



Investment Policy



As of July 11, 2005

Prepared by: Edward A. Dion, County Auditor
500 East San Antonio Street, Room 406
El Paso, Texas 79901-2407
(915)546-2040



COUNTY OF EL PASO
OFFICE OF THE COUNTY AUDITOR

EDWARD A. DION, CPA, CIO
COUNTY AUDITOR
edion@epcounty.com
www.epcounty.com/auditor

ROOM 406, COUNTY COURTHOUSE BUILDING
500 EAST SAN ANTONIO STREET
EL PASO, TEXAS 79901-2407
(915) 546-2040
(915) 546-8172 FAX

A 07-04

July 1, 2005

The Honorable Dolores Briones
County Judge
and County Commissioners
Room 301, County Courthouse Building
500 East San Antonio
El Paso, Texas 79901

Dear County Judge and Commissioners:

The revised investment policy manual for fiscal year 2005 for the County of El Paso is submitted herewith. This policy provides strict guidelines for investing the County's funds in compliance with applicable legal requirements.

This document describes, in detail, the procedures the county auditor's office will follow to invest the County's idle funds prudently. If you have any questions concerning any of this information, please contact Mr. James Utterback, cash management and debt service supervisor, at extension 3267 or me.

Very truly yours,

Edward A. Dion
County Auditor

EAD:JU:rao

cc: Mrs. Lee Shapleigh, Assistant County Attorney
Mr. James O. Manley, Chief Deputy Administrator
Mr. Craig Gibson, CPA, Dunbar, Broaddus, Gibson, L. L. P.

County of El Paso, Texas Investment Policy

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Investment Policy

Policy Statement

It is the policy of the County of El Paso, Texas (County) to invest idle cash of all funds under the control and custody of the county auditor in a manner maintaining the safety of principal and liquidity of the invested funds while providing a reasonable rate of return.

Authority to Invest Funds

Texas Local Government Code §116.112, authorizes Commissioners Court to invest idle cash in accordance with *Texas Government Code §2256.003(a)*.

Delegation of Authority

According to *Texas Government Code §2256.005 (f)*, the Commissioners Court, by order expressly designates the county auditor as investment officer to be responsible for the investment of the County's funds consistent with this investment policy.

The county auditor establishes written procedures for the operation of the investment program consistent with this investment policy. Authority granted to the county auditor to invest the County's funds is effective until rescinded by the Commissioners Court or termination of the county auditor's employment with the County. County auditor personnel authorized to initiate investment related activities are the investment supervisor, investment analyst, and two alternate employees. All treasury division personnel have access to approve investment transactions initiated by the investment division personnel. The county auditor or a designee in the absence of the county auditor, will review all investment transactions for approval and assure adequate security measures are in place. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the county auditor. The county auditor is responsible for all investment transactions undertaken and has established a system of internal controls to regulate the activities of associated subordinates.

Scope

This investment policy applies to all funds of the County under the control and custody of the county auditor, which the Commissioners Court has authority to invest, unless expressly prohibited by law or is in contravention of any depository contract between the County and our depository bank. These funds include but are not necessarily limited to the:

- General Fund
- Special Revenue Fund
- Debt Service Fund
- Capital Projects Fund

Scope (continued)

Enterprise Fund

Internal Service Fund

Agency Fund

Any other funds held in the custody of the county auditor as provided by law.

Prudence and Ethical Standards

The standard of prudence to be applied by the investment officer is the "prudent investor" rule, as stated in *Texas Government Code §2256.006(a)*, "Investments shall be made with the 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 and the probable income to be derived."

Investment of funds held in custody by the county auditor shall be governed by the following investment objectives, in order of priority:

1. Preservation and safety of principal;
2. Liquidity;
3. Diversification of the investment portfolio; and,
4. Yield.

As stated in the *Texas Government code §2256.006(b)*, in determining whether an investment officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration:

1. the investment of all funds, or funds under the entity's control, over which the officer had responsibility rather than a consideration as to the prudence of a single investment; and
2. whether the investment decision was consistent with the written investment policy of the entity.

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

Quality and Capability of Investment Management

El Paso County insures the quality and capability of the County's investment personnel by providing periodic training in investments for all personnel involved in the investment process through courses and seminars offered by professional organizations and associations, in accordance with *Texas Government Code* §2256.005(b)(3) and §2256.008.

Disclosure of Personal Business

An investment officer for the County of El Paso 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 with the Texas Ethics Commission and Commissioners Court, in accordance with *Texas Government Code* § 2256.005(i). An investment officer has a personal business relationship with a business if:

1. The investment officer 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 investment officer from the business organization exceed 10 percent of the investment officer's gross income for the previous year; or,
3. The investment officer 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 investment officer.

An investment officer who is related within the second degree of affinity or consanguinity, as determined under *Texas Government Code* § 573, to an individual seeking to sell an investment to the County shall file a statement disclosing that relationship with the Texas Ethics Commission and Commissioners Court.

