



Investment Policy

Permian Basin Regional Planning Commission

Adopted February 26, 2020

INVESTMENT POLICY

I. POLICY

It is the policy of the Permian Basin Regional Planning Commission (PBRPC) that after allowing for the anticipated cash flow requirements of PBRPC 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 PBRPC funds. The PBRPC'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 applicable statutes, rules, regulations and Chapter 2256 of the Government Code ("Public Funds Investment Act"), which requires PBRPC 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 PBRPC's funds.

III. SCOPE

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

- Special Revenue Funds
- Any new fund created by PBRPC, unless specifically exempted from this Policy by the Executive Board or by law.

Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

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

The following investment strategies are the guidelines to investment of the funds of PBRPC. All investments, when aggregated together, must be within the diversification parameters listed with the

authorized investments. From time to time, on a temporary basis, the actual investments within one fund or another may vary slightly from its underlying strategy. However, these deviations should only be temporary and easily corrected.

- **Advance funds** include any designated local, state, or federal advance funding within special revenue funds. These funds are necessary for the implementation of the PBRPC's programs and tend to be short-term to mid-term in nature. These funds will be invested in instruments authorized by this policy with a maturity matched with programmatic needs not exceeding two (2) years.
- **Designated funds** include local programmed funding within special revenue funds. These funds tend to be longer term in nature and not needed for immediate use (i.e.: Proceeds from sale of land). These funds will be invested in instruments authorized by this policy with a maturity matched with programmatic needs not exceeding two (2) years.

IV. INVESTMENT OBJECTIVES

PBRPC 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.

PBRPC 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 insure maximum cash availability and maximum earnings on short-term investment of cash.

Safety [PFIA 2256.005(b)(2)]

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 and Concentration of Credit Risk** – PBRPC will minimize credit risk, the risk of loss due to the failure of the issuer or backer of the investment, and concentration of credit risk, the risk of loss attributed to the magnitude of investment in a single issuer, by:
 - Limiting investments to the safest types of investments
 - Pre-qualifying the financial institutions and broker/dealers with which PBRPC will do business
 - Diversifying the investment portfolio so that potential losses on individual issuers will be minimized.
- **Interest Rate Risk** – PBRPC will manage the risk that the interest earnings and the market value of investments in the portfolio will fall due to changes in general interest rates by limiting the maximum weighted average maturity of the investment portfolio to two (2) years. PBRPC will, in addition:
 - May structure the investment portfolio so that investments mature to meet any cash requirements set by the Board for ongoing operations, thereby avoiding the need to liquidate investments prior to maturity.
 - Diversify maturities and staggering purchase dates to minimize the impact of market movements over time.

Liquidity [PFIA 2256.005(b)(2)]

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. In addition, a portion of the portfolio may consist of securities with active secondary or resale markets.

Public Trust

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

Yield (Optimization of Interest Earnings) [PFIA 2256.005(b)(3)]

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 [PFIA 2256.005(f)]

In accordance with applicable statutes, rules, regulations and the Public Funds Investment Act, the Board designates the Chief Financial Officer as the PBRPC's Investment Officer and the Executive Director and the Director of Administrative Services as alternate Investment Officers. An Investment Officer or designee is authorized to execute investment transactions on behalf of PBRPC. No person may engage in an investment transaction or the management of PBRPC funds except as provided under the terms of this Investment Policy as approved by the Board. The investment authority granted to the investing officers is effective until rescinded by the Board.

Quality and Capability of Investment Management [PFIA 2256.005(b)(3)]

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

Training Requirement [PFIA 2256.008 – Local Governments]

In accordance with applicable statutes, rules, regulations and the Public Funds Investment Act, designated Investment Officers shall attend an investment training session no less often than once every two years commencing October 1, 2011 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. 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 PBRPC may engage in an investment transaction. Thus, these independent sources will be training sessions sponsored by the Government Treasurers Organization of Texas (GTOT), the University of North Texas (UNT), Texas State University, Texas Municipal League (TML), or the Government Finance Officers Association of Texas (GFOAT).

