*****PUBLIC COMMENT WINDOW WILL CLOSE AT NOON ON OCTOBER 14, 2021*****

CDA (LOCAL) – OTHER REVENUES, INVESTMENTS

Districts in Texas are required by law to annually review their investment policies and procedures. CDA (LOCAL) is the policy that governs investments. A change under "Sellers of Investments" was proposed and is under consideration by the Board.

The policy will be presented to the Board of Trustees at a duly called Board meeting for their consideration and approval.

- **Annotated version of CDA LOCAL) Policy is included** — to show you the suggested additions in (blue), deletions in (~~red~~) and text that have been *moved* without alteration are shown in green to distinguish ~~moved text~~ becomes moved text to the existing (LOCAL) policy.

Investment Scope

This investment policy covers all financial assets under the direct control of the District. Transactions involving the purchase, sale, and maintenance of all District 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 10 (Chapter 2256), known as the Public Funds Investment Act (PFIA) (short title).
2. To provide for the safety of principal of all District funds.
3. To provide sufficient funds to meet the cash needs of the continuing operation of the District.
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 District investments with due consideration to the quality of the investment.
6. To pursue an active versus a passive portfolio management philosophy; securities may be sold or exchanged before they mature if market conditions present an opportunity for the District to benefit from the trade or if necessary to meet the cash needs of the District. 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 District to match the maturity of investment instruments to cash flow needs. The following restrictions apply to original maturities for all funds:

1. No investment security shall have an original stated maturity greater than three years.
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 not have a stated maturity greater than 270 days.

4. Money market mutual funds shall have a dollar-weighted average stated maturity no greater than 60 days.

Investment Management

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

Investment Responsibility

District Investment Officer

In accordance with Government Code 10 (Chapter 2256), the associate superintendent for finance and controller shall be the District's investment officers and may invest District funds that are not immediately required to pay the obligations of the District. These investment officers are hereby bestowed all of the obligations and authorities contained in the District investment 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

Investment officers shall attend at least one formal training session with not less than ten hours of instruction within 12 months after taking office or assuming duties and shall receive not less than eight hours of instruction during each subsequent two-year period, beginning with the first day of the District's fiscal year. Training must include education in investment controls, security risks, market risks, and compliance with Chapter 2256.

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 District's investment policy.

Liability

District investment officers shall not be responsible for any loss of the District'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 an investment officer 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 that 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 District and any personal financial/investment positions that could be related to the performance of the District's portfolio. Each investment officer shall subordinate his or her personal investment transactions to those of the District, particularly with regard to the timing of purchases and sales.
Subject to Audit	The District, at a minimum, shall have an annual audit of all District funds by an independent auditing firm. The District's investment officers and the District's investment procedures shall be subject to an annual compliance audit and any special audits as required.
Interest Rate Risk	To reduce exposure to changes in interest rates that could adversely affect the value of investments, the District shall use final and weighted-average-maturity limits and diversification. The District shall monitor interest rate risk using weighted average maturity and specific identification.
Controls	The investment officers shall establish a system of internal controls that 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 record-keeping. 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 to initiate wire transfers.
Internal Controls	
Safekeeping	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.
Delivery vs. Payment	All funds involved in the transaction of investment securities shall be transferred using the delivery vs. payment (DVP) method through the Federal Reserve System. By doing so, District funds or securities are not released by a third party until the counterparty presents the agreed upon transaction.

Competitive Bids

It is the policy of the District 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. At least three bids or offers must be solicited from approved brokers/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.

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.

Investment Strategies by Fund

Investments of the following fund categories shall be consistent with this policy and in accordance with the applicable strategy defined below. All strategies described below for the investment of a particular fund should be based on an understanding of the suitability of an investment to the financial requirements of the District and consider preservation and safety of principal, liquidity, marketability of an investment if the need arises to liquidate before maturity, diversification of the investment portfolio, and yield.

The District's investment strategies for each of its funds, including but not limited to, operating, custodial, debt service, and capital projects are incorporated into this investment policy as follows.

