

MEDINA COUNTY INVESTMENT POLICY

OCTOBER 1, 2020 – SEPTEMBER 30, 2021

Revised July 6, 2021

I. INVESTMENT AUTHORITY AND SCOPE OF POLICY

General Statement

This investment policy serves to satisfy the statutory requirements of Local Government Code 16.112 and Government Code Subchapter A, Chapter 2256 of the Public Funds Investment Act (“PFIA”) to define and adopt a formal investment policy. This policy will be reviewed and adopted by the Medina County Commissioners’ Court at least annually in accordance with Government Code Section, 2256.005 (e).

Funds Included

This investment policy applies to all financial assets of all funds of the County of Medina, Texas at the present time, any funds to be created in the future, 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 Medina County and any depository bank.

County Investment Officer

In accordance with Section 16.112 (a), Local Government Code and /or Government Code Chapter 2256, Section 2256.005 (f) and (g), the County Treasurer, under the direction of the Medina 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(s).

If the Investment Officer has a personal business relationship as defined by the PFIA with Medina County, 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 Medina County Commissioners’ Court in accordance with Government Code 2256.005 (I) (1-3).

II. INVESTMENT OBJECTIVES

General Statement

Funds of the County will be invested in accordance with federal and state laws and within the boundaries of this investment policy. Investments shall be made with judgment and care - under circumstances then prevailing - which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the

probable safety of their capital as well as the probable income to be derived. The first and foremost consideration of all Medina County investment transactions is the suitability of the investment to the financial requirements of the County. The County will invest according to investment strategies for each fund as they are adopted by Commissioners' Court resolution in accordance with the PFIA, Chapter 2256 of the Texas Government Code.

Safety of Principal

Medina County is concerned about the return of its principal; therefore, **safety of principal is a primary objective in any investment transaction.** To attain this objective, diversification will be required in order to reduce risk resulting from over concentration of assets in a specific security or maturity.

Liquidity

The Medina County investment portfolio will remain sufficiently liquid to enable Medina County to meet all of the operating requirements that might be reasonably anticipated. In the consideration of liquidity is the marketability of the investment if the need arises to liquidate the investment before maturity.

Diversification

It will be the policy of Medina 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 of Medina County shall always be selected that provide for safety of principal, stability of income and reasonable liquidity prior to maturity. Medina County will diversify its investments by security type and institution with the exception of U.S. Treasury securities, authorized pools and depository bank. The County's investment portfolio shall be diversified to reduce the risk of loss resulting from the concentration of assets in a specific maturity, a specific issuer, or a specific class of investments.

Yield

It will be the objective of Medina County to earn the maximum rate of return allowed on its investments within the policies imposed by its safety and liquidity objectives and 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 Medina County first and then to achieve the highest return of interest. 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 may be invested up to thirty-six (36) months.

Quality and Capability of Investment Management

It is Medina County's policy to provide training as required by the Public Funds Investment Act, Sec. 2256.008 and periodic training in investments for the County Treasurer, who is also named County Investment Officer, through courses and seminars offered by professional organizations

and associations in order to insure the quality and capability of the County's Investment Officer in making investment decisions.

The County Investment Officer is required to obtain at least 10 hours of training related to the County Investment Officer responsibilities within twelve months (12) of assuming these duties. The County Investment Officer is also required to attend 10 hours of investment training every two years. The training must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio and compliance with the Public Funds Investment Act (PFIA).

Investment Strategy

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

- A. understanding of the suitability of the investment to the financial requirements of the County;
- B. preservation and safety of principal;
- C. liquidity;
- D. marketability of the investment if the need arises to liquidate the investment before maturity;
- E. diversification of the investment portfolio; and
- F. yield;
- G. maturity restrictions; and
- H. procedures to monitor rating changes.

Each fund type has varying cash flow requirements and liquidity needs. Therefore, specific strategies shall be implemented considering the fund's unique requirements. All funds will be pooled for investment purposes.

Medina County Pooled Funds:

- A. General Operating Funds
- B. Special Revenue Funds
- C. Capital Projects Fund
- D. Debt Service Funds

Pooled funds mean an internally created fund of an investing entity in which one or more institutional accounts of the investing entity are invested.

All funds of Medina County that are invested will be invested by matching the maturity of investments with liabilities. Investments are made with the intention of holding to maturity, but with the ability to liquidate should funds be needed at any time.

This strategy is achieved by utilizing highly liquid short term Treasury Bills, Agency Discount Notes, Certificates of Deposit with a stated average maturity of thirty-six (36) months or less and pooled funds in LOGIC, Texas Class, and TexPool/TexPool Prime. The dollar weighted average

maturity of 365 days or less will be calculated using the stated final maturity dates of each security.