Internal Controls

The Chief Financial Officer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of PBRPC 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 Chief Financial Officer 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 all transactions for investments and wire transfers.
- Development of a wire transfer agreement with the depository bank or third party custodian.

Prudence [PFIA 2256.006]

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 PBRPC’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 PBRPC.

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 [PFIA 2256.005(i)]

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 PBRPC.

An Investment Officer of PBRPC who has a personal business relationship with an organization seeking to sell an investment to PBRPC 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 PBRPC shall file a statement disclosing that relationship. A statement required under this subsection must be filed with the Texas Ethics Commission and the Board.

VI. SUITABLE AND AUTHORIZED INVESTMENTS

Investments [PFIA 2256.005(b)(4)(A)]

PBRPC funds governed by this policy may be invested in the instruments described below, all of which are authorized by Chapter 2256 of the Government Code (Public Funds Investment Act). Investment of PBRPC funds in any instrument or security not authorized for investment under the Act is prohibited. PBRPC 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 as provided by law. In addition, certificates of deposit obtained through a depository institution that has its main office or a branch office in Texas and that contractually agrees to place the funds in federally insured depository institutions in accordance with the conditions prescribed in Section 2256.009(a) and 2256.010(b), as amended, of the Public Funds Investment Act are authorized investments.
3. Fully collateralized direct repurchase agreements with a defined termination date secured by a combination of cash and obligations of the United States or its agencies and instrumentalities. These shall be pledged to PBRPC, held in PBRPC's name, and deposited at the time the investment is made with PBRPC or with a third party selected and approved by PBRPC. Repurchase agreements must be purchased through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in Texas. A Master Repurchase Agreement must be signed by the bank/dealer prior to investment in a repurchase agreement. All repurchase agreement transactions will be on a delivery vs. payment basis. Securities received for repurchase agreements must have a market value greater than or equal to 100 percent at the time funds are disbursed. (Sweep Accounts and/or Bond Proceeds)
4. Money Market Mutual funds that: 1) are registered and regulated by the Securities and Exchange Commission, 2) comply with SEC Rule 2a-7; and, 3) comply with PFIA 2256.014, as amended of the Public Funds Investment Act.
5. Local government investment pools, which 1) meet the requirements of Chapter 2256.016, as amended, 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, and 3) are authorized by resolution or ordinance by the Board.

All prudent measures will be taken to liquidate an investment that is downgraded to less than the required minimum rating. (PFIA 2256.021)

II. Not Authorized [PFIA 2256.009(b)(1-4)]

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 [PFIA 2256.005(b)(4)(B)]

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

The Investment Officer must monitor the maturity dates of all investments in the operating fund portfolio to minimize risk of loss from interest rate fluctuations, and to ensure that the maturities do not exceed the anticipated cash flow requirements of the operating fund portfolio. If these levels are exceeded, the Investment Officer must make changes in the investments held to reduce the maturities to comply with these requirements.

PBRPC attempts to match its investments with anticipated cash flow requirements. PBRPC will not directly invest in securities maturing more than two (2) years from the date of purchase; however, the above described obligations, certificates, or agreements may be collateralized using longer dated investments.

Because no secondary market exists for repurchase agreements, the maximum maturity shall be 120 days except in the case of a flexible repurchase agreement for bond proceeds. The maximum maturity for such an investment shall be determined in accordance with project cash flow projections and the requirements of the governing bond ordinance.

The composite portfolio will have a weighted average maturity of two (2) years or less. This dollar-weighted average maturity will be calculated using the stated final maturity dates of each security. [PFIA 2256.005(b)(4)(C)]

Diversification [PFIA 2256.005(b)(3)]

PBRPC recognizes that investment risks can result from issuer defaults, market price changes or various technical complications leading to temporary illiquidity. Risk is managed through portfolio diversification that shall be achieved by the following general guidelines:

- Limiting investments to avoid over concentration 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),
- Limiting investment in investments that have higher credit risks (example: commercial paper),
- Investing in investments with varying maturities, and
- Continuously investing a portion of the portfolio in readily available funds such as local government investment pools (LGIPs), money market funds or overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

VIII. SELECTION OF BANKS AND DEALERS

Depository [Chapter 105.017, Local Government Code]

A Depository may be selected every five years, which shall include a formal request for proposal (RFP). The selection of a depository may be determined by competitive bid and evaluation of bids 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 bid 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.

