Investment Scope

This investment policy covers all financial assets under the direct control of the Department. Transactions involving the purchase, sale, and maintenance of all Department financial investments are included within the jurisdiction of this policy.

Objectives and Priorities

The objectives of the investment policy are as follows and in the following order of priority:

1. To comply with the laws of the state of Texas as defined in Government Code, Chapter 2256, known as the Public Funds Investment Act.
2. To provide (1st) for the preservation and safety of principal, (2nd) liquidity and (3rd) yield, for of all Department funds.
3. To provide sufficient funds to meet the cash needs of the continuing operation of the Department.
4. To attain a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs, and consistent with current and future bank depository contracts.
5. To acquire diversification in the types, issues, and maturities of Department investments with due consideration to the quality of the investment.
6. Securities may be sold or exchanged before they mature if market conditions present an opportunity for the Department to benefit from the trade or if necessary to meet the cash needs of the Department. Under this investment policy, all investments shall be made with the intent of pursuing, at the time of purchase, the best rate of return on securities held until maturity, and not with the intent of speculative trading.
7. To maintain the highest professional and ethical standards, with capable and high-quality investment management, as custodians of the public trust.

Maturity Requirements and Restrictions

It is the objective of the Department to match the maturity of investment instruments to cash flow needs. The following restrictions apply to original maturities for all funds:

1. Investment securities shall not have an original stated maturity greater than two years, except as provided in number 7 below.
2. The term of a repurchase agreement shall not be greater than 90 days unless bond proceeds are invested, in which case, the maturity shall not exceed projected cash expenditures.

3. Commercial paper shall have a stated maturity no greater than 270 days.
4. Money market mutual funds shall have a dollar-weighted average stated maturity no greater than 90 days.
5. For pooled fund groups, the maximum-dollar-weighted average maturity allowed based on the stated maturity date of the portfolio shall be 180 days.
6. When bond proceeds are invested, the maturity shall not exceed projected cash expenditures.
7. In the event the Department receives a restricted gift or bequest intended as an endowment such amount maybe invested in a security to yield the annual income desired, but in no case shall the maturity of such investment be longer than five years.

Department Investment Officers

The Assistant Superintendent—Business Services, Business Analyst, Chief Accounting Officer, and Senior Accountant shall be the Department's investment officer and may invest Department funds that are not immediately required to pay the obligations of the Department. The Assistant Superintendent Business Services may designate with the Superintendent's approval, two other employees to serve as investment officers. These investment officers are hereby bestowed all of the obligations and authorities provided by Chapter 2256, policy CDA(LEGAL) and this policy. It is the responsibility of the investment officers to monitor the contents of the portfolio, the available markets, and the relative values of competing instruments, and adjust the portfolio accordingly.

Training Requirements

First 12 Months

In accordance with Chapter 2256, investment officers shall attend required formal training sessions within 12 months after taking office or assuming duties. Training must include education in investment controls, security risks, market risks, and compliance with Chapter 2256. Each investment officer must also attend continuing education as mandated by the Public Funds Investment Act.

Within 2 Year Period

Compliance with Chapter 2256 and policy CDA(LEGAL) is required.

Organizations that will be utilized to secure acceptable training in compliance with Chapter 2256 include the following:

- Government Treasurer's Organization of Texas
- Government Finance Officer Association of the United States and Canada (GFOA)
- Association of School Business Officials (ASBO)

- Texas Association of School Business Officials (TASBO)
- Harris County Department of Education School Finance Council
- Region IV Education Service Center

Standard of Care

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. In determining whether the investment officers have exercised prudence with respect to an investment decision, the determination shall be made taking into consideration the investment of all funds over which the officer has responsibility rather than a consideration as to the prudence of a single investment, and whether the investment decision was consistent with the Department's investment policy.

Liability

Department investment officers shall not be responsible for any loss of the Department's funds through the failure or negligence of any depository, nor any loss resulting from normal fluctuations in the market value of investments or collateral securities. Nothing in this section shall release the investment officers from responsibility for misappropriation of funds by him or her.

Ethics and Conflicts of Interest

Each investment officer shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair his or her ability to make impartial investment decisions. The investment officers shall disclose to the Board any material financial interests in financial institutions that conduct business with the Department and any personal financial/investment positions that could be related to the performance of the Department's portfolio. Each investment officer shall subordinate his or her personal investment transactions to those of the Department, particularly with regard to the timing of purchases and sales.

