

# CCGCD INVESTMENT POLICY

## SECTION 1 – INVESTMENT AUTHORITY AND SCOPE OF POLICY

- POLICY 1.1: GENERAL STATEMENT – This policy serves to satisfy the statutory requirements of the Public Funds Investment Act (PFIA), Government Code Chapter 2256 to file and adopt a formal investment policy. Appendix A is a copy of the Board resolution adopting this policy. The District Investment Policy will be reviewed and adopted by resolution at least annually.
- POLICY 1.2: FUNDS INCLUDED – Unless it is prohibited by law or it is in contravention of any depository contract between the Colorado County Groundwater Conservation District (CCGCD) and any depository bank, the District Investment Policy applies to all present and future financial funds held by and on behalf of the CCGCD.
- POLICY 1.3: INVESTMENT OFFICER – The CCGCD Board shall designate by resolution one or more officers or employees as Investment Officer. The Investment Officer has authority, under the direction of the Board, to invest District funds that are not immediately required to pay obligations of the District. Appendix B is a copy of the Board resolution designating the Investment Officer. If the Investment Officer has a personal business relationship with an entity or is related within the second degree of affinity or consanguinity to an individual seeking to sell an investment to the District, the Investment Officer must file a statement disclosing that personal business interests or relationship with the Texas Ethics Commission and the District Board of Directors.

## SECTION 2 – INVESTMENT OBJECTIVES

- POLICY 2.1: GENERAL STATEMENT – Funds of the District will be invested in accordance with federal and state laws as well as the District Investment Policy and any written administrative procedures. Future investments will be according to District investment strategies developed specifically for each fund or group of funds under the District's control.
- POLICY 2.2: SAFETY AND MAINTENANCE OF ADEQUATE LIQUIDITY – To the extent possible, the District will ensure that the principal of any investment is safe and will not be subject to loss in any investment strategy. The District's portfolio must be structured such that it provides for the liquidity necessary to pay obligation as they become due.
- POLICY 2.3: DIVERSIFICATION – The CCGCD will diversify its portfolio with a goal towards eliminating the risk of loss resulting from overconcentration of assets in a specific class of investment or by a specific issuer or by a specific maturity.
- POLICY 2.4: YIELD – The CCGCD will employ an investment strategy that works to earn the maximum rate of return allowed on its investments within the policies imposed by its safety and liquidity objectives and by investment strategies for each fund and state and federal laws governing investment of public funds.
- POLICY 2.5: MATURITY – Portfolio maturities will be structured to meet the obligations of the District operations first. Once assurances of obligations are met, then the maturities will be structured to achieve the highest return of interest. When the District 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 District is two years.
- POLICY 2.6: QUALITY AND CAPABILITY OF INVESTMENT MANAGEMENT – Mandatory training required by PFIA and other selective investment training will be provided to the District's Investment Officer. This training is necessary to insure the quality, capability and currency of the District Investment Officer in making investment decisions.
- POLICY 2.7: INVESTMENT STRATEGIES – A separate written strategy will be developed for each of the funds under CCGCD control. Each investment strategy must describe the investment objective for the

particular fund using the following priorities in order of importance.

- a. Suitability – how sustainable the investment is to the financial requirements of the District;
- b. Preservation and Safety of Principal – whether the principal of the investment can be adequately safeguarded;
- c. Liquidity – funds of the District must be available for both anticipated and unanticipated payments without undue loss of investment;
- d. Marketability – how marketable the investment would be should the need arise to liquidate prior to maturity;
- e. Diversification – minimizing potential for losses through diversifying the portfolio;
- f. Yield – what is the return on investment; and,
- g. Maturity Restrictions – minimizing market risk by ensuring that penalties from maturity restrictions do not compromise the investment.

All investment strategies must be reviewed and adopted by the Board of Directors at least annually. Appendix C includes the investment strategies for all existing funds.

### **SECTION 3 – AUTHORIZED INVESTMENT TYPES**

**POLICY 3.1: OBLIGATIONS OF, OR GUARANTEED BY GOVERNMENTAL ENTITIES** – Except as provide by Governmental Code 2256.009(b), the following are authorized investments:

- a. Obligations of the United States or its agencies and instrumentalities;
- b. Direct obligations of the state of Texas or its agencies and instrumentalities;
- c. 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;
- d. Other obligations, the principal and interest of 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; and,
- e. 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.

