



LIBERTY COUNTY INVESTMENT POLICY

Approved by Commissioners Court
May 23, 2017

A blue ink signature of Jay Knight, written in a cursive style.

Jay Knight, County Judge

A blue ink signature of Bruce Karbowski, written in a cursive style.

BRUCE KARBOWSKI , Commissioner, Pct. 1

A blue ink signature of Greg Arthur, written in a cursive style.

Greg Arthur, Commissioner, Pct. 2

A blue ink signature of Leon Wilson, written in a cursive style.

Leon Wilson, Commissioner, Pct. 4

A blue ink signature of James Reaves, written in a cursive style.

James Reaves, Commissioner, Pct. 3

Liberty County Investment Policy

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INVESTMENT POLICY LIBERTY COUNTY, TEXAS

I. Investment Authority and Scope of Policy

General Statement

This policy serves to satisfy the statutory requirements of Texas Local Government Code §116.112 and Texas Government Code Chapter 2256 (Public Funds Investment Act) to define and adopt a formal investment policy. This policy will be reviewed and adopted by the Liberty County Commissioners Court at least annually according to Section 2256.005(e).

Funds Included

This investment policy applies to all financial assets of all funds of the County of Liberty, Texas at the present time, 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 Liberty County and any depository bank.

County Investment Officer

In accordance with Sec. 116.112(a), Local Government Code and/or Chapter 2256, Sec. 2256.005(f) and (g), the County Investment Officer, under the direction of the Liberty County Commissioners Court, may invest county funds that are not immediately required to pay obligations of the County. The Commissioners Court shall designate by resolution one or more officers or employees as investment officer.

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 Commissioners Court in accordance with Government Code Sec. 2256.005(i).

In accordance with Sec. 113.005, Local Government Code, the county treasurer is not responsible for any loss of the county funds through the failure or negligence of a depository. This section does not release the treasurer from responsibility for a loss resulting from the official misconduct or negligence of the treasurer, including a misappropriation of the funds, or from responsibility for funds until a depository is selected and the funds are deposited.

II. Investment Objectives

General Statement

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

Safety and Maintenance of Adequate Liquidity

Liberty County is concerned about the return of its principal; therefore, safety of principal is the primary objective in any investment transaction.

Liberty County's investment portfolio must be structured in conformance with an asset/liability management plan, which provides for liquidity necessary to pay obligations as they become due.

Diversification

It will be the policy of Liberty County to diversify its portfolio to eliminate the risk of loss resulting from overconcentration of assets in specific maturities, a specific issuer, or a specific class of investments. Investments of the County shall always be selected that provide for safety of principal, stability of income and reasonable liquidity prior to maturity.

Yield

It will be the objective of Liberty County to earn the maximum rate of return allowed on its investments within the policies imposed by its safety and liquidity objectives, investment strategies for each fund, and state and federal law governing investment of public funds.

Maturity

Portfolio maturities will be structured to meet the obligations of the County first and then to achieve the maximum rate of return consistent with liquidity requirements. When the County has funds that will not be needed to meet current-year obligations, maximum 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 at the discretion of the Liberty County Investment officer, but not to exceed two years.

Quality and Capability of Investment Management

It is the County's policy to provide training required by the Public Funds Act, Sec. 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 insure the quality, capability, professional expertise and timeliness of the County Investment Officer in making investment decisions. The County Investment Officer will be required to achieve and maintain the Certified Investment Officer (CIO) credential.

Monitoring Rating Changes

An investment requiring a minimum rating under this policy will be monitored by the investment officer through any and all reliable and available resources. The County shall take all prudent measures consistent with this policy to liquidate an investment that does not maintain a minimum rating, as required by Sec. 2256.021.

Investment Strategies

The County maintains control over three types of funds: operating funds, debt service funds, and payroll/benefit funds. For each of these funds, the primary objectives for the investment strategy are as follows:

- 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; and
- 7) maturity restrictions.

For operating funds, the County's investment strategy shall include the above prioritized objectives along with an emphasis on assuring cash flows are matched with investment liquidity.

For debt service and payroll/benefits funds, the County's investment strategy shall include the above prioritized objectives with emphasis on matching investment maturities to required and projected cash flow requirements.

III. Investment Types

Authorized

The County Investment Officer shall use any or all of the following authorized investment instruments consistent with governing law (Government Code, Chapter 2256):

- A. Except as provided by Government Code 2256.009, the following are authorized investments:
 1. Obligations, including letters of credit, of the United States or its agencies and instrumentalities;
 2. Direct obligations of the state of Texas 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 on 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, 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 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;
 6. Bonds issued, assumed, or guaranteed by the State of Israel.