Investment Objectives

The investment objectives for all funds in the custody of the county auditor are to:

1. Insure the **preservation and safety of principal**. Capital losses should be avoided, whether they may be from erosion of market value or security defaults;
2. **Minimize all unnecessary investment risks**, in spite of any possible increase in investment income;
3. **Insure liquidity so that sufficient funds are available** to meet immediate short-term needs for the daily operations of the fund;

Investment Objectives (continued)

4. **Attain the best yield or rate of return** allowed through the prudent and legal investments of County funds throughout budgetary and economic cycles. The County's risk constraints and the cash flow characteristics of the investment portfolio should be taken into consideration for each investment;
5. Provide **diversification** within each of the funds where permissible to avoid an over concentration of funds in a single investment type;
6. **Regulate cash flow** by determining the amount of money to be invested and the time to maturity based on the anticipated cash flow needs through continuous forecasting.

Investment Strategies

Investment Strategy for all Funds

The main investment objective for all funds is to create a diversified structure that will insure the preservation and safety of principal while minimizing volatility during economic cycles. The secondary objective is insuring that sufficient funds are available to meet cash flow needs. The third objective is to invest in eligible securities that will yield the highest rate of return possible while maintaining the safety of principal. Suitable investments to accomplish this are high quality, marketable, short to medium term that complement each other in a laddered maturity structure.

General, Special, Enterprise and Internal Service Funds

All investments approved by Commissioners Court and that meet the projected cash flow needs of the individual accounts are suitable for these funds.

Debt Service Fund

All investments approved by Commissioners Court which have a maximum stated maturity of less than 365 days or will mature on or before the next debt service payment date, whichever is shorter for the particular debt service account, are suitable for this fund.

Capital Projects Fund

The suitable investments for this fund are high quality, marketable, short-term investments whose maturities match the projected draw down schedule for each project, if available. When no draw down schedule is available or the project has exceeded the draw down schedule, all investments must be in the shortest-term possible in order to maintain the highest level of liquidity. A fourth objective for this fund is to comply with arbitrage yield restrictions.

Investment Strategies (continued)

Agency Fund

The suitable investments for this fund are high quality, marketable, short-term investments whose maturities match the projected cash flow needs of each fund. A fourth objective for this fund is to invest the funds as required by the agency.

Safety of Principal

The County of El Paso seeks to minimize the risk of loss due to the failure of a security issuer or grantor. To minimize this risk, the County purchases only securities approved by Commissioners Court, requires prior approval of qualified representatives/business organizations with which it transacts business, diversifies investments based on each fund's cash flow and liquidity needs, monitors the market price of investments through independent sources such as the Wall Street Journal or through an approved broker/dealer other than the one that sold the security to the County.

All security investments are executed on a **delivery-versus-payment (DVP)** basis. Securities will be held by the County's custodial agent, which is designated as custodian and evidenced by receipts. The only exception is investments made into an investment pool(s) approved by Commissioners Court.

Eligible Investments

As provided in the *Public Funds Investment Act*, except those specifically not authorized in *Texas Government Code § 2256.009(b)*, the following investments may be made under the county auditor's control:

- Obligations of, or guaranteed by, governmental entities, (see § 2256.009)
- Certificates of Deposit and Share Certificates, guaranteed by FDIC (Federal Deposit Insurance Corporation) or its successor or NCUSIF (National Credit Union Share Insurance Fund) or its successor or fully collateralized (see § 2256.010)
- Repurchase Agreements, with approved master purchase agreement, not to exceed 90 days (see § 2256.011)
- Banker's Acceptance, not to exceed 270 days (see § 2256.012)
- Commercial Paper, not to exceed 270 days (see § 2256.013)
- Mutual Funds, not to exceed 90 days (see § 2256.014)
- Guaranteed Investment Contracts if approved by Commissioners Court (see § 2256.015)
- Investment pools as approved by Commissioners Court, such as TexPool (see § 2256.016)

The county auditor may invest the County's idle funds without prior Commissioners Court approval in: (see appendix D for types of securities)

Eligible Investments (continued)

- a) United States Treasury bills, bonds, and notes;
- b) Fully insured and/or collateralized Certificates of Deposit;
- c) TexPool and other authorized investment pools in compliance with the *Public Funds Investment Act*, the County's Investment policy and maintains a AAA or AAA-m or an equivalent rating from at least one nationally recognized rating service.
- d) Securities from the following United States Agencies that are backed by the full faith and credit of the United States of America:

- Government National Mortgage Association (GNMA) (Ginnie Mae)
 - Small Business Administration (SBA)
 - Export-Import Bank (EXIM BANK)
 - Farmers Home Administration (FmHA)
 - General Services Administration (GSA)

- e) Securities from the following United States Instrumentalities that are backed by the full faith and credit of the instrumentality and have an "implied" backing of the United States of America:

- Federal National Mortgage Association (FNMA) (Fannie Mae)
 - Federal Home Loan Bank (FHLB)
 - Federal Home Loan Mortgage Corporation (FHLMC) (Freddie Mac)
 - Federal Farm Credit Bank (FFCB)

- f) Repurchase agreements through the County's depository bank with an approved master repurchase agreement not to exceed 4 days.
- g) Commercial paper through an authorized investment pool.