Investment Strategies for all funds is attached. In accordance with the Public Funds Investment Act, Section 2256.005 (e), investment strategies will be reviewed and adopted by resolution at least annually.

III. INVESTMENT RESPONSIBILITY AND CONTROLS

Investment Institutions Defined

The Medina County 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, credit unions, or branches thereof domiciled in the State of Texas and insured by the FDIC, NCUSIF, or their successors;
- C. public funds investment pools; or
- D. government securities brokers and dealers that has its main office or a branch office in this state.

Qualifications for Approval of Broker/Dealers

In accordance with Section 2256.005 (k-1), a written copy of this investment policy shall be presented to any person seeking to sell to the County an authorized investment. The qualified representative of the business organizations seeking to sell an authorized investment shall execute a written instrument substantially to the effect that the qualified representative 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.

A list of no more than four (4) authorized broker/dealers will be established and maintained.

The following criteria must be met by those firms on the list:

- A. proof of certification by the Financial Industry Regulatory Authority (FINRA),
- B. proof of current registration with the State Securities Commission, and
- C. completion of a County Broker/Dealer questionnaire.

The Investment Officer may not buy 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.

Standards of Operation

The County Treasurer / Investment Officer shall develop and maintain written administrative procedures for the operation of the investment program, consistent with this investment policy. It shall be the responsibility of the County Treasurer / Investment Officer to:

- A. determine the amount of funds which are available for investment;
- B. determine the specific investment which will yield maximum income for a particular fund;
- C. determine the length of time for which investments shall be made;
- D. insure that sufficient funds are available to meet immediate and short-term needs for the operation of the County;
- E. make recommendations to the Commissioners' Court concerning new types of investment instruments which may require approval from the Court;
- F. provide the Commissioners' Court with a monthly report of all investment transactions; and
- G. receive and provide for the safekeeping of all pledged securities as collateral for invested funds.

Delivery vs. Payment

In accordance with Government Code Section 2256.005(b) (4) (e), it will be the policy of Medina 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 Controls

The County Investment Officer will establish a liaison with the Medina 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 Medina County Auditor. In addition, the Medina County Commissioners' Court, at a minimum, will have an annual financial audit of all County funds by an independent auditing firm, as well as a compliance audit of management controls on investments and adherence to the County's established investment policies in accordance with PFIA Section 2256.005(m). The quarterly report, in conjunction with the annual financial audit shall be reviewed by the external auditor at least annually in accordance with PFIA, Section 2256.023 (d). The independent auditor will report to the Medina County Commissioners' Court after completion of the audit.

Standard of Care

In accordance with PFIA, Section 2256.006 (a-b), 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: preservation and safety of principal, liquidity, and yield.

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

- A. the investment of all funds, or funds under the County's control, over which the office had responsibility rather than a consideration as to the prudence of a single investment; and
- B. whether the investment decision was consistent with the written investment policy of Medina County.

Competitive Bids

The Investment Officer shall obtain competitive bids from at least three brokers or financial institutions on all purchases and sales of investment instruments transacted on the secondary market.

IV. INVESTMENT COLLATERAL AND SAFEKEEPING

Collateral or Insurance

The Medina County Investment Officer shall insure that all County funds are fully collateralized or insured consistent with federal and state laws and the current Bank Depository Contract in one or more of the following manners:

- 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. any instrument that has been approved in this policy and that Medina County would be permitted to hold by state and federal law; and
- E. any other manner allowed by the Government Code Chapter 2257 (Public Funds Collateral Act).

The Investment Officer is responsible for entering into collateralization agreements with third party custodians in compliance with this policy. The agreements are to specify the acceptable investment securities for collateral, including provisions relating to possession of the collateral, the substitution or release of investment securities, ownership of securities, and the method of valuation of securities. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the County and retained. The Investment Officer or designee will approve and release all pledged collateral. Collateral will be monitored at least monthly to assure the market value of the pledged securities exceeds investments and/or the related bank balances.

Safekeeping

- A. All purchased securities shall be held in safekeeping by the County, or a County account in a third party financial institution, or with the Federal Reserve Bank.
- B. All certificates of deposit, insured by the FDIC, purchased outside the Depositor Bank shall be held in safekeeping by either the County or a County account in a third party financial institution.
- C. 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.

Collateral Reporting

The Medina County Investment Officer shall report to the Medina County Commissioners' Court with his or her valuation of all collateral compared to all County deposits not less than quarterly. Collateral deficiencies should be identified and immediately corrected through additional collateral deposited or reductions in the volume of deposited funds.

V. ETHICS AND CONFLICTS OF INTEREST

General Statement

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of their County.