Each investment officer shall submit required disclosures to the Texas Ethics Commission and governing body if:

1. The officer has a personal business relationship with a business organization offering to engage in an investment transaction with the Department (as defined in 2256.005 (i) (1–3); or
2. The officer is related within the second degree by affinity or consanguinity, as determined under Chapter 573 of the Texas Government Code, to an individual seeking to transact investment business with the entity.

Audit

At least annually, the Department shall have an independent auditing firm perform a compliance audit of management controls on investments and adherence to the Board's established investment policies in conjunction with the annual financial audit. The Department's investment officers and the Department's investment procedures shall be subject to an annual compliance audit and any special audits as required. The external audit firm will formally review the monthly investment reports and report findings to the governing body during the annual audit process.

Internal Controls

The investment officers shall establish a system of internal controls which shall be documented in writing and approved by the Board. The internal controls shall be reviewed with the independent auditor on an annual basis. These controls shall be designed to control collusion and to implement a separation of functions including the separation of transaction authority from accounting and recordkeeping. The controls shall also establish custodial safekeeping guidelines, procedures for the delegation of authority to subordinate staff, and specific limitations regarding securities losses and remedial action. Furthermore, the controls shall require written confirmation of telephone transactions and documentation of transactions and strategies. Controls shall include the requirement for two separate authorizations on the quote sheet to initiate the investment purchase.

Broker/Dealers

Prior to handling investments on behalf of the Department, brokers/dealers must submit required written documents in accordance with law. {See SELLERS OF INVESTMENTS, CDA (LEGAL)} Representatives of brokers/dealers shall be registered with the Texas State Securities Board and must have membership in the Securities Investor Protection Corporation (SIPC), and be in good standing with the Financial Industry Regulatory authority (FINRA). At the time the broker/dealer is considered by the Board, the record of complaints filed and resolutions available shall be provided to the Board.

Safekeeping

All purchased securities and collateral shall be held in safekeeping by the Department, or a Department account in a third-party financial institution, or with a Federal Reserve Bank.

Securities and collateral will be held by a third party custodian designated by the Department, and held in the Department's name as evidenced by safekeeping receipts of the institution with which the securities are deposited. Collateralization is required for all uninsured collected balances, plus accrued interest, if any. Collateral is valued at current market plus interest accrued through the date of valuation. Collateralized investments may require substitution of collateral. Any broker or financial institution requesting substitution must contact the Department for approval and settlement. Should the collateral's market value exceed the required amount, any broker or financial institution may request approval from the Department to reduce collateral. Collateral reductions may be permitted only if the Department approves the reduction.

All certificates of deposit, insured by the U.S. Government, purchased outside the depository bank shall be held in safekeeping by either the Department or a Department account in a third-party financial institution. All certificates of deposit pledged by the depository bank shall be held in custody of a Federal Reserve Bank for safekeeping or be the subject of a valid pledge agreement designating the Department as the beneficiary of the pledge agreement; be insured by the U.S. Government; and be described in detail by a safekeeping receipt issued to the Department by the Federal Reserve Bank.

Securities and collateral will be held by a third party custodian designated by the Department, and held in the Department's name as evidenced by safekeeping receipts of the institution with which the securities are deposited. Collateralization is required for all uninsured collected balances, plus accrued interest, if any. Collateral is valued at current market plus interest accrued through the date of valuation. Collateralized investments may require substitution of collateral. Any broker or financial institution requesting substitution must contact the Department for approval and settlement. Should the collateral's market value exceed the required amount, any broker or financial institution may request approval from the Department to reduce collateral. Collateral reductions may be permitted only if the Department approves the reduction.

All pledged securities by the depository bank shall be held in safekeeping by the Department, or a Department account in a third party financial institution, or with a Federal Reserve Bank.

Securities and collateral will be held by a third party custodian designated by the Department, and held in the Department's name as evidenced by safekeeping receipts of the institution with which the securities are deposited. Collateralization is required for all uninsured collected balances, plus accrued interest, if any. Collateral is valued at current market plus interest accrued through the date of valuation. Collateralized investments may require substitution of collateral. Any broker or financial institution requesting substitution must contact the Department for approval and settlement. Should the collateral's market value exceed the required amount, any broker or financial institution may request approval from the Department to reduce collateral. Collateral reductions may be permitted only if the Department approves the reduction.