- B. Certificates of deposit if issued by a depository institution domiciled in Texas and are (Government Code 2256.010):
 1. Guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor or the National Credit Union Share Insurance Fund or its successor;
 2. Secured by obligations that are described by Section 2256.009(a) of the Public Funds Investment Act, 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) of the Public Funds Investment Act;
 3. Secured by any other manner and amount provided by law for deposits of Liberty County;
 4. In addition to the authority to invest funds in certificates of deposit as described above, an investment in certificates of deposit made in accordance with the following conditions is an authorized investment:
 - a) The funds are invested by Liberty County through a depository institution that has its main office or a branch office in Texas and that is selected by the County;
 - b) The depository institution selected by the County under (a) above arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the investing entity;
 - c) The full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States;
 - d) The depository institution selected by Liberty County under (a) above acts as custodian with respect to the certificates of deposit issued for the account of the County; and

- C. A fully collateralized direct repurchase agreement as defined in the Public Funds Investment Act, if it (Government Code 2256.011):
 1. Has a defined termination date;
 2. Is secured by a combination of cash and obligations described by Section 2256.009(a)(1) of the Public Funds Investment Act; and
 3. 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
 4. Is placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in Texas.
 5. Notwithstanding any other law, the term of any reverse security repurchase agreement may not exceed 90 days after the date the reverse security repurchase agreement is delivered.

- D. A domestic bankers' acceptance if it (Government Code 2256.012):
1. Has a stated maturity of 270 days or less from the date of its issuance;
 2. Will be, in accordance with its terms, liquidated in full at maturity,
 3. Is eligible for collateral for borrowing from a Federal Reserve Bank, and
 4. Is accepted by a bank organized and existing under the laws of the United States or any state, if the short-term obligations of the bank, or of a bank holding company of which the bank is the largest subsidiary, are rated not less than A-1 or P-1 or an equivalent rating by at least one nationally recognized credit rating agency.
- E. Commercial paper is an authorized investment if the commercial paper (Government Code 2256.013):
1. Has a stated maturity of 270 days or less from the date of its issuance
 2. Is rated not less than A-1 or P-1, or an equivalent rating by at least:
 - a. Two nationally recognized credit rating agencies; or
 - b. One nationally recognized credit rating agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state thereof.
- F. Mutual funds (Government Code 2256.014):
1. A no-load money market mutual fund is authorized if it:
 - a. Is registered with and regulated by the Securities and Exchange Commission;
 - b. Provides the investing entity with a prospectus and other information required by the Securities Exchange Act of 1934 (15 U.S.C. section 78a et seq.) or the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.);
 - c. Has a dollar-weighted average stated portfolio maturity of 90 days or less;
 - d. Includes in its investment objectives the maintenance of a stable net asset value of \$1 for each share.
 2. A no-load mutual fund is authorized if it:
 - a. Is registered with the Securities and Exchange Commission;
 - b. Has an average weighted maturity of less than 2 years;
 - c. Is invested exclusively in obligations approved by this subchapter;
 - d. Is continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or it equivalent; and
 - e. Conforms to the requirements set forth in Sections 2256.016(b) and (c) relating to the eligibility of investment pools to receive and invest funds of investing entities.
 3. Relative to mutual funds and money market mutual funds, the county may not:
 - a. Invest in the aggregate more than 15 percent of its monthly average fund balance excluding bond proceeds, reserves and other funds held for debt service, in mutual funds; or
 - b. Invest any portion of bond proceeds, reserves and funds held for debt service in mutual funds; or
 - c. Invest its funds or funds under its control, including bond proceeds and reserves and other funds held for debt service, in any one mutual fund or money market mutual fund in an amount that exceeds 10 percent of the total assets of the mutual fund or money market mutual fund.
- G. Eligible investment pools (as discussed in the Public Funds Investment Act, Government Code Section 2256.016-2256.019) if the Commissioners Court by resolution 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. A public funds investment pool must be continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service. All other specifications in the Public Funds Investment Act related to investment pools must be followed.
- H. Any other investments allowed by the Public Funds Investment Act are authorized by Liberty County.

Prohibited

The Liberty County Investment Officer has no authority to purchase and is prohibited from purchasing any of the following investment instruments:

- A. Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal;
- B. Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bear no interest;
- C. Collateralized mortgage obligations that have a stated final maturity date of greater than 10 years;
- D. Collateralized mortgage obligations, the interest rate of which is determined by an index that adjusts opposite to changes in the market index.

IV. Investment Responsibility and Control

Investment Institutions Defined

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

- A. Depository bank;
- B. Other state or national banks domiciled in Texas that are insured by FDIC;
- C. Public funds investment pool; or
- D. Primary government securities brokers and dealers.

Qualifications for Approval of Broker/Dealers

In accordance with 2256.005(k), a written copy of this investment policy shall be presented to any person offering to engage in an investment transaction with Liberty County or to an investment management firm under contract with Liberty County to invest or manage the County's investment portfolio. The registered principal of the business organization seeking to sell an authorized investment shall execute a written instrument (Attachment "A") substantially to the effect that the registered principal has:

- A. Received and thoroughly 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.