**POLICY 3.2: CERTIFICATES OF DEPOSIT AND SHARE CERTIFICATES** – If issued by a state or national bank domiciled in the state of Texas or a savings and loan association domiciled in the state of Texas, these certificates of deposit must be:

- a. Guaranteed or insured by the Federal Deposit Insurance Corporation 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 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 any other manner and amount provided by law for deposits of the county.

**POLICY 3.3: REPURCHASE AGREEMENTS** – A fully collateralized repurchase agreement, as defined in the PFIA, must:

- a. Have a defined termination date;
- b. Be secured by obligations described by Section 2256.009(a)(1) of the PFIA; and
- c. Require the securities being purchased by the District to be pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District; and
- d. Be placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in this state.

Notwithstanding any law, the term of any reverse security repurchase agreement may not exceed ninety (90) days after the date the reverse security repurchase agreement is delivered. Money received by a District under the terms of a reverse security repurchase agreement shall be used to acquire additional authorized investments, but the term of the authorized investments acquired must mature not later than the expiration date stated in the reverse security repurchase agreement.

**POLICY 3.4: BANKER'S ACCEPTANCES** – A banker's acceptance is an acceptable investment as long as it:

- a. Has a stated maturity of 270 days or fewer from the date of its issuance;
- b. Will be, in accordance with its terms, liquidated in full at maturity;
- c. Is eligible for collateral for borrowing from a Federal Reserve Bank; and
- d. 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- I or P- I or an equivalent rating by at least one nationally recognized credit rating agency.

**POLICY 3.5: COMMERCIAL PAPER** – Commercial paper is an authorized investment as long as it:

- a. Has a stated maturity of 270 days or fewer from the date of its issuance; and
- b. Is rated not less than A- I or P- I or an equivalent rating by at least:
  - i. Two nationally recognized credit rating agencies; or
  - ii. 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.

**POLICY 3.6: MUTUAL FUNDS** – Mutual funds and money market mutual funds are acceptable investments with the limitations described below:

- a. A no-load money market mutual fund is authorized if it:
  - i. Is regulated by the Securities and Exchange Commission;
  - ii. Has a dollar-weighted average stated maturity of 90 days or fewer; and
  - iii. Includes in its investment objectives the maintenance of a stable net asset value for each share.
- b. A no-load mutual fund is authorized if it:
  - i. Is registered with the Security and Exchange Commission;
  - ii. Has an average weighted maturity of less than two years;
  - iii. Is invested exclusively in obligations approved by this subchapter;
  - iv. Is continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent; and
  - v. 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.

Relative to mutual funds and money market mutual funds, the District may not:

- Invest in the aggregate more than 80 percent of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, in money market mutual funds or mutual funds, either separately or collectively;
- Invest in the aggregate more than 15 percent of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service in mutual funds;
- Invest any portion of bond proceeds, reserves and funds held for debt service, in mutual funds; or
- 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 fund.

**POLICY 3.7: INVESTMENT POOLS** – Eligible Investment Pools if the CCGCD Board of Directors 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 district by contract may delegate

to an investment pool the authority to hold legal title as custodian of investments purchased with its local funds.

## **SECTION 4 – PROHIBITED INVESTMENT TYPES**

**POLICY 4.1: COUPON PAYMENTS ON OUTSTANDING PRINCIPAL BALANCES** – The CCGCD Investment Officer has no authority to invest in any obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal.

**POLICY 4.2: MORTGAGE-BACKED SECURITY COLLATERAL** – The CCGCD Investment Officer has no authority to invest in any obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest.

**POLICY 4.3: COLLATERALIZED MORTGAGE OBLIGATIONS** – The CCGCD Investment Officer has no authority to invest in collateralized mortgage obligations in the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

## **SECTION 5 – INVESTMENT RESPONSIBILITY AND CONTROL**

**POLICY 5.1: INVESTMENT INSTITUTIONS DEFINED** – The CCGCD shall invest District 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 banks
- b. Other state or national banks domiciled in Texas that are insured by FDIC
- c. Public funds investment pools
- d. Government securities brokers and dealers.

