

**COUNTY OF GALVESTON**

**INVESTMENT POLICY**

**ADOPTED BY GALVESTON COUNTY  
COMMISSIONERS' COURT**

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# **GALVESTON COUNTY, TEXAS**

## **INVESTMENT POLICY**

### **I. SCOPE AND LEGAL REQUIREMENTS**

#### **General Statement**

This investment policy is drafted in compliance with V.T.C.A., Local Government Code §116.111, §116.112, and V.T.C.A., Government Code, Chapters §2256 (Public Funds Investment Act), and §2257 (Collateral For Public Funds Act). The policy's purpose is to define and adopt a formal investment policy and procedure for the County of Galveston (hereinafter "County"), for all its funds including its funds not immediately required to pay obligations of the County. It does not apply to Registry Funds deposited with the County or District Clerk under Chapter 117, Local Government Code. It likewise does not apply to investments made under the County's 457 deferred compensation plan or to an investment donated to the County for a particular purpose or under terms of use specified by the donor.

#### **Funds Included**

This investment policy governs the investment of all present and future funds of the County held in custody by the County Treasurer including funds that are not immediately required to pay obligations of the County. This investment policy is not intended to permit any investment prohibited by law nor is it to be construed in contravention of any depository contract between the County and any depository bank. Any conflict between a depository contract and this investment policy will be resolved by Commissioner's Court. Unless authorized by law, the Investment Officer may not deposit, withdraw, transfer, or manage in any manner the funds of the County.

#### **County Investment Portfolio Structure**

The funds of the County entrusted to the Commissioners' Court for investment are divided into the following portfolios based on the source of funds:

**Pooled Operating Account Portfolio** - Includes general operating and miscellaneous funds of the County and does not encompass funds restricted by statutory, contractual bond indenture requirements, or other requirements.

**Pooled Bond Funds Portfolio** - Bond funds from all capital projects. The purpose of segregating investments in this portfolio from the general operating portfolio is to facilitate compliance with federal arbitrage regulations.

**Debt Service Funds Portfolio** - All interest and sinking funds. The purpose of segregating investments in this portfolio from the general operating portfolio is also to facilitate

compliance with federal arbitrage regulations.

**Agency Funds Portfolio** - Includes funds held in trust or in an agency capacity by the County.

### **Standard of Care**

County investments shall be made with judgement 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, liquidity, and the probable income to be derived.

### **Ethics and Conflicts of Interest**

County officials and employees involved in the investment process shall refrain from personal business activities that could conflict with the proper execution of the County's investment program, or which could impair their ability to make impartial investment decisions.

Any investment officer, member of the Investment Committee or member of the Commissioners' Court ("individual") who has a personal business relationship with a business organization offering to engage in an investment transaction with the County shall file a statement disclosing that personal business interest. Any such individual who is related within the second degree by affinity or consanguinity, as determined under V.T.C.A., Government Code Chapter 573, to an individual seeking to sell an investment to the County shall file a statement disclosing that relationship. A copy of each such disclosure statement must be filed with the Commissioners' Court and the Texas Ethics Commission.

For purposes of this subsection an individual has a personal business relationship with a business organization if:

- (1) the individual owns 10 percent or more of the voting stock or shares of the business organization or owns \$5,000 or more of the fair market value of the business organization;
- (2) funds received by the individual from the business organization exceed 10 percent of the individual's gross income for the previous year; or
- (3) the individual has acquired from the business organization during the previous year investments with a book value of \$2,500 or more for the personal account of the individual.

### **Definitions**

**Arbitrage** - the simultaneous purchase and sale of the same or an equivalent security in order to profit from price discrepancies. In governmental finance, the most common occurrence of arbitrage involves investment of the proceeds from the sale of tax-exempt securities in a taxable money market instrument that yields a higher rate, resulting in interest revenue in excess of interest costs.

**Auditor** - the Galveston County Auditor or his designee.

**Bankers Acceptance** - a time draft or order to pay a specified amount on a specified date, drawn by an individual or business, which becomes an acceptance when the bank acknowledges its obligation. The bank that accepts the draft issues the acceptance for trading after acknowledging its obligation to honor the draft. It is the primary obligation of the acceptor bank and the contingent obligation of the drawer. A Bankers' Acceptance comes in either bearer or book-entry form. It is issued in various denominations. Initial maturities of bankers acceptances range from 30 to 180 days, but the short-term 90 day acceptance is the market standard.

**Bid** - the price buyers are willing to pay for securities; and the price at which sellers may dispose of them. An offer is the price asked by a seller of securities.

**Bond Indenture** - a formal agreement, also called a deed of trust, between an issuer of bonds and the bondholder. The agreement is backed by the general credit standing and earning capacity of the issuer.

**Book Value** - the original acquisition cost of an investment plus or minus the accrued amortization or accretion.

**Broker/Dealer** - a broker is a person or firm acting as an agent for buyers and sellers. A dealer is a person or firm acting as a principal in buying and selling securities. When used in this policy, the phrase "Broker-Dealer" shall also mean Qualified Representative.

**Capital Adequacy Guidelines for Government Securities Dealers** - The Federal Reserve Bank of New York has issued capital adequacy guidelines that should be met by any firm doing business with public entities. In 1985, the New York Federal Reserve Bank published a booklet entitled, Capital Adequacy Guidelines for Government Securities Dealers. It provides a mathematical standard for the risks incurred by a government securities dealer. The guidelines' calculations are based largely on the historical volatility of various instruments and dealers' ability to effectively hedge their risks through the use of future contracts and options. Dealers holding large positions in unhedged, long-term bonds have a higher risk factor than those who trade only in short-term Treasury bills do. Against this risk factor, the Fed's standards then calculate the capital of the firm (essentially assets less liabilities). The Federal Reserve can require only that primary dealers comply with the standard. Use of the standard throughout the remainder of the securities industry is accomplished only through voluntary participation.

The guidelines essentially calculate a single number as representing the short-term market risks of a



dealer's portfolio. Public investors seeking to employ the Fed's voluntary capital adequacy guidelines should require:

1. Continuous compliance with the Fed's capital adequacy guideline throughout the recent trading period.
2. Immediate disclosure by the Investment Institutions to the investing government whenever the firm's capital position falls short of the capital adequacy standard.
3. Independent certification by an outside auditor or similar agency that the dealer firm has complied with the capital adequacy standard on its most recent balance sheet.

**Certificate of Deposit** - Certificates of deposit, familiarly known as "CDs", are issued as either negotiable or nonnegotiable certificates. Nonnegotiable CDs can be issued in any denomination that the buyer would like to purchase. Jumbo CDs are typically issued for \$100,000 or more in deposits. Negotiable CDs are only issued in denominations from \$100,000 and up, and actively trade in the secondary market in \$5,000,000 lots. Many negotiable CDs are issued in bearer form. CDs are issued against funds deposited in the bank for a specified period of time earning a specified rate of interest. Certificates of deposit bear rates in line with money market rates at the time of issuance. CDs are in either registered or book-entry form. The issuing bank has the irrevocable obligation to pay back principal and interest at maturity.

**Collateral** - Property pledged as security for a debt or assets held by an individual or entity.

**Commercial Paper** - "Commercial Paper" is the market name for the short-term, (2 to 270 days) unsecured promissory notes issued by various entities, in the open market to finance certain short-term credit needs. It generally is backed by unused bank credit lines to repay the notes in the event the issuer is unable to roll the paper over in the market at maturity. Virtually all paper issued through dealers is rated by at least one of the independent rating agencies such as Moody's Investors Service, Inc., or Standard & Poor's Corporation. Commercial paper purchased from dealers is usually bought and sold on a discount basis, figured for the actual number of days to maturity on a 360 day basis. Interest bearing commercial paper is also available. The minimum round-lot transaction is \$100,000, although some issuers sell commercial paper in denominations as small as \$25,000. The notes are normally issued in bearer form and payment at maturity if effected by presentation to the bank designated as paying agent on the face of the note.

