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# Post Oak Savannah Groundwater Conservation District

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## Investment Policy

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THE FOLLOWING BOARD INVESTMENT POLICY IS ADOPTED BY THE BOARD OF DIRECTORS OF THE POST OAK SAVANNAH GROUNDWATER CONSERVATION DISTRICT (POSGCD) TO CLARIFY ADMINISTRATIVE PROCEDURES AND ESTABLISH SPECIFIC GUIDELINES BY WHICH THE DISTRICT CAN BETTER SERVE AND MANAGE ITS BUSINESS IN RELATION TO PROTECTION AND SECURITY OF ITS INVESTMENTS.

### SECTION 1. INVESTMENT POLICY

A. Purpose. This investment policy with respect to District investments has been adopted to establish the principles and criteria by which the funds of the District should be invested and secured (a) to preserve the principal, (b) to earn interest, and (c) to comply with various provisions of Texas law relating to the investment and security of funds of Districts ("Investment Laws"). As of the date of the adoption of these policies, section 36.061, TEXAS WATER CODE, chapter 2256 (PFIA) and 2257, TEXAS GOV'T CODE, chapter 116, LOCAL GOV'T CODE, and any other appropriate statutes are applicable to the investment of the District's funds. Such statutory provisions require the District to adopt a written investment policy regarding investment of its funds and funds under its control. The focus of the investment policy is on the methods, procedures and practices that must be exercised to ensure effective and judicious fiscal management of the District's funds.

B. Policy of Investment.

(1) The preservation of the District's principal shall be the primary concern of the District officials who are responsible for the investment of District funds. To the extent that the principal is protected, District funds shall be invested to yield the highest possible rate of return, taking into consideration the strength of the financial institution, and complying with any Internal Revenue Code laws or regulations and procedures set forth in any bond resolutions or orders, adopted from time to time by the Board, requiring yield restrictions. Funds of the District shall be invested by the District's officials in accordance with this policy. Any resolution or order adopted by the board relating to investment policies or procedures shall be in writing and shall be made available to requesting members of the public.

C. Scope.

This investment policy shall govern the investment of all financial assets of the District accounts as accounted for in the District's Comprehensive Annual Financial Report (CAFR) as follows:

- (a) Operating or General Account: Funds in this account shall be invested to meet the operating requirements of the District as determined by the annual operating budget of the District, or by resolution of the Board.
- (b) Construction or Capital Projects Account: The District may create a Construction or Capital Projects Account, and funds in this account shall be invested in assets authorized by this policy and in accordance with any applicable orders of the Texas Commission on Environmental Quality to meet the construction needs of the District as determined by the District's engineer. The engineer shall submit to the Board semi-annual written reports stating the anticipated construction needs of the District for the succeeding 12 months,

(c) Debt Service Account: Funds in this account shall be invested to meet the debt service requirements of the District and to comply with the District's bond resolutions or orders.

(d) Other funds that may be created by the District, including but not limited to: Special Revenue Funds, Enterprise Funds, and Trust and Agency Funds.

## **SECTION 2. INVESTMENT OBJECTIVES**

The District shall manage and invest its cash with the primary objectives, listed in order of priority: safety of principal and liquidity, public trust, maturity, diversification and yield, expressed as optimization of interest earnings, and the quality and capability of investment management.

The safety of the principal invested always remains the primary objective. All investments shall be designed and managed in a manner responsive to the public trust and consistent with state and local law.

The District shall maintain a comprehensive cash management program, which includes collection of account receivables, vendor payments in accordance with invoice terms, and prudent investment of available cash. Cash management is defined as the process of managing monies in order to insure maximum cash availability and maximum earnings on short-term investment of idle cash.

### **Safety and Preservation [PFIA 2256.005(b)(2)]**

Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit and interest rate risk.

- Credit Risk and Concentration of Credit Risk – The District will minimize credit risk, the risk of loss due to the failure of the issuer or backer of the investment, and concentration of credit risk, the risk of loss attributed to the magnitude of investment in a single issuer, by:
  - Limiting investments to the safest types of investments;
  - Pre-qualifying the financial institutions and broker or dealers with which the District will do business; and
  - Diversifying the investment portfolio so that potential losses on individual investments will be minimized.
- Interest Rate Risk – the District will manage the risk that the interest earnings and the market value of investments in the portfolio will fall due to changes in general interest rates by limiting the maximum weighted average maturity of the investment portfolio to 365 days. The District will, in addition,:
  - Structure the investment portfolio so that investments mature to meet cash requirements for ongoing operations, thereby avoiding the need to liquidate investments prior to maturity.
  - Invest operating funds primarily in certificates of deposit, shorter-term securities, money market mutual funds, or local government investment pools functioning as money market mutual funds.
  - Diversify maturities and staggering purchase dates to minimize the impact of market movements over time.

