

**Policy Statement**

The investment and administration of District funds shall be handled as the highest public trust. Investments shall be made in a manner that shall provide the maximum security of principal with both liquidity and diversification limitations in order to meet the daily cash flow needs of the District. All investments will be handled in accordance with the Public Funds Investment Act (the PFIA) (Texas Government Code 2256), the Public Funds Collateral Act (Texas Government Code 2257), and federal and state laws.

This investment policy applies to all assets of the District. Investments shall be made with judgment and care, under circumstances then prevailing, that a person of prudence, discretion, and intelligence would exercise in the management of his or her own affairs, not for speculation but for investment, considering the probable safety of principal, as well as the probable income to be derived.

**Investment Authority**

The Superintendent or designee or other person designated by Board resolution shall serve as the investment officer of the District and shall invest District funds as directed by the Board and in accordance with the District's written investment policy and generally accepted accounting procedures. Authority as an investment officer shall be effective until rescinded by the Board or until the termination of the person's employment by the District.

The investment officer shall, within 12 months of assuming duties, attend training from a Board-authorized source. The required ten hours of additional training shall be obtained each two-year period thereafter.

Any business or personal business relationship between the investment officer and any business organization offering to engage in financial transactions with the District shall be disclosed. Disclosure shall be made in accordance with District regulations and the PFIA.

If the investment officer has followed this investment policy and established procedures, he or she shall not be held personally liable for losses or changes in market values in the portfolio.

If the Board contracts with another investing entity or investment adviser, he or she may be designated as the investment officer.

**Approved  
Investment  
Instruments**

From those investments authorized by law and described further in the PFIA, the Board shall permit investment of District funds in only the following investment types, consistent with the strategies and maturities defined in this policy:

1. Obligations of, or guaranteed by, the U.S. Government, its agencies and instrumentalities not to exceed three years to stated maturity and excluding collateralized mortgage obliga-

tions (CMO). Extended maturity U.S. Treasury and agency obligations may be used for bond funds not to exceed three years to stated maturity. In bond funds, the stated maturity of these securities would be matched to specific planned liabilities and would not extend in maturity beyond the expenditure schedule of the bond funds invested.

2. Fully insured or collateralized certificates of deposit from the District's depository bank or a depository doing business in Texas under the terms of a written depository agreement with that bank, not to exceed three years to stated maturity.

FDIC-insured brokered certificates of deposit securities from a bank in any U.S. state, delivered versus payment to the District's depository/safekeeping agent, not to exceed one year to maturity. Before purchase, the investment officer must verify the [FDIC status](#)<sup>1</sup> of the bank to ensure that the bank is FDIC insured.

General obligation notes and bonds of any state or local government rated AA or better by two nationally recognized rating agencies.

3. Fully collateralized repurchase agreements as defined by the PFIA with banks doing business in Texas or primary dealers, not to exceed one day in maturity and under the terms of an executed PSA Master Repurchase Agreement.
4. Fully collateralized flex repurchase agreements may be used for bond funds but shall not extend in maturity beyond the expenditure schedule of the bond funds invested.
5. Commercial paper rated no less than A1/P1 or its equivalent by two nationally recognized rating agencies, not to exceed three months to stated maturity.
6. AAA-rated SEC registered money market mutual funds.
7. AAA-rated, constant-dollar, Texas public funds investment pools as defined by the PFIA.

In order to reduce market and credit risk, the overall portfolio shall be diversified as follows:

DIVERSIFICATION TABLE CLARIFICATION

	Max. Maturity	Max. % of Portfolio
U.S. Treasuries	3 years	80%
U.S. Agencies	3 years	80%
Depository CD	1 year	50%
Brokered CD Securities	1 year	30%
Commercial Paper	90 days	25%
Per Issuer		5%
TX LGIP	1 day	100%
Repurchase Agreement	1 day	25%
Flex Repurchase Agreement/Bond	Expend. Plan	100%
Money Market Funds	1 day	50%

If additional securities are approved for investment by public funds by state statute, they will not be eligible for investment by the District until this policy has been amended and adopted by the Board.

All transactions, with the exception of pools and money funds, shall be transacted on a delivery versus payment (DVP) basis.

