GC 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 GC Section 2256.017, an entity is not required to liquidate investments that were authorized investments at the time of purchase.

Investment Strategies

As permitted by GC Chapter 2256, the County has established three pooled investment fund groups: 1) the Operating Fund Pooled Fund Group, 2) the Non-Operating Pooled Fund Group and 3) the Capital Project Fund Group. In accordance with the Public Funds Investment Act, GC Section 2256.005(d)(1-6), a separate written investment strategy has been developed for each of the pooled fund groups 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 and this investment policy. The County will invest according to investment strategies for each pooled fund group as they are adopted by order of the Commissioners Court in accordance with GC Section 2256.005(d)(1-6).

Safety of Principal and Maintenance of Adequate Liquidity

GC 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

GC 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

GC 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 pooled fund group, and state and federal law governing investment of public funds.

Maturity

GC Section 2256.005(b)(3)

Portfolio maturities will be structured primarily to meet the obligations of the County, and subsequently to achieve or obtain the highest return. When the County has funds that exceed current year obligations, maturity restraints will be imposed based upon the investment strategy for the non-operating pooled fund group. The maximum allowable stated maturity of any individual investment owned by the County in the non-operating pooled fund group is five years.

County Investment Officer's Responsibility and Controls

In accordance with GC Section 2256.005, the 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 GC Section 2256.005(f).

Investment Committee

The Investment Officers, together with two members of Commissioners Court, 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 one investment training session containing at least 10 hours of instruction within 12 months after taking office or assuming duties,
- and attend at least one investment training session to receive at least 10 hours of investment training at least once in a two-year period that begins on October 1st and consists of the two consecutive years after that date.

All investment training must be approved sources by the County Investment Academy with the Texas Association of Counties and the training source must be independent of Commissioners Court. Training must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with the Section 2256 of the Texas Government Code.

Investment Officer Disclosure

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 GC 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 GC Section 2256.009(a) and the County's investment objectives:

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, 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
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 or offer orally, in writing, electronically, or any combination of methods outlined under GC Section 2256.005(c)(1-4)
8. Money market mutual funds registered with and regulated by the Securities and Exchange Commission and fully conforming with GC Sections 2256.014 and 2256.016(b) and (c) relating to the eligibility of investment pools to receive and invest funds of investing entities.
9. Investment pools, as discussed in the Public Funds Investment Act, GC Section 2256.016-2256.019, are eligible if the Commissioners 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 GC 2256.016. An investment pool may invest its funds in money market mutual funds to the extent permitted by and consistent with GC 2256.016 and the investment policies and objectives adopted by the investment pool. 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 Commissioners Court to invest to the full extent permissible within the Public Funds Investment Act.

Prohibited

As outlined under GC 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.
5. Repurchase agreements even though they are allowable within limits by GC 2256.011(a)(1-4).

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. Public Funds Investment Act Pools passage of a resolution by the Commissioners Court as well as the required interlocal agreement.
4. Government securities brokers and dealers approved by Commissioners Court (See Attachment B—Approved list of Agreement in Principal Candidates).
5. Money Market mutual funds reviewed and recommended by the Investment Committee and approved by the Commissioners 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 GC 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 to the County 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 C).

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 GC Section 2256 (See Attachment A).

Approval Process of Broker/Dealer

Upon meeting the requirements established under GC 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 GC Section 2256.025, the designated Investment Committee shall present annually a list of qualified investment brokers/Dealers to the Commissioners Court for review, revisions, and approval. Once the list of qualified brokers/dealers has been adopted, only those named brokers/dealers shall be approved and qualified to 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

GC Section 2256.005(b)(4)(E)

All investments except PFIA investment pools 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.

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, offers will be 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 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 and qualified 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 Investment Officers shall prepare investment processes and forms to establish accounting and audit controls. The Commissioners Court 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 GC Section 2256.005(m).

Standard of Care

In accordance with GC Section 2256.006, investments shall be made with the judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of a 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. 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

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 Investment Officer had responsibility rather than a consideration as to the prudence of a single investment; and
- Whether the investment decision was consistent with this written investment policy of the County.

V. Investment Reporting and Performance Evaluation

Reporting

In accordance with GC Section 2256.023, not less than quarterly, the Investment Officers shall prepare and submit to the Commissioners Court a written report of investment transactions for all funds for the preceding reporting period, within a reasonable time after the end of the period. The report must:

1. Describe in detail the investment position of the County on the date of the report.
2. Be prepared jointly by all Investment Officers.
3. Be signed by each Investment Officer.
4. Contain a summary statement of each pooled fund group that states:

- a. Beginning market value for the reporting period.
 - b. Ending market value for the period.
 - c. Fully accrued interest for the 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, fund or pooled group fund in the state agency or local government for which each individual investment was acquired.
8. State that compliance of the investment portfolio of the County complies with:
 - a. The County's investment policy;
 - b. Relevant provisions of GC Chapter 2256; and
 - c. Changes in ratings by Standard & Poor's or Moody's of investments owned at the end of the reported quarter (GC Section 2256.005b).
9. The County shall seek a third party independent pricing source to determine the value of the County's investment portfolio.

Notification of Investment Changes

It shall be the duty of the Investment Officers to notify the Commissioners 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 Investment Officers shall ensure that all County funds are fully collateralized, or insured, in a manner consistent with this investment policy and 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 GC Chapter 2257 *Collateral for Public Funds*.

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 in 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.

VII. Investment Strategy by Pooled Fund Group

Operating Pooled Fund Group

The objective of the Operating Pooled Fund Group is to maximize earnings on short term idle cash (needed to meet obligations in less than one year) while preserving the safety of the principal invested. Liquidity must be maintained to ensure adequate access to meet operating requirements. Investments of this Pooled Fund Group shall not exceed a maturity of greater than one (1) year and must maintain a weighted average maturity of not more than 90 days. This Group shall invest in the types of investments authorized under this Investment Policy to maximize earnings with emphasis on safety of principal and liquidity. Any County fund may participate in the Short-Term Pooled Fund Group.

Non-Operating Pooled Fund Group

The objective of the Non-Operating Pooled Fund Group is to maximize earnings on idle cash not needed for operating activities within one year while maintaining the safety of the principal invested. The maturity of any investment by the Non Operating Pooled Fund Group may not exceed five years (60 months). Investment transactions will be conducted in a manner to create a laddering of maturities to prevent maturity bubbles and reduce the risks of changing markets. This Group shall invest in the types of investments authorized under this Investment Policy to maximize earnings with emphasis on safety of principal. Only County funds with idle cash not required to meet obligations within one year may participate in this fund group.

Capital Project Fund Group

The objective of the Capital Project Fund Group is to maximize earnings on idle cash that is not needed in the short term to meet obligations to fund capital project fund activities while maintaining the safety of the principal. The maturity of any investment by the Capital Project Fund Group may not exceed three years, but any investment over one year must be scrutinized to ensure liquidity of funds to meet all obligations for payments of capital projects. This Group shall invest in the types of investments authorized under this Investment Policy to maximize earnings with emphasis on safety of principal and timing of liquidity. Only capital project funds which are primarily funded with debt proceeds may participate in this fund group.