

CALHOUN COUNTY

INVESTMENT POLICY

Reviewed & Adopted Commissioner's Court

January 13, 2005
May 11, 2006
March 22, 2007
February 28, 2008
April 9, 2009
January 28, 2010
February 24, 2011
April 12, 2012
March 14, 2013
March 27, 2014
March 26, 2015
June 9, 2016
June 8, 2017
March 28, 2018
April 10, 2019
July 24, 2019 (revised)
October 5, 2020
2021
April 13, 2022 (revised)
June 21, 2023

APPROVED

JUN 21 2023

**CALHOUN COUNTY
COMMISSIONERS COURT**

INVESTMENT POLICY

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CALHOUN COUNTY INVESTMENT POLICY

I. PURPOSE

FORMAL ADOPTION: This Investment Policy is authorized by the Calhoun County Commissioners' Court in accordance with Chapter 2256, Texas Government Code, the Public Funds Investment Act, and Section 116.112, Local Government Code. A copy of the Public Funds Investment Act is attached hereto and incorporated by reference.

SCOPE: This Investment Policy applies to all the investment activities of the County. This Policy establishes guidelines for: 1) who can invest County funds; 2) how County funds will be invested; and 3) when and how a periodic review of investments will be made.

FUNDS: This Investment Policy applies to all financial assets of all funds of the County of Calhoun, Texas at the present time and any funds to be created in the future and any other funds held in custody by the County Treasurer, unless expressly prohibited by law or unless it is in contravention of any depository contract between Calhoun County and any depository bank.

COUNTY'S INVESTMENT OFFICER: In accordance with Section 116.112(a), Local Government Code and/or Chapter 2256, Sec. 2256.005(f) and (g), the Calhoun County Commissioner's Court, may invest County funds that are not immediately required to pay obligations of the County. If the 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 Calhoun County Commissioner's Court in accordance with Government Code 2256.005(i). In order to allow the maximum flexibility for the investment of Calhoun County funds, the Calhoun County Commissioner's Court designates the County Treasurer to serve as the Investment Officer with full authority for the

investment of Calhoun County funds between meetings of the Commissioner's Court, official approval of which shall be made by said Court at the next official meeting of the Commissioner's Court. On June 27, 2013 the Calhoun County Commissioner's Court passed a Resolution authorizing the County Investment Officer, within the meaning of the Resolution, with full power and authority to execute an agreement with an investment pool as in accordance with the Public Funds Investment Act. Said Resolution is attached hereto.

II. INVESTMENT STRATEGY

In accordance with the Public Funds Investment Act, Section 2256.005(d), a separate written investment strategy will be developed and attached hereto for each of the funds under Calhoun County's control. Each investment strategy must describe the investment objectives for the particular fund using the objectives for the particular fund by following the priorities of importance as listed hereto:

- Understanding of the suitability of the investment to the financial requirements of the entity;
- Preservation and safety of the principal;
- Liquidity;
- Marketability of the investment if the need arises to liquidate the investment before maturity;
- Diversification of the investment portfolio; and
- Yield.

In accordance with the Public Funds Investment Act, Section 2256.005(e), investment strategies will be reviewed and adopted by resolution not less than annually. (SEE ATTACHED)

III. INVESTMENT OBJECTIVES

Funds of the County will be invested in accordance with federal and state laws and this Investment Policy. Calhoun County will invest

according to investment strategies for each fund as adopted by Commissioner's Court resolution in accordance with Section 2256.005(d).

SAFETY & LIQUIDITY: Safety of principal is a primary objective in any investment transaction of Calhoun County. All investments must be done in a prudent manner providing liquidity necessary to meet the County's cash needs.

DIVERSIFICATION: It will be the policy of Calhoun County to diversify its portfolio to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer or a specific class of investments. Investments selected by the County shall always provide for stability of income and reasonable liquidity.

YIELD: The objective of the County will be to earn the optimum rate of return within current market conditions in accordance with the policies imposed by its safety and liquidity objectives, investment strategies for each fund, and state and federal law governing investment of public funds. To determine portfolio performance, this Policy establishes the "weighted average yield to maturity" as the standard performance measurement.

