



## DALLAS COUNTY INVESTMENT POLICY

It is the policy of Dallas County to invest public funds in a manner which will provide safety of principal and a reasonable return while meeting the daily cash flow demands of the County and conforming to all federal, state and local statutes, rules and regulations governing the investment of public funds. This Policy sets forth the investment policy and strategy of Dallas County and the guidelines to be followed in achieving its objectives. This Policy satisfies the requirements of the Public Funds Investment Act (the "Act" Chapter 2256, Texas Government Code) to review and adopt an investment policy governing the investment by the County of its funds and funds under its control.

Not less than annually, Commissioners Court shall adopt the Policy by Court Order stating that it has reviewed the Policy and Strategies and recording any changes made to the Policy or Strategies.

This Policy applies to all financial assets of the County as accounted for the in the Comprehensive Annual Financial Report.

### I. OBJECTIVES

The primary objectives of the investment program, in priority order, shall be safety, liquidity, diversification, and yield:

#### **1. Safety**

Preservation of principal is the foremost objective of all investment activity. Investments shall be undertaken in a manner to avoid capital losses whether they be from security defaults, safekeeping or erosion of market value. All transactions are designed to mitigate credit and market risks.

#### **2. Liquidity**

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by matching investment maturities with forecasted cash needs and by investing in securities with active secondary markets. A liquidity buffer may also be created utilizing bank demand accounts, money market mutual funds or local government investment pools that offer same-day liquidity.

**3. Diversification**

The investment portfolio shall be diversified in order to spread risk in various market sectors and throughout varying market environments.

**4. 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 investment risk constraints and liquidity needs. Return on investment is of secondary importance to the safety and liquidity objectives. The dual benchmarks for the overall portfolio shall be the one-year Treasury Bill and the two-year Treasury Note for the comparable period designated for their comparability to the County's expected cash flow pattern, its maximum weighted average maturity of 24 months, and its authorized investments.

**II. STANDARD OF CARE**

The standard of care for all Dallas County investments shall be the "prudent person rule" which states that investments shall be made with the judgment and care, under prevailing circumstances, which persons of prudence, discretion and intelligence exercise in the management of the person's 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 official has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration the investment of all funds under the County's control, over which the official has responsibility rather than a consideration as to the prudence of a single investment.

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

Unless authorized by law, a person may not deposit, withdraw, transfer, or manage in any other manner the funds of Dallas County.

### **III. INVESTMENT STRATEGY**

Dallas County maintains portfolios which utilize four specific investment strategy considerations designed to address the unique characteristics of the accounting fund groups represented in the portfolios. For investment purposes, the County may utilize one commingled portfolio which recognizes the unique needs of each of the participating funds or may create separate portfolios addressing these four specific fund groups.

All funds, regardless of type, will be invested in accordance with this Investment Policy. Securities shall be purchased with the expectation that they may be held until maturity. However, securities may be sold prior to maturity:

- To minimize loss of principal
- To maintain policy diversification targets
- To rebalance the portfolio as market conditions change
- To improve the quality, yield, or target duration of the portfolio
- To meet liquidity needs
- To capture gains

#### **General Operating Funds**

Dallas County's investment strategy for general operating funds shall be designed to ensure that anticipated cash flows are matched with adequate investment liquidity. Operating funds are primarily restricted to and focus on the fiscal year liabilities and twelve-month time horizons and are therefore short term by nature. Specific general ledger accounting funds will be allocated investment earnings based on their pro rata share of the portfolio assets.

#### **Bond Operating Funds**

Dallas County shall utilize an investment strategy for bond operating funds which meets the liquidity needs and expenditure plans for the funds. Investments will not extend beyond the expenditure plans for the bond proceeds.

#### **Debt Service Funds**

Dallas County shall utilize an investment strategy for the debt service funds to assure adequate liquidity to cover each succeeding debt service obligation of Dallas County on required payment dates. No investments shall be made beyond the next successive debt service date until that date has been fully funded.

