Investment Policy

Adopted
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County of El Paso, Texas Investment Policy
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Investment Policy

Purpose

The purpose of this investment policy ("Policy") is to comply with the terms of the Texas Government Code, Chapter 2256 ("Public Fund Investment Act – PFIA") § 2256.005(a), which requires El Paso County ("County") to adopt a written investment policy describing the policies and procedures for the investment of funds under the County's control.

Policy Statement

It is the policy of the 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 county funds in accordance with *PFIA §2256.003(a).*

Delegation of Authority

According to *PFIA §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.

As a matter of information, the El Paso County voters abolished the office of county treasurer in 1986. Local Government Code §83 .007 provides that, in a county for which the office of county treasurer has been abolished, a reference to the county treasurer in the LGC or other state statutes means the person who performs the powers or duties of the county treasurer in that county. Since Commissioners Court directed the County Auditor to perform all of the statutorily mandated treasury functions after the office of County Treasurer was abolished, state law provisions referring to county treasurer duties now are read as applying to the County Auditor.

Investment transactions including the receipt, disbursement or transfer of funds between depository accounts including the system of wiring of funds are prescribed by the County Auditor pursuant to Local Government Code sections 112.002(a), 112.006(a)(b), 115.003, 116.112(a), and § 156.003. Disbursement of funds may only be transacted from the County's depository accounts as prescribed and authorized by the County Auditor.

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 financial reporting/analysis/audit - manager, audit accountant seniors, and two alternate employees. All Cash Management-Audit personnel (formerly known as the County Auditor Treasury division), except clerks and generalists, have authority to secondarily approve investment transactions initiated by authorized personnel only after first being reviewed and approved by any one of the following County Auditor, First Assistant County Auditor, or the Director of Financial Operations.

Delegation of Authority

Appropriate County Auditor staff will review proposed investments to validate funds availability, term and maturity date to ensure meeting future obligations of the respective funds prior to actual disbursement of funds. No person may effectuate an investment transaction except as provided under the terms of this policy and the internal procedures prescribed by the County Auditor. The County Auditor is responsible for approval of all investment transactions undertaken with County’s the public funds 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
Enterprise Fund
Internal Service Fund
Agency Fund
Any other funds held in the custody of the County Auditor as provided by law.

Investment Advisor

In accordance with *PFIA §2256.003(b)* Commissioners Court may contract with an investment management firm registered under the Investment Advisors 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 Commissioners Court order.

Prudence and Ethical Standards

The standard of prudence to be applied by the investment officer is the "prudent investor " rule, as stated in *PFIA §2256.006(a)*, "Investments shall be made with the judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person’s own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived."

Investment of funds 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; and
3. Yield.

Prudence and Ethical Standards (Continued)

As stated in the *PFIA §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 and PFIA Training

El Paso County ensures the quality and capability of the County's investment personnel by requiring the investment officer and personnel to attend at least one training session or a series or online training sessions from an independent source approved by the Commissioners Court containing ten or more hours of training related to the duties under the PFIA within 12 months of assuming the duties and attend an investment training session not less than once in a two-year period that begins on the first day of the County's fiscal year and consists of two consecutive fiscal years after that date, and receive not less than 10 hours of instruction relating to investment responsibilities from an independent source approved by Commissioners Court , in accordance with *PFIA §2256.008(a)*. Training under *PFIA §2256.008(c)* must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with the PFIA.

It is the County's policy to provide training required by the *PFIA §2256.008* and periodic educational training relating to the investment officer's duties which must include investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with this investment policy and Government Code §2256. The investment officer and all staff involved in the investment process shall attend these courses or seminars offered by an independent source approved by Commissioners Court. The investment officer shall attend at least one training session relating to the responsibilities under the *PFIA* 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 *PFIA.*

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

Quality and Capability of Investment Management and PFIA Training (Continued)

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

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 *PFIA §2256.005(i)*. An investment officer has a personal business relationship with a business if:

1. The investment officer owns ten 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 ten 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 or has a personal business relationship 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. Ensure the **preservation and safety of principal**. Capital loses 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. **Ensure liquidity so that sufficient funds are available** to meet immediate short-term needs for the daily operations of the fund;

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;

Investment Objectives (Continued)

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 ensure the preservation and safety of principal. Other objectives include ensuring sufficient funds are available to meet cash flow needs; investing in eligible securities that will yield the highest rate of return possible while maintaining the safety of principal; and diversification of the investments within each fund, subject to the restraints of the fund to minimize market volatility. Suitable investments to accomplish these objectives 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. Another objective for this fund is to comply with arbitrage yield restrictions.

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. Another objective for this fund is to invest the funds as required by the agency.

Safety of Principal

Safety of principal is the primary objective of the County's investment policy. To achieve this objective the County seeks to mitigate its exposure to credit and interest rate risks.