MATURITY: Portfolio maturities will be structured to meet the obligations of the County first and then to achieve a competitive return on investment. When the County has funds that will not be needed to meet current-year obligations, maturity restraints will be imposed based upon the investment strategy for each fund. The **maximum** allowable stated maturity of any individual investment owned by the County is **two (2)** years.

INVESTMENT TRAINING: Calhoun County shall provide training as required by the Public Funds Investment Act, Section 2256.008 and periodic training in investments for the County Investment Officer through courses and seminars offered by professional organizations and associations in order to ensure the quality and capability of the investment officer.

Approved training sources include: County Treasurers' Association of Texas, Texas Association of Counties and the associated County Investment Academy, National Association of County Collectors, Treasurers & Finance Officers, Government Finance Officers Association of Texas, and Government Treasurers' Organization of Texas.

IV. INVESTMENT TYPES

Investments described below are authorized by the Public Funds Investment Act as eligible securities for the County. County funds governed by this Policy may be invested in:

- 1) Obligations of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks. Section 2256.009(a)(1), Gov. Code.
- 2) Direct obligations of the State of Texas, or its agencies and instrumentalities. Section 2256.009 (a)(2), Gov. Code.
- 3) Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities. Section 2256.009(a)(4), Gov. Code.
- 4) 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 "A" or its equivalent. Section 2256.009 (a)(5), Gov. Code.
- 5) Certificates of Deposit, and other evidences of deposit, issued by a depository institution that has its main office or a branch office in Texas that are: Section 2256.010 (1-3), Gov. Code.
 - guaranteed or insured by the Federal Deposit insurance Corporation or its successor; or
 - secured in any other manner and amount provided by law for deposits of the County; and
 - Governed by a Depository Agreement.

- 6) A fully collateralized repurchase agreement, as defined in the Public Funds Investment Act, if it:
- a) has a defined termination date;
 - b) is secured by cash or obligations described by Section 2256.009 (a)(1) of the Public Funds Investment Act; and
 - 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; and
 - d) is placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in this state.

7) Eligible local government investment pools (as discussed in the Public Funds Investment Act, Section 2256.016-2256.019). An investment pool shall invest the funds it receives from entities in authorized investments permitted by the Public Funds Investment Act. A county by contract may delegate to an investment pool the authority to hold legal title as custodian of investments purchased with its local funds.

8) SEC registered, no load money market mutual funds that comply with the requirements of the Public Funds Investment Act and seek to maintain a stable net asset value of \$1.0000.

The County expressly prohibits any direct investment in asset or mortgage backed securities. The County expressly prohibits: interest-only and principal only mortgage backed securities and collateralized mortgage obligations with stated final maturities in excess of ten years or with coupon rates that float inversely to market index movements.

The County expressly allows money market mutual funds to invest to the full extent permissible within the Public Funds Investment Act.

The County will not be required to liquidate an investment that becomes unauthorized subsequent to its purchase.

V. INVESTMENT PROTECTION AND RESPONSIBILITY

The County shall seek to control the risk of loss due to the failure of an issuer or grantor. Such risk shall be controlled by investing only in the safest types of investments as defined in the Policy; by collateralization as required by law; and through portfolio diversification by maturity and type.

Diversification by investment type shall be maintained by ensuring an active and efficient secondary market in applicable portfolio investments, and by controlling the market and opportunity risks associated with specific investment types. It is the County's policy to diversify its portfolio to eliminate the risk of loss resulting from the concentration of assets in a specific maturity (except zero duration funds), a specific issuer, or a specific class of investments. County investments shall always be selected to provide stability of income and reasonable liquidity.

Diversification by investment maturity shall not exceed the anticipated cash flow requirements of the funds, and maintaining a maximum dollar weighted maturity of less than one year will help minimize risk of loss due to interest rate fluctuations.

Liquidity shall be achieved by anticipating cash flow requirements of the County consistent with the objectives of this Policy, and maintaining a scheduled maturity of investments. An investment may be liquidated or redeemed to meet unanticipated cash requirements, to re-deploy cash into other investments expected to outperform current holdings, or otherwise to adjust the portfolio.