Authorized Brokers/Dealers [PFIA 2256.025]

PBRPC shall, at least annually, review, revise, and adopt a list of qualified broker/dealers and financial institutions authorized to engage in securities transactions with PBRPC and in compliance with Section 2256.010(b) of the Public Funds Investment Act, as amended. The PBRPC Board will annually review and adopt the list of qualified broker/dealers. Those firms that request to become qualified bidders for securities transactions will be required to provide a completed broker/dealer questionnaire that provides information regarding creditworthiness, experience and reputation and 2) a certification stating the firm has received, read and understood PBRPC's investment policy and agree to comply with the policy. Authorized firms may include primary dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (Uniform Net Capital Rule), and qualified depositories. All business organizations offering to engage in an investment transaction with PBRPC will be provided a copy of PBRPC's Investment Policy with the belief and understanding that the business organization will monitor all investments made to determine that they are in compliance with PBRPC's Investment Policy. *PFIA 2256.005(k-l)*

Competitive Bids

It is the policy of PBRPC to require competitive bidding for all individual security purchases and sales except for: a) transactions with money market mutual funds and local government investment pools and b) treasury and agency securities purchased at issue through an approved broker/dealer or financial institution.

Delivery vs. Payment [PFIA 2256.005(b)(4)(E)]

Securities shall be purchased using the **delivery vs. payment** method with the exception of investment pools and mutual funds. Funds will be released after notification that the purchased security has been received.

IX. CUSTODIAL CREDIT RISK MANAGEMENT

Safekeeping and Custodial Agreements

PBRPC shall contract with a bank or banks for the safekeeping of securities either owned by PBRPC as part of its investment portfolio or held as collateral to secure demand or time deposits. Securities owned by PBRPC shall be held in PBRPC'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 PBRPC and pledged to PBRPC 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 PBRPC.

Collateral Policy [PFCA 2257.023]

The PBRPC's Investment Officer(s) shall insure that all PBRPC funds are fully collateralized or insured consistent with federal and state law and the current depository contract. Unless the PBRPC approves a surety bond as provided by law, the depository bank shall secure the funds of the PBRPC by pledging with the PBRPC, subject to the approval of the PBRPC as to the kind and value, "investment securities" as defined by Article 2529b-1, Vernon's Texas Civil Statutes.

The securities pledged shall be transferred to and held by hereinafter referred to as the "Safekeeping Bank". The securities pledged shall have a separate financial institution approved by the PBRPC, a market value greater than or equal to one hundred two percent (102%) of the funds which the PBRPC may have on deposit at any time, reduced by the amount of Federal Deposit Insurance Corporation (FDIC insurance available. Should the market value of the securities pledged ever be less than 102% of the funds secured, the Bank shall immediately cause additional securities approved by the PBRPC to be pledged with the PBRPC, in such aggregate amount as may be necessary to restore the market value of the securities pledged to 102% of the amount of fund secured. The bank shall have the right to substitute or withdraw pledged securities upon obtaining prior written approval of the PBRPC.

The Board of Directors may, by written order, require the Depository Bank to execute a new bond or pledge additional or other securities at any time the Board of Directors considers it advisable or necessary for protection of the PBRPC. If the Depository Bank fails for any reason to comply within twenty four (24) hours of the service order, the PBRPC may terminate the contract.

The Board of Directors must approve all securities prior to them being pledged. Securities may only be released from pledge by resolution of the Board of Directors. United States Treasury obligations which are pledged as collateral by any depository bank and which mature during the time they are pledged as collateral shall be immediately replaced with like United States Treasury obligations of equal or greater value. The Board of Directors' executed resolution, or certified copy thereof, constitutes written proof of the release.