**Commissioners' Court** - the Galveston County Commissioners' Court.

**Consolidated Report of Condition** - Reports required of banks by Federal regulatory agencies which shows their financial condition (assets, liabilities, equity, income, stocks etc.)

**County Treasurer** - the Galveston County Treasurer or his designee.

**Credit and Capitalization Analysis** - Fundamentally, there are three ways to assess the credit risk of investing funds through a given financial institution. First, a public investor might rely exclusively on credit ratings and credit research performed by a rating agency or credit evaluation service. Second, an investor can compare various institutions' financial statistics provided by certain information services. Third, the public investor can use common statistical and analytical techniques to study and analyze financial data provided in public financial reports to regulatory agencies to produce an independent credit evaluation.

**CUSIP Number** - a unique nine-character alphanumeric code often used with the standard security description to identify, report and transfer a specific securities issue. The CUSIP root is the first five or six digits of the number. The remaining numbers identify the specific issue of the security. CUSIP (Committee on Uniform Security Identification Procedures) is part of the American Bankers Association.

**Delivery vs. Payment** - delivery of securities in exchange for a cash payment. Funds are not wired until the securities are delivered. If the transfer is accomplished through the Fed wire system, directly between two parties, the investor is notified before cash is released. If a third party acts as custodian, funds are released by the custodian only when delivery is accomplished. In short: "No delivery, no payment, no investment security".

**Default Risk** - a security issuer's underlying creditworthiness or the issuer's ability to repay an investors principal. Securities that are backed by the full faith and credit of the U.S. government are considered as "no default risk" securities.

**Derivative Investments** - a financial instrument created from or whose value depends on or is derived from the value of one or more underlying assets, such as securities, currencies, indexes of asset values, or interest rates. Examples of derivatives are collateralized mortgage obligations (CMOs), interest-only (IOs) and principal only (POs), forwards, futures, currency and interest-rate swaps, options, floaters/inverse floaters, Treasury receipts and caps/floors/collars.

**Discount** - the difference between the price of an investment instrument (bond) and its value at maturity when the price is lower than the maturity value.

**Diversification** – The spreading of risk by placing assets in several categories of investment, maturities, issuers and Broker / Dealers.

**Federal Deposit Insurance Corporation (FDIC)** - the regulatory authority primarily concerned with bank safety and protecting depositors from losses because of bank insolvency. The FDIC accomplishes this through its role in bank examination and supervision and as a lender of last resort.

**FASB** - since July 1, 1973, the Financial Accounting Standards Board has been responsible for establishing the accounting standards that comprise "generally accepted accounting principles" (GAAP).

**Federal Reserve Wire** - the real-time system for funds transfer operated by the Federal Reserve.

**GAAP** - the network of concepts, principles, standards, procedures, and practices designed to assure that external financial statements are relevant and reliable.

**GASB** - the Governmental Accounting Standards Board is responsible for establishing accounting standards for activities and transactions for state and local governments. The most recent accounting standard issued by GASB to cover Investments by Public Institutions can be found in GASB 31.

**Investments** - securities held for the production of revenues in the form of interest, excluding Money Market Investment Accounts, Savings Accounts and Now Accounts.

**Investment Committee** - the Galveston County Investment Committee as appointed by Commissioners' Court.

**Investment Officer** - the officer and/or employee of the County appointed by the County to be responsible for the investment of its funds consistent with this Investment Policy.

**Liquidity** - the ability to convert assets to cash quickly, without losses.

**Market Value** - the current face or par value of an investment multiplied by the net selling price of the security as quoted by a recognized market pricing source quoted on the valuation date.

**Maturity** - the date on which the principal or stated value becomes due and payable in full to the owner of an investment instrument i.e. bonds.

**Money Market Investment Account** - accounts which have features of both time deposits and demand deposits, although the checkwriting aspects of these accounts are usually restricted. These accounts are also referred to as Money Market Demand Accounts by banks. Because a bank can require several days notification before allowing funds to be withdrawn from these accounts, they are usually classified as time deposits by the American Banker's Association.

**Money Market Mutual Fund** - Money Market Mutual Funds are commercially operated by private firms which are governed by a board of directors and are generally organized as no-load, open ended investment companies regulated by the federal SEC under the Investment Company Act of 1940. Investors in money market funds benefit from short-term interest rates without subjecting themselves to short-term price risks. Operated in much the same manner as a statewide investment pool, money market funds investment portfolios usually consist of short-term securities and seek to maintain a stable share price of \$1. This \$1 share price is not guaranteed. This objective has been accomplished throughout the history of the industry by SEC regulations which limit the maturities of the individual portfolio securities to one year or less and the average portfolio maturity to 90 days.

The SEC now requires that 95% of a money market fund's portfolio must consist of government securities or money market instruments rated A-1/P-1. The portfolio of the funds are controlled by the prospectus and investment policies established by the directors, which usually require a shareholder vote to change. Because most states limit the use of mutual funds by governmental investors to only those with portfolios consisting of securities otherwise allowable by state law, a governmental investor must verify whether the mutual fund complies with state law by reviewing the prospectus and statement of additional information (both must be provided on request).

**National Association of Securities Dealers** - an organization which regulates non-primary dealers.

**Negotiable Order of Withdrawal** -(NOW) Accounts at approved Depository Banks. These accounts are interest bearing checking accounts, with variable rates set by the depository bank.

**Par Value** - face amount or 100% of the principal amount of a security at original issue.

**Portfolio** - a combination of assets (securities) owned for investment.

**Premium** - the difference between the price of an investment instrument (bond) and its value at maturity when the price is higher than the maturity value.

**Primary Market** - the market in which financial assets are originally issued.

**Primary Government Securities Dealer** - the Federal Reserve Bank of New York, which acts as the Federal Reserve system's trading agent for monetary policy, designates primary dealers in government securities. They make a market for new issues and are also authorized to conduct business directly with the Federal Reserve System. These dealers are expected to provide a complete market in the entire spectrum of Treasury instruments. The primary dealers are expected to participate actively in all Treasury auctions to conduct business with the Fed's open market trading desk.

**Qualified Representative** - a person who holds a position with a business organization, who is authorized to act on behalf of the business organization, and who is one of the following:

(A) for a business organization doing business that is regulated by or registered with a securities commission, a person who is registered under the rules of the National Association of Securities Dealers:

(B) for a state or federal bank, a savings bank, or a state or federal credit union, a member of the loan committee for the bank or branch of the bank or a person authorized by corporate resolution to act on behalf of and bind the banking institution; or

(C) for an investment pool, the person authorized by the elected official or board with authority to administer the activities of the investment pool to sign the written instrument on behalf

of the investment pool; or

(D) for an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or, if not subject to registration under that Act, registered with the State Securities Board, a person who is an officer or principal of the investment management firm.

**Rate of Return** - the return on an investment during a specific time interval. It may be the actual rate or expected rate of return.

**Reporting Dealers** - primary dealers in government securities that are monitored by the New York Federal Reserve Bank. Although the Fed's monitoring of reporting dealers offers some control and reduces the likelihood of fraud, it does not assure protection against all potential defaults.

**Repurchase Agreement** - a repurchase agreement (repo) consists of two simultaneous transactions. One is the purchase of securities (collateral) by an investor from a bank or dealer. The other is the commitment by the bank or dealer to repurchase the securities at the same price, plus interest, at some mutually agreed future date. The collateral used most frequently is Treasury, mortgage-backed or other agency securities. The vast majority of repos mature in three months or less. One-day transactions are called overnight repos; longer transactions are called term repos. The repo rate is the rate of interest that the dealer pays the investor for the use of his funds. The repo typically trades at higher yields relative to other market instruments. Rates depend on the type of collateral. The higher the credit quality and easier the security is to deliver and hold, the lower the Repo rate. By definition, Repos can be contracted either as two party transactions where the securities are held at the dealer, or as Tri-Party transactions where the securities are held at a third party institution which only releases money or securities on a Delivery Vs. Payment basis.