If an investment becomes ineligible because of loss of the minimum required rating or possible default, then it no longer qualifies as an authorized investment. The county auditor shall take all prudent measures consistent with this investment policy to liquidate the investment.

Ineligible Investments

The following investments are **not** authorized investments for the County of El Paso:

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

Applications for approval as Broker/Dealer

In accordance with the *Texas Government Code §2256.005(k)*, a written copy of this investment policy shall be presented to the qualified representative of the business organization offering to engage in an investment transaction with the County. To qualify for approval, a broker/dealer must submit a written application that complies with the following requirements:

- 1. Completes and signs the County's certification letter;
- 2. Provides references by public fund investment officers;
- 3. Provides latest audited financial statements;
- 4. Provides evidence of capital adequacy;
- 5. Acknowledges receipt, thorough review and understanding of the County's investment policy;
- 6. Acknowledges 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; and
- 7. Completes and returns the broker/dealer questionnaire.

Qualifications for approval as Broker/Dealer

Applications received from broker/dealer/business organizations are reviewed by the cash management and debt service supervisor and budget and finance manager for completeness and conformity with the County's investment policy. Acceptable applications are recommended to the county auditor for review and approval. The county auditor reviews the application and if approved, an item is placed on the Commissioners Court agenda for the court to approve or disapprove adding the broker/dealer to the County's authorized list. To be recommended for approval, a broker/dealer/business organization must meet and demonstrate 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 Federal Reserve Bank of New York;
4. Be examined by and/or subject to the rules and regulations of one or more of the following agencies:
 - a. Securities and Exchange Commission (SEC);
 - b. Federal Deposit Insurance Corporation (FDIC);
 - c. National Credit Union Share Insurance Fund (NCUSIF);
 - d. New York Stock Exchange (NYSE);
 - e. Federal Reserve System; or
 - f. The Comptroller of the Currency.
5. Membership in good standing in the National Association of Securities Dealers (NASD);
6. Valid registration with the Texas State Securities Commission;
7. Acknowledgment of thorough review and understanding of this investment policy;
8. Acknowledgment of the implementation of 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; and
9. Be one or more of the following types of institutions or groups:

Qualifications for approval as Broker/Dealer (Continued)

- a. The County's depository bank(s);
- b. Any other bank that is insured by FDIC or NCUSIF and meets the County's collateralization requirements;
- c. Any primary dealer affiliated with the Federal Reserve Bank of New York is preferred. It is acknowledged that being affiliated with the Federal Reserve Bank of New York is not a guarantee of credit worthiness; all others must be thoroughly reviewed and approved prior to any purchases being made;
- d. Any secondary dealer affiliated with a primary dealer who is affiliated with the Federal Reserve Bank or its branches (see Appendix B).

Approval of Broker/Dealers

In accordance with *Texas Government Code §2256.025*, Commissioners Court shall, at least annually, review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the County. Commissioners Court bases its review on the recommendations of the county auditor and may approve any number of qualified broker/dealers. The County of El Paso and the county auditor may only purchase securities from approved broker/dealers. The county auditor may remove any broker/dealer from the approved list for failing to comply with the County's investment policy and notice of this removal will be given to Commissioners Court.

Annual Review of Approved Broker/Dealers

All approved applicants must submit a new certification letter, broker/dealer questionnaire, audited financial statements within 60 days of the date the County's revised investment policy is sent to them. The applications are then reviewed by the cash management and debt service supervisor and the county auditor, after which, a list of qualified broker/dealers is submitted to Commissioners Court for approval.

Removal from Approved List

The county auditor may review and reevaluate the broker/dealers currently on the approved list at any time when the county auditor discovers good cause. The county auditor may immediately remove any broker/dealer from the approved list for the following reasons:

1. Placing the County's funds at risk;
2. Failure to maintain the requirements of this investment policy;

Removal from Approved List (continued)

- 3. Failure to comply with the *Texas Public Funds Investment Act*;
- 4. Offering to sell investments other than eligible investments described in this policy to the County; or
- 5. Consistently causing an administrative burden by inaccurate documentation, attempting to submit oral bids, or late verification of trade.

Diversification of the Investment Portfolio

Diversifying the Investment Portfolio by Type

The county auditor minimizes the risk of loss of principal in the investment portfolio by diversifying investments by type and maturity. The county auditor maintains diversity in the types of eligible investments limiting the maximum percentage that may be invested in each type of eligible investment to the percentages listed as follows:

<u>Type of Investment</u>	<u>Percentage Limit</u>
Obligations of the U. S. Treasury Bills, Bonds, and Notes,	100%
Obligations of U. S. Agencies and Instrumentalities,	75%
Certificates of Deposit issued by a state or national bank domiciled in Texas or a savings and loan association domiciled in Texas,	100%

TexPool if the following conditions are met:

- 1. Is organized under the *Interlocal Cooperation Act*, as amended;
- 2. Is authorized by Commissioners Court;
- 3. TexPool complies with all requirements of the *Texas Public Funds Investment Act*.