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 preservation and safety of principal, 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 special revenue funds 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 Project Funds	The investment strategy for the capital project funds 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.
Self-Sustaining Fund	The investment strategy for the self-sustaining fund has as its primary objective preservation and safety of principal. Secondly, the 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 dollar average weighted maturity of self-sustaining fund investments shall not exceed 365 days.
Fiduciary Funds	Investment strategies for fiduciary funds shall have as their primary objective preservation and safety of principal. Secondly, the 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 dollar average weighted maturity of fiduciary fund investments shall not exceed 365 days.
Suitability	The primary investment objectives of the District are preservation and safety of principal and liquidity; income is secondary. The investments must be appropriate to meet the needs and circumstances of the District's operating budget. The investment officers shall use reasonable judgment to determine whether the investment is applicable to the portfolio needs of the District.
Preservation and Safety of Principal	The investment officers shall exercise diligence and thoroughness in making an investment transaction. Receipts for confirmations of trades shall include information on trade date, par value, maturity, price, settlement date, and description of securities purchased, and they will show the District 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 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. 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 shall be given to the effect of the sale on the remaining portfolio.

Investment Diversification

The District shall diversify the investment instruments within the portfolio to avoid incurring reasonable risks inherent in overinvesting 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 overconcentration in a specific instrument does not apply to U.S. Treasury securities.

The District 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 yield on the portfolio consistent with the objectives and priorities stated in this policy. Cash flow forecasts are used to make investment decisions. All available funds should be invested to earn interest for the District. Enough of the funds shall 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 shall be minimal. The annual time-weighted rate of return on the portfolio should meet or exceed the total return on three-month Treasury bills.

Authorized Investments

All investments made or sold on behalf of the District must fall within the guidelines provided in Government Code 10 (Chapter 2256) and the PFIA (short title) and are subject to such other restrictions as may be imposed by the Board by resolution or order. The following investments are authorized for District funds, including bond proceeds and pledged revenue to the extent allowed by law, with restrictions as noted [see CDA(LEGAL)— Authorized Investments]:

1. Obligations of the United States or its agencies and instrumentalities.

2. Direct obligations of this state or its agencies and instrumentalities.

3. Other obligations, the principal of and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, this state or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC).

4. 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, and have a stated maturity no longer than ten years.

5. Certificates of deposit. Must be fully collateralized and guaranteed or insured by the FDIC.

6. Repurchase agreements. Must be fully collateralized (102 percent), pledged to and held in the District's name and deposited at the time the investment is made with the District or with a third party selected and approved by the District, with a defined termination date, and placed through a primary government securities dealer, as defined by the Federal Reserve, or a bank doing business in this state.

7. Commercial paper. Must have a stated maturity of 270 days or fewer and a rating of not less than A-1/P-1 by two nationally recognized credit rating agencies or a fully secured irrevocable letter of credit (LOC) from a U.S. bank and one A-1/P-1 credit rating.

8. Money market funds. Must be approved by Board resolution and invest its funds only in investments approved by this investment policy. Mutual funds must have as a stated policy objective maintaining a $1 net asset value.

9. Public funds investment pools. Must be approved by Board resolution and invest its funds only in investments approved by this investment policy.

Investment Institutions and Representatives

The District investment officers shall invest District 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 doing business in Texas that are insured by the FDIC;

3. Savings banks doing business in Texas that are insured by the FDIC (or its successor);

4. Public funds investment pools;

5. Money market funds; and

6. Government securities brokers and dealers.

Sellers of Investments

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

~~The investment officers shall maintain a list of business organizations qualified to transact sales and purchases of investment instruments with the District. The list shall be reviewed and updated periodically~~.

Representatives of brokers/dealers shall be registered with the Texas State Securities Board and be in good standing with the Financial Industry Regulatory Authority (FINRA). All brokers/dealers must submit annual audited financial statements

Reporting and Performance

Monthly Report

The investment officers shall generate and submit to the Board a monthly investment report that includes the current portfolio of securities at cost and market value by security type, indicating the appropriate fund.

Quarterly Report

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

1. Describe in detail the portfolio position of the District on the date of the report;

2. State the book value and market value of each separately invested asset at the 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 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 District's investment policy and relevant provisions of Government Code 10, Chapter 2256; and

7. Be signed by the investment officers.

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.