**Safekeeping Receipt** - a physical document which evidences ownership of a security.

**SIPC Insurance Program** - Securities Investor Protection Corporation (SIPC) is a nonprofit corporation funded by its member SEC registered broker/dealers that protects customer accounts in the event of the financial failure of a member. SIPC distributes customer assets and then provides funds for all remaining claims of each customer up to a maximum of \$500,000 including up to \$100,000 on claims for cash. SIPC does not consider repurchase agreements participants to be customers of its members broker-dealers and does not extend its insurance to repurchase agreements.

**Treasury Bills** - an obligation of the U.S. government to pay the bearer a fixed sum on a specific date. Treasury bills are issued on a discount basis (they are sold at a dollar price less than their redemption value at a maturity, with difference, or discount, constituting the payment of interest). Bills are issued only in a book-entry form and are paid at face amount without additional interest at maturity. They are issued in a variety of denominations from \$10,000 up and may be exchanged only for smaller denominations. They have original maturities of 13 weeks, 26 weeks, and 52 weeks.

**Treasury Notes and Bonds** - coupon securities paying interest every six months, issued by the Federal Government. Treasury notes may be issued with a maturity of not less than one year nor more than 10 years. Bonds are coupon securities with maturities exceeding 10 years, and are generally issued with 15, 20, or 30 year original maturities. Most treasury bonds with longer initial maturities carry a call provision, which allows the Treasury to redeem the bond prior to maturity on or after the specified call date. Coupon securities are available in denominations ranging from \$5,000 upward in multiples of \$1,000. The coupon securities are issued in either bearer or registered form (new Treasury bonds available only in book-entry form). Most treasury coupon securities bear maturity date of the 15th or the end of the month. Notes have original maturities of 2,3,4,5,7 and 10 years.

**Treasury Securities** - "full faith and credit" obligations of the U.S. Government issued by sale at periodic auctions, delivered and cleared electronically.

**Treasury Strips** - are the Separate Trading of Registered Interest and Principal (STRIP) of Treasury Securities which are direct obligations of the U.S. Treasury. All new Treasury Notes and Bonds issued by the U.S. Treasury for 10 years or longer are eligible for "stripping" by dealers. In this process, each individual interest payment, and principal payment is sold as a separate Zero-Coupon bond with its own CUSIP registration. They are sold at a discount with payment due at maturity, and are only available in book entry form. Even though payment is not received until maturity, taxes are due yearly on any interest earned. Treasury Receipts, which trade under the names TIGRS and CATS, are Treasury Bonds held in trust, with coupon and interest payments broken apart and sold as Zero-Coupon obligation by dealers, are not to be considered Treasury STRIPS. Treasury STRIPS are not derivatives.

**U4** - Both the NASD and the NYSE require a registration form known as a U4 for any broker conducting transactions involving these exchanges.

It is required that firms notify the NASD if a broker is;

- subject to disciplinary actions by a firm involving suspension, termination, withholding of commissions, or imposition of fines over \$2,500.
- subject to disciplinary action by a self-regulatory organization.

The NYSE requires notification if a broker is:

- in a violation of any of the Securities Acts,
- accused by a client of forgery, theft, or misappropriation of funds,
- disciplined by a self-regulatory organization,
- arrested, indicted, or convicted of any criminal offense (except minor traffic violations)
- the subject of a customer claim for damages exceeding \$15,000 which has been settled or disposed of by award.

These notifications are reviewed by their respective markets and a determination is made

whether to continue, suspend or revoke a broker's registration. A similar report is also available from the NASD on individual firms through the Public Disclosure Program.

**Yield** - the rate of return an investor earns on an investment over a specified period of time.

**Yield Curve** - the relationship between current market interest rates (or yields) and maturity. A normal yield curve is upward sloping (i.e., longer-term securities usually offer higher yields).

**Yield to Maturity** - the average annual return on an investment based on the interest rate, price and the length of time to maturity. It differs from current yield in that it takes into consideration the increase to par of a bond bought at a discount and the decrease to par of a bond bought at a premium. Yield to Maturity should be computed on a U.S. Government bond equivalent yield.

**Weighted Average Maturity (WAM)** – The average maturity of all securities and cash positions that comprise a portfolio.

**Zero Coupon Bond** – is an instrument such as a Treasury Bill sold at a discount which has no coupon and pays 100% of face value at maturity. Its maturity can range anywhere from 1 day to 100 years, but is typically less than 30 years.

## **II. INVESTMENT STRATEGY**

The County maintains portfolios which utilize specific investment strategy considerations designed to address the unique characteristics of the fund groups represented in the portfolios:

- A. **Pooled Operating Funds Portfolio** - Investment strategies for operating funds have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. The secondary objective is to create a portfolio structure which will experience minimal volatility during economic cycles. This may be accomplished by purchasing high quality, short to medium term securities which will complement each other. The suggested WAM of this portfolio should be less than 10 months, and therefore should be benchmarked against the 6 month Treasury Bill Rate. The maximum pre-approved maturity will not exceed 3 years. This portfolio should include at least 2 months anticipated expenses in highly liquid securities.
  
- B. **Debt Service Funds Portfolio** - Investment strategies for debt service funds will have as their primary objective the assurance of investment liquidity adequate to cover the debt service obligation on the required payment date. The WAM, and maximum maturity of this portfolio will depend upon debt service obligations. All Debt Service Funds are to remain segregated, in separate accounts and investments, from the County's Operating Funds until the time at which they are to be expensed.
  
- C. **Pooled Bond Funds and Agency Funds Portfolio** - Investment strategies for capital projects and agency funds will have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. These portfolios should include at least 10 percent in highly liquid securities to allow for flexibility and unanticipated project outlays. The stated final maturity dates of securities held should not exceed the estimated project completion date. The WAM for this portfolio will depend upon anticipated cash flows. All Bond Funds are to remain segregated, in separate accounts and investments, from the County's Operating Funds until the time at which they are to be expensed.

## **III. INVESTMENT OBJECTIVES FOR ALL FUND STRATEGIES**

### **General Statement**

Funds of the County shall be invested and managed in accordance with federal and state laws, this investment policy, and written administrative procedures developed by the County Investment Officer. Strict compliance with V.T.C.A., Chapters 2256 and 2257 is mandatory. The County's investment portfolio shall be managed in a manner to attain the maximum rate of return allowed through prudent and legal investment of County funds while preserving and protecting capital in the overall portfolio. The investment policy shall be utilized to administer the County's



overall Cash Management Program.

### **Standards and Investment Priorities**

The County intends to maintain the highest professional and ethical standards as custodians of the public trust. The following six (6) investment objectives are investment priorities in order of importance;

- A. **Investment Suitability** - The suitability of the investment to the financial requirements of the county shall be evaluated on a case by case basis, taking into account the investments influence on the overall portfolio structure and needs.
- B. **Preservation and Safety of Principal** - The County is concerned about the return of its principal; therefore, preservation and safety of principal is the primary objective in any investment transaction.
- C. **Liquidity** - The County's investment portfolio must be structured in such a manner which provides for liquidity necessary to pay obligations as they become due.
- D. **Marketability of Investments** - The marketability of the County's investments should be closely monitored to ensure the marketability of the investment if the need arises to liquidate the investment before maturity.
- E. **Diversification** - It is the policy of the County to diversify its portfolio to eliminate unreasonable and avoidable risk of loss resulting from over-concentration of assets in a specific maturity, 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, reasonable liquidity and diversification.
- F. **Yield** - It is the objective of the County to earn the maximum rate of return allowed on its investments within the policies imposed by its safety and liquidity objectives. The average minimum rate of return for the entire portfolio, excluding funds needed for current obligations, should be at least equal to a "no default risk" rate of return indicator, like the return on the three-month Treasury bill. Except for the following exceptions, the County may only invest in a particular eligible investment if its yields are equal to or greater than the equivalent yield on United States Treasury obligations of comparable maturity. Money Market Mutual Funds, Money Market Investment Accounts, Repurchase Agreements and Certificates of Deposit may be invested at lower yields.

