



# BEEVILLE

INDEPENDENT SCHOOL DISTRICT

INSPIRING BOLD INNOVATIVE LEADERS

## Investment Policy

Approved: \_\_\_\_\_

## **I. POLICY**

### **A. Formal Adoption**

It is the policy of the Beeville Independent School District (the "District"), that after allowing for the anticipated cash flow requirements of the District and giving due consideration to the safety and risk of investment, all available funds shall be invested in conformance with these legal and administrative guidelines, seeking to optimize interest earnings to the maximum extent possible.

Effective cash management is recognized as essential to good fiscal management. Investment interest is a source of revenue to District funds. The District's investment portfolio shall be designed and managed in a manner designed to maximize this revenue source, to be responsive to the public trust, and to be in compliance with legal requirements and limitations.

### **B. Scope**

This Investment Policy applies to investment activities of the District, but does not govern the investment of private donations.

## **II. INVESTMENT OBJECTIVES**

Investments shall be made with the primary objectives of:

### **A. Safety of Principal**

The primary objective of all investment activity is the preservation of capital and the safety of principal in the overall portfolio. The objective is to mitigate credit and interest rate risk.

#### **1. Credit Risk**

The District will minimize credit risk, the risk of loss due to the failure of the issuer or backer of the investment, by:

- Limiting investments to the safest types of investments.
- Pre-qualifying the financial institutions and broker/dealers with which the District will do business.
- Diversifying the investment portfolio so that potential losses on individual issuers will be minimized.

#### **2. Interest Rate Risk**

The District will minimize the risk that interest earnings and the market rate of investments in the portfolio will fall due to changes in general interest rates, by:

- Structuring the investment portfolio so that investments mature to meet cash requirements for ongoing operations, thereby avoiding the need to liquidate investments prior to maturity.
- Investing operating funds primarily local government investment pools, bank CDs, short fixed-income government bonds and money market mutual funds.
- Diversifying maturities and staggering purchases to minimize the impact of market movements over time.

**B. Maintenance of Adequate Liquidity**

The investment portfolio will remain sufficiently liquid to meet the cash flow requirements that might be reasonably anticipated.

**C. Yield**

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity described above.

**III. INVESTMENT PROCEDURES**

**A. Authorized Investments**

The Public Funds Investment Act (Texas government code 2256) outlines the universe of eligible investments for local governments. The District intends to be more conservative than the Act. As such, District funds may be invested in the following:

1. **Obligations** of the United States or its agencies and instrumentalities, including any security or investment insured by the Federal Deposit Insurance Corporation (FDIC). *This authorization does not include collateralized mortgage obligations (CMOs) or any type of mortgage-backed security (MBS), although an MBS is permitted to secure bank deposits.*
2. **Direct obligations** of the State of Texas, or its agencies and instrumentalities.
3. **Obligations of states**, agencies, counties, cities, and other political subdivisions of any State having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than "AA" or its equivalent.
4. **Certificates of Deposit (CD's)** in state and national banks and savings banks, with its main office or a branch office in the state of Texas, guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor; or collateralized by obligations that are described by 1-4 above.
5. **Money market mutual funds**, registered with the Securities and Exchange Commission (SEC).
6. **Eligible Investment Pools** as defined by and in compliance with the Public Funds Investment Act that have been authorized by resolution of the School Board and whose investment philosophy and strategy seeks to maintain a stable net asset value. *This authorization includes commercial paper pools, although commercial paper is not permitted for direct purchase.*

## **B. Protection of Principal**

### **1. Diversification by Investment Type**

The District shall diversify the investment portfolio in such a manner as to reduce the potential impact on the total portfolio of the inherent risk of any one security or security type.

The District will not exceed the following maximum limits as a percentage of the total portfolio for each of the categories listed below:

75% in State and Local Government Obligations (1, 2 & 3 above)  
30% in Certificates of Deposit  
20% in Money Market Funds  
75% in Local Government Investment Pools  
50% in any single Investment Pool

### **2. Previous District Investments**

District investments purchased prior to the adoption of this Policy are not required to be liquidated in order to comply with the stated guidelines. The Chief Financial Officer shall determine whether it is in the best interest of the District to hold or liquidate any specific investment not in compliance with Policy guidelines.

### **3. Safekeeping**

The District shall contract with a bank or banks for the safekeeping of securities either owned by the District or pledged by a depository agreement or repurchase agreement. The purchase of individual securities and repurchase agreements shall be executed "delivery-versus-payment" (DVP) through the District's Safekeeping Agent. By so doing, District funds are not released until the District has received, through the Safekeeping Agent, the securities purchased. All collateral securing bank deposits must be held by a third-party safekeeping bank, or by the Federal Reserve Bank.

### **4. Collateralization**

Consistent with the requirements of Federal and State law, the District requires all bank deposits to be federally insured or collateralized with eligible securities. Financial institutions serving as District Depositories will be required to sign a Depository Agreement with the District and the District's safekeeping agent. The safekeeping portion of the Agreement shall define the District's rights to the collateral in case of default, bankruptcy, or closing and shall establish a perfected security interest in compliance with Federal and State regulations.

### **5. Credit Downgrade Provision**

An investment that requires a minimum rating does not qualify as an authorized investment during the period the investment does not have the minimum rating. The District shall take all prudent measures that are consistent with its investment policy to liquidate an investment that does not have the minimum rating.

## **C. Broker/Dealers**

All broker/dealers wishing to transact investment business with the District shall be required to provide an annual financial report, an updated resume, at least three

references and proof of registration in Texas. In addition, each broker shall be presented a written copy of this Investment Policy. On an annual basis, the list of broker/dealers shall be presented to the School Board.