The Investment Officer may not purchase any securities from a person who has not delivered to the County an instrument in substantially the form provided above according to Section 2256.005(l).

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 vs. Payment" (DVP) method through the Federal Reserve System. By so doing, County funds are not released until the County has received, through the Federal Reserve wire, the securities purchased.

Audit Control

The County Investment Officer will establish liaison with the Liberty County Auditor in preparing investment forms to assist the County Auditor for accounting and auditing control.

The County Investment Officer is subject to audit by the Liberty County Auditor. In addition, it is the policy of the Liberty County Commissioners Court, at a minimum to have an annual audit of all County funds, investments and investment procedures by an independent auditing firm. The County Investment Officer and the County's investment procedures shall be subject to an annual compliance audit of management controls on investments and adherence to the County's established investment policies in accordance with Government Code 2256.005(m).

Standard of Care

A. 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 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; and
- (3) Yield.

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

- (1) The investment of all funds, or funds under the entity'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 entity.

V. Investment Reporting

Regular Reports

In accordance with Government Code 2256.023, not less than quarterly, the investment officer shall prepare and submit to the Liberty County Commissioners Court a written report of investment transactions for all funds covered by this chapter for the preceding reporting period.

A. The report must:

- (1) Describe in detail the investment position of the entity on the date of the report;
- (2) Be signed by the County Investment Officer;
- (3) Contain a summary statement of each pooled fund group that states the:
 - 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; and
- (4) 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;
- (5) State the maturity date of each separately invested asset that has a maturity date;
- (6) State the account or fund or pooled group fund in the county for which each individual investment was acquired; and
- (7) 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; and
 - b. Relevant provisions of Chapter 2256.
- (8) The report shall be presented not less than quarterly to the Commissioners Court.
- (9) If the County invests in other than money market mutual funds, investment pools or accounts offered by the depository bank in the form of certificates of deposit, or money market accounts or similar accounts, the reports prepared by the investment officer under this section shall be formally reviewed at least annually by an independent auditor, and the result of the review shall be reported to the governing body by that auditor.

Annual report

Annually, the County Investment Officer will prepare a written fiscal year report concerning the County's investment transactions for the preceding year and describing in detail the investment position of all of the funds for which the County has the investment authority and responsibility as of the date of the report. In addition, education hours for the County Investment Officer will be presented.

Notification of Investment Changes

It shall be the duty of the County Investment Officer of Liberty County, Texas to notify the Liberty County 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.

VI. Investment Collateral and Safekeeping

Collateral or Insurance

Pursuant to the requirements of Government Code 2256 and 2257, it is the policy of Liberty County to require full collateralization of all county investments and funds on deposit with a depository bank, other than investments which are obligations of the U.S. government and its agencies and instrumentalities. To anticipate possible market changes and to insure the security of funds, the collateralization level will be 110% of market value of principal and accrued interest on the deposits or investments less an amount insured by the FDIC. Liberty County, at its discretion, reserves the right to require a higher level of collateralization for certain investment securities. The following instruments are allowed for collateralization:

- A. FDIC insurance coverage;
- B. obligations of the United States or its agencies and instrumentalities;
- C. direct obligations of the state of Texas or its agencies;
- D. other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the state of Texas or the United States or its agencies and instrumentalities;
- E. 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; or
- F. Any other manner allowed by Government Code Chapter 2257 (Public Funds Collateral Act).

Safekeeping

All purchased securities shall be held in safekeeping by the County, or a County account in a third party financial institution, or with a Federal Reserve Bank. All certificates of deposit, insured by FDIC, purchased outside the depository bank shall be held in safekeeping by either the County or a County account in a third party financial institution. All pledged securities by the depository bank shall be held in safekeeping by the County, or a County account in a third party financial institution, or with a Federal Reserve Bank.

Liberty County, Texas Certification of Receipt of Investment Policy

I hereby certify that I have personally read and understand the investment policy of Liberty County, Texas, and have implemented reasonable procedures and controls designed to fulfill said policy's objectives and conditions. Transactions between this firm and Liberty County will at all times reflect due concern for the preclusion of imprudent investment activities.

All sales personnel of this firm dealing with Liberty County's account have been informed of the County's investment horizons, limitations, strategies, and risk constraints. Sales personnel will be updated on these guidelines whenever material changes to the County's policy are communicated to our staff by the Liberty County Investment Officer.

This firm will notify Liberty County immediately by phone and in writing in the event of a material adverse change in our financial condition. This firm pledges to exercise due diligence in informing Liberty County of all foreseeable risks associated with financial transactions conducted with our firm.

Firm: _____

Registered Principal: _____

Dealer Registration Number: _____

Title: _____

Signature / Date: _____

I, Kim Harris, have provided a copy of Liberty County's Investment Policy to _____ (name)
of _____ (firm name) and will maintain this agreement on file.

Kim Harris, Liberty County Treasurer
Liberty County Investment Officer

Date: _____