If funds are subject to yield restrictions due to federal arbitrage regulations, those funds are excluded from the yield calculation. The major objectives for the bond funds governed by Federal arbitrage regulations are to maximize permitted market yield and to minimize investment costs.

**Additional Objectives for all Fund Strategies are:**

- A. **Maturity** - Portfolio maturities will be structured to achieve the highest return of interest consistent with liquidity requirements of the County's cash needs, based upon the market environment at the time of investment. Investments will be held with the intent to hold to maturity.

The Investment Officer will monitor the maturity dates of all investments to minimize risk of loss from interest rate fluctuations and to help ensure that the maturities do not exceed the anticipated cash flow requirements of the investment portfolio.

- B. **Active Portfolio Management** - The County intends to pursue an active versus a passive portfolio management philosophy. Securities may be sold or exchanged before they mature without sacrificing principal if market conditions present an opportunity for the County to benefit from a trade. Under this investment policy, all investments will be made with the intent of pursuing, at the time of purchase, the best rate of return on securities held until maturity, and not with the intent of speculative trading.

County funds will generally be placed for investment periods not to exceed thirty-six (36) months if permitted by the Public Funds Investment Act. Longer investment periods will be considered upon recommendation of the Investment Committee and approval by the Commissioners' Court.

With the exception of funds restricted by statutory, contractual, bond indenture requirements, or other requirements, all other County funds shall be considered the general funds of the County and shall generally be invested using the attached guidelines on a daily basis under an investment program, managed by the Investment Officer to maximize interest yield on County funds without sacrificing the preservation of principal, with funds becoming available as needed to meet the financial needs of Galveston County.

**Deposit of Funds**

All funds belonging to the County and received by County officials shall be officially deposited with the County Treasurer upon receipt or by the next day after receipt and in accordance with prescribed policy and procedure; however, without exception, all funds shall be deposited within five (5) business days from the date of collection by said officer, in accordance with State statutes.

Except for Repurchase Agreements, the proceeds from any sold or maturing investment will be placed in the County's Demand Account at its main depository. A Repurchase Agreement may be originally established to provide that funds from a maturing Repurchase Agreement may, in the discretion of the Investment Officer, remain within the account. If the Investment Officer makes such a determination the agreement may be automatically renewed.

### **Quality, Capability, and Training of County Treasurer and Investment Management**

It is the County's policy to provide annual funding for periodic training in investments for the County Treasurer and its Investment Officer through courses and seminars offered by professional organizations and associations in order to help insure the proficiency of the County Treasurer and the Investment Officer in making investment decisions.

The County Treasurer and the Investment Officer shall:

- 1) Attend at least one training session from an independent source approved by the Commissioners' Court or the County's Investment Committee and containing at least 10 hours of instruction relating to the County Treasurer's or Investment Officer's responsibilities under the Public Funds Investment Act within 12 months after taking office or assuming duties; and
- 2) Attend an investment training session not less than once in a 2 year period and receive not less than 10 hours of instruction relating to investment responsibilities under the Public Funds Investment Act from an independent source approved by the Commissioners' Court or the County's Investment Committee.

The training received must include education in investment controls; diversification of an investment portfolio; security risks, strategy risks, and market risks; investment strategies; and compliance with the Public Funds Investment Act.

## **IV. INVESTMENT RESPONSIBILITY AND CONTROL**

### **County Investment Officer / Duties**

V.T.C.A. Government Code 2256.005 (f), authorizes the Commissioners' Court to designate by order, rule, or resolution one or more officers as Investment Officer to be responsible for the investment of County funds.

Local Government Code Section 116.112(a), V.T.C.A. Government Code Section 2256.005, provides the County Treasurer, under direction of the Commissioners' Court, may

invest County funds that are not immediately required to pay obligations of the County as provided by the Public Funds Investment Act.

The Commissioners' court is authorized certain responsibilities and authorities by V.T.C.A. Local Government Code subchapter E. Depository Accounts § 116.111 entitled "Character and amount of deposits" and § 116.12 entitled "Investment of Funds". The authority in these sections is hereby delegated to the Investment Officer, as further described in the Investment Procedures which are approved by Commissioners' Court.

The County Treasurer is the Investment Officer for County Funds and is responsible for making this determination and for making investment decisions and activities for County funds consistent with this Investment Policy. He shall continue to serve as Investment Officer until his appointment is rescinded by the Commissioners' Court and a successor(s) is appointed. He shall act in compliance with this Investment Policy, invest only in investment instruments authorized by this Policy and prepare sufficient documentation necessary to evidence such investments. The Investment Officer may not acquire or otherwise obtain any authorized investment described in this policy from a person who has not delivered to the County the Certification attached to this Policy as Exhibit 2. The Investment Officer may authorize an employee in his Department to act on his behalf.

The Investment Officer will: monitor the securities purchased in any county escrow account, monitor the quantity and character of any collateral posted against either deposits at a County Depository or any other investments requiring collateral, and reflect the results of this monitoring in his investment report. The Investment Officer, in his capacity as County Treasurer has the authority to release collateral.

### **Third Party Investment Officer**

Government Code §2256.005 permits the Commissioners' Court to contract with another investing entity to invest its funds. If the Commissioners' Court chooses to do so, the investment officer of the other investing entity is considered to be the investment officer of the County for purposes of the Public Funds Investment Act and this Investment Policy, and his actions are subject to this policy, Public Funds Investment Act and any other related laws in relation to the investment of Galveston County Funds.

### **Expiration of Authority**

Authority granted to a person to invest County funds is effective until:

- I. such authority is rescinded;
- II. the Investment Officer's term has expired;
- III. if the Investment Officer is an employee, his employment terminates; or
- IV. if the Investment Officer is an Investment Management firm, its contract expires

or is terminated.

### **Administrative Procedures**

The Investment Officer shall develop and maintain written administrative procedures for the operation of the investment program. Such procedures will be consistent with this investment policy and accounting procedures prescribed by the County Auditor. Such procedures shall also be in accordance with V.T.C.A., Government Codes, Chapters 2256 and 2257 and approved by the Commissioners' Court prior to implementation.

### **Internal Control**

The Investment Officer is responsible for establishing and maintaining an internal control structure designed to provide reasonable assurance the assets of the County are protected from loss, theft or misuse. The internal controls shall be annually reviewed by the Investment Committee. The controls shall be designed to prevent losses of Public Funds arising from fraud, employee misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the County shall and address the following points:

- A. Control of collusion.
- B. Separation of transaction authority from accounting and recordkeeping.
- C. Custodial safekeeping.
- D. Avoidance of bearer-form securities.
- E. Clear delegation of authority.
- F. Written confirmation for telephone transactions for investments and wire transfers.

### **Prudence**

The standard of prudence to be applied by the Investment Officer shall be the "Prudent Investor" rule which states, "All 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." 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 under the County's control, over which the officer had responsibility; and
- B. Whether the investment decision was consistent with the written investment policy of the County.

Notwithstanding the standard of prudence imposed on the Investment Officer, the Commissioners' Court retains ultimate responsibility as fiduciaries of the County's assets.

### **Nonculpability**

The Investment Officer, acting in accordance with written procedures and exercising due diligence, shall not be held personally responsible for a specific security's credit risk or market price changes, provided that these deviations are reported immediately and that appropriate action is taken to control adverse developments.