Safety of Principal (continued)

A. Credit Risk – the County minimizes credit risk, the risk that an issuer or other counterparty to an investment will not fulfill its obligations, by:

   (1) Limiting investments to the safest types of investments allowed under PFIA and approved by Commissioners Court.

   (2) Pre-qualifying the financial institutions and broker/dealers with which the County will do business.

   (3) Diversifying and/or collateralizing the investment portfolio to minimize potential losses on individual issuers.

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

B. Interest Rate Risk – the risk that changes in interest rates will adversely affect the County's investments is minimized by:

   (1) Structuring the investment portfolio so investment maturities match cash flow needs for ongoing operations and avoiding the need to liquidate investments prior to maturity.

   (2) Diversifying the maturities and purchase dates to minimize the impact of market movements over time.

   (3) Investing in the highest yield and maturity that will meet the County's cash flow needs.

C. Foreign Currency Risk – the County minimizes its foreign currency risk by not investing in any investments that would expose the County to this risk.

Eligible Investments

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

- Obligations of, or guaranteed by, governmental entities, (*PFIA §2256.009*)
- Certificates of Deposit and Share Certificates, guaranteed by FDIC (Federal Deposit Insurance Corporation) or its successor; NCUSIF (National Credit Union Share Insurance Fund) or its successor; or those fully collateralized in accordance with Government Code 2257 (*PFIA §2256.010*)
- Repurchase Agreements, with approved master repurchase agreement, not to exceed 90 days (*PFIA §2256.011*)
- Securities Lending Program, must meet the terms and conditions provided in PFIA (*PFIA §2256.0115)*

Eligible Investments (Continued)

- Banker's Acceptance, not to exceed 270 days (*PFIA §2256.012*)
- Commercial Paper, not to exceed 270 days and rated not less than A-1 or P-1 or equivalent (*PFIA §2256.013*)
- Mutual Funds must comply with the Securities Exchange Commission Rule 2a-7(*PFIA §2256.014*)
- Guaranteed Investment Contracts if approved by Commissioners Court (*PFIA §2256.015)*
- Local Government Investment pools as approved by Commissioners Court (*PFIA §2256.016*)

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

a) United States Treasury bills, bonds, and notes;

b) Fully insured and/or collateralized Certificates of Deposit;

c) Authorized Local Government Investment Pools (LGIP) in compliance with the *Public Funds Investment Act*, the County's Investment policy and maintain an 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)
Tennessee Valley Authority (TVA)

f) Repurchase agreements through the County's depository bank with an approved master repurchase agreement not to exceed four days.

g) State and local government bonds issued by the State of Texas or a local government entity within the State of Texas with a bond rating of AA or better. This type of investment is restricted to the general fund only and the total for this type of investment may not exceed ten percent of the fund balance for the general fund and the maximum maturity of an individual bond is not to exceed three years

Eligible Investments (Continued)

h) Certificate of deposit or share certificate issued by a depository institution that has its main office or a branch office in Texas, is guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or its successor or the National Credit Union Share Insurance Fund (NCUSIF) or its successor.

i) Certificates of deposit when the funds are invested through a broker or depository institution that has its main office or a branch office in Texas, is selected from the approved list, and arranges for the deposit of the funds in one or more federally insured depository institutions, wherever located, for the account of County and the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an Instrumentality of the United States. Where the County appoints the County depository or safekeeping bank or a clearing broker-dealer registered with the SEC and operating pursuant to SEC Rule 15c3-3 (17 C. F. R. Section 240.15c3-3) as custodian for the County with respect to the certificates of deposit issued for the account of the County. This program is commonly known as Certificate of Deposit Account Registry Service (CDARS).

j) Commercial paper through an authorized investment pool.

Pursuant to *PFIA §2256.017, except as provided by Texas Government Code, §2270,* the County is not required to liquidate investments that were authorized investments at the time of purchase.

Under *PFIA §2256.021,* if an investment becomes ineligible because of loss of the minimum required rating or possible default, and 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 pay 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 ten 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 *PFIA §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.

Applications for approval as Broker/Dealer (Continued)

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. Completes the broker/dealer questionnaire that provides information regarding creditworthiness, experience and reputation;

3. Provides references by public fund investment officers;

4. Provides latest audited financial statements;

5. Provides evidence of capital adequacy;

6. Acknowledges receipt, thorough review and understanding of the County's investment policy;

7. Acknowledges 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. "Business organization" means an investment pool or investment management firm under contract with the County.

8. Any Broker/Dealer seeking to do business with the County must provide only eligible investments as described in this investment policy as authorized for the County to invest in.