### Special and Trust Funds

Dallas County shall utilize an investment strategy for Special and Trust Funds in accordance with this Policy and controlling contracts to benefit Dallas County directly, or indirectly.

County and District Clerk Trust Funds, Justice of the Peace and Constable Special Funds, and certain Community Supervision and Corrections Funds shall be maintained at the Depository Bank for the life of the Depository Contract, unless otherwise ordered by official Court Order, as earnings credits and compensating balances for Dallas County.

### General Strategy

Dallas County's investment portfolio shall be diversified with any or all of the authorized investments authorized by this Policy. Funds may be comingled for investment purposes, in one or multiple portfolios, with earnings distributed to appropriate departments or financial funds.

The County shall implement a pro-active investment strategy to meet the needs of its funds in accordance with the Investment Policy. Dallas County shall be conservative in its investment programs assuming a buy-and-hold strategy based on cash flow needs. The strategy should be designed to assure that a reasonable market yield is obtained and liquidity needs met. In the event that the need arises to sell securities before the stated maturity date the choice of the securities shall be fully analyzed to avoid principal loss.

The maximum maturity for any investment shall not exceed five years to stated maturity (with the exception of mortgage-backed securities which may have a stated maturity not to exceed ten years) and a maximum dollar-weighted average maturity (WAM) for the entire County portfolio shall not exceed twenty-four (24) months. The WAM shall be calculated using amortized book values and all cash and cash equivalent deposits (bank accounts, compensating balances, pools and money funds) to accurately represent the complete investable and invested assets of the County.

## **IV. DELEGATION OF AUTHORITY TO INVEST**

The ultimate control and fiduciary responsibility of Dallas County funds is vested in the Commissioners Court of Dallas County. In order to allow the maximum flexibility for the investment of Dallas County funds, the Dallas County Commissioners Court extends to the County Treasurer, and supporting staff

under the Treasurer's direction, full authority for the investment transactions of Dallas County funds between meetings of the Commissioners Court, official approval of which shall be made by Court Order at a monthly meeting of the Commissioners Court.

### **County Treasurer**

As chief custodian of Dallas County funds, the County Treasurer of Dallas County shall be the primary Investment Officer for Dallas County funds as defined by the Act and by action of the Commissioners Court. The County Treasurer may delegate and supervise certain of the Treasury staff to assist in daily investment duties.

If at any time the County Treasurer or supporting staff has a "personal business relationship", as defined by the Act, with a business organization offering to engage in an investment or financial transaction with Dallas County, the County Treasurer will file a Disclosing Statement with the Texas Ethics Commission and the Dallas County Commissioners Court. Personal business relationships are defined as:

- Ownership of 10% or more voting stock or shares of the business
- Ownership of \$5,000 or more of fair market value of the business
- Receipt of 10% or more of the Officer's prior year gross income from the business, or
- Acquisitions of investments from the business with a book value of \$2,500 or more for his personal account.

The County Treasurer and county staff involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program or which could impair the ability to make impartial investment decisions.

The County Treasurer shall obtain ten (10) hours of County Treasurer's Association of Texas / Texas Association of Counties approved training within twelve month of assuming the duties of Treasurer and 10 hours of training each succeeding two fiscal year period. Training sources are to be approved by action of the Financial Review Committee. The Treasurer may assure that involved supporting staff also receives appropriate training.

At least annually, the County Treasurer or County Auditor shall perform a compliance audit of management controls on investments and adherence to the Dallas County Investment Policy and the Act.

### **Financial Review Committee**

There shall be a Dallas County Financial Review Committee, which shall consist of the County Treasurer as Chairman; County Judge, a County Commissioner, County Auditor, Budget Director, Commissioners Court Administrator, Small Business Enterprise Director, Purchasing Director, Tax Assessor/Collector, Assistant County Administrator/Chief of Finance, and the Chief of the Civil Division District Attorney as a non-voting member.