### **Quarterly Reports**

Not less than quarterly, the Investment Officer shall prepare and submit to the Commissioners' Court a signed quarterly investment report for all funds for the preceding reporting period. Each report will be submitted within 180 days of the end of the reporting period. The report will:

- A. Describe in detail the investment position of the County on the date of the report.
- B. 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, additions and changes to the market value during the period (performed monthly), the ending market value for the period and the fully accrued interest for the reporting period.
- C. State the book value, and market value and interest rate of each separately invested asset at the beginning and end of the reporting period by the type of asset and fund type invested.
- D. State the maturity date of each separately invested asset that has a maturity date.

- E. State the account or fund or pooled group fund for which each individual investment was acquired.
- F. State the name of the brokerage firm associated with each investment.
- G. State the account or fund or pooled group fund for which each individual investment was acquired.
- H. Contain a statement of compliance of the County's investment portfolio with State Law, its investment strategy and this Policy.
- I. If any investments are made in other than money market mutual funds, or accounts offered by the County's depository bank in the form of certificates of deposit, or money market accounts or similar accounts, the reports prepared by the Investment Officer shall be formally reviewed at least annually by an independent auditor and the result of the review shall be reported to the Commissioners' Court by that auditor.
- J. Contain a statement regarding the compliance of County Depositories and Broker/Dealers to fully collateralize county funds, where required.
- K. Contain a statement regarding the continued monitoring and compliance of trustee oversight of Galveston County escrow accounts.
- L. Contain a general overview of the current market and rate environments, and a brief investment plan for the next reporting period.

### **Liability of the County Treasurer**

As stated in V.T.C.A. Local Government Code, §113.005 the County Treasurer is not responsible for any loss of 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 funds, or from responsibility for funds until a depository is selected and the funds are deposited.

### **Investment Committee**

There is hereby established an Investment Committee. Members include the County Treasurer, the County Judge, the Director of Finance and Administration and an unpaid private sector investment professional appointed by the Commissioners' Court. A member may resign from the committee at will by advising the rest of the committee of their desire to do so in writing. The Investment Professional shall serve a term of two years, or until his/her successor

is appointed, beginning on September 30<sup>th</sup> of each even year. This individual's appointment is renewable for more than one term to a maximum of five (5) terms.

The Investment Committee shall serve in an advisory capacity only. The Committee shall perform such duties assigned to it by this Policy and such other duties as may, from time to time, be assigned to it by the Commissioners' Court.

The Investment Committee shall meet at least quarterly. It may meet more often as desired. Two members may request a meeting. Two members constitute a quorum.

The Investment Committee is charged with the duty of determining general investment strategies for the County and monitoring results. It shall include in its deliberations such topics as economic outlook, investment strategies, portfolio diversification and maturity structure, potential risks to County funds, authorized depositories, brokers and dealers, and the target rate of return on the investment portfolio.

The Investment Committee shall work in conjunction with the Investment Officer in the development of written investment procedures. Such procedures, upon approval of the Commissioners' Court, shall be utilized by the Investment Officer in making investments.

## **V. AUTHORIZED INVESTMENTS AND COMPETITIVE SELECTION CRITERIA**

**ALL INVESTMENTS MADE BY THE COUNTY MUST COMPLY WITH THE PUBLIC FUNDS INVESTMENT ACT, SUBCHAPTER A AND ALL FEDERAL, STATE, AND LOCAL STATUTES, RULES, OR REGULATIONS.**

### **Authorized Investments**

The Investment Officer, without further action by the Commissioners' Court, shall be authorized to utilize the following types of investments for the investment of County Funds:

1. **Obligations** of the United States Government in the form of Treasury Bills, Treasury Notes, and Treasury Strips (excluding any form of Treasury Receipts).
2. **Certificates of Deposits** at approved Depository Banks the payment of which is insured in full by the Federal Deposit Insurance Corporation and collateralized with direct obligations of the United States Government or direct obligations of any agency or



instrumentality of the United States Government (with the exception of derivatives) which is guaranteed by the full faith and credit of the United States Government and have a market value of not less than 110% of the principal amount of the certificates. This authorization excludes bearer form, negotiable CDs.

3. **Fully collateralized direct Repurchase Agreements** with a defined termination date, must be purchased pursuant to a Master Contractual Agreement in the form in Exhibit 1 which specifies the rights and obligations of both parties and which requires that securities involved in the transaction shall be pledged to the County, held in the County's name, deposited at the time the investment is made, and held in a third party Safekeeping Account subject to the approval, control, and custody of the County. (Known as a Tri-Party Repurchase Agreement) Issuers of Repurchase Agreements must wire transfer the collateral to the safekeeping agent through the Federal Reserve System. Collateral securities must be periodically monitored and shall consist of U.S. Treasury Securities and U.S. Agency Obligations (with the exception of derivatives) which shall have a daily calculated market value of not less than 102% of the principal amount of the funds disbursed and which must mature not later than the date stated in the Repurchase Agreement.

Before entering into a *Repurchase* Agreement with an issuer, that issuer must sign a Master Contractual Agreement in the form in Exhibit 1 and return it to the Investment Officer.

Acceptable Third Party Custodians on Tri-Party Repurchase Agreements include: Any approved Depository Bank, Bank of New York, the Federal Reserve Bank of Dallas or Chase Bank. Any other third party safekeeping agent must be approved by the County before execution of the Repurchase Agreement. The tri-party repurchase agreement shall be placed through an approved primary government securities dealer, as defined by the Federal Reserve, or an approved county depository bank.

4. **Money Market Investment Accounts** at approved Depository Banks, where not in conflict with the Depository Contracts.
5. **Negotiable Order of Withdrawal (NOW) Accounts** at approved Depository Banks, where not in conflict with the Depository Contracts.
6. **Local Government Investment Pools** that, from time to time, are recommended by the Investment Committee and approved by the Commissioners' Court. Designation as an approved Local Investment Pool does not ensure that funds will be placed with the Pool so designated. The Investment Officers will, at all times, maintain a current list of authorized, qualified and approved Local Investment Pools.
7. **CDARS: Certificates of Deposit Account Service** which are Multi-Million Dollar FDIC Insurance, under one agreement, earning one interest rate per investment, with option of

reinvesting.

**8. Obligations of, or Guaranteed by Governmental Entities**

A. Except as provided by Subsection (B), the following investments are permitted:

(1) other obligations of the United States or its agencies and instrumentalities.

(2) direct obligations of this State or its agencies and instrumentalities.

(3) 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

(4) 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 AA or its equivalent.

B. The following are not permitted investments inasmuch as they are not authorized by the Public Funds Investment Act or are not in the best interest of the County:

(1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal;

(2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest;

(3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years

(4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in market index (inverse floaters)

(5) agency subordinated debt; and

(6) corporate securities backed by agency letters of credit

No premium shall be paid for any of the above described debt instruments, negotiable instruments, or investment agreements where either the indentures or investment contracts provide for recall of the instruments and/or early payment by the debtors or obligor or where surrender or transfer of the instruments for cash may be required before their stated maturities.

## **Investments Requiring Additional Approval**

The Investment Officer, upon recommendation by the Investment Committee and prior approval being obtained by the Commissioners' Court, shall be permitted to utilize the following types of investments for the investment of County funds:

1. **Certificates of Deposit** issued by a State or National Bank other than an approved Depository Bank, a saving and loan association domiciled in this state, or a state or federal credit union domiciled in this state that is guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor; and collateralized with direct obligations of the United States Government or direct obligations of any agency or instrumentality of the United States Government (with the exception of derivatives) which is guaranteed by the full faith and credit of the United States Government and have a market value of not less than the principal amount of the Certificates
  
2. **Bankers' acceptance** if such Bankers' acceptance:
  - (1) has a stated maturity of 270 days or fewer 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.
  
3. **Commercial paper** if the commercial paper:
  - (1) has a stated maturity of 270 days or fewer from date of its issuance; and
  - (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.
  
