



BEXAR APPRAISAL DISTRICT

Investment Policy

Last Amended: 4/3/17

BEXAR APPRAISAL DISTRICT INVESTMENT POLICY

I. POLICY

It is the policy of the Bexar Appraisal District (District) that after allowing for the anticipated cash flow requirements of the District and giving due consideration to the safety and risk of investment, all available funds shall be invested in conformance with these legal and administrative guidelines, seeking to optimize interest earnings to the maximum extent possible.

Effective cash management is recognized as essential to good fiscal management. Investment interest is a source of revenue to District funds. The District's investment portfolio shall be designed and managed in a manner designed to maximize this revenue source, to be responsive to public trust, and to be in compliance with legal requirements and limitations.

Investments shall be made with the primary objectives of:

- * **Safety** and preservation of principal
- * Maintenance of sufficient **liquidity** to meet operating needs
- * **Public trust** from prudent investment activities
- * Optimization of **interest earnings** on the portfolio

II. PURPOSE

The purpose of this investment policy is to comply with Chapter 6 of the Texas Property Tax Code and Chapter 2256 of the Texas Government Code ("Public Funds Investment Act"), which requires each entity to adopt a written investment policy regarding the investment of its funds and funds under its control. The Investment Policy addresses the methods, procedures and practices that must be exercised to ensure effective and judicious fiscal management of the District's funds.

III. SCOPE

This Investment Policy shall govern the investment of all financial assets of the District. These funds are accounted for in the District's Comprehensive Annual Financial Report (CAFR) and include:

- General Fund
- Trust and Agency Funds, to the extent not required by law or existing contract to be kept segregated and managed separately
- Any new fund created by the District, unless specifically exempted from this Policy by the Board of Trustees (Board) or by law.

This Investment Policy shall apply to all transactions involving the financial assets and related activity for all the foregoing funds. However, this policy does not apply to the assets administered for the benefit of the District by outside agencies under deferred compensation programs.

IV. INVESTMENT OBJECTIVES

The District shall manage and invest its cash with four primary objectives, listed in order of priority: **safety, liquidity, public trust, and yield, expressed as optimization of interest earnings.** The safety of the principal invested always remains the primary objective. All investments shall be designed and managed in a manner responsive to the public trust and consistent with state and local law.

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

Safety

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

- Credit Risk – The District will minimize credit risk, the risk of loss due to the failure of the issuer or backer of the investment, by:
 - Limiting investments to the safest types of investments
 - Utilizing the financial institution selected by the most current depository contract to ensure collateralization of funds
 - Utilizing local government investment pools that comply with all Texas statutes and other regulations for the allowable investment of public funds

- Interest Rate Risk – the District will manage the risk that the interest earnings and the market value of investments in the portfolio will not fall excessively due to changes in general interest rates by limiting the maximum maturity of the investment portfolio to 365 days. The District will, in addition,:
 - Structuring the investment portfolio so that investments mature to meet cash requirements for ongoing operations, thereby avoiding the need to liquidate investments prior to maturity.
 - Investing operating funds primarily in certificates of deposit, shorter-term securities, money market mutual funds, or local government investment pools functioning as money market mutual funds.
 - Diversifying maturities and staggering purchase dates to minimize the impact of market movements over time.

Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that investments mature concurrent with cash needs to meet anticipated demands. Because all possible cash demands cannot be anticipated, a portion of the portfolio will be invested in shares of money market mutual funds or local government investment pools that offer same-day liquidity.

Public Trust

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

Yield

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

V. RESPONSIBILITY AND CONTROL

Delegation of Authority

In accordance with the Texas Property Tax Code and the Public Funds Investment Act, the Board of Directors designates the Finance Director as the District's Investment Officer. An Investment Officer is authorized to execute investment transactions on behalf of the District. No person may engage in an investment transaction or the management of District funds except as provided under the terms of this Investment Policy as approved by the Board of Directors. The investment authority granted to the investing officer is effective until rescinded by the Board of Directors.