The Committee shall be charged with (a) reviewing the general financial management of Dallas County invested funds and debt and asset management programs, (b) making recommendations to the Commissioners Court concerning such items, (c) approving the training sources for the County Treasurer and supporting staff, and (c) annually approving the list of authorized broker/dealers as recommended by the Treasurer. The Committee will annually review County Treasurer recommendations to the Investment Policy and may suggest changes to the Investment Policy to the Commissioners Court. In view of changes in markets as well as financial and banking services and technology which may impact Dallas County and its investments. The Financial Review Committee will monitor such changes. The Committee may also review financially related matters referred from time to time by the Commissioners Court.

#### **Investment Adviser**

The County may retain the services of an SEC registered investment advisor to assist in the review of cash flow requirements, the formulation of investment strategies, and the execution of security purchases, sales and deliveries.

### **V. AUTHORIZED INVESTMENTS**

In accordance with the Act and the Dallas County Investment Policy the following are the only authorized investments for Dallas County funds. If changes are made to the Act they will not be authorized until this Policy is modified and adopted by the Commissioners Court.

All investment transactions will be made on a competitive basis.

1. Obligations of the United States, its agencies and instrumentalities with a maximum stated maturity of five years.
2. Federal agency, mortgage-backed securities with a maximum stated maturity not to exceed ten years and a maximum projected/estimated life of five years at time of purchase. All collateralized mortgage obligations (CMO) must pass the Federal Reserve bank test.
3. Obligations, the principal of and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of the United States or its respective agencies and instrumentalities with a stated maturity not to exceed five years.

4. Obligations of Texas and other US states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent and with a stated maturity not to exceed five years.
5. Fully insured or collateralized depository certificates of deposit issued by a bank or a savings bank doing business in Texas which is guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor, or collateralized in accordance with this Policy not to exceed five years to stated maturity.
6. Fully collateralized repurchase agreements as authorized by the Act with a defined termination date and secured in accordance with this Policy. The repurchase transactions shall be placed only through a primary government securities dealer, as defined by the Federal Reserve of NY, or a financial institution doing business in the State of Texas, under an executed Bond Market Association Master Repurchase Agreement and not exceed one year to maturity. A "flex" repurchase agreement may be used for bond proceeds but may not exceed five years and must match the expected expenditure schedule of the bonds.

The repurchase agreement authorization includes reverse security repurchase agreements. The term of any reverse security repurchase agreement may not exceed 90 days. Proceeds from the reverse repurchase agreement shall be used to acquire additional authorized investments which must mature not later than the expiration date of the reverse security repurchase agreement.

7. Prime domestic bankers' acceptances with a maximum stated maturity of 270 days and eligible as collateral for borrowing from a Federal Reserve Bank. The short-term obligations of the bank, or bank holding company, must be rated not less than A-1/P-1 or an equivalent rating from at least one nationally recognized credit rating agency.
8. Commercial paper with a maximum stated maturity of 90 days rated not less than A1/P1 or equivalent by two nationally recognized credit rating agencies
9. AAA-rated, SEC registered money market mutual funds which strive to maintain a stable net asset value of \$1.
10. Constant-dollar, Texas local government investment pools as defined by the Act and authorized for participation in the interlocal government creating the pool by Court Order of the Commissioners Court.
11. Fully insured or collateralized interest bearing accounts in any bank in Texas.

### **Unauthorized Investments**

In accordance with the Act and this Policy certain mortgage-backed securities (MBS) are not authorized for investment.

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

If any investment becomes un-authorized by changes in the Act or this Policy, such investments held by the County are not required to be liquidated if authorized at the time of purchase. Once liquidated or matured funds must be re-invested under the then current Policy.

#### **Delivery versus Payment**

All securities shall be purchased on a delivery versus payment (DVP) settlement basis. Funds shall not be released until receipt of the security by the County's approved custodian. The custodian shall provide the County with proof of ownership by an original safekeeping receipt delivered to the County on a timely basis.