The County may invest..... 100%

Diversifying the Investment Portfolio by Type (Continued)

Other Local Government Investment Pools (LGIP) if the following conditions are met:

- 1. The LGIP is organized under the *Interlocal Cooperation Act*, as amended;
- 2. Is authorized by Commissioners Court;
- 3. Individual securities have a maximum maturity of two years or less in accordance with the *Public Funds Investment Act*; and
- 4. The LGIP complies with all requirements of the *Texas Public Funds Investment Act*.

The County may invest..... 20%

Repurchase agreements if the following conditions are met:

- 1. Is authorized by Commissioners Court;
- 2. A master repurchase agreement is signed by both parties;
- 3. Accounts and funds have been designated by the County Auditor;
- 4. The funds are in excess of the compensating balances required to the accounts;
- 5. The repurchase agreement is collateralized at least a 102% of the market value of the funds invested;

Diversifying the Investment Portfolio by Maturity

The county auditor monitors the maturity of all investments in the portfolio to minimize the risk of loss from interest rate fluctuations and to ensure that the maturities do not exceed the projected cash flow requirements within the portfolio. The maximum allowable stated maturity of any individual investment in the investment portfolio is as follows:

<u>Type of Investment</u>	<u>Maturity Limit</u>
Obligations of the U. S. Treasury Bills, Bonds, and Notes,	3 years
Obligations of U. S. Agencies and Instrumentalities,	3 years

Diversifying the Investment Portfolio by Maturity (continued)

Local government investment pools (LGIP) if the following conditions are met:

1. The LGIP is organized under the *Interlocal Cooperation Act*, as amended;
2. The LGIP is authorized by Commissioners Court;
3. The LGIP complies with all requirements of the *Texas Public Funds Investment Act*.

The County may invest funds for 1-90 days

Repurchase agreement..... 90 days

Commercial paper (through investment pool only) 270 days

Diversification Restrictions by Fund

General Fund

The general fund has no other restrictions except by type and maturity as described above.

Special Revenue Fund

The special revenue fund is restricted to a maximum maturity of one year or less, due to the short-term nature of these funds. Investments in the special revenue fund are restricted to maturities that meet the projected cash flow needs of the fund.

Debt Service Fund

Investments in the debt service fund are restricted to a maximum maturity of less than one year, with investments scheduled to mature on or before the debt service payment dates.

Capital Projects Fund

Capital projects fund investments may be restricted to shorter maturities due to cash flow requirements. Additional restrictions may be placed on the capital projects fund due to arbitrage restrictions.

Diversification Restrictions by Fund (continued)

Enterprise Fund

Enterprise fund investments are restricted to maturities that meet the projected cash flow needs of the fund.

Internal Service Fund

The internal service fund investments are restricted to short term maturities of six months or less, due to the unpredictability of the cash flow needs for this fund.

Agency Fund

Agency fund investments are restricted as to the type and maturity by various legal statutes and the unpredictability of the cash flows. The most suitable investments for the agency funds are those that mature in three months or less.

Competitive Selection of Investment Instruments

The County requires competitive bids on all securities purchases, except for those transactions in LGIPs, government securities purchased at a favorable rate that requires quick action in order to secure the rate at the discretion of the county's investment officer or government securities purchased through an approved broker/dealer at the auction price. **At least three broker/dealers** must be contacted in all securities transactions. If a specific maturity date is required, either for cash flow purposes or for conformance to maturity guidelines, bids are requested for instruments which meet that maturity requirement or are as close to but do not pass the maturity date. Bids are requested from broker/dealers for various options in regard to terms and instruments. The County accepts the bid which provides the highest rate of return within the maturity required and is submitted within the deadline specified on the bid sheet and within the parameters of this policy.

Investment pool rates may be accepted without soliciting competitive bids from broker/dealers. Records are kept of the bids received, time the bid is received and the bid(s) accepted.

Safekeeping and Collateralization

All investment securities pledged to the County are held in a third-party safekeeping account by an institution designated as primary agent. The primary agent issues a safekeeping receipt to the County listing the specific instrument, rate, maturity and other pertinent information.

Certificates of deposit are insured by the FDIC and/or collateralized by U.S. Treasury or Government or agency securities. Other investments are collateralized by the actual security held in the safekeeping account

Safekeeping and Collateralization (continued)

by the primary agent. Collateral for investment pools approved by Commissioners Court will be held in the sole possession of their trust company in a book entry safekeeping account at a third party bank. Collateral for LGIP on all investments is held in book entry safekeeping account at the third party bank, or an independent third party institution designated by LGIP on behalf of LGIP.

The County's deposits in its depository bank are collateralized by FDIC insurance and securities held in the County's name at the third party bank.

Investment Procedures

The County receives revenues from various sources, which are distributed among various funds. The daily receipts in excess of disbursements are deemed cash available for investment and are invested either in the County's depository bank, United States Government securities, Agency securities, investment pools or other investments as approved by Commissioners Court.