Quality and Capability of Investment Management

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

Training Requirement

In accordance with the Texas Property Tax Code and the Public Funds Investment Act (Government Code, Chapter 2256.008), designated Investment Officers shall attend an investment training session not less than once in a two year period that begins on the first day of January and consists of the two consecutive fiscal years after that date and shall receive not less than 10 hours of instruction relating to investment responsibilities. A newly appointed Investment Officer must attend a training session of at least 10 hours of instruction within twelve months of the date the officer took office or assumed the officer's duties. The investment

training session shall be provided by an independent source approved by the Board of Directors. For purposes of this policy, an “independent source” from which investment training shall be obtained shall include a professional organization, an institution of higher education or any other sponsor other than a business organization with whom the District may engage in an investment transaction.

The following is a list of training sources approved by the Board of Directors:

Texas Association of Assessing Officers (TAAO)
Texas Association of Appraisal Districts (TAAD)
Texas Association of School Business Officials (TASBO)
University of North Texas Center for Public Management (UNTCPM)
Texas Municipal League (TML)
TexPool

Internal Controls

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

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

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

Prudence

The standard of prudence to be applied by the Investment Officer shall be the “prudent investor” rule. This rule states that “Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.” In determining whether an Investment Officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration:

- The investment of all funds, or funds under the District’s control, over which the officer had responsibility rather than a consideration as to the prudence of a single investment.
- Whether the investment decision was consistent with the written approved investment policy of the District.

Indemnification

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 risk or market price changes, provided that these deviations are reported immediately and the appropriate action is taken to control adverse developments.

Ethics and Conflicts of Interest

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

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

VI. SUITABLE AND AUTHORIZED INVESTMENTS

Portfolio Management

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

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

Investments

District funds governed by this policy may be invested in the instruments described below, all of which are authorized by Chapter 2256 of the Texas Government Code (Public Funds Investment

Act). Investment of District funds in any instrument or security not authorized for investment under the Act is prohibited. The District will not be required to liquidate an investment that becomes unauthorized subsequent to its purchase.

I. **Authorized**

1. Obligations of the United States of America, its agencies and instrumentalities.
2. Certificates of Deposit issued by a depository institution that has its main office or a branch office in Texas. The certificate of deposit must be guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor and secured by obligations in a manner and amount provided by law.
3. Money Market Mutual funds that are 1) registered and regulated by the Securities and Exchange Commission, 2) have a dollar weighted average stated maturity of 90 days or less, 4) rated AA+ by at least one nationally recognized rating service, and 4) seek to maintain a net asset value of \$1.00 per share.
4. Local government investment pools, which 1) meet the requirements of Chapter 2256.016 of the Public Funds Investment Act, 2) are rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service, 3) seek to maintain a \$1.00 net asset value, and 4) are authorized by resolution or ordinance by the Board of directors.

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

II. **Not Authorized**

Investments including interest-only or principal-only strips of obligations with underlying mortgage-backed security collateral, collateralized mortgage obligations with an inverse floating interest rate or a maturity date of over 10 years are strictly prohibited.

VII. INVESTMENT PARAMETERS

Maximum Maturities

The longer the maturity of investments, the greater their price volatility. Therefore, it is the District's policy to concentrate its investment portfolio in shorter-term securities in order to limit principal risk caused by changes in interest rates.

The District attempts to match its investments with anticipated cash flow requirements. The District will not directly invest in securities maturing more than one (1) year from the date of purchase; however, the above described obligations, certificates, or agreements may be collateralized using longer dated investments.

Diversification

The District recognizes that investment risks can result from issuer defaults, market price changes or various technical complications leading to temporary illiquidity. Risk is usually controlled through portfolio diversification. Since the District has limited funds available for investment purposes, diversity is also limited. Limited diversification shall be achieved by using the following general guidelines:

- Limiting investments to avoid overconcentration in investments from a specific issuer or business sector (excluding U.S. Treasury securities and certificates of deposit that are fully insured and collateralized in accordance with state and federal law),
- Continuously investing a portion of the portfolio in readily available funds such as local government investment pools (LGIPs) or money market funds to ensure that appropriate liquidity is maintained in order to meet ongoing obligations, and
- Investing in investments with varying maturities.