### **Liquidity [PFIA 2256.005(b)(2)]**

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that investments mature

concurrent with cash needs to meet anticipated demands. Because all possible cash demands cannot be anticipated, a portion of the portfolio will consist of securities with active secondary or resale markets.

#### **Public Trust**

All participants in the District's investment process shall seek to act responsibly as custodians of the public trust. Investment officers must avoid any transaction that might impair public confidence in the District's ability to govern effectively.

#### **Yield (Optimization of Interest Earnings) [PFIA 2256.005(b)(3)]**

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

### **SECTION 3. STANDARD OF CARE [PFIA 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.

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 this investment policy of the entity.

### **SECTION 4. RESPONSIBILITY AND CONTROL; REPORTING**

#### **Delegation of Authority [PFIA 2256.005(f)]**

In accordance with Chapter 49.1571, Water Code, and the Public Funds Investment Act, the Board designates the *General Manager* and a *Board Member* as the District's Investment Officers. An Investment Officer is authorized to execute investment transactions on behalf of the District, as approved by the Board. No person may engage in an investment transaction or the management of District funds except as provided under the terms of this Investment Policy as approved by the Board. The investment authority granted to the investing officers is effective until rescinded by the Board.

#### **Quality and Capability of Investment Management [PFIA 2256.005(b)(3)]**

The District shall provide periodic training in investments for the designated investment officers and other investment personnel through courses and seminars offered by professional organizations, associations, and other independent sources in order to insure the quality and capability of investment management in compliance with the Public Funds Investment Act.

#### **Training Requirement (Chapter 49.1571)**

The investment officer of a District shall attend a training session of at least six hours of instruction relating to investment responsibilities under Chapter 2256, Government Code, not later than the first anniversary of the date the officer takes office or assumes the officer's duties. The investment officer

shall attend at least four hours of additional investment training on or before the second anniversary of the last training session the officer attended.

The investment training session shall be provided by an independent source approved by the Board. For purposes of this policy, an “independent source” from which investment training shall be obtained shall include a professional organization, an institution of higher education or any other sponsor other than a business organization with whom the District may engage in an investment transaction. The organizations that are specifically authorized as independent sources for training are set forth below and may be amended and updated from time to time.

Training under this section must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with Chapter 2256, Government Code.

The following organizations are specifically authorized as independent sources for training:

- Texas Alliance of Groundwater Districts
- Texas Water Conservation Association
- Association of Water Board Directors
- University of North Texas, Center for Public Management
- William P. Hobby Center for Public Service at Texas State University
- Texas Rural Water Association

### **Types of Investments**

The Board of Directors shall appoint Investment Officer(s) as necessary. District funds shall be invested and reinvested by the District's Investment Officer(s) only in national or state banking associations or savings and loan associations located within the State of Texas ("Texas financial institutions"), or, in federal treasury bills. The principal, plus accrued interest, invested in financial institutions in accordance with this policy shall not exceed the FDIC or FSLIC insurance limits or exceed the collateral (as such term is hereinafter defined) pledged as security for the District's investments.

### **Withdrawal or Transfer**

It shall be the responsibility of the District's Investment Officer(s) to invest and reinvest the District funds in accordance with this policy to meet the needs and requirements of the District. The board, by separate resolution, may provide that the Investment Officer(s) may withdraw or transfer funds from and to accounts of the District on such terms as the board considers advisable. However, nothing herein above provided shall authorize any transfer, expenditure, or appropriation of District funds, other than for the District's own account, unless by check or draft signed by three (3) members of the Board of Directors or as authorized by separate order or resolution of the board.

### **Investment Committee**

There is hereby established an Investment Committee, composed of the District's Investment Officer(s), the District's Board President, and the District's Secretary / Treasurer. The District may also employ a financial advisor to assist this committee. The Investment Committee shall meet as deemed necessary by

the Investment Committee to monitor and review the investments and collateral of the District. The Investment Officer(s) shall chair the committee. The committee shall report concerning the District's investments transaction for the preceding year describing the investment position of the District at the end of each fiscal year. The report shall be signed by the members of the committee. The committee also shall report to the Board on its review at the next Board of Directors meeting following each committee meeting.