**POLICY 5.2: QUALIFICATIONS FOR APPROVAL OR BROKER/DEALERS** – A written copy of this investment policy shall be presented to any person seeking to sell to the District an authorized investment. The registered principal of the business organization seeking to sell an authorized investment shall execute a written instrument substantially to the effect that the registered principal has:

- a. Received and thoroughly reviewed the investment policy of the District; 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 buy any securities from a person who has not delivered to the District an instrument in substantially the form provided above according to Section 2256.005(I).

**POLICY 5.3: STANDARDS OF OPERATION** – The District Investment Officer shall develop and maintain administrative procedures for the operation of the Investment Program, consistent with this investment policy.

**POLICY 5.4: DELIVERY VERSUS PAYMENT** – It will be the policy of the District 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. By so doing, District funds are not released until the District has received, through the Federal Reserve wire, the securities purchased.

**POLICY 5.5: AUDIT CONTROL** – The CCGCD Investment Officer will establish liaison with the CCGCD Auditor in preparing investment forms to assist the District Auditor for accounting and auditing control. In addition, the CCGCD Board of Directors, at a minimum, will have an annual financial audit of all District funds by an independent auditing firm, as well as an annual compliance audit of management controls on investments and adherence to the District's established investment policies.

**POLICY 5.6: STANDARD OF CARE** – 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 District's control, over which the officer 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 the District.

## **SECTION 6 – INVESTMENT REPORTING AND PERFORMANCE EVALUATION**

**POLICY 6.1: QUARTERLY REPORT** – Not less than quarterly, the Investment Officer shall prepare and submit to the CCGCD Board of Directors, 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 District on the date of the report;
- b. Be prepared jointly by all investment officers of the District;
- c. Be signed by each Investment Officer of the District;
- d. Contain a summary statement of each pooled fund group that states the following:
  - i. Beginning market value for the reporting period;
  - ii. Additions and changes to the market value during the period; and
  - iii. Ending market value for the period;
- e. 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;
- f. State the 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 of which each individual investment was acquired; and
- h. State the compliance of the investment portfolio of the county as it relates to:
  - i. The investment strategy expressed in the county's investment policy; and
  - ii. Relevant provisions of this chapter.
- i. State the total rate of return.

**POLICY 6.2: NOTIFICATION OF INVESTMENT CHANGES** – It shall be the duty of the District Investment Officer of CCGCD to notify the CCGCD Board of Directors 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.

## **SECTION 7 – INVESTMENT COLLATERAL AND SAFEKEEPING**

**POLICY 7.1: COLLATERAL OR INSURANCE** – The CCGCD Investment Officer shall insure that all District funds are fully collateralized or insured consistent with federal and state law 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.

**POLICY 7.2: SAFEKEEPING** – All purchased securities shall be held in safekeeping by the District, or a District account in a third party financial institution, or with the Federal Reserve Bank. All certificates of deposit, insured by the FDIC, purchased outside the Depository Bank shall be held in safekeeping by either the District or a District account in a third party financial institution. All pledged securities by the Depository Bank shall be held in safekeeping by the District, or a District account in a third party financial institution, or with a Federal Reserve Bank.

**APPENDIX A**

**RESOLUTION FOR ADOPTION OF INVESTMENT POLICY FOR COLORADO COUNTY  
GROUNDWATER CONSERVATION DISTRICT**

**WHEREAS**, the Public Funds Investment Act requires that the Board of Directors adopt an Investment Policy in order for the District to invest funds in accordance with federal and state laws using approved investment strategies; and

**WHEREAS**, a separate investment strategy shall be developed for each investment of the funds under District control; and

**WHEREAS**, each investment strategy must describe the investment objective for the particular fund using the following priorities in order of importance: suitability; preservation and safety of principal; liquidity; marketability; diversification; yield; and maturity restrictions; and,

**WHEREAS**, the Public Funds Investment Act designates and specifies certain investments which are allowed and prohibited; and,

**WHEREAS**, District investments shall only be invested in institutions or groups consistent with federal and state law and the specified depository bank contract; and,

**WHEREAS**, an independent auditing firm will perform an annual financial audit of all District funds, as well as an annual compliance audit of management controls on investments and adherence to the District's investment policy; and,

**WHEREAS**, the designated Investment Officer will ensure that investments are made in a prudent manner, adhering to the Investment Policy while still allowing access to funds as might reasonably be needed in the expected course of District operations

**NOW, THEREFORE, BE IT RESOLVED THAT** The Board of Directors of the Colorado County Groundwater Conservation District does hereby adopt and approve the Colorado County Groundwater Conservation District Investment Policy.