**Safety**

The primary goal of the investment program is to ensure safety of principal, to maintain liquidity, and to maximize financial returns within current market conditions in accordance with this policy. Investments shall be made in a manner that ensures the preservation of capital in the overall portfolio. No individual investment transaction shall be undertaken that jeopardizes the total capital position of the overall portfolio.

**Investment Management**

In accordance with Government Code 2256.005(b)(3), the quality and capability of investment management for District funds shall be in accordance with the standard of care, investment training, and other requirements set forth in Government Code Chapter 2256.

**Liquidity and Maturity**

The total portfolio of the District shall have a maximum dollar weighted maturity of 180 days. The maximum allowable stated maturity of any other individual investment owned by the District shall not exceed three years from the time of purchase.

The District's investment portfolio shall be based on cash flow analysis and shall have sufficient liquidity to meet anticipated cash flow requirements.

**Diversity**

The investment portfolio shall be diversified in terms of investment instruments, maturity scheduling, and financial institutions to reduce risk of loss resulting from overconcentration of assets in a specific class of investments, specific maturity, or specific issuer.

**Monitoring Market Prices**

The investment officer shall keep the Board informed of significant changes in the structure or market value of the District's investment portfolio. Information sources may include independent financial/investment publications and electronic media, available software for tracking investments, depository banks, investment adviser, commercial or investment banks, financial advisers, and representatives/advisers of investment pools or money market funds. Monitoring shall be done monthly or more often as economic conditions warrant by using appropriate reports, indices, or benchmarks for the type of investment.

The investment officer or investment adviser shall monitor, on no less than a monthly basis, the credit rating on all authorized investments in the portfolio, which require a credit rating minimum by policy or law, based upon independent information from a nationally recognized rating agency. If any security falls below the minimum rating required, the investment officer or adviser shall notify the Superintendent of the loss of rating within two days, stating conditions affecting the rating and possible loss of principal with liquidation options available.

The investment officer or investment adviser shall monitor, on no less than a weekly basis, the status and ownership of all banks issuing brokered CDs owned by the District based upon information from the [FDIC](#).<sup>2</sup> If any bank has been acquired or merged with another bank in which brokered CDs are owned, the investment officer or adviser shall immediately liquidate any brokered CD that places the District above the FDIC insurance level.

**Funds / Strategies**

Investments of the following fund categories shall be consistent with this policy and in accordance with the applicable strategy defined below. All strategies described below for the investment of a particular fund should be based on an understanding of the suitability of an investment to the financial requirements of the District and consider preservation and safety of principal, liquidity, marketability of an investment if the need arises to liquidate before maturity, diversification of the investment portfolio, and yield.

OTHER REVENUES  
INVESTMENTS

CDA  
(LOCAL)

Funds from the various fund categories may be commingled for investment purposes recognizing the incorporation of different funds and their cash flow needs.

Operating Funds

Investment strategies for operating funds (including any commingled pools containing operating funds) shall have as their primary objectives preservation and safety of principal, investment liquidity, and maturity sufficient to meet anticipated cash flow requirements. In no case shall the District invest in instruments whose stated maturity is greater than three years from the date of purchase. In designated bond funds, investments should be controlled by the expenditure plan for the bond funds. The dollar weighted average maturity of the overall portfolio shall not exceed six months.

Agency Funds

Investment strategies for agency funds shall have as their primary objectives, preservation and safety of principal, investment liquidity, and maturity sufficient to meet anticipated cash flow requirements. Maximum WAM shall be six months.

Debt Service Funds

Investment strategies for debt service funds shall have as their primary objective the consecutive funding of debt service payment obligations in accordance with provisions in the bond documents. Upcoming debt service payments must be fully funded before successive dates are funded.

Capital Project  
Funds

Investment strategies for capital project funds shall have as their primary objectives sufficient investment liquidity to timely meet expected capital project obligations. Maturities longer than one year are authorized in accordance with the bond proceeds expenditure plan.

**Safekeeping of  
District-Owned  
Securities**

All securities owned by the District will be settled on a DVP basis into the District's depository/safekeeping agent. Receipts confirming District ownership of the securities will be obtained and maintained by the District.