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

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| 1. <u>U.S. Treasury Securities</u> | 100% |
| 2. <u>Certificates of Deposit</u> | 100% |
| 3. <u>Money Market Mutual Funds</u> | 100% |
| 4. <u>Authorized Pools</u> | 50% |

VIII. SELECTION OF BANKS AND DEALERS

Depository (Section 6.09, Property Tax Code)

At least every 4 years a Depository shall be selected through the District's banking services procurement process, which shall include a formal request for proposal (RFP). The selection of a depository will be determined by competitive proposal and evaluation of proposals will be based on the following selection criteria:

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

IX. CUSTODIAL CREDIT RISK MANAGEMENT

Safekeeping and Custodian Agreements

The District shall contract with a bank or banks for the safekeeping of securities either owned by the District as part of its investment portfolio or held as collateral to secure demand or time deposits. Securities owned by the District shall be held in the District's name as evidenced by safekeeping receipts of the institution holding the securities.

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

Collateral Policy

Consistent with the requirements of chapter 2257 of the Texas Government Code "Public Funds Collateral Act", it is the policy of the District to require full collateralization of all District funds on deposit with a depository bank, other than investments. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 102% of market value of principal and accrued interest on the deposits or investments less an amount insured by the FDIC. At its discretion, the District may require a higher level of collateralization for certain investment securities. Securities pledged as collateral shall be held by an independent third party with whom the District has a current custodial agreement. The Finance Director is responsible for entering into collateralization agreements with third party custodians in compliance with this Policy. The agreements are to specify the acceptable investment securities for collateral, including provisions relating to possession of the collateral, the substitution or release of investment securities, ownership of securities, and the method of valuation of securities. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the District and retained. Collateral shall be reviewed at least monthly to assure that the market value of the pledged securities is adequate.

Collateral Defined

The District shall accept only the following types of collateral:

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

Subject to Audit

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

X. PERFORMANCE

Performance Standards

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

Performance Benchmark

It is the policy of the District to purchase investments with maturity dates coinciding with cash flow needs. Through this strategy, the District shall seek to optimize interest earnings utilizing allowable investments available on the market at that time. Market value will be calculated on a quarterly basis on all securities owned and compared to current book value.

XI. REPORTING

Methods

The Investment Officer shall prepare an investment report on, at least, a quarterly basis that summarizes investment strategies employed in the most recent quarter and describes the portfolio in terms of investment securities, maturities, and shall explain the total investment return for the quarter.

The quarterly investment report shall include a summary statement of investment activity prepared in compliance with generally accepted accounting principals. This summary will be prepared in a manner that will allow the District to ascertain whether investment activities during the reporting period have conformed to the Investment Policy. The report will be provided to the Board of Directors. The report will include the following:

- A listing of individual securities held at the end of the reporting period.
- Unrealized gains or losses resulting from appreciation or depreciation by listing the beginning and ending book and market value of securities for the period.
- Additions and changes to the market value during the period.
- Listing of investments by maturity date.
- Fully accrued interest for the reporting period
- The percentage of the total portfolio that each type of investment represents.
- Statement of compliance of the District's investment portfolio with state law and the investment strategy and policy approved by the Board of Directors.

An independent auditor will perform a formal annual review of the quarterly reports with the results reported to the governing body.

Monitoring Market Value

Market value of all securities in the portfolio will be determined on a quarterly basis. These values will be obtained from a reputable and independent source and disclosed to the governing body at least quarterly in a written report.

XII. INVESTMENT POLICY ADOPTION

The District's investment policy shall be adopted by resolution of the Board of Directors. It is the District's intent to comply with state laws and regulations. The District's investment policy shall be subject to revisions consistent with changing laws, regulations, and needs of the District. The Board of Directors shall make a motion stating that it will review the policy and investment strategies **annually**, approving any changes or modifications.