4. (A.) **No-load money market mutual funds** if the mutual fund:
  - (1) is registered with and regulated by the Securities and Exchange Commission;

(2) provides the investing strategy 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.)

(3) has a dollar-weighted average stated maturity of 90 or fewer; and

(4) includes in its investment objectives the maintenance of a stable net asset value of \$1 for each share.

(5) has not caused a loss of Principal for a public entity.

(B.) The County is not authorized by this section to:

(1) 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 described in Subsection (A);

(2) invest any portion of bond proceeds, reserves and funds held for debt service in mutual funds described in subsection (A); or

(3) 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 described in Subsection (A) in an amount that exceeds 10 percent of the total assets of the mutual fund.

### **Competitive Selection Criteria**

Before the County invests any surplus funds, a well documented "bid/offer request" process shall be conducted by the Investment Officer which provides a public record available for audit and review. If a specific maturity date is required, either for cash flow purposes or for conformance to maturity guidelines, three bids/offers will be requested for instruments which meet the maturity requirement.

## **VI. INVESTMENT INSTITUTIONS**

The Investment Officer is authorized to utilize the following types of institutions or groups to facilitate the investment of County funds consistent with Federal and State Laws and the County's Bank Depository contracts, provided that each institution has been first duly authorized by Commissioners' Court, with each officials name or title recorded in the Court's minutes.

1. Depository Bank(s)
2. Securities and Investment Firms

3. Bank Dealers
4. An investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control. A contract made under authority of this subsection may not be for a term longer than two years. A renewal or extension of the contract must be made by the governing body of the investing entity by order, ordinance or resolution.

The Investment Officer shall maintain a listing of financial institutions which are approved by Commissioners' Court for investment purposes. Banks shall provide their most recent Consolidated Report of Condition at the request of the County. At a minimum, the County shall conduct an annual evaluation of each bank's creditworthiness to determine whether it should be on the "Approved Broker/Dealer and Bank" list.

Securities dealers not affiliated with a bank shall be required to be classified as reporting dealers affiliated with the New York Federal Reserve Bank, as primary dealers, unless a comprehensive credit and capitalization analysis reveals the firm is adequately financed to conduct public business.

A written copy of this Investment Policy shall be presented to any person offering to engage in an investment transaction with the County or to an investment management firm under contract with the County to invest or manage the County's investment portfolio. For purposes of this subsection, a business organization includes investment pools and an investment management firm under contract with an investing entity to invest or manage the County's investment portfolio. Nothing in this subsection relieves the County of the responsibility for monitoring the investments made by the investing entity to determine that they are in compliance with the investment policy. The qualified representative of the business organization offering to engage in an investment transaction with the County shall execute a written instrument in a form acceptable to the County and the business organization substantially to the effect that the business organization has:

- (1) received and reviewed the Investment Policy of the County; and
- (2) acknowledged that the business organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the County and the organization that are not authorized by the County's Investment Policy, except to the extent that this authorization is dependent on an analysis of the makeup of the County's entire portfolio or requires an interpretation of subjective investment standards.

This Article VI does not prohibit the County or the Investment Officer from using County employees or the services of a contractor to aid the Investment Officer in the execution of his duties under the Public Funds Investment Act.

## **VII. AUTHORIZED COLLATERAL AND COLLATERAL PROCEDURES**

The investment of any Galveston County funds shall be collateralized consistent with Federal and State statutes and regulations. Collateralized securities such as repurchase agreements shall be purchased using the “delivery vs. payment” procedure.

Certificates of Deposit must be guaranteed or insured as set forth in Article V. Collateral securities shall have a market value of not less than the principal amount of the certificates and will not consist of derivative investment instruments.

## **VIII. SAFEKEEPING AND CUSTODY**

The investment of all County funds shall be secured by written safekeeping documents which shall be held by a disinterested third party national bank, or the Federal Reserve, in the County's name. The safekeeping agent shall issue a safekeeping receipt to the County listing the specific instrument, par amount, maturity date, CUSIP number, transaction date, safekeeping receipt number, and other pertinent information required by the County. The custodian shall process all County security transactions on a "delivery vs. payment" basis. By so doing, County funds are not released until the County has received, through the Federal Reserve wire, the securities purchased.

## **IX. SELECTION AND COMPLIANCE OF BROKER/DEALERS AND OTHER QUALIFIED REPRESENTATIVES**

### **Broker/Dealer and other Qualified Representatives Questionnaire and Certification Requirements**

Before engaging in investment transactions with a broker/dealer not on the approved broker/dealer list, the Broker/Dealer must obtain a copy of the following forms from the Investment Officer:

1. Broker/Dealer Certification (Exhibit 2)
2. Broker/Dealer Questionnaire (Exhibit 3)
3. This Investment Policy Manual
4. Public Funds Investment Act
5. Delivery Instructions
6. Anti-Collusion Statement (Exhibit 4)
7. Capital Adequacy Guideline/Focus Statement (Exhibit 5)

The Broker/Dealer Questionnaire, Anti-Collusion Statement, Broker/Dealer Certification forms, financial statements, NASD Certification Proof, Texas State Securities Registration proof and proof of professional liability insurance policies must be completed by prospective security Broker/Dealers and given to the Investment Committee to enable the Investment Committee to have information needed to evaluate a firm's capabilities and potential risks. The certification form must

include a certification that the Broker/Dealer has personally received, reviewed, and understands the County's investments policies and has implemented reasonable investment transaction procedures and controls to facilitate compliance therewith. In addition, the County and the Broker/Dealer will, at all times, strive to preclude imprudent investment activities arising out of transactions conducted between the firm and the County. In order to accomplish this, the County also requires that all brokerage firms submit the most current U4 on each broker who will be servicing the County's accounts outlining any disciplinary history taken against the broker. The Broker/Dealer must also submit references by other public fund investment officers and provide evidence of capital adequacy along with a statement, in the form prescribed in Exhibit 5, that the firm voluntarily complies with the Federal Reserve's Capital Adequacy Guidelines (CAG).

### **Qualifications for Approval as Broker/Dealer**

Once prospective and currently authorized Broker/Dealers have completed the questionnaire and returned other required information, the Investment Committee shall perform an evaluation of responses and, if necessary, make recommendations to the Commissioners' Court to incorporate or delete Broker/Dealers from the approved Broker/Dealers list. The Investment Committee shall recommend for approval, Broker/Dealers which demonstrate possession of the following criteria:

1. Institutional Investment Experience;
2. Good References from public fund investment officers;
3. Adequate capitalization per the Capital Adequacy Guidelines for Government Securities Dealers published by the New York Federal Reserve Bank;
4. An understanding of the County's Investment Policies and Procedures;

5. Membership in good standing in the National Association of Securities Dealers, Inc.;
6. Valid licensure from the State of Texas;
7. A U4 reflecting high standards in business dealings with both public and private entities; and
8. Return all required documents, signed, and in the exact form as they were provided by Galveston County.

For Brokers/Dealers of government securities, the Investment Committee shall recommend only primary government securities dealers that report daily to the New York Federal Reserve Bank, unless a comprehensive credit and capitalization analysis reveals that the firm is adequately financed to conduct public business. The Investment Committee will not recommend a securities dealer with whom or through whom public entities have paid excessive prices.

Although having an office in Texas is not a required criteria, the County prefers working with Broker/Dealers with offices located in Texas.

### **Approval of Broker/Dealer**

The Commissioners' Court at least annually will approve Broker/Dealers recommended by the Investment Committee. The County may only purchase securities from authorized and qualified Broker/Dealers. Designation as a Broker/Dealer does not ensure that purchases of securities will be made by the County through such Broker/Dealer. The Investment Officer will at all times maintain a current list of authorized, qualified and approved Brokers/Dealers. The list will contain the date each such Brokers/Dealers was approved by the Commissioners' Court.