### **Reporting by the Investment Officer(s)**

Not less than quarterly and within a reasonable time after the end of the period reported, the Investment Officer(s) shall prepare and submit to the Board a written report of the investment transactions for all funds of the District for the preceding reporting period. The report must:

- (a) Describe in detail the investment position of the District on the date of the report;
- (b) Be prepared and signed jointly by all the Investment Officers of the District;
- (c) Contain a summary statement, prepared in compliance with generally accepted accounting principles, of each pooled fund group that states the:
  - Beginning market value for the reporting period
  - Additional and changes to the market value during the period
  - Ending market value for the period; and
  - Fully accrued interest for the reporting period.
- (d) State the book value and the 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;
- (e) State the maturity date of each separately invested asset that has a maturity date;
- (f) State the District fund for which each individual investment was acquired; and
- (g) State the compliance of the investment portfolio as it related to this investment policy and the Public Funds Investment Act.

The Board hereby authorizes and directs the District's bookkeeper and any other District official requested by the Investment Officers to assist with any of the duties set forth herein.

### **Internal Controls (*Best Practice*)**

The General Manager is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Accordingly, the General Manager shall establish a process for annual independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following points:

- Control of collusion.
- Separation of transactions authority from accounting and record keeping.
- Custodial safekeeping.
- Avoid physical delivery of securities.
- Clear delegation of authority to subordinate staff members.
- Written confirmation for telephone (voice) transactions for investments and wire transfers.
- Development of a wire transfer agreement with the depository bank or third party custodian.

**Indemnification (*Best Practice*)**

The Investment Officers may not be held personally responsible for a specific investment's credit risk or market price changes as long as the officers acted in accordance with written procedures and exercised due diligence, provided that the officers report these deviations immediately and the appropriate action is taken to control adverse developments.

**Ethics and Conflicts of Interest [PFIA 2256.005(i)] and [Water Code 49.199(a)(1)]**

Officers and employees involved in the investment process shall refrain from personal business activity that would conflict with the proper execution and management of the investment program, or that would impair their ability to make impartial decisions. Employees and Investment Officers shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial or investment positions that could be related to the performance of the investment portfolio.

Any Investment Officer of the District who has a personal business relationship with an organization seeking to sell an investment to the District shall file a statement disclosing that personal business interest. Any Investment Officer who is related within the second degree by affinity or consanguinity to an individual seeking to sell an investment to the District shall file a statement disclosing that relationship. A statement required under this subsection must be filed with the Texas Ethics Commission and the District Board.

**SECTION 5. SUITABLE AND AUTHORIZED INVESTMENTS****Portfolio Management**

The District has a "buy and hold" portfolio strategy. Maturity dates are matched with cash flow requirements and investments are purchased with the intent to be held until maturity. However, investments may be liquidated prior to maturity for the following reasons:

- An investment with declining credit may be liquidated early to minimize loss of principal.
- Cash flow needs of the District require that the investment be liquidated.

**Authorized Investments [PFIA 2256.005(b)(4)(A)]**

District funds governed by this policy may be invested in the instruments described below, all of which are authorized by Chapter 2256 of the Government Code (Public Funds Investment Act). Investment of District funds in any instrument or security not authorized for investment under the Act is prohibited.

1. Obligations of the United States of America, its agencies and instrumentalities.
2. Certificates of Deposit issued by a depository institution that has its main office or a branch office in Texas. The certificate of deposit must be guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund. Any funds held in excess of the amount insured shall be secured by obligations in a manner and amount as provided by law.
3. Certificates of Deposit obtained through a depository institution that has its main office or a branch office in Texas and that contractually agrees to place the funds in federally insured depository institutions in accordance with the conditions prescribed in Section 2256.010(b) of the Public Funds Investment Act.
4. Money Market Mutual funds that: 1) are registered and regulated by the Securities and Exchange Commission, 2) have a dollar weighted average stated maturity of 90 days or less, 3)

seek to maintain a net asset value of \$1.00 per share, and 4) are rated AAA by at least one nationally recognized rating service.

5. Local government investment pools, which 1) meet the requirements of Chapter 2256.016 of the Public Funds Investment Act, 2) are rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service, and 3) are authorized by Board resolution.