#### **D. Responsibility and Controls**

##### **1. Authority to Invest**

The Director of Finance and the Superintendent are the “Investment Officers” of the District. The Investment Officers are authorized to deposit, withdraw, invest, transfer, execute transactions and otherwise manage District funds according to this policy and investment guidelines and procedures. Additional Investment Officers may be named and authorized by the School Board.

##### **2. Required Investment Training**

As per the Public Funds Investment Act, within 12 months of hire, Investment Officers shall attend one or more training sessions totaling no less than 10 hours of investment instruction. In subsequent years, Investment officers shall receive a total of *eight hours* training not less than once in a two-year period that begins on the first day of the District’s fiscal year. The training provider must be from an independent source.

##### **3. Prudent Investment Management**

The designated Investment Officers shall perform their duties in accordance with the adopted Investment Policy, district guidelines and the Public Funds Investment Act. In determining whether an Investment Officer has exercised prudence and adhered to the appropriate “standard of care” with respect to an investment decision, the investment of all funds over which the Investment Officer had responsibility rather than the prudence of a single investment shall be considered. Investment Officers acting in good faith and in accordance with these policies and procedures shall be relieved of personal liability.

The designated Investment Officers shall exercise the judgment and care, under prevailing circumstances, that a prudent person would exercise in the management of the person’s own affairs. Unless authorized by law, a person may not deposit, withdraw, transfer, or manage in any other manner the funds of the District.

##### **4. Standards of Ethics**

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. Additionally, all Investment Officers shall file with the Texas Ethics Commission and the Board a statement disclosing any personal business relationship with an entity seeking to sell investments to the District or any relationship within the second degree by affinity or consanguinity to an individual seeking to sell investments to the District.

##### **5. Reporting**

Investment performance will be regularly monitored and evaluated by the Investment Officers. The Investment Officers will sign and provide quarterly investment reports to the School Board. This report shall describe total cash and investments of the District as well as issuer, settlement date, maturity date, coupon

and yield for all District investments held in safekeeping. Reports should also state compliance of the investment portfolio with the Investment Policy and the Public Funds Investment Act (PFIA).

The School Board will be provided relevant information at any time there is anticipated problems or increase in risk of the District's investments.

The District's auditor will review the quarterly investment reports for compliance with the Public Funds Investment Act and report annually to the Board.

#### **5. Performance Standards**

The District's investments will be managed in accordance with the parameters specified within this policy. The portfolio shall be designed with the objective of obtaining a rate of return through budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow requirements of the District. The District's portfolio shall be designed with the objective of meeting or exceeding the average yield-to-maturity of U.S. Treasury Bills with a maturity comparable to the District's weighted average maturity in days.

### **IV. INVESTMENT STRATEGY**

In order to minimize risk of loss due to interest rate fluctuations, investment maturities shall generally not exceed the anticipated cash flow requirements of the funds. Investment strategies by fund-type are as follows:

#### **Operating Funds:**

**Suitability** - Any investment authorized within this Investment Policy is suitable for operating funds.

**Safety of Principal** - All investments shall be of high quality securities with no perceived default risk. Market price fluctuations will however occur; by managing the weighted average days to maturity for operating funds portfolio to less than 180 days and restricting the maximum allowable maturity to one year, the price volatility of the overall portfolio will be minimized.

**Marketability** - Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash requirement. By purchasing primarily Treasury and agency securities, a high degree of marketability is assured.

**Liquidity** – The operating fund will generally require a higher degree of daily liquidity. Investment pools and money market funds shall provide daily liquidity and may be utilized as a competitive yield alternative to fixed income investments.

**Diversification** - Investment maturities shall be staggered throughout the budget cycle to provide cash flow based on the anticipated operating needs of the District. Market cycle risk can be reduced by staggering maturities to a range of dates.

**Yield** - Attaining a competitive market yield for comparable security-types and portfolio restrictions is the desired objective. The three-month average of the 91-day Treasury-bill yield shall be the minimum yield objective.

#### **Capital Project Funds:**

**Suitability** - Any investment authorized within this Investment Policy is suitable for the capital project funds. To the extent possible, investments shall be positioned to mature on or before the expected project payment date.

**Safety of Principal** - All investments shall be of high quality securities with no perceived default risk. Maturities shall correspond, as best possible, with the cashflow schedule of the project.

**Marketability** - Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash requirement. By purchasing primarily Treasury and agency securities, a high degree of marketability is assured.

**Liquidity** – Investment pools and money market funds shall provide a liquidity cushion to supplement and support longer fixed income investments. Ample liquidity reduces the possibility of a forced sale of securities to fund unexpected cash needs.

**Diversification** - Investment maturities may be positioned to correspond with expected construction draw schedules.

**Yield** - Attaining a competitive market yield for comparable security-types and maturities is the desired objective. The three-month average of the Treasury-bill with a maturity most closely matching the portfolio shall be the minimum yield objective.

#### **Debt Service Funds:**

**Suitability** - Any investment authorized within this Investment Policy is suitable for the debt service funds.

**Safety of Principal** - All investments shall be of high quality securities with no perceived default risk. By generally matching investments with payment dates, there should be no need to liquidate an investment prior to maturity. Maximum maturities shall not exceed two year payment dates.

**Marketability** - Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash requirement. By purchasing primarily Treasury and agency securities, a high degree of marketability is assured.

**Liquidity** – Investment pools and money market funds shall provide a liquidity cushion to supplement and support longer fixed income investments. Ample liquidity reduces the possibility of a forced sale of securities to fund unexpected cash needs.

**Diversification** - Investment maturities may be positioned to correspond with expected construction draw schedules.

**Yield** - Attaining a competitive market yield for comparable security-types and maturities is the desired objective. The quarterly average of the Treasury-bill with a maturity most closely matching the portfolio shall be the minimum yield objective.