Delivery vs. Payment

All funds involved in the settlement of transactions of investment securities shall be transferred using the delivery vs. payment (DVP) method through the Federal Reserve System. By so doing, Department funds or securities are not released by a third party until the counterparty presents the agreed-upon transaction.

Safety

The primary goal of the investment program is to ensure safety of principal to maintain liquidity, and to maximize financial returns within current market conditions in accordance with this policy. Investments shall be made in a manner that ensures the preservation of capital in the overall portfolio, and offsets during a 12-month period any market price losses resulting from interest-rate fluctuations.

Competitive Bids

It is the policy of the Department to require competitive bidding for all securities purchases and sales with the exception of those transactions involving money market mutual funds and public funds investment pools and when issued securities, which are deemed to be made at prevailing market rates. At least three bids or offers (which may be verbal, followed-up with the information in writing) must be solicited from approved broker dealers. In instances in which the exact security being offered cannot be found by competing dealers, offers on like securities may be used to establish a fair market price.

Investment Strategies by Fund

The Department's investment strategies for each of its funds, including but not limited to operating, agency, debt service and capital projects, are incorporated into this investment policy as follows. The investment objectives for each of the following funds use the following priorities in order of importance: (1) understanding of the suitability of the investment to the financial requirements of the entity; (2) preservation and safety of principal; (3) liquidity; (4) marketability of the investment if the need arises to liquidate before maturity; (5) diversification of the investment portfolio; and (6) yield.

General Fund

The General Fund includes the operating and payroll accounts. The investment strategy for this fund has as its primary objective to ensure the preservation and safety of principal. Secondly, the objective shall be that anticipated cash flows are matched with adequate investment liquidity. These objectives shall be accomplished by purchasing quality short- to medium-term securities whose maturities closely match the funds cash flow requirements. The dollar average weighted maturity of general fund investments shall not exceed 365 days.

Special Revenue Fund

The Special Revenue Fund includes food service, public activity, and consolidated application funds. The investment strategy for this fund has as its primary objectives safety, investment liquidity, and maturity sufficient to meet anticipated cash flow requirements.

These objectives shall be accomplished by purchasing quality short-term securities and by investing in investment pools. The dollar average weighted maturity of general fund investments shall not exceed 365 days.

Debt Service Fund

The investment strategy for the Debt Service Fund has as its primary objective preservation and safety of principal. Secondly, the objective shall be sufficient liquidity to meet scheduled debt service payment obligations. The maximum maturity of any individual investment shall not exceed three years.

Capital Projects Fund

The investment strategy for the Capital Projects Fund has as its primary objective the preservation and safety of principal. The second objective is to ensure that anticipated cash flows are matched with adequate investment liquidity. These objectives shall be accomplished by purchasing short- to medium-term securities or investment pools. The maximum maturity of any individual investment shall not exceed three years.

Suitability

The primary investment objectives of the Department are preservation of principal and liquidity; income is secondary. The investments must be appropriate to meet the needs and circumstances of the Department's operating budget. The investment officers shall use reasonable judgment to determine whether the investment is applicable to the portfolio needs of the Department.

Preservation and Safety of Principal

The investment officers shall exercise diligence and thoroughness in making an investment transaction. Receipts for confirmations of trades will include information on trade date, par value, maturity, price, settlement date, and description of securities purchased, and they will show the Department as the purchaser.

Liquidity

Maturities of investments made shall be scheduled to coincide with projected cash flow needs, taking into account large routine expenditures (payroll, debt service payments, and general expenditures), anticipated payouts of capital project expenditures, sizable blocks of anticipated revenue, and periodic reimbursements from other funds or accounts. Investments will be made with the intent of pursuing, at the time of purchase, the best rate of return on securities held until maturity, and not with the intent of speculative trading. Securities, however, may be sold or exchanged before they mature if market conditions present an opportunity to benefit from the trade or if necessary to meet cash needs. Careful consideration will be given to the effect of the sale on the remaining portfolio.

Investment Diversification

The Department shall diversify the investment instruments within the portfolio to avoid incurring reasonable risks inherent in over-investing in specific instruments, individual financial institutions, or maturities, so that no single investment or class of investments can have a disproportionate impact on the total portfolio. The asset allocation in the portfolio should, however, be flexible depending upon the outlook for the economy and the securities markets. Diversification to avoid over-concentration in a specific instrument does not apply to U.S. Treasury securities and money market mutual funds. No individual investment transaction shall be undertaken that jeopardizes the total capital position of the overall portfolio.