#### **Documentation of Investment Transactions**

All investment transactions, including the transfer of funds for investment purposes, shall be documented and such documentation maintained in the Treasurer's Office.

#### **Loss of Credit Rating**

The Treasurer and supporting staff shall monitor, on no less than a weekly basis, the credit rating on all authorized investments in the portfolio requiring a specific rating. Credit rate information will be obtained from a nationally recognized rating agency for the issuer or other independent sources. If any security falls below the minimum rating required by Policy, the Treasurer and Auditor shall be informed of the loss of the required rating, conditions affecting the rating and possible loss of principal with liquidation options available, within two days of the loss of the required rating for a measured decision on liquidation.

## VI. DIVERSIFICATION

The County recognizes that investment risks can result from issuer defaults, market price changes, or various technical complications leading to temporary illiquidity. Some risks can be managed through portfolio diversification. The diversification maximum limits for portfolio inclusion in the entire portfolio by amortized book value are:

	<u>% of Portfolio</u>
US Obligations	90 %
US Agencies/Instrumentalities	80 %
Mortgage-backed securities	10 %
Depository Certificates of Deposit	40 %
Municipal & State Obligations	40 %
Debt Obligations	20 %
Revenue Obligations	20 %
Repurchase Agreements	40 %
Any one counter-party	10 %
Flex Repo in CIP Funds (in one issue)	100 %
Commercial Paper	25 %
Any one issuer	5 %
Bankers' Acceptances	10 %
Local Government Investment Pools	80 %
Ownership of pool	5 %
Money Market Mutual Funds	80 %
Ownership of fund	5 %

Diversification by maturity and overall weighted average maturity of the portfolio(s) shall be reviewed by the County Treasurer on a monthly basis.

## VII. SAFEKEEPING

The Act, this Policy, and prudent treasury management require that all securities transactions be executed on a delivery versus payment basis (DVP). Securities are to be held in safekeeping by an independent third party financial institution as approved by the County Treasurer.

In order to perfect DVP settlement, securities shall not be bought from the safekeeping institution.

All safekeeping arrangements shall be approved by the County Treasurer and an agreement of the terms executed in writing. Safekeeping may be outside the County's banking services institution. The

safekeeping institution shall be required to issue safekeeping receipts to the County listing each specific security, rate, description, maturity, cusip, and other pertinent information within one business day. Each safekeeping receipt shall be clearly marked that the security is owned by and held for the County.

### **VIII. AUTHORIZED BROKER/DEALERS**

All investment security transactions shall be made through a financial institution or broker/dealer authorized by the Financial Review Committee. All transactions will be made on a competitive basis from at least three broker/dealers or financial institutions.

Authorized broker/dealers and financial institutions may include:

- federally insured banks or savings banks doing business in the State of Texas
- security dealers designated as “primary” dealers by the Federal Reserve Bank of New York
- brokers/dealers registered with the State of Texas and FINRA (Financial Industry Regulatory Authority)
- Texas local government pools authorized for participation by the Commissioners Court

No security investment transactions may be entered into with any brokerage subsidiary of the County’s depository or safekeeping institution in order to perfect delivery versus payment (DVP) requirements for trade independence.

Financial institutions and broker/dealers which desire to transact business with the County Treasurer must supply the following documents to the County Treasurer.

- Current year audited financial statements (to be supplied annually)
- FINRA Central Depository Registration (CRD) number
- Proof of State of Texas State Securities registration (for broker/dealers)
- Dallas County Policy Review Certification
- Completed Dallas County Broker/Dealer questionnaire

The County Treasurer and supporting staff will, no less than annually, review the performance of all broker/dealers based on trade activity (offers/wins/ties). Based on this analysis the County Treasurer will make recommendations to the Financial Review Committee to add or delete such firms as authorized broker/dealers.