**Pledged Collateral  
from Depositories**

Collateral pledged above the FDIC insurance level for time and demand deposits in any bank will be maintained at a 102 percent margin (and 110 percent for MBS), including principal and interest, and held by an independent entity outside the holding company of the bank. The custodian will provide monthly reports directly to the District. The bank is responsible for monitoring and maintaining the 102 percent daily. Substitution and releases shall be authorized with District approval.

**Repurchase  
Collateral**

Collateral will settle DVP and will be maintained in an independent custodian. Substitution and releases shall be authorized with District approval.

**Sellers of  
Investments**

Prior to handling investments on behalf of the District, a broker/dealer or a qualified representative of a business organization must submit required written documents in accordance with law. [See Sellers of Investments, CDA(LEGAL)]

Representatives of brokers/dealers shall be registered with the Texas State Securities Board and must have membership in the Securities Investor Protection Corporation (SIPC), and be in good standing with the Financial Industry Regulatory Authority (FINRA) or equivalent for banks.

A list of the brokers/dealers authorized to do business with the District shall be reviewed and adopted by the Board or a committee designated by the Board at least annually. Information on each broker/dealer will be maintained by the District or its investment adviser.

**Soliciting Bids /  
Offers**

In order to get the best return on its investments, the District must use competitive bidding and may solicit bids/offers for certificates of deposit in writing, by telephone, electronically, or by a combination of these methods.

**Interest Rate Risk**

To reduce exposure to changes in interest rates that could adversely affect the value of investments, the District shall use final and weighted-average-maturity limits and diversification.

The District shall monitor interest rate risk using weighted average maturity and specific identification.

**Internal Controls**

A system of internal controls shall be established and documented in writing to include specific procedures designating who has authority to withdraw funds. Also, they shall be designed to protect against losses of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the District. Controls deemed most important shall include: separation of authority, avoidance of collusion, custodial safekeeping, delegation of authority, confirmation of transactions, and documentation of transactions.

These controls shall be reviewed by the District's independent auditing firm. The District's auditors shall also perform an annual compliance audit of management controls, as well as a review of the quarterly reports to the Board.

**Portfolio Report**

In addition to the quarterly reports required by the PFIA and signed by the District's investment officer, a comprehensive report on the investment program and investment activity shall be presented annually to the Board. This report shall include a performance evaluation that will include comparison to the six-month U.S. Treasury Bill

average that most clearly compares to the portfolio benchmark of 180 days. Prices used for valuation of market value shall be obtained from an independent source such as the Wall Street Journal, the District's investment adviser, or a broker not involved with the sale of the particular security.

**Separation of Authority**

To ensure appropriate separation of authority, the investment officer shall notify the Superintendent or designee of the amount available for investment. Such notification shall be via e-mail, and a copy shall be sent to the Superintendent. The Superintendent or designee shall then make the appropriate investments in accordance with CDA(LEGAL) and (LOCAL).

In the event the Superintendent or designee is not available, the investment officer shall make the appropriate investments, while continuing the e-mail notification process.

All investment officers shall disclose any relationships existing with any and all brokers/dealers.

**Avoidance of Collusion**

To protect against collusion, the investment officer shall solicit quotes from at least three of the certified brokers/dealers. The brokers/dealers shall be solicited on a rotating basis from the list of certified brokers/dealers so that the same three brokers/dealers are not solicited continually.

**Custodial Safekeeping**

To protect the District's principal investment, investments shall be kept safe by an independent third party, with all investments actually in the name of the District.

**Documentation of Transactions**

The investment officer shall prepare a trade ticket for each transaction. The trade ticket shall indicate the broker, investment, and appropriate details such as type, term, amount, and yield. It shall also indicate the brokers contacted for quotes.

**Confirmation of Transactions**

District trade tickets shall be compared against broker confirmation of the trade and the safekeeping notice to ensure the trade occurred as agreed upon.

**Annual Review**

The Board shall review this investment policy and investment strategies not less than annually and shall document its review in writing, which shall include whether any changes were made to either the investment policy or investment strategies.

**Annual Audit**

In conjunction with the annual financial audit, the District shall perform a compliance audit of management controls on investments and adherence to the District's established investment policies.

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<sup>1</sup> FDIC status: <https://www.fdic.gov/>

<sup>2</sup> FDIC: <https://www.fdic.gov/>