The investment analyst is required to invest through the following steps. An investment schedule is prepared daily evaluating projected cash available on the books for investment in each fund. This is determined by adding the balance carried forward from the prior month to all the current month's receipts and disbursements. All receipt and disbursement information is provided near the end of the business day by the treasury division. The following morning, an analysis is made between the cash available on the books and funds deposited in the county depository that are not immediately required to pay obligations of the County, commonly known as "float", to determine the amount to be invested. Once the amount to be invested is determined an analysis is made of the various investment types available to determine what to invest in and for how long.

After the schedule is completed and the amount to be invested is determined, it is reviewed by the cash management and debt service supervisor for approval. After approval is given, an investment is made in one or more of the authorized investment types as stated in this policy. The County's funds are invested in securities through a competitive bid process involving approved securities broker/dealers, whereby the investment analyst, for audit trail purposes, prepares and sends a bid sheet specifying the type and maturity of security to be purchased or sold to the approved broker/dealers for bids. A confirmation sheet is printed for each bid request faxed to broker/dealer as backup that the broker/dealer(s) were sent a bid request. Three bids are solicited. Broker/dealers are selected on a rotational basis if the County has more than three approved broker/dealers, so that all broker/dealers are given a fair chance to bid. **Broker/dealer(s) are required to return the investment bids by a specified time deadline by either E-Mail or facsimile and all bids must be in writing.** After their bids are received, the investment analyst evaluates the bids on the bid analysis worksheet. The bids are ranked from the highest rate of return to lowest. The investment analyst then calls the broker/dealer with the highest rate of return to purchase the securities. In the event that the highest broker/dealer is unable to provide the securities, the investment analyst will proceed to the broker/dealer with the second highest rate of return. If the two highest broker/dealers are unable to provide

Investment Procedures (continued)

the securities then it will be re-bid on the next business day. The same procedure applies to the sale of securities in case of an urgent need of funds. Due to time limitations imposed by the market in purchasing governmental securities, the county auditor generally reviews and approves this worksheet after the instruments have been purchased by authorized personnel as designated in this policy. **Bids that do not meet the County's time deadline will not be considered.**

After all decisions have been made to purchase securities, the investment analyst prepares a wire transfer form that details the specifications of the security investment. Authorized signatures from the county auditor's office and the treasury division are required to purchase securities and complete the wire transaction. The wire transfer form is then facsimiled to our depository bank or safekeeping bank for further wire transfer credit to the winning broker/dealer. All securities transactions are settled on a "**delivery versus payment**" basis, that is, County funds are not released until the County's depository bank has received the securities purchased. Three or more bids are also taken if and when a decision is made to sell securities. Securities are sold in order to meet funding requirements. Securities are normally purchased on a "next day settlement" basis and sold on a "same day basis".

TexPool, an investment pool of public funds, is an investment alternative for local governmental entities participating in the Texas State Comptroller's investment pool. TexPool offers safety, efficiency and liquidity to its participants and also provides a high rate of return on its investments as well as investment expertise.

Due to the time constraints imposed by TexPool, all investments and/or withdrawals must be made by 4:00 PM., central time. As set forth in *Texas Government Code §2256.051*, any local government may use electronic means to transfer or invest any and all funds collected. After the TexPool transaction is completed, the wire is initiated through the County's depository bank's electronic transfer system currently being utilized by the investments division to initiate the transfer of funds into authorized TexPool investments. The treasury division is responsible for confirming the investment and providing secondary authorization. Without secondary authorization, the transaction is invalid. After the transaction is completed, a proposal is prepared to determine from where the invested funds will be applied in the consolidated fund.

As TexPool investments have very high liquidity, funds can be invested and withdrawn within 24 hours or less. The County's outstanding investments schedule must also be updated with the new information as well as the TexPool worksheets. The TexPool worksheets are set up by month in order to maintain a reconcilable format for all TexPool investments. These worksheets maintain a daily interest earning balance for each investment and are helpful in reconciling at the end of each month.

Investment Procedures (continued)

After the proposal is done, along with the schedule, a copy of the treasury's daily cash balance, and the County's outstanding investments schedule are submitted to the county auditor for approval. Due to the tight time constraints involved, the investments are made before the county auditor reviews and approves the funds invested.

After an investment is completed, the information is recorded on a schedule called the County's outstanding investments which is categorized by fund. This schedule is run on a personal computer macro which generates a recapitulation showing all the investments outstanding and maturity dates. Transfer form vouchers are prepared for each fund and attached to the electronic transfer forms to be entered on the County's Financial Accounting Management Information System (FAMIS).

Investment activities from Friday through Thursday will be entered in FAMIS no later than Friday, but in most instances should be entered within 48 hours after they arise to assure that records reflect the most accurate and current financial picture possible. After all investments have been entered into the system, the investment schedule must be reconciled with FAMIS on a monthly basis using Report 17. In addition, the TexPool worksheet is reconciled against the TexPool monthly statement. These reconciliations verify that all investments have been entered correctly and are in agreement with the schedules.