Qualifications for approval as Broker/Dealer

Applications received from broker/dealer/business organizations are reviewed for completeness and conformity with the County's investment policy by the audit accountant senior(s), Financial Reporting/Analysis/Audit – manager senior, and either director of financial operations, or county auditor first assistant. 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 Board of Governors of the Federal Reserve System;

4. Be examined by and/or subject to the rules and regulations of one or more of the following agencies:

Qualifications for approval as Broker/Dealer (Continued)

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;
g. Financial Industry Regulatory Authority (FINRA);
h. Municipal Securities Rulemaking Board (MSRB);

5. Registered with the Financial Industry Regulatory Authority (FINRA) and provide the FINRA Reports for both the broker and the firm;

6. If a seller of municipal bonds, should comply with the Municipal Securities Rulemaking Board (MSRB) rules and regulations;

7. Valid registration with the Texas State Securities Commission;

8. Acknowledgment of thorough review and understanding of this investment policy;

9. 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. "Business organization" means an investment pool or investment management firm under contract with the County.

10. Be one or more of the following types of institutions or groups:

    a. The County's depository bank(s);

    b. Any other financial institution that has its main office or a branch office in Texas and 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;

    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 *PFIA §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.

If the County has contracted with a Registered Investment Advisor for the management of its funds, the advisor shall be responsible for performing due diligence on and maintaining a list of broker/dealers with which it shall transact business on behalf of the County. The advisor shall annually present a list of its authorized broker/dealers to the County for review and likewise shall execute the aforementioned written instrument stating that the advisor has reviewed the County's investment policy and has implemented reasonable procedures and controls in an effort to preclude imprudent investment activities with the County. The advisor shall obtain and document competitive bids and offers on all transactions and present these to the County as part of its standard trade documentation.

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 audit accountant senior(s), Financial Reporting/Analysis/Audit – manager senior, and either director of financial operations, or county auditor first assistant, or the County Auditor then review the applications, 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 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;
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 by limiting the maximum percentage that may be invested in each type of eligible investment to the percentages listed as follows:

Type of Investment	Percentage Limit
Obligations of the U. S. Treasury Bills, Bonds, and Notes, ...	100%

Diversifying the Investment Portfolio by Type (Continued)

Obligations of U. S. Agencies and Instrumentalities, ...100%

Certificates of Deposit issued by a depository institution that has its main office or a branch in Texas and is guaranteed or insured by FDIC or its successor or NCUSIF or its successor, and collateralized for any amount over the insured amount with U.S. Securities at 102% or a letter of credit from FHLB, ...100%

Certificates of Deposit purchased through a CDARS program. All individual CDs purchased through the CDARS Program will have a total principal and interest of less than the FDIC insurance cap. Limited to 20 percent of the fund balance of the general fund as reported in the prior year's Comprehensive Annual Financial Report..............................20%

State or local government bonds issued by the State of Texas or a local government within the State of Texas, limited to ten percent of the fund balance of the general fund as reported in the prior year's Comprehensive Annual Financial Report..10%

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;*
5. The LGIP must be continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service and have a weighted average maturity no greater than 90 days. *PFIA §2256.019*

The County may invest.. 100%

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:

Type of Investment	Maturity Limit
Obligations of the U. S. Treasury Bills, Bonds, and Notes,	10 years
Obligations of U. S. Agencies and Instrumentalities,	10 years
State or local government bonds issued by the State of Texas or a local government within the State of Texas	3 Years

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 *PFIA*

The County may invest funds for (with funds rolling over daily)	1 day
Repurchase agreement	4 days
Certificates of Deposit	24 months
Domestic commercial paper (purchased 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.

Diversification Restrictions by Fund (Continued)

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.

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 bidding for all individual security purchases except those transactions with MMMFs, LGIPs, treasuries purchased through Treasury Direct Accounts, and government securities purchased at issue through an approved broker/dealer at auction price. At **least three broker/dealers** must be contacted in all other 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 exceed 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, is submitted within the deadline specified on the bid sheet and within the parameters of this policy. **All bids must be in writing.** Records are kept of the bids received, time the bid is received, and the bid(s) accepted.

Investment pool rates may be accepted without soliciting competitive bids from broker/dealers.

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 thru and in collaboration with the County's depository bank. The primary agent issues a safekeeping receipt to the County listing the specific instrument, rate, maturity and other pertinent information.

Safekeeping and Collateralization (Continued)

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 by the primary agent.

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.

Reporting Requirements

An audit accountant senior generates daily schedules that show the current cash balances in the County's depository accounts, as well as any items maturing, anticipated payments, investments going out that have not been posted by Cash Management/Audit (Treasury), check-runs, and any adjustments to be made by the treasury. In addition, 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, an audit accountant senior 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 investment portfolio is presented to the Commissioners Court in the County Auditor's 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 officers of the County;

(3) Be signed by all investment officers and employees of the County involved in the investment process (GC Section 2256.023);

(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;

Reporting Requirements (Continued)

(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 PFIA §2256;

(9) Benchmark the performance of the portfolio against the average rate of return on U.S. Treasury Bills at a maturity level comparable to the portfolio's weighted average maturity in days.