VI. INVESTMENT REPORTING AND PERFORMANCE EVALUATION

Quarterly Reporting

In accordance with PFIA, Section 2256.023, not less than quarterly, the Investment Officer 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:

- A. describe in detail the investment position of the County on the date of the report;
- B. be prepared jointly by all Investment Officers of the County;
- C. be signed by the Investment Officers of the County;
- D. contain a summary statement of each pooled fund group that states the:
 - 1) beginning market value for the reporting period;
 - 2) additions and changes to the investments during the period;
 - 3) ending market value for the period; and
 - 4) fully accrued interest for the reporting period;
- E. state the book value and market value of each separately issued asset at the end of the reporting period by the type of asset and fund type invested;
- F. state the yield and maturity date of each separately invested asset that has a maturity date;
- G. state the account or fund or pooled group fund in the County for which each individual investment was acquired; and
- H. state the compliance of the investment portfolio of the County as it relates to:
 - 1) the investment strategy expressed in the County's investment policy; and
 - 2) relevant provisions of the PFIA.

Methods to Monitor Market Value

The Medina County Investment Officer shall monitor the market value of each security held in all portfolios at least on a monthly basis. On a monthly basis the collateral pledged to Medina County for bank deposits shall be valued from recognized market pricing sources.

Medina County shall take all prudent measures that are consistent with this policy to liquidate any investment that does not have the minimum rating.

Notification of Investment Changes

It shall be the duty of the County Investment Officer of Medina County to notify the Medina 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.

VII. INVESTMENT TYPES

Authorized Investments

The Medina County Investment Officer shall use any or all of the following authorized investment instruments consistent with governing laws and PFIA contained in Texas Government Code, Section 2256:

- A. obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks
- B. direct obligations of this state or its agencies and instrumentalities, including obligations that are fully guaranteed or insured by the FDIC or by the explicit full faith and credit of the United States;
- C. other obligations, the principal and interest 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;
- D. 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; and
- E. Certificates of Deposit and Share Certificates if issued by a depository institution that has its main office or a branch office and in Texas and is:
 - 1) Guaranteed or insured by the Federal Deposit Insurance Corporation or its successor; or
 - 2) the National Credit Union Share Insurance Fund or its successor; or
 - 3) secured in any other manner and amount provided by law for deposits of the County.

Certificates of Deposit are an authorized investment if the certificate is issued by a depository institution that has its main office or a branch office in this state and is:

- A. guaranteed or insured by the Federal Deposit Insurance Corporation or is successor or the National Credit Union Share Insurance Fund or its successor;
- B. 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; or
- C. secured in accordance with Chapter 2257 or in any other manner and amount provided by law for deposits of the County.

In addition to the authority to invest funds in certificates of deposit under Subsection (A), an investment in certificates of deposit made in accordance with the following conditions is an authorized investment if the funds are invested by the County through:

- A. a broker that has its main office or a branch office in this state and is selected from a list adopted by the investing entity as required by Section 2256.025; or
- B. the funds are invested by the County through a depository institution that has its main office or a branch office in this state and that is selected by the County;
- C. the broker or the depository institution selected by the County under Subdivision
- D. 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 County;
- E. 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; and
- F. the County appoints the depository institution selected by the investing entity under Subdivision (1), an entity described by Section 2257.041 (d), or a clearing broker dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C. F. R. Section 240.15c3-3) as custodian for the investing entity with respect to the certificates of deposit issued for the account of the County.

Bids for Certificates of Deposit may be solicited orally, in writing, electronically, or in any combination of these methods.

Letters of Credit, as allowed by Government Code Sec. 2256.009(a)(1), issued by a bank organized or existing under the laws of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks, if FDIC approved and domiciled in this state, issued as collateral for public deposits in lieu of pledging securities.

Eligible investment pools (as discussed in the Public Funds Investment Act, Section 2256.016-2256.019) If the Commissioners' Court, by rule, order, ordinance, or resolution, as appropriate, authorizes investment in the particular pool. An investment pool shall invest the funds it receives from the County in authorized investments permitted by the Public Funds Investment Act. The pool must maintain a rating of no less than AAA or AAA-m and have a weighted average maturity no greater than 90 days. An investment pool may invest its funds in money market mutual funds to the extent permitted by and consistent with this subchapter and the investment policies and objectives adopted by the investment pool.

- A. To be eligible to receive funds from and invest funds on behalf of the County, an investment pool must furnish to the Investment Officer or other authorized representative of the County, the following information;
 - 1) the types of investments in which money is allowed to be invested;
 - 2) the maximum average dollar-weighted maturity allowed, based on the stated maturity date, of the pool;
 - 3) the maximum stated maturity date any investment security within the portfolio has;

- 4) the objectives of the pool;
- 5) the size of the pool;
- 6) the names of the members of the advisory board of the pool and the dates their terms expire;
- 7) the custodian bank that will safe keep the pool's assets;
- 8) whether the intent of the pool is to maintain a net assets value of one dollar and the risk of market price fluctuation;
- 9) whether the only source of payment is the assets of the pool at market value or whether there is a secondary source of payment, such as insurance or guarantees, and a description of the secondary source of payment;
- 10) the name and address of the independent auditor of the pool;
- 11) the requirements to be satisfied for an entity to deposit funds in and withdraw funds from the pool and any deadlines or other operating policies required for the entity to invest funds in and withdraw funds from the pool;
- 12) the performance history of the pool, including yield, average dollar-weighted maturities, and expense ratios; and
- 13) the pool's policy regarding holding deposits in cash.