6. A local government investment pool created to function as a money market mutual fund if the pool 1) marks its portfolio to the market daily and, 2) to the extent reasonably possible, stabilizes at \$1.00 net asset value.

All prudent measures will be taken to liquidate an investment that is downgraded to less than the required minimum rating. (*PFIA 2256.021*)

Investments and investments secured by collateral for which the investment rating has declined or been reduced after the purchase shall be liquidated in compliance with Sec. 2256.021, Tex. Gov't. Code, unless:

1. additional collateral is provided to secure the investment, or collateral that complies with the required investing rating is substituted for the collateral for which the rating is reduced; or
2. the Board finds the market value of the investment is less than when purchased and it is likely the market value of the investment will increase during the investment period.

## **SECTION 6. INVESTMENT PARAMETERS**

### **Maximum Maturities [*PFIA 2256.005(b)(4)(B)*]**

It is the District's policy to concentrate its investment portfolio in shorter-term securities in order to limit principal risk caused by changes in interest rates.

The District attempts to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the District will not directly invest in securities maturing more than one (1) year from the date of purchase; however, the above described obligations, certificates, or agreements may be collateralized using longer dated investments. Because no secondary market exists for repurchase agreements, the maximum maturity for repurchase agreements shall be 120 days. For flexible repurchase agreements for bond proceeds, the maximum maturity shall be determined in accordance with project cash flow projections and the requirements of the governing bond ordinance.

The composite portfolio will have a weighted average maturity of 180 days or less. This dollar-weighted average maturity will be calculated using the stated final maturity dates of each security. [*PFIA 2256.005(b)(4)(C)*]

### **Diversification [*PFIA 2256.005(b)(3)*]**

The District recognizes that investment risks can result from issuer defaults, market price changes or various technical complications leading to temporary illiquidity. Risk is controlled through portfolio diversification that shall be achieved by the following general guidelines:

- Limiting investments to avoid overconcentration in investments from a specific issuer or business sector;
- Limiting investments that have higher credit risks (example: commercial paper);
- Investing in investments with varying maturities; and

The following maximum limits, by instrument, are established for the District's total portfolio:

1. U.S. Treasury Securities .....	100%
2. Agencies and Instrumentalities .....	85%
3. Certificates of Deposit .....	100%
4. Money Market Mutual Funds .....	50%
5. Authorized Pools .....	50%

## **SECTION 7. SELECTION OF DEPOSITORIES AND DEALERS**

### **Depository (*Water Code 49.156*)**

At least every five (5) years a Depository shall be selected by order or resolution through the District's banking services procurement process, which may include a formal request for proposal (RFP). The selection of a depository will be based on the following selection criteria:

- The ability to qualify as a depository for public funds in accordance with state law.
- The ability to provide requested information or financial statements for the periods specified.
- The ability to meet all requirements in the banking RFP.
- Complete response to all required items on the bid form
- Lowest net banking service cost, consistent with the ability to provide an appropriate level of service.
- The credit worthiness and financial stability of the bank.

### **Authorized Brokers/Dealers (*PFIA 2256.025*)**

The District shall annually review, revise, and adopt a list of qualified brokers or dealers and financial institutions authorized to engage in securities transactions with the District. Those firms that request to become qualified bidders for securities transactions will be required to provide: 1) a completed broker or dealer questionnaire that provides information regarding creditworthiness, experience and reputation; and 2) a certification stating the firm received, read and understood the District's investment policy and agrees to comply with that policy. Authorized firms may include primary dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (Uniform Net Capital Rule), and qualified depositories. All investment providers, including financial institutions, banks, money market mutual funds, and local government investment pools, must sign a certification acknowledging that the organization has received and reviewed the District's investment policy and that reasonable procedures and controls have been implemented to preclude investment transactions that are not authorized by the District's policy. [PFIA 2256.005(k-1)]

### **Competitive Bids (*Best Practice*)**

It is the policy of the District to require competitive bidding for all individual security purchases and sales except for: 1) transactions with money market mutual funds and local government investment pools; and 2) treasury and agency securities purchased at issue through an approved broker or dealer or financial institution.

### **Delivery vs. Payment [*PFIA 2256.005(b)(4)(E)*]**

Securities shall be purchased using the "delivery vs. payment" method with the exception of investment pools and mutual funds. Funds will be released after notification that the purchased security has been received.