Due to the fluid nature of brokerage personnel within this industry, the County feels that it should preserve its relationship with the Dealer. In order to continue to do business with the County, the firm need not wait for yearly reapproval, but may resubmit paperwork covering a new broker servicing the account. This will be presented to the Investment Committee for re-approval. Brokers leaving a dealer for another firm must wait until the next approval period in order to submit an application as a Broker/Dealer for Galveston County.

### **Annual Review of Approved Broker/Dealers**

New applicants and currently utilized Broker/Dealers must comply with the County's requirements of Broker/Dealers and submit Questionnaires, Certifications, and References to the Investment Officer(s) or their designees by the date and time specified by the Investment Committee, unless an extension is provided to all applicants, equally, by the Investment Committee.



The Investment Committee shall review, revise, reevaluate and adopt a list of Broker/Dealers that are authorized to engage in investment transactions with the County. This list shall be approved by Commissioners' Court annually based on the following criteria:

1. Performance since the last review based on participation in competitive bids/offers documented on bid/offer sheets;
2. Activity level based on proposals presented since the last review; and
3. All qualification criteria considered initially in the selection of Broker/Dealers.

#### **Removal from Approved List**

The Investment Committee may recommend at any time that a Broker/Dealer be removed by the Commissioners' Court from the approved list for any of the following reasons:

1. Placing County funds at risk;
2. Inactivity of the Broker/Dealer institution;
3. Failure to maintain one or more of the criteria initially required in the Broker/Dealer selection process;
4. Offering to sell investments not in compliance with this Investment Policy;
5. Consistently causing an administrative burden by inaccurate documentation or untimely verifications of trade;
6. Consistently offering securities at non-competitive yield;
7. The approved qualified representative of the broker/dealer has;
  - a) been disciplined by a self-regulatory organization (NASD or NYSE)
  - b) settled with a customer for claims over \$15,000
  - c) been subjected to fines by their firm of over \$2,500
  - d) been held in violation of any securities act
  - e) been convicted of a criminal offense; or
8. For any other reason designated by the Investment Committee

## **X. ARBITRAGE**

The County will comply with all federal arbitrage regulations and bond covenants.

For compliance purposes, bond sale proceeds, investment proceeds, transferred proceeds, replacement proceeds, reserve and debt service funds may require diversification strategies by investment type, yield, and maturity.

Within the pooled bond funds and debt service funds portfolios, the proceeds of a single bond issue may be segregated and invested in a single eligible investment or group of eligible investments designed to facilitate arbitrage restrictions, arbitrage recordkeeping and calculation. Bond Funds, Debt Service Funds and related funds are to be kept separate from the general funds of the County until they are expended. The Investment Officer is charged with earning the highest possible yield on all bond funds without sacrificing this Investment Policy's emphasis upon Safety, Liquidity and Diversification.

The rules for the arbitrage rebate requirements stipulate that earnings from the investment of a tax-exempt issue, in excess of that earned at the yield on the issue (arbitrage), are paid (rebated) to the federal government. Investment of issue proceeds above the issue yield is allowable only during initial "temporary periods" as time periods specified by the rules. Issue proceeds may be invested without regard to yield only during this initial temporary period if certain tests are met. During the temporary period the Investment Officer will obtain the highest yield possible. The arbitrage yield restriction rules further require that after the expiration of an issue's temporary period investment of any remaining proceeds cannot exceed the yield on the issue. Following the temporary period, the Investment Officer must "yield restrict" remaining proceeds or else take corrective measures, one of which is to make a "yield reduction payment" to the federal government.

Investment of tax exempt proceeds, within the constraints of the arbitrage rebate and arbitrage yield restriction temporary period framework discussed above, requires that unexpended proceeds be invested at "fair market value" (FMV). The arbitrage regulations contain a number of safe harbor tests for establishing fair market value for certain types of investments.

The Investment Officer is responsible for investing bond proceeds and other related funds to ensure compliance with federal arbitrage regulations. These funds also include "escrow funds" containing proceeds of a refunding issue established for the purpose of paying principal and interest on a prior or refunded issue. Earnings on the proceeds of a refunding issue are also subject to yield restriction at the refunding issue yield. The Investment Officer will monitor these funds to ensure that the reinvestment of maturing securities actually takes place that the targeted securities are available at the time of need, and that yield restriction is not violated.

## **XI. PORTFOLIO MONITORING, EVALUATION, AND COMPLIANCE**

The Investment Officer will routinely monitor the contents of the portfolios, the available markets and the relative values of competing instruments, and will adjust the portfolios accordingly. Market Value shall be established from a reputable and independent source readily available to the Investment Officer. Alternatively, fair market value may be established from the firm which originally sold the security to the County.

As set forth in §2256.023 of the Government Code Investment Reports will be submitted to the Commissioners' Court quarterly. The reports will contain sufficient information to permit evaluation of the investment program. These reports will also address compliance with this Investment Policy.

## **XII. INVESTMENT ACCOUNTING**

The accounting for investments shall be in conformity with Generally Accepted Accounting Principles (GAAP). The primary source of GAAP for counties is the Governmental Accounting Standards Board (GASB). The Financial Accounting Standards Board (FASB) is secondary, and other sources are acknowledged by the Statement on Auditing Standards No. 69 of the AICPA which is lower in the GAAP hierarchy.

Pursuant to V.T.C.A., Local Government Code §112.006, the County Auditor shall keep a set of investment accounting subsidiary records which fully support all investment transactions performed by the Investment Officer. The Investment Officer shall also maintain detailed investment accounting records.

Pursuant to V.T.C.A., Local Government Code §112.002, the County Auditor shall prescribe the system of accounting for investments consistent with GAAP.

## **XIII. AUDITS**

### **Annual Independent Compliance Audit**

Concurrent with the County's annual independent financial audit, a compliance audit of investments shall be performed to test management controls and adherence to this Investment Policy.

### **Internal Audit**

Pursuant to V.T.C.A., Local Government Code §115.003, the County Auditor shall fully examine the condition of, or shall inspect and count, the cash held by the County Treasurer or held in a bank in which the County Treasurer has placed the cash for safekeeping. The County Auditor shall make sure that all balances to the credit of the various funds are actually on hand in cash and

that none of the funds are invested in any manner except as authorized by law.

#### **XIV. INVESTMENT POLICY REVIEW AND AMENDMENT PROCEDURES**

##### **Review Procedures**

The Investment Committee shall review this Investment Policy and its exhibits at least annually and recommend revisions due to legislative actions and changing market conditions to the Commissioners' Court for its written approval.

##### **Changes to Investment Policy**

Revisions to this Investment Policy must be approved by the Commissioners' Court before they become effective.

#### **XV. GENERAL CONSTRUCTIVE AND INTERPRETIVE PROVISIONS**

##### **General Provisions:**

This policy shall be construed to give all of the authorization intended for the investment of all portfolios.

The Commissioners' Court shall resolve any questions about interpretation of any portion of this policy.

If there is any conflict between this policy and the state constitution or any state or federal law or any rule adopted in accordance therewith, this policy prevails to the greatest extent possible without violating such constitution, federal or state law or rule.

Words and phrases that have acquired a technical or particular meaning whether by definition in this policy or otherwise, are construed according to the acquired meaning.

Throughout this policy, headings for sections, subsections and portions of the text are inserted for convenience only. These headings are not to be construed to expand or limit the interpretation of the text that follows the heading.

When a period is stated in days, the days are construed as calendar days unless otherwise stated. If the last day of any period is a Saturday, Sunday or County holiday, the period is extended to include the next day that is not a Saturday, Sunday or County holiday.

##### **Effective Date**

The Galveston County Investment Policy is effective upon adoption by the Commissioners'

Court.