Collateral Defined

PBRPC 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 PBRPC by the Federal Home Loan Bank

Subject to Audit

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

X. PERFORMANCE

PBRPC'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 cash flow requirements of PBRPC.

XI. REPORTING [PFIA 2256.023]

Methods

The Investment Officer shall prepare an investment report on 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 prepared in a manner that will allow PBRPC to ascertain whether investment activities during the reporting period have conformed to the Investment Policy. The report will be provided to the Board. 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.
- Average weighted yield to maturity of portfolio as compared to applicable benchmark.
- 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 PBRPC's investment portfolio with state law and the investment strategy and policy approved by the Board.

An independent auditor will perform a formal annual review of the quarterly reports with the results reported to the governing body [PFIA 2256.023(d)].

Monitoring Rating and/or Market Value [PFIA 2256.005(b)(4)(D)]

Rating and/or 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 quarterly in a written report.

XII. INVESTMENT POLICY ADOPTION [PFIA 2256.005(e)]

PBRPC's investment policy shall be adopted by resolution of the Board. It is PBRPC's intent to comply with state laws and regulations. PBRPC's investment policy shall be subject to revisions consistent with changing laws, regulations, and needs of PBRPC. Annually, the Board shall review this policy and adopt revisions as needed stating with resolution that it has reviewed the policy and investment strategies.

2019 PFIA Legislative Changes - Opinions posted by University of North Texas

Two Legislative bills passed are highlighted below that impacted the Texas Public Funds Investment Act 2256 effective June 7, 2019 and September 1, 2019.

HB 2706

H.B. 2706, which will take effect on September 1, 2019, provides that:

- eligible collateral for repurchase agreements (Section 2256.011) is expanded from a combination of cash and obligations of the United States, its agencies or instrumentalities to include commercial paper and corporate bonds, if applicable. Any restrictions associated with the investment of public funds in either commercial paper or corporate bonds as authorized in Section 2256.013 or Section 2256.0204, respectively, by the Act also apply to the use of these obligations as repurchase agreement collateral.
- extends the stated maximum maturity of commercial paper from 270 days or fewer to 365 days or fewer from the date of its issuance. This maximum maturity extension also applies to commercial paper serving as repurchase agreement collateral.
- requires investment pools maintaining a \$1.00 net asset value to calculate and report yield to investors in the pool in accordance with federal regulations applicable to money market funds. An investment pool using amortized cost accounting, to the extent reasonably possible, must stabilize at a \$1.00 net asset value, when rounded and expressed to two decimal places. The governing body of an investment pool using amortized cost accounting must also take action to eliminate or reduce to the extent reasonably practicable any dilution or unfair result to existing pool participants, including a sale of portfolio holdings, to attempt to maintain the ratio of market value of the portfolio divided by the book value of the portfolio between 0.995 and 1.005.
- adds Section 2256.0208, “Local Government Investment of Bond Proceeds and Pledged Revenue”, to the Act. Local government investment officers are authorized to invest bond proceeds or revenue pledged to the payment of the debt obligation only to the extent permitted by the Act, in accordance with provisions governing the debt issuance, as applicable, and the local government’s approved investment policy regarding the debt issuance, as applicable.
- repeals Section 2256.0204(g), which prohibited public funds investment pools from investing in corporate bonds

HB 293

H.B. 293, which was effective as of 06/07/2019,

- amended the investment training requirements for school district financial officers through the addition of Subsection (g). Subsection (g) provides that the treasurer, chief financial officer, or investment officer of a school district is not subject to the continuing investment training requirements of eight hours every two consecutive fiscal years under Section 2256.008(a-1) if the district does not invest district funds or only deposits district funds in interest-bearing deposit accounts or certificates of deposit as authorized by Section 2256.010 of the Act. The treasurer, chief financial officer, or investment officer must annually submit to the agency a sworn affidavit identifying the related investment categories in Subsection (g) that apply to the district.

Attachment

Authorized Brokers/Dealers

The Board may choose to add the following to this list:

Prosperity Bancshares, Inc. ®

Tex Pool

Tex Pool Prime

TexSTAR

LOGIC

MBIA Class