## **SECTION 8. CUSTODIAL CREDIT RISK MANAGEMENT**

### **Safekeeping and Custodian Agreements (*Best Practice*)**

The District shall contract with a bank or banks for the safekeeping of securities either owned by the District as part of its investment portfolio or held as collateral to secure demand or time deposits.



Securities owned by the District shall be held in the District's name as evidenced by safekeeping receipts of the institution holding the securities.

There shall be no sharing, splitting or cotenancy of collateral with other parties or entities. The Investment Officer(s) shall ensure that the custodian of the collateral shall be an independent third party Texas financial institution and that the collateral shall be pledged only to the District; the Investment Officer(s) shall obtain safe-keeping receipts from the Texas financial institution regarding same.

Collateral for deposits will be held by a third party custodian designated by the District and pledged to the District as evidenced by safekeeping receipts of the institution with which the collateral is deposited. Original safekeeping receipts shall be obtained. Collateral may be held by the depository bank's trust department, a Federal Reserve bank or branch of a Federal Reserve bank, a Federal Home Loan Bank, or a third party bank approved by the District.

### **Collateral Policy (PFCA 2257.023)**

Consistent with the requirements of the Public Funds Collateral Act, it is the policy of the District to require full collateralization of all District 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. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 102% of market value of principal and accrued interest on the deposits or investments less an amount insured by the FDIC. At its discretion, the District may require a higher level of collateralization for certain investment securities. Securities pledged as collateral shall be held by an independent third party with whom the District has a current custodial agreement. The General Manager 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 District and retained. Collateral shall be reviewed at least monthly to assure that the market value of the pledged securities is adequate.

### **Collateral Defined**

The District shall accept only the following types of collateral:

- Obligations of the United States or its agencies and instrumentalities.
- Direct obligations of the state of Texas or its agencies and instrumentalities.
- 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.
- Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized rating firm not less than A or its equivalent with a remaining maturity of ten (10) years or less.
- A surety bond issued by an insurance company rated as to investment quality by a nationally recognized rating firm not less than A.
- A letter of credit issued to the District by the Federal Home Loan Bank.

### **Subject to Audit**

All collateral shall be subject to inspection and audit by the General Manager or the District's independent auditors.

## **SECTION 9. PERFORMANCE**

**Performance Standards [Water Code 49.199(a)(3)(B)]**

The District's investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio shall be designed with the objective of obtaining a rate of return through budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow requirements of the District.

**Performance Benchmark (Best Practice)**

It is the policy of the District to purchase investments with maturity dates coinciding with cash flow needs. Through this strategy, the District shall seek to optimize interest earnings utilizing allowable investments available on the market at that time. Market value will be calculated on a quarterly basis on all securities owned and compared to current book value. The District's portfolio shall be designed with the objective of regularly meeting or exceeding the average rate of return on U.S. Treasury Bills at a maturity level comparable to the District's weighted average maturity in days.

**SECTION 10. MISCELLANEOUS****Annual Review**

The District shall review this Investment Policy at least annually and adopt a resolution confirming the continuance of the Investment Policy without amendment or adopt an Amended Investment Policy

**Superseding Clause**

This Policy supersedes any prior policies adopted by the Board of Directors regarding investment or securitization of District Funds.

**Open Meeting**

The Board officially finds, determines and declares that this investment policy was reviewed, carefully considered, and adopted at a regular meeting of the Board, and that a sufficient written notice of the date, hour, place, and subject of this meeting was posted at a place convenient to the public for the time required by law preceding this meeting, as required by the Open Meetings Act, Chapter 551, Texas Government Code, and that this meeting had been open to the public as required by law at all times during which this investment policy was discussed, considered and acted upon. The Board further ratifies, approves and confirms such written notice and the contents and posting thereof.

**SECTION 11. AMENDMENTS**

These Board Policies may be amended at any regular or special meeting of the Board by a majority vote.

**ATTEST: I CERTIFY THAT I WAS PRESENT AT THE BOARD OF DIRECTORS MEETING ON OCTOBER 3, 2017 AND THAT THE FOREGOING BOARD INVESTMENT POLICIES WERE APPROVED ON THAT DATE AND THAT THIS COPY IS TRUE AND CORRECT.**

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Sidney Youngblood, President

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Tommy Tietjen, Secretary-Treasurer

Approved: October 3, 2017