**EXHIBIT 2**

**CERTIFICATION**

I, \_\_\_\_\_, a Qualified Representative acting on behalf of \_\_\_\_\_, a business organization offering to engage in an investment transaction with Galveston County hereby certify that \_\_\_\_\_, has personally received, thoroughly reviewed, and understand the investment policies of Galveston County. \_\_\_\_\_, has also implemented reasonable procedures and controls designed to fulfill those objectives and conditions; to facilitate compliance with the County's Investment Policy; and to preclude investment transactions conducted between the County and the organization that are not authorized by the County's investment policy, except to the extent that this authorization is dependent on an analysis of the makeup of the County's entire portfolio or requires an interpretation of subjective investment standards. Transactions conducted between this firm and Galveston County will be directed towards precluding imprudent investment activities and protecting the County from credit and market risk.

All the sales personnel of this firm dealing with Galveston County's account have been informed of the County's investment horizons, limitations, strategy and risk constraints.

This firm will notify the Investment Officer immediately by telephone and in writing in the event of a material adverse change in our financial condition.

The firm pledges to exercise due diligence in informing the Investment Officer of foreseeable risks associated with financial transactions connected to this firm.

Firm

Primary Representative

Signature

Name

Title

Date

**Exhibit 3**

**GALVESTON COUNTY, TEXAS**

**Broker/Dealer Questionnaire**

1. Name of firm \_\_\_\_\_
  
2. Address \_\_\_\_\_ (Local) \_\_\_\_\_ (National  
Offices) \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
  
3. Telephone Number (\_\_\_\_) \_\_\_\_\_ Local \_\_\_\_\_  
(\_\_\_\_) \_\_\_\_\_ National Headquarters \_\_\_\_\_
  
4. Primary representative/manager/partner-in-charge  
Name: \_\_\_\_\_ Name: \_\_\_\_\_  
Title: \_\_\_\_\_ Title: \_\_\_\_\_  
Telephone No. \_( ) \_\_\_\_\_ Telephone No. \_( ) \_\_\_\_\_
  
5. Are you a primary dealer in U.S. Government securities?  
[ ] Yes [ ] No
  
6. If so, for how long has your firm been a primary dealer? \_\_\_\_\_ years
  
7. What was your firm's total volume in U.S. Government and agency securities trading \_\_\_\_\_ last  
year?  
Firm-wide \_\$ \_\_\_\_\_ Number of transactions \_\_\_\_\_  
Your local office \_\$ \_\_\_\_\_ Number of transactions \_\_\_\_\_
  
8. Which instruments are offered regularly by your local desk?

- |   |   |
|---|---|
| <input type="checkbox"/> T-bills              | <input type="checkbox"/> BAs (domestic)   |
| <input type="checkbox"/> Treasury notes/bonds | <input type="checkbox"/> BAs (foreign)    |
| <input type="checkbox"/> Agencies (specify)_  | <input type="checkbox"/> Commercial paper |
| <input type="checkbox"/> _____                | <input type="checkbox"/> Bank CDs         |
| <input type="checkbox"/> _____                | <input type="checkbox"/> S & L CDs        |
| <input type="checkbox"/> Instruments          | <input type="checkbox"/> Other (specify)  |
| <input type="checkbox"/> _____                | <input type="checkbox"/> _____            |
| <input type="checkbox"/> _____                | <input type="checkbox"/> _____            |

9. Identify all personnel who will be trading with or quoting securities to Galveston County employees.

<u>Name</u>	<u>Title</u>	<u>Telephone Number</u>
_____	_____	( ) _____
_____	_____	( ) _____
_____	_____	( ) _____
_____	_____	( ) _____
_____	_____	( ) _____

10. Which of the above personnel have read our government's investment policies?

_____	_____
_____	_____

11. Please indicate which agents of your firm's local offices currently are licensed, certified, or registered, and by whom.

<u>Agent</u>	<u>Licensed or Registered by</u>
_____	_____
_____	_____
_____	_____

12. Please identify your public-sector clients in our geographical area who are most comparable to the County of Galveston.

<u>Entity</u>	<u>Contact Person</u>	<u>Telephone No.</u>	<u>Client Since</u>
_____	_____	( ) _____	_____
_____	_____	( ) _____	_____



13. Have any of your public-sector clients ever sustained a loss on a securities transaction arising from a misunderstanding or misrepresentation of the risk characteristics of the instrument? If so explain.

14. Have any of your public-sector clients ever reported to your firm, its officers, or employees, orally or in writing, that they sustained a loss (in a single year) exceeding 10 percent of original purchase price on any individual security purchased through your firm? Explain.

15. Has your firm ever been subject to a regulatory or state federal agency investigation for alleged improper, fraudulent, disreputable, or unfair activities related to the sale of government securities or money market instruments? Have any of your employees ever been so investigated by a regulatory, state, or other agencies? Explain.

16. Has a public-sector client ever claimed in writing that your firm was responsible for investment loss? Explain.

17. Please include samples of research reports that your firm regularly provides to public-sector clients.

18. Please explain your normal custody and delivery process. Who audits these fiduciary systems?

19. Please provide certified financial statements and other indicators regarding your firm's capitalization.

20. Describe the capital line and trading limits that support/limit the office that would conduct business with Galveston County.

21. What training would you provide to our employees and investment officers?

22. Has your firm consistently complied with the Federal Reserve Bank's capital adequacy guidelines? As of this date, does your firm comply with the guidelines? Has your capital position ever fallen short? By what factor (1.5x, 2x, ect.) does your firm presently exceed the capital adequacy guidelines? Include certified documentation of your capital adequacy as measured by the Federal Reserve standards.

23. Do you participate in the SIPC insurance program? If not, explain why not.

24. What portfolio information do you require from your clients?

25. What reports, transactions, confirmations and paper trail will we receive?

26. Enclose a complete schedule of fees and charges for various transactions.

27. How many and what percentage of your transactions failed last month? Last Year?

28. Describe the precautions taken by your firm to protect the interests of the public when dealing with governmental agencies as investors.

I attest to the accuracy of responses to this questionnaire.

Signed: \_\_\_\_\_

Date: \_\_\_\_\_

(Countersigned by company president or person in charge of government securities operations.)

\_\_\_\_\_

**EXHIBIT 4**

**GALVESTON COUNTY**

**ANTI-COLLUSION AGREEMENT**

I, \_\_\_\_\_ acting on behalf of \_\_\_\_\_, hereby certify and affirm that neither I nor my firm have entered into any agreement, contract, arrangement or understanding with any employee of Galveston County that in any manner would defraud the County;

Neither I nor my firm have entered into any agreement with any person that would conspire to affect the County of Galveston's Investments;

Neither I nor my firm have offered to give, nor intend to give at any time hereafter any economic opportunity, future economic opportunity, special discount, gratuity, loan or service to any employee(s) in connection with my business relationship with the County of Galveston;

Neither I nor my firm have utilized any information obtained in whole or in part as a result of my business relationship with the County of Galveston for personal economic gain or for the benefit of others.

Firm

Signature

Name

Title

Date

**EXHIBIT 5**

**GALVESTON COUNTY**

**CAPITAL ADEQUACY GUIDELINE/FOCUS STATEMENT**

In the case of banks and primary dealers, Galveston County requires a statement from any firm applying for broker/dealer approval stating that they currently comply with the Federal Reserve's Capital Adequacy Guidelines ("CAG").

All other applicant firms are required to provide a statement that they currently comply with all capital adequacy requirements as set forth by the National Association of Securities Dealers and the Securities and Exchange Commission, as reported in their quarterly Financial and Operation Combined Uniform Single Reports ("FOCUS"). The firm's latest FOCUS report is to be attached to this statement.

By signing below, the applicant states that it currently complies with either CAG or FOCUS requirements, that it will continue to do so and that it will immediately notify the County if it fails to continue to do so. The firm also agrees to, at least yearly, obtain independent certification by an outside auditor that the broker/dealer firm has complied with either the CAG or FOCUS standards over the previously audited period.

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*FIRM*

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*SIGNATURE*

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*NAME*

---

*TITLE*

---

*DATE*