B. To maintain eligibility to receive funds from and invest funds on behalf of the County, an Investment pool must furnish to the Medina County Investment Officer or other authorized representatives of the County, the following information:

- 1) investment transaction confirmations; and
- 2) monthly report that contains, at a minimum, the following information:
 - a) the types and percentage breakdown of securities in which the pool is invested;
 - b) the current average dollar-weighted maturity, based on the stated maturity date, of the pool;
 - c) the current percentage of the pool's portfolio in investments that have stated maturities of more than one year;
 - d) the book value versus the market value of the pool's portfolio, using amortized cost valuation;
 - e) the size of the pool;
 - f) the number of participants in the pool;
 - g) the custodian bank that is safekeeping the assets of the pool;
 - h) a listing of daily transaction activity of the entity participating in the pool;
 - i) the yield and expense ration of the pool including a statement regarding how yield is calculated;
 - j) the portfolio managers of the pool; and
 - k) any changes or addenda to the offering circular 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.
- 3) In this section, "yield" shall be calculated in accordance with regulations governing the registration of open-end management investment companies under the Investment Company Act of 1940, as promulgated from time to time by the Federal Securities and Exchange Commission.

- 4) To be eligible to receive funds from and invest funds on behalf of Medina County under this chapter, a public funds investment pool that uses amortized cost or fair value accounting must mark its portfolio to market daily, and, to the extent reasonably possible, stabilize at a \$1.00 net asset value, when rounded and expressed to two decimal places. If the ratio of the market value of the portfolio divided by the book value of the portfolio is less than 0.995 or greater than 1.005, the governing body of the public funds investment pool shall take action as the body determines necessary to eliminate or reduce to the extent reasonably practicable any dilution or unfair result to existing participants, including a sale of portfolio holdings to attempt to maintain the ratio between 0.995 and 1.005. In addition to the requirements of its investment policy and any other forms of reporting, a public funds investment pool that uses amortized cost shall report yield to its investors in accordance with regulations if the federal Securities and Exchange Commission applicable to reporting by money market funds.
- 5) If the investment pool operates an Internet website, the information in a disclosure instrument or report described in Subsections (a), (b) (2), and (f) must be posted on the website.
- 6) To maintain eligibility to receive funds from and invest funds on behalf of an entity under this chapter, an investment pool must make available to the entity an annual audited financial statement of the investment pool in which the entity has funds invested.
- 7) If an investment pool offers fee breakpoints based on fund balances invested, the investment pool in advertising investment rates must include either all levels of return based on the breakpoints provided or state the lowest possible level of return based on the smallest level of funds invested.
- 8) An Investment Pool must have an Advisory Board as set out in 2256.018 of the Government Code.

In addition to investment in obligations, certificates, letters of credit or investment pools, bond proceeds of a County may be invested in common trust funds or comparable investment devices owned or administered by banks domiciled in Texas and whose assets consist exclusively of all or a combination of the obligations described above. Common trust funds of banks domiciled in this state may be used if they:

- A. are available;
- B. comply with the provisions of the Tax Reform Act of 1986 and applicable federal regulations governing the investment of bond proceeds; and
- C. meet the cash flow requirements and the investment needs of the political subdivision or institution.

If going outside of the depository contract, competitive bids must be solicited from at least three Medina County banks for common trust fund investments. If there are not three banks available for the investments within Medina County, the County may solicit bids from any bank within the state in addition to those banks, if any, that are located within the boundaries of the County. Bids may be solicited orally.

Exemption for Existing Investments

Medina County is not required to liquidate investments that were authorized investments at the time of purchase.

Ratings of Certain Investment Pools

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.

Authorized Investment Pools

Authorized investment pools are LOGIC, Texas CLASS, and TexPool/TexPool Prime.

Prohibited Investments

The Medina County Investment Officer is prohibited from purchasing any of the following investment instruments:

- A. obligations whose payment represent the coupon payments on the outstanding principle 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 bears no interest;
- C. collateralized mortgage obligations of any type;
- D. repurchase agreements;
- E. banker's acceptances;
- F. commercial paper;
- G. money market mutual funds and other mutual funds.

Effect of Loss Required Rating

Medina County shall take all prudent measures that are consistent with this policy to liquidate any investment that falls below accepted standards.