**AND SO IT IS CONSIDERED, PASSED, APPROVED, ADOPTED, RESOLVED, SIGNED AND DONE IN OPEN MEETING** on this 15<sup>th</sup> day of September, 2010.

**COLORADO COUNTY GROUNDWATER CONSERVATION DISTRICT**

By: \_\_\_\_\_  
Thomas L. Kelley, President

Attested by: \_\_\_\_\_  
Whyman Psencik, Secretary

**APPENDIX B**

**RESOLUTION FOR DESIGNATION OF INVESTMENT OFFICER TO THE COLORADO COUNTY GROUNDWATER CONSERVATION DISTRICT**

**WHEREAS**, the Public Funds Investment Act requires that the Board of Directors designate an Investment Officer to administer District funds and adhere to the District Investment Policy; and

**WHEREAS**, the District Investment Officer is charged with selecting and monitoring the investments of the District; and

**WHEREAS**, the District Investment Officer is charged with developing and maintaining administrative procedures for the operation of the Investment Program, consistent with the District Investment Policy; and

**WHEREAS**, the Investment Officer shall ensure that a seller provides the District with a written assurance that said seller understands and approves of the District Investment Policy; and

**WHEREAS**, the Investment Officer, not less than quarterly, shall report to the Board of Directors a written report of investment transactions for all funds for the preceding quarter; and

**WHEREAS**, the Investment Officer is responsible for notifying the Board of any significant changes in current investment methods and procedures prior to implementation; and

**WHEREAS**, the Investment Officer shall establish liaison with the CCGCD Auditor in preparing any investment forms to assist the Auditor for accounting and auditing control; and

**WHEREAS**, the Board of Directors has determined that the James E. Brasher, General Manager of the CCGCD is the desired candidate for Investment Officer

**NOW, THEREFORE, BE IT RESOLVED THAT** The Board of Directors of the Colorado County Groundwater Conservation District does hereby approve the designation of James E. Brasher, General Manager, to serve as Investment Officer for the District.

Thomas L. Kelley, President

Scott Brasher, Vice-President

Whyman Psencik, Secretary

Mary Stavinoha, Treasurer

Thomas Hudec, Director

Kenny Neuendorff, Director

**AND SO IT IS CONSIDERED, PASSED, APPROVED, ADOPTED, RESOLVED, SIGNED AND DONE IN OPEN MEETING** on this 15<sup>th</sup> day of September, 2010.

**COLORADO COUNTY GROUNDWATER CONSERVATION DISTRICT**

By: \_\_\_\_\_  
Thomas L. Kelley, President

Attested by: \_\_\_\_\_  
Whyman Psencik, Secretary

## **APPENDIX C**

### **DESCRIPTION OF INVESTMENT STRATEGIES**

#### **NOW (Negotiable Order of Withdrawal) Account**

**Description:** NOW accounts are interest-earning bank accounts with which the customer is permitted to write drafts against money held on deposit. It is structured to comply with Regulation Q (Title 12, part 217 of the U.S. Code of Federal Regulations) which prohibits interest on checking accounts.

**Suitability:** The NOW account is currently held with The First State Bank in Columbus, Texas. This bank is in good standing and has been in business in the area since 1913.

**Preservation:** Account funds are federally insured through FDIC up to \$250,000. District funds in excess of that amount are insured by securities that The First State Bank in Columbus has in safekeeping at Frost National Bank and that are pledged to the Colorado County Groundwater Conservation District. The current security is a bond from Fredericksburg, Texas.

**Liquidity:** The District has full access to the NOW account and may withdraw all or part of the deposit at any time. There are no minimum balance penalties and no charge assessed for withdrawals during a particular transaction cycle.

**Marketability:** Not Applicable

**Diversification:** The District currently has all of its money in this account. Once the District Investment Policy is in place, portions of the District savings will be distributed to other investments.

**Yield:** Interest rate is 0.25% and is not variable.

**Maturity Restrictions:** Not Applicable