As part of the annual County audit the County's independent auditor shall perform a compliance audit of management controls and adherence to the County's established investment policies, and the results 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 reviewed, revised as needed 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 two years but not more than four 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.

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
<u>Certification by Business Organization</u>

This certification is executed on behalf of the County of El Paso, Texas (County) and ____________________________ (the Business Organization) 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. Public Fund Investment Act § 2256.005 (k): nothing in this Certification relieves El Paso County of the responsibility for monitoring the investments made by El Paso County to determine that they are in compliance with the El Paso County Investment Policy,

2. 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,

3. The Qualified Representative of the Business Organization has received and reviewed the investment policy of the County, and

4. For an investment pool or investment management firm contracted with the County. 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

Firm ____

Firm Representative ______________________________________

Representative's Title _____________________________________

Signature ____

Date ____

County of El Paso, Texas
Broker/Dealer Questionnaire

Name of Firm: ____

Name of Parent Company (*if applicable*): ____

Local Address:____

National Address:____

____

Phone: (_____) ______-__________________ (800) ______-_______________________________

Fax: (_____) _______-___________________ E-Mail _____________________________________

Registered principal: ____

Title: ____

Account Representative: ____

Title: ____ CRD# _______________________

Backup Representative: ____

Title: ____ CRD# _______________________

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? ____

Identify all personnel who will be trading with the El Paso County cash/investment management staff (additional back-ups)

Name	Title	CRD number
______________________	___________________________	_______________________
______________________	___________________________	_______________________

PLEASE ATTACH RESUMES of all the above persons.

Have all of the above personnel read our investment policies and procedures and signed our certification?

Yes [ ]   No [ ]

If the above answer is no, please explain: ____
____

If you are a broker/dealer or subsidiary of a national bank, is your firm licensed to do business in Texas?
Yes [ ] No [ ]

If you are a broker/dealer or subsidiary of a national bank, is your firm a member of Financial Industry Regulatory Authority (FINRA) in good standing?
Yes [ ] No [ ]

Please provide your firm's CRD number _____________________

What was your firm's trading volume in United States Government and Agency securities for the most recent fiscal year?

Firm-wide? $__________________________
Number of Transactions _____________
Local Office $ _________________________
Number of Transactions _____________

Which instruments are offered regularly by your local desk?

[ ] Treasury Bills
[ ] Treasury notes/bonds
[ ] Agencies-specify

____
____

[ ] Commercial paper
[ ] Other-specify

____
____

Please identify at least three of your most directly comparable public sector clients in Texas who have done business with the primary representative

Entity	Contact Person	Telephone No.	Client since
______________________	______________________	____________	______________
______________________	______________________	____________	______________
______________________	______________________	____________	______________

Has your firm or any of your employees ever been investigated by a regulatory or state agency for alleged improper, fraudulent, disreputable, or unfair business practices in the sale of securities or money market instruments? If yes, please explain:

____
____
____

Please provide the most recent AUDITED financial statements for your firm.

Please provide your most recent FOCUS report.

Is your firm a subsidiary of another firm? [ ] yes [ ] no. if yes please provide the most recent audited financial statements for your parent corporation.

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 FINRA (Financial Industry Regulatory Authority)? __________________

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? __________

SIPC policy number ____\

Does the business organization have additional insurance coverage? _____ if yes, provide name of company, policy number, and amount____

____

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 Board?

____

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
800 East Overland, 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 ______________________________

Website ____

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
800 East Overland, Room 406
El Paso, Texas 79901-2407

Appendix D

List of Primary Government Securities Dealers

https://www.newyorkfed.org/markets/primarydealers.html

Appendix E

Types of Securities

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 Stated 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.

Farmers Home Administration (FmHA) is an agency of the U. S. Department of Agriculture authorized by congress in 1946 to provide financing for housing, business, and community facilities in rural areas. The program's full name is the USDA Rural Development Guaranteed Housing Loan Program.

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. *Fannie Mae was placed under Federal government conservatorship in September 2008 due to a significant decline in the underlying market value of the mortgage loans it held and guaranteed. As a result the U.S. government effectively owns and operates Fannie Mae.*

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 Mac is a government-sponsored enterprise chartered under Title III of the Emergency Home Finance Act of 1970. Freddie Mac purchases residential mortgages from individual lenders, groups the mortgages onto pools and subsequently sells mortgage-backed pass-through securities backed by such mortgages. Freddie Mac Guarantees timely payment of principal and interest. These securities are not backed by the full faith and credit of the United States Government. *Freddie Mac was placed under Federal government conservatorship in September 2008 due to a significant decline in the underlying market value of the mortgage loans it held and guaranteed. As a result the U.S. government effectively owns and operates Freddie Mac.*