Internal Control

An annual external financial audit will be conducted by an independent auditing firm in conjunction with the yearly annual financial audit, as well as an internal annual compliance audit both of which will focus on management controls of investments and adherence to the County's established investment policies in accordance with the *Texas Government Code, §2256.005(m)*. As part of the internal control, each schedule is prepared and initialed by the investment analyst, reviewed, approved and initialed by the cash management and investment supervisor, a manager, and subsequently reviewed, approved and initialed by the county auditor. In addition, the electronic transfer forms are signed by independent authorized personnel whose names are listed on the electronic transfer agreement with the depository bank and also by the treasury division personnel in positions of authorization as set forth in this document before transmitting to our depository. These internal controls are designed to reduce the risk of loss of public funds due to fraud, error, misrepresentation, or imprudent actions.

Reporting Requirements

The investment analyst generates daily schedules that show the current cash balances in our depository accounts, as well as any items maturing, anticipated payments, investments going out that have not been posted by the treasury, estimated payrolls and checkruns, and any adjustments to be made by the treasury. Also, a summarization of the portfolio's activity is presented daily to the county auditor detailing amounts maturing by date. In addition, on a monthly basis, the investment analyst produces a listing of the portfolio showing the detail of each investment. For example, the listing shows the yield at which it was purchased, the cost of each item bought and the type of investment. On a monthly basis a summarized

Reporting Requirements (continued)

investment portfolio is presented to the Commissioners Court members in the interim financial report showing total outstanding investments by type.

Not less than on a quarterly basis, the investment officer shall prepare and submit to the Commissioners Court a written report of investment transactions for all funds for the preceding reporting period within a reasonable time after the end of the period. The report must:

- (1) Describe in detail the investment position of the County on the date of the report;
- (2) Be prepared by the investment officer of the County;
- (3) Be signed by the investment officer of the County.
- (4) Contain a summary statement prepared in compliance with GAAP, of each pooled fund group that states the:
 - (A) beginning market value for the reporting period;
 - (B) additions and changes to the market value during the period;
 - (C) ending market value for the period; and
 - (D) fully accrued interest for the reporting period;
- (5) State the book value and market value of each separately invested asset at the beginning and end of the reporting period by the type of asset and fund type invested and the cash balances for each fund.
- (6) State the maturity date of each separately invested asset that has a maturity date.
- (7) State the account, fund or pooled group fund in the County for which each individual investment was acquired; and
- (8) State the compliance of the investment portfolio of the County as it relates to:
 - (A) the investment strategy expressed in the County's investment policy; and
 - (B) relevant provisions of this chapter.

Reporting Requirements (continued)

As part of the annual County audit reports prepared by the investment officer, shall be formally reviewed by the County's independent auditor and the result of the review shall be reported to Commissioners Court.

Notification of Investment Changes

It shall be the duty of investment officer to place before the Commissioners Court any significant changes to current investment methods and procedures prior to their implementation. On an annual basis, the investment policy will be revised and formally presented to the Commissioners Court for familiarization, approval and to advise the court of any changes in the investment process.

Selection of County Depository

In order for a financial institution to be the County's depository, it must first go through the County's banking services procurement process, which includes a formal request for proposals issued, at least, every 2 years and not more than 4 years. A financial institution must comply with the requirements of the *Public Funds Collateral Act (Texas Government Code, §2257)* and *Texas Local Government Code, §116* as part of the County's banking services procurement process.

Investment Officer Training

It is the County's policy to provide training required by the *Public Funds Investment Act, §2256.007* and periodic educational training relating to the investment officers duties which must include investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with this investment policy. The investment officer and all staff involved in the investment process shall attend these courses or seminars offered under a curriculum approved by the State Auditor and Commissioners Court. The investment officer shall attend at least one training session relating to the responsibilities under the *Public Funds Investment Act* within twelve months of taking office. The investment officer and all staff involved in the investment process shall attend an investment training session not less than once in a two year period and receive not less than 10 hours of instruction relating to investment responsibilities under the *Public Funds Investment Act*.

Authorized sources in obtaining training are:

The Texas Higher Education Coordinating Board
Government Finance Officers Association
Government Finance Officers Association of Texas
Government Treasurers Organization of Texas
Texas Association of Counties
University of North Texas

Investment Officer Training (continued)

County Treasurers Association of Texas
A Texas Institute of Higher Education
Texas State Board of Public Accountancy

Appendix A

Texas Local Government Code, § 116.112

Chapter 116

**Vernon's Texas Code Annotated, Government Code Title 10,
Chapters 2256 and 2257**

Government Code 2256

Government Code 2257

**Vernon's Texas Code Annotated, Government Code, Title 5,
Chapter 573**

Chapter 573

**Vernon's Texas Code Annotated, Government Code, Title 7,
Chapter 791**

Chapter 791

Appendix B

**Certification Letter,
Broker/Dealer Questionnaire,**

**Texas Public Funds Investment Act
Certification by Business Organization**

This certification is executed on behalf of the County of El Paso, Texas (County) and _____ (the Business Organization) pursuant to the Public Funds Investment Act, Chapter 2256, Texas Government Code (the Act) in connection with investment transactions conducted between the County and the Business Organization.