All prudent measures will be taken to liquidate an investment that is downgraded to less than the required minimum rating.

INVESTMENT INSTITUTIONS DEFINED:

The Calhoun County Investment Officer shall invest County funds with any and all of the following institutions or groups consistent with federal and state law and the current Depository Bank contract:

- Depository bank – PROSPERITY BANK;
- Other state or national banks with a main or branch office in Texas that are insured by FDIC;
- Public funds investment pools approved by the Commissioner's Court which are rated no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service and located in the State of Texas.
- Government securities broker/dealers approved by the Commissioner's Court.

SAFEKEEPING AND CUSTODY:

The County shall retain clearly marked safekeeping receipts providing proof of the County's ownership. The County may delegate, however, to an investment pool the authority to hold legal title as custodian of investments purchased with County funds by the investment pool.

The County shall contract with a third-party financial institution for the safekeeping of securities owned by the County as a part of its investment portfolio.

COLLATERALIZATION:

Consistent with the requirements of state law, the County requires all financial institution deposits to be federally insured or collateralized with eligible obligations. Financial institutions serving as County depositories will be required to sign an agreement with the County in compliance with federal regulations. The agreement shall require compliance with Government Code 2256 and this Investment Policy, establish an independent custodian for all pledged collateral, define the eligible collateral and the County's rights to the collateral in case of default, bankruptcy, or closing, and establish a perfected security

interest in compliance with federal and state regulations, and specifically:

- the agreement must be in writing;
- the agreement must be executed by the depository and the County contemporaneously with the acquisition of the asset;
- the agreement must be approved by resolution of the Board of Directors or the designated committee of the depository, and a copy of the meeting minutes or resolution reference must be delivered to the County; and
- the agreement must be part of the depository's official record continuously since its execution.

For financial institution deposits, eligible collateral is defined by the Government Code 2257. The eligibility of specific issues as collateral may at times be restricted or prohibited, at the sole discretion of the County.

For financial institution deposits, the market value of securities pledged as collateral for deposits must at all times be equal to or greater than 102% of the par value of the deposit plus accrued interest, less the amount insured by the FDIC or its successor. The depository shall be liable for monitoring and maintaining the collateral and collateral margins at all times. Letters of credit pledged as collateral shall at all times be equal to the total value of the deposits plus anticipated interest less the applicable level of FDIC insurance.

For financial institution deposits, the County requires monthly reports with market values of pledged securities from all the custodians of financial institutions (or other independent valuation sources) with which the County has collateralized deposits. The County will regularly monitor the adequacy of collateral.

Should the collateral's market value exceed the required amount, any broker/dealer or financial institution may request approval from the Investment Officer in writing to reduce collateral. Collateral

reductions may be permitted only if the County's records indicate that the collateral's market value exceeds the required amount.

All collateral securing financial institution deposits must be held by an independent, third-party financial institution approved by the County, a Federal Home Loan Bank, or the Federal Reserve Bank.

QUALIFICATIONS TO ENGAGE IN INVESTMENT TRANSACTIONS:

In accordance with 2256.005(k), a written copy of this investment policy shall be presented to any local government investment pool or discretionary investment management firm seeking to sell to the County an authorized investment. The qualified representative of the business organization seeking to sell an authorized investment shall execute a written instrument substantially to the effect that the business organization has:

- a) Received and reviewed the Investment Policy of the County; and
- b) Acknowledged that the organization has implemented reasonable procedures and controls in an effort to preclude imprudent investment activities arising out of investment transactions conducted between the County and the organization, except to the extent that this authorization:
 - 1) is dependent on an analysis of the makeup of the County's entire portfolio;
 - 2) requires an interpretation of subjective investment standards; or
 - 3) relates to investment transactions of the County that are not made through accounts or other contractual arrangements over which the business organization has accepted discretionary investment authority.

The investment officer may not buy any authorized investments from a local government investment pool or discretionary investment management firm who has not delivered to the County an instrument

in substantially the form provided above according to Section 2256.005(1).