At least annually, the County Treasurer shall review and revise the list of qualified broker/dealers (excluding depositories) authorized to engage in investment transactions with Dallas County. Once

approved by the Financial Review Committee recommendation for approval will be made to the Dallas County Commissioners Court.

**Policy Review Certification**

A written copy of the Dallas County Investment Policy shall be presented to any investment institution, pool, or broker/dealer as defined in this section which offers to engage in an investment transaction with Dallas County. In accordance with State Law, the “qualified representative” (defined as a person who holds a position with a business organization, authorized to act on behalf of the business organization), of the investment organization seeking to do business with Dallas County shall execute a written instrument in a form acceptable to Dallas County which shall indicate that the qualified representative has:

1. Received and thoroughly reviewed the Dallas County Investment Policy; and
2. Acknowledges in writing that the investment organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between Dallas County and the investment organization that are not authorized by the Investment Policy, except to the extent that this authorization is dependent on an analysis of the makeup of Dallas County’s entire portfolio or requires an interpretation of subjective investment standards.

The County Treasurer may not execute any investment transaction with a person or firm who has not delivered the Policy Review Certification required.

If material changes are made in the Policy, the newly adopted Policy shall be sent to all authorized firms and broker/dealers for recertification.

Authorized financial broker/dealers or banks contracted to do business with Dallas County, or seeking to do business with Dallas County, shall not offer or give any gift, service, or thing of value, or future promise of a gift, service, or thing of value to staff of the County Treasurer’s Office.

Dallas County is under no obligations to transact business with any financial institution or broker/dealer.

**IX. ELECTRONIC INVESTMENT TRANSACTIONS**

The County Treasurer is authorized to utilize electronic banking systems and platforms and to electronically transfer funds for Dallas County investments from or to any established bank accounts or funds/pools for investment purposes. Electronic transfers allow the County Treasurer to speed and document investments and transfers and to return funds to appropriate accounts on a timely basis.

Any such program shall be operated under guidelines and controls established and mutually agreeable between the County Auditor and County Treasurer.

## **X. COLLATERALIZATION**

### **Collateralization of Bank Time and Demand Deposits**

Collateral for time and demand deposits is pledged to, and not owned by, the County. The Dallas County Commissioners Court shall review and adopt any depository agreement requiring collateral to secure Dallas County funds in bank time and demand deposits. The County Treasurer shall be responsible for monitoring the agreement and assuring compliance with the agreement. The depository and the custodian are responsible for marking collateral to market daily and maintaining the required 102% margin. The County Treasurer is responsible for overseeing collateral management agreement so that Dallas County assets are fully insured or collateralized on a daily basis in accordance with this Policy.

In any financial institution utilized for time and demand deposits all funds shall be federally insured and/or collateralized, consistent with State Government Code Chapter 2257 (the Public Funds Collateral Act), and this Investment Policy, without exception. Authorized collateral shall include only the following:

1. Direct obligations of the United States Government,
2. Obligations of the United States Government backed by its full faith and credit,
3. Obligations of an agency or instrumentality of the United States Government, including pass-through mortgage-backed securities and collateralized mortgage backed securities (CMO) which pass the bank test of the Federal Reserve.
4. A debt obligation issued by any US public entity/agency, payable from taxes, revenues, or a combination of taxes and revenues that has been rated as to investment quality with a rating of not less than A or its equivalent by a nationally recognized rating agency,
5. An irrevocable standby Letter of Credit issued by one of the Federal Home Loan Banks.

The total value of the letter of credit or the market value of securities collateralizing Dallas County time and demand deposits shall be in an amount at least equal to 102% of the amount of the total deposits of Dallas County funds, including accrued interest, reduced by deposit insurance of the FDIC or its successor.