The undersigned Qualified Representative of the Business Organization hereby certifies on behalf of the Business Organization that:

1. The undersigned is a Qualified Representative of the Business Organization offering to enter an investment transaction with the County as such terms are used in the Public Funds Investment Act, Chapter 2256, Texas Government Code,
2. The Qualified Representative of the Business Organization has received and reviewed the investment policy of the County, and
3. The Qualified Representative of the Business Organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the Business Organization and the County 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.

Qualified Representative of the Business Organization

Signature _____

Name _____

Title _____

Date _____

**County of El Paso, Texas
Broker/Dealer Questionnaire**

Name of Firm: _____

Name of Parent Company (if applicable): _____

Address: _____

Phone: (____) _____ - _____ (800) _____ - _____

Fax: (____) _____ - _____ E-Mail _____

Registered principal: _____

Title: _____

Account Representative: _____

Title: _____

Backup Representative: _____

Title: _____

Do you have an office of the firm for brokerage or other services located within our area? _____

Address of office _____

Has/have the representative(s) listed above been authorized by the firm to be the account representative(s) for the County of El Paso, Texas? _____

By Whom? _____

Please provide a separate sheet of background information concerning the account representative(s) listed above.

How long has the direct representative been an institutional governmental securities broker? _____

How long has the direct representative been an institutional fixed-income broker? _____

Is your firm a member of NASD (National Association of Securities Dealers)? _____

If not, why? _____

Place an "X" by each regulatory agency that your firm is examined by and/or subject to its rules and regulations.

FDIC _____ SEC _____ NYSE _____ Federal Reserve System _____

Comptroller of Currency _____

Do you have full SIPC (Securities Investor Protection Corporation) insurance coverage? _____

Please provide information on a separate sheet regarding additional coverage for your customers in case of default or failures.

Does the firm have primary dealer status with the Federal Reserve Bank of New York? _____

How long has the firm had primary dealer status? _____

Are the firm and the account representative(s) registered with the Texas State Securities Commissioner? _____

Since? _____

Please provide references from at least four comparable public sector clients. We would prefer public sector clients located in the State of Texas, if possible.

Client Name _____

Address _____

Person to contact _____

Telephone Number _____ Length of relationship _____

Client Name _____

Address _____

Person to contact _____

Telephone Number _____ Length of relationship _____

Client Name _____

Address _____

Person to contact _____

Telephone Number _____ Length of relationship _____

Client Name _____

Address _____

Person to contact _____

Telephone Number _____ Length of relationship _____

The following section is to be completed by any firm that does not currently hold primary dealer status.

In which market sectors does the local firm/desk specialize, if any? _____

Please identify your most directly comparable public sector clients. _____

How long has your firm been in business? _____

Are you a subsidiary of another firm? _____

If yes, which firm? _____

How long have the two firms been associated? _____

What was the firm's total volume in United States Treasuries and agencies for the last fiscal year?

Firm wide: \$ _____

This office: \$ _____

Is your firm an inventory dealer? _____

Do you take a position in securities that you sell or buy? _____

Does your firm comply with the SEC (Securities Exchange Commission) net capital guidelines on a continuous basis? _____ How much excess capital do you maintain? _____

Through which firm do you clear? _____

Do you clear on a fully disclosed basis, i.e., will the clearing firm be acting as principal on the transaction?

Please attach a separate sheet with your full delivery instructions.

Please return to:

Edward A. Dion
El Paso County Auditor
500 East San Antonio, Room 406
El Paso, Texas 79901-2407

Appendix C

Investment Pool Questionnaire

County of El Paso, Texas Investment Pool Questionnaire

Name of Investment Pool or Mutual Fund _____

Name of Managing firm(s) _____

Address: _____

Phone: () _____ - _____ (800) _____ - _____

Fax: () _____ - _____ E-Mail _____

Web Site _____

Registered Principal: _____

Title: _____

Account Representative: _____

Title: _____

Backup Representative: _____

Is the Investment Pool or Mutual Fund continuously rated by at least one nationally recognized investment rating firm?

Moody's _____ Rating _____ Standard & Poor's _____ Rating _____

Fitch _____ Rating _____

Other specify _____ Rating _____

Please return to:

Edward A. Dion
El Paso County Auditor
500 East San Antonio, Room 406
El Paso, Texas 79901-2407

Appendix D

List of Primary Government Securities Dealers

http://www.ny.frb.org/markets/pridealers_listing.html

Appendix E

Texas Local Government Investment Pool (TexPool) Investment Policy

TexPool Investment Policy

Appendix F

Types of Securities

Securities Types

United States Treasury Securities

U.S. Treasury – Bill (T-Bill) A treasury bill is an obligation of the United States Government to pay the bearer a fixed sum on a specific date. T-Bills are sold at a discount from their par (face) value. The return on investment is the difference between the discounted purchase price and the selling price or face value at maturity. T-Bills are short-term securities with fixed maturity of one year or less. T-Bills are backed by the full faith and credit of the United States Government.