The County will provide all investment providers with updates to the Investment Policy and will require acknowledgement of receipt of the Policy from the investment providers.

Securities shall only be purchased from broker/dealers approved by the Commissioner's Court. This list of approved broker/dealers must be reviewed at least annually by the Court.

DELIVERY VS. PAYMENT:

It will be the policy of the County that all Treasury Bills, Notes and Bonds and Government Agencies' securities shall be purchased using the "Delivery versus Payment" (DVP) method through the Federal Reserve System, or other independent settlement system. By so doing, County funds are not released until the County has received the securities purchased. Section 2256.005(b)(4)(E), Gov. Code.

AUDIT CONTROL:

The Investment Officer is subject to audit by the Calhoun County Auditor. In addition, the Calhoun 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 the management controls on investments and adherence to the entity's established investment policies in accordance with Government Code 2256.005(m).

STANDARD OF CARE:

In accordance with Government Code 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

probable income to be derived. Investment of funds shall be governed by the following investment objectives, in order of priority:

- Preservation and safety of principal;
- Liquidity; and
- Yield.

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

- 1) 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
- 2) Whether the investment decision was consistent with the written Investment Policy of the County.

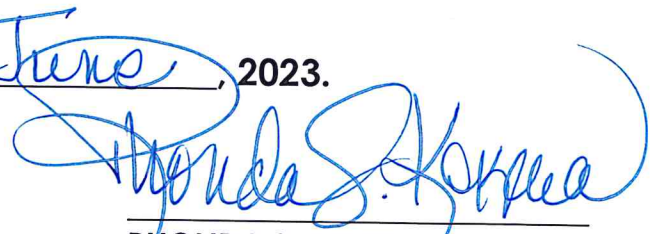
QUARTERLY REPORTING:

In accordance with Government Code 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.

It shall be the duty of the County Investment Officer 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 this policy or not.

In conjunction with the quarterly investment report, the Investment Officer will verify from reliable sources market value of all securities and the current credit rating for each held investment that has a PFIA-required minimum rating.

SIGNED THIS THE 21st day of June, 2023.



**RHONDA S. KOKENA
COUNTY TREASURER, CERTIFIED
INVESTMENT OFFICER**

LIST OF AUTHORIZED BROKER/DEALERS

FHN Financial
Frost Bank
Hilltop Securities Co.
Multi-Bank Securities, Inc.
Rice Financial
Wells Fargo Securities

LIST OF AUTHORIZED LOCAL GOVERNMENT INVESTMENT POOLS

Texas CLASS Government

INVESTMENT STRATEGY

Pooled Funds

Investment Objective:

To purchase investments that will preserve the safety of capital, maintain adequate liquidity, and optimize yield (in that order of priority), taking into account the County's monthly operating expenses, the timing of such expenses, and the maintenance of any reserve that may be designated by the Commissioners' Court.

Investment Strategy:

To invest in any of the authorized investments listed in the County's Investment Policy with the following objectives:

1. Suitability – Any investment eligible in the Investment Policy is suitable for Pooled Funds of the County.
2. Safety of Principal – All investments shall be of high quality with no perceived default risk. Market price fluctuations will occur. However, managing the weighted average days to maturity of the County's portfolio to less than 270 days and restricting the maximum allowable maturity to two years will minimize the price volatility of the portfolio.
3. Liquidity – Demand deposit accounts, money market accounts, short-term Investment Pools, and money market mutual funds will provide daily liquidity and may be utilized as a competitive yield alternative to fixed maturity investments.
4. Marketability – Securities with active and efficient secondary markets improve liquidity in the event of an unanticipated cash flow requirement. The historical market "spreads" between the bid and offer prices of a particular security-type of less than ten basis points will define an efficient secondary market.
5. Diversification – Investment maturities should be staggered throughout the budget cycle to provide cash flow based on the anticipated operating needs of the County. Diversifying the appropriate maturity structure up to the two-year maximum will reduce interest rate risk.
6. Yield - Attaining a competitive market yield for a portfolio with comparable security-types and restrictions is the desired objective. The yield of an equally weighted, rolling three-month Treasury-Bill portfolio will be the minimum yield objective.