### **Collateralization of Repurchase Agreements**

Securities held under a repurchase agreement are owned by the County and conditions for the collateral will be established under the executed and controlling Bond Market Master Repurchase Agreement. All

collateral will be settled delivery versus payment and held by an independent third party custodian approved by the County. A daily margin of 102% will be established and maintained by the counterparty and marked-to-market daily. Authorized collateral will include only the following:

1. Obligations of the US Government, its agencies and instrumentalities including mortgage-backed securities and CMO which pass the bank test.
2. A general debt obligation issued by a public state or entity, payable from taxes or revenues, that has been rated as to investment quality by a nationally recognized rating agency with a rating of not less than A or its equivalent by a nationally recognized rating entity.

## **XI. CUSTODY OF COLLATERAL**

All securities pledged to secure time and demand deposits of Dallas County shall be held at an independent third party Custodian outside the holding company of the bank approved by the Dallas County Commissioners Court through an executed depository agreement. Letters of Credit shall be directed by and held by the County Treasurer and remain with the County Treasurer until withdrawn by official notification with approval of the County Treasurer.

All securities placed under repurchase agreements will be held by an independent custodian approved by the County Treasurer. The Custodian will be required to market all securities to market daily and to provide reports to the County Treasurer on a periodic basis as determined by the County Treasurer.

All custodians shall provide a receipt of the securities to the County Treasurer evidencing the deposit of said securities within one business day. The records of the Custodian shall at all times reflect the securities pledged to or owned by Dallas County.

All additions, withdrawals or substitutions of collateral shall be confirmed to the County Treasurer on the day of the collateral action.

## **XII. INVESTMENT REPORTING AND AUDITING**

### **Monthly Reporting**

A monthly County Treasurer report of investments (as required by Local Government Code 114.026) shall be prepared and filed with Commissioners Court that is substantially in the form of the quarterly report described below.

### **Quarterly Reporting**

In accordance with the Act, not less than quarterly the County Treasurer shall prepare and submit to the Commissioners Court a written report of investment transactions for the preceding reporting period, in addition to other information that may be required by the Court. The report will be presented for review and acknowledgment by the Commissioners Court.

The quarterly report will include detail on all holdings in the portfolio(s) at the time of the report and summary information describing the entire portfolio(s). The report shall contain at a minimum:

- A summary statement for each portfolio that states the beginning book and market value for the reporting period, additions and changes to the market value during the period, the ending book and market value for the period.
- A statement of the weighted average maturity of each portfolio at the beginning and ending dates of the period.
- A statement of the weighted average yield of each portfolio at the beginning and ending dates of the period compared to the benchmark(s) set for the portfolio.
- A summary statement for each portfolio of total earnings (accruals plus net amortization) for the period.
- Detail describing of each security and investment position on the date of the report for each portfolio to include: purchase, call and maturity dates, cusip, remaining days-to-maturity, and yield.
- The book and market value of each security and investment position at the beginning and end of the reporting period for each portfolio.

The security market prices shall be obtained from an independent source. The quarterly report shall state compliance of the portfolio with the Dallas County Investment Policy and Strategy and the Act.

The report shall be signed by the County Treasurer of Dallas County.

All required annual Government Accounting Standards Board (GASB) reporting shall be prepared in compliance with applicable GASB Statements.

The independent auditor of Dallas County shall perform, as a part of its annual independent audit, a review of the quarterly investment reports. . The results of the review shall be reported to the Dallas County Commissioners Court by the independent auditor.

#### **XIV. POLICY AND STRATEGY ADOPTION**

In accordance with the Act, the Commissioners Court will review the Policy not less than annually and issue a Court Order adopting the Policy and Strategies. The Court Order shall note any changes made to the Policy. The Policy may be amended only by action of the Commissioners Court.

The Financial Review Committee may recommend revisions to the Policy to the Commissioners Court whenever such revisions are necessary and prudent due to changes in State Law, the needs of the County, or the economic and market opportunities. All changes to the Policy must be reviewed and adopted by the Commissioners Court before changes are made in authorizations or the investment process.