U.S. Treasury – Notes and Bonds (T-Notes, T-Bonds) T-Notes and T-Bonds are coupon securities paying interest every six months. T-Notes have a fixed maturity of not less than one year or more than ten years. T-Bonds are securities with maturities of more than ten years. T-Notes and T-Bonds are sold at a premium or discount depending on the coupon rate of the security. Interest is accrued for those T-Bonds purchased between interest periods. T-Notes and T-Bonds are backed by the full faith and credit of the United States Government.

United States Government Agency and Instrumentality Securities

Agencies

Government National Mortgage Association (GNMA) (Ginnie Mae) GNMA exists to provide a secondary market for real estate mortgages and therefore spur private housing in the economy. The most attractive securities offered by the GNMA and available to government investors are “fully modified pass-through mortgages”. The mortgages are pooled into mortgage-backed pools by GNMA. The pools are structured to provide good diversification and value. The securities have stated maturities equal to the underlying mortgages, which range from 12 to 40 years. The GNMA guarantee of timely principal and interest payments is backed by the full faith and credit of the United States Government.

Export-Import Bank (EXIMBANK) The Export-Import Bank was founded in 1934 and operates under an authority granting broad powers to finance and facilitate exports of U.S. products by extending loans, guarantees and export credit insurance. All contractual liabilities of EXIMBANK constitute general obligations of the United States Government and are backed by its full faith and credit. This is a program designed for economic development purposes and not for investment purposes. Such loans are not liquid and are bought simply as a buy-and-hold proposition.

Small Business Administration (SBA) Credited in 1953, the Small Business Administration, provided loans to small business through the issuance of Debentures under the Small Business Investment Company Program, Regular Business Loan Program, Single Loan Sales, SBA Loan Pools, and Certified Development Company Program. Although these debentures are backed by the full faith and credit of the United States Government, they are long-term investments and lack liquidity.

Tennessee Valley Authority (TVA), Established by an act of congress in 1933 to develop the resources of the Tennessee Valley region. TVA bonds are not obligations of, nor are they guaranteed by, the United States.

General Services Administration (GSA), established by the Federal Property and Administration Services Act of 1949. The GSA issues participation certificates to fund the construction and purchase of public buildings. These certificates are backed by the full faith and credit of the United States Government. These certificates are long term and have no ready market.

Maritime Administration Merchant Marine Obligations are issued and guaranteed in accordance with the provisions of the merchant Marine Act of 1936 as amended by the Ship Financing Act of 1972. The obligations are guaranteed by the full faith and credit of the United States Government. These obligations are long term investments and lack marketability.

Instrumentalities

Federal National Mortgage Association (FNMA) (Fannie Mae) Fannie Mae was incorporated in 1938 as a corporation Wholly owned by the government. In 1968, congress enacted legislation to privatize Fannie Mae. By 1970, Fannie Mae completed the transition and officially became a private corporation. The obligations of Fannie Mae are not guaranteed by United States Government and do not constitute a debt or obligation of the United States government or any agency thereof.

Federal Farm Credit Bank (FFCB) Federal Farm Credit Bank bonds are not backed by the full faith and credit of the United States government. The bonds are secured by collateralized obligations of the banks operating under federal charter with governmental supervision.

Federal Home Loan bank (FHLB) system was organized in 1932, under the Federal Home Loan Bank Act and restructured under the Financial Institutions Reform Recovery, and Enforcement Act of 1989 (FIRREA). Twelve District Banks comprise the system and are distributed geographically around the country. The obligations of the system are not backed by the full faith and credit of the United States Government. However, the banks are required to maintain secured advances, guaranteed mortgages, U. S. Government securities or cash in an account at least equal in size to its outstanding obligations.

Federal Home Loan Mortgage Corporation (FHLMC) also known as Freddie Mae, is a government-sponsored enterprise chartered under Title III of the Emergency Home Finance Act of 1970. Freddie Mae purchases residential mortgages from individual lenders, groups the mortgages onto pools and subsequently sells mortgage-backed pass-through securities backed by such mortgages. Freddie Mae Guarantees timely payment of principal and interest. These securities are not backed by the full faith and credit of the United States Government.

Student Loan Marketing Association (SLMA) also, known as Sallie Mae was established in 1972, by congress, as a private not-for-profit Corporation. Sallie Mae obtains funds from the sale of its debt obligations. These obligations are not backed by the full faith and credit of the United States government.

Financing Corporation (FICO) was chartered by the Federal Home Loan Bank board in 1987. FICO's sole purpose was to provide a financing vehicle for recapitalizing the reserves of the Federal Savings and Loan Insurance Corporation (FSLIC). FICO's are secured by United States Treasury obligations, which are held in a separate account. Obligations of FICO are not backed by the full faith and credit of the United States Government. All FICO obligations are long-term obligations (30 years) and are therefore not suitable for short-term investment.