The Department recognizes that investment risks may result from issuer defaults, market price changes, or various technical complications leading to temporary illiquidity. Portfolio diversification is employed as a way to control risk. The investment officers are expected to display prudence in the selection of securities as a way to minimize default risk. No individual investment transaction shall be undertaken that jeopardizes the total capital position of the overall portfolio. In the event of default by a specific issuer, the investment officers shall review, and, if appropriate, proceed to liquidate securities having comparable credit risks. To control market price risks, volatile investment instruments shall be avoided.

Yield

Investment officers shall strive to earn a competitive total return on the portfolio consistent with the objectives and priorities stated in this policy. Total return shall mean the interest or dividend payments and appreciation or depreciation of the principal of the investment. Cash use estimates are used to make investment decisions. All available funds should be invested to earn interest for the Department. Enough of the funds will be invested in nonvolatile, liquid investments to ensure payments when due. Moderate income volatility is permitted. Financial risk is unacceptable, and because the investment time horizon of the funds are relatively short, exposure to interest rate risk and purchasing power risk will be minimal. The annual time-weighted rate of return on the portfolio should be compared with the total return on three-month Treasury bills to evaluate the portfolio’s performance.

Approved Investment Instruments

From those investments authorized by law and described further in CDA(LEGAL) under Authorized Investments. All investments made or sold on behalf of the Department must fall within the guidelines provided in Government Code, Chapter 2256, Public Funds Investments Act (short title), and are subject to such other restrictions as may be imposed by the Department Board by resolution or order. The following are the types of investments authorized for Department funds, with restrictions as noted [See CDA(LEGAL)—AUTHORIZED INVESTMENTS]:

Board shall permit investment of Department funds in only the following investment types, consistent with the strategies and maturities defined in this policy:

1. Obligations of, or guaranteed by, governmental entities as permitted by Government Code 2256.009.
2. Certificates of deposit and share certificates as permitted by Government Code 2256.010.
3. Fully collateralized repurchase agreements permitted by Government Code 2256.011.
4. Securities lending program as permitted by Government Code 2256.0115.
5. Banker's acceptances as permitted by Government Code 2256.012.
6. Commercial paper as permitted by Government Code 2256.013.
7. No-load money market mutual funds and no-load mutual funds as permitted by Government Code 2256.014.
8. A guaranteed investment contract as an investment vehicle for bond proceeds, provided it meets the criteria and eligibility requirements established by Government Code 2256.015.
9. Public funds investment pools as permitted by Government Code 2256.016.

Investment Institutions and Representatives

The Department investment officers shall invest Department funds with any or all of the following institutions or groups consistent with federal and state law and the current bank depository contract:

1. Depository bank.
2. Other state or national banks domiciled in Texas that are insured by FDIC;
3. Savings and loan associations domiciled in Texas that are insured by FSLIC (or its successor);
4. Public funds investment pools;
5. Money market funds;
6. Government securities brokers and dealers.

Qualified Institutions and Firms

A written copy of the investment policy shall be presented to any person seeking to sell the Department an authorized investment if the investment officers desire to do business with this person. The qualified individual of the business organization seeking to sell an authorized investment to the Department shall execute a written instrument substantially to the effect that the qualified individual has: (1) received and thoroughly reviewed the investment policy of the Department; and (2) acknowledged that the organization has implemented reasonable procedures and controls in an effort to preclude imprudent investment activities arising out of investment transactions conducted by the Department and the organization that are not authorized by the entity's Investment Policy, except to the extent that this authorization is dependent on an analysis of the makeup of the entity's entire portfolio or requires an interpretation of subjective investment standards.

The investment officers shall maintain a list of business organizations qualified to transact sales and purchases of investment instruments with the Department. The list shall be reviewed and updated annually. The Superintendent will recommend a list of qualified brokers and the governing body will approve the bidders.

Qualified Individual

A qualified individual is any financial institution and-or broker/dealer who desires to become qualified for investment transactions must supply the following as appropriate:

- Audited financial statements
- Proof of Financial Industry Regulatory Authority, Inc. (FNRA) Certification
- Proof of state registration
- Completed broker/dealer questionnaire
- Certification of having read and understood and agreeing to comply with the [entity's] investment policy.

Reporting and Performance Monthly Report

The investment officers shall prepare and submit to the Board a monthly report of investment transactions for all funds for the preceding reporting period. The report must:

1. Describe in detail the portfolio position of the Department on the date of the report;
2. 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;
3. Contain a summary statement of each pooled fund group that states beginning market values, changes in market values, and ending market values for the reporting period;

4. State the maturity date of each separately invested asset that has a maturity date;
5. State the fund for which each individual investment was acquired;
6. State the compliance of the investment portfolio as it relates to the investment strategy expressed in the Department investment policy and relevant provisions of Government Code, Chapter 2256; and
7. Be prepared jointly and signed by all Department investment officers.

The Board will review the investment policy each fiscal year and adopt a written instrument stating that it has reviewed the investment policy and investment strategies and that the written instrument so adopted shall record the changes made to either the investment policy or investment strategies.

Liquidity and Maturity

Any internally created pool fund group of the Department shall have a maximum dollar weighted maturity of 180 days. The maximum allowable stated maturity of any other individual investment owned by the Department shall not exceed one year from the time of purchase. The Board may specifically authorize a longer maturity for a given investment, within legal limits.

The Department's investment portfolio shall have sufficient liquidity to meet anticipated cash flow requirements.

Diversity

The investment portfolio shall be diversified in terms of investment instruments, maturity scheduling, and financial institutions to reduce risk of loss resulting from overconcentration of assets in a specific class of investments, specific maturity, or specific issuer.

Investment Management

In accordance with Government Code 2256.005(b)(3), the quality and capability of investment management for Department funds shall be in accordance with the standard of care, investment training, and other requirements set forth in Government Code Chapter 2256.

Monitoring Market Prices

The investment officers shall monitor the investment portfolio and shall keep the Board informed of significant changes in the market value of the District's investment portfolio. Information sources may include financial/investment publications and electronic media, available software for tracking investments, depository banks, commercial or investment banks, financial advisers, and representatives/advisers of investment pools or money market funds. Monitoring shall be done monthly or more often as economic conditions warrant by using appropriate reports, indices, or benchmarks for the type of investment.

Monitoring Rating Changes

In accordance with Government Code 2256.005(b), the investment officer shall develop a procedure to monitor changes in investment ratings and to liquidate investments that do not maintain satisfactory ratings.

Safekeeping and Custody

The Department shall retain clearly marked receipts providing proof of the Department's ownership. The Department may delegate, however, to an investment pool the authority to hold legal title as custodian of investments purchased with Department funds by the investment pool.

Sellers of Investments

Prior to handling investments on behalf of the Department, a broker/dealer or a qualified representative of a business organization must submit required written documents in accordance with law. [See Sellers of Investments, CDA(LEGAL)]

Representatives of brokers/dealers shall be registered with the Texas State Securities Board and must have membership in the Securities Investor Protection Corporation (SIPC), and be in good standing with the Financial Industry Regulatory Authority (FINRA).

Soliciting Bids for CDs

In order to get the best return on its investments, the Department may solicit bids for certificates of deposit in writing, by telephone, or electronically, or by a combination of these methods.

Interest Rate Risk

To reduce exposure to changes in interest rates that could adversely affect the value of investments, the Department shall use final and weighted-average-maturity limits and diversification.

The Department shall monitor interest rate risk using weighted average maturity and specific identification.

Internal Controls

A system of internal controls shall be established and documented in writing and must include specific procedures designating who has authority to withdraw funds. Also, they shall be designed to protect against losses of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the Department. Controls deemed most important shall include:

1. Separation of transaction authority from accounting and recordkeeping and electronic transfer of funds.
2. Avoidance of collusion.
3. Custodial safekeeping.
4. Clear delegation of authority.
5. Written confirmation of telephone transactions.

6. Documentation of dealer questionnaires, quotations and bids, evaluations, transactions, and rationale.
7. Avoidance of bearer-form securities.

These controls shall be reviewed by the Department's independent auditing firm.

Annual Review

The Board shall review this investment policy and investment strategies not less than annually and shall document its review in writing, which shall include whether any changes were made to either the investment policy or investment strategies.

Annual Audit

In conjunction with the annual financial audit, the Department shall perform a compliance audit of management controls on investments and adherence to the Department's established investment policies.

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