



EL PASO COUNTY COMMUNITY COLLEGE DISTRICT

BOARD POLICY

4.06.01

INVESTMENTS

1.0 Policy:

It is the policy of El Paso County Community College District to manage and invest financial assets as set forth below and to follow these guidelines which have been developed in accordance with the Public Funds Investment Act of 1987, as amended.

2.0 Scope:

This investment policy applies to all financial assets of El Paso County Community College District. These funds are accounted for in the College's Audited Financial Statements including, but not limited to, the following:

Unrestricted Fund
Restricted Fund
Endowment Fund
Agency Fund
Plant Funds

El Paso Community College will consolidate cash balances from all funds to maximize investment earnings.

Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles. In addition to this policy, the investment of Unexpended Plant Funds, Debt Service and Reserve Funds shall be managed by their respective bond covenants and federal legislation.

3.0 Standard of Care:

The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. According to the "Prudent Person rule", investments shall be made with 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. Investment officers acting in accordance with the written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

Adopted: Nov. 21, 1978
Year of Last Review: 2018

Amended: May 23, 2018

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Designated Contact: Vice President of Financial and Administrative Operations

The District shall provide periodic training in investments for the investment personnel through courses and seminars offered by professional organizations and associations in order to insure the quality and capability of the District's investment personnel making investment decisions in compliance with the Public Funds Investment Act (PFIA).

4.0 Training:

Each member of the Board of Trustees and investment officer shall attend at least one (1) training session within six months after taking office or assuming duties relating to responsibilities under the Public Funds Investment Act.

The primary investment officers shall attend not less than once in a two (2)-year period an investment training session relating to investment responsibilities from an independent source approved by the Board of Trustees. The

independent sources include:

Texas Higher Education Coordinating Board
Center for Public management at the University of North Texas
Government Treasurer's Organization of Texas

The investment officer shall prepare a report on any changes in the Public Funds Investment Act and deliver the report to the Board of Trustees not later than the 180th day after the last day of each regular session of the legislature.

5.0 Investment Objectives:

5.1. Safety: This is the most important objective of the investment policy of El Paso County Community College District. Investments of the College shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. In order to minimize any potential losses on individual securities, diversification is required. The College shall demonstrate its support of this objective by investing in 100% collateralized instruments or investments backed by the U.S. Government or one of its Agencies. Specific high risk investments shall be prohibited.

5.2 Liquidity: The El Paso County Community College District investment portfolio will remain sufficiently liquid to enable the College to meet all operating requirements which can be reasonably anticipated. To a large extent liquidity shall be determined by the flow of revenues and expenditures predicted on cash flow projections. These cash flow projections shall be up to one year in length.

5.3 Yield: The College's investment portfolio shall be designed with the objective of attaining a rate of return throughout budgetary and economic cycles, consistent with the College's investment risk constraints and the cash flow needs projected.

The College's cash management portfolio shall be designed with the objective of equaling or exceeding the average returns on the thirteen (13) week U.S. Treasury bill rates.

6.0 Delegation of Authority:

The Associate Vice President, Budget and Financial Services, and the Comptroller are designated as primary investment officers and are responsible for investment decisions and activities under the direction of the Vice President, Financial and Administrative Operations.

The Associate Vice President, Budget and Financial Services, and the Comptroller shall establish a system of internal control, which shall be documented in writing. The internal control shall be reviewed by an independent auditor for adherence to the PFIA, and this Investment Policy on an annual basis. This review will provide internal control by assuring compliance with policies and procedures. If the District invests in other than money market mutual funds, investment pools or accounts offered by its depository bank in the form of certificates of deposit, or money market accounts or similar accounts, the reports prepared by the investment officers shall be formally reviewed at least annually by an independent auditor, and the result of the review shall be reported to the Board of Trustees by the auditor. Unless otherwise authorized, a person may not deposit, withdraw, invest, transfer, or manage in any other manner funds of the College without express written authority of the Board of Trustees, President, or Vice President, Financial and Administrative Operations.

An Investment Advisory Committee shall be responsible for monitoring, reviewing, and making recommendations regarding the College's cash management and investment program. The Investment Advisory Committee will consist of the Vice President, Financial and Administrative Operations, Associate Vice President Budget and Financial Services, Comptroller, and additional members appointed by those three administrators.

7.0 Reporting:

A written report of the institution's funds investment transactions shall be prepared not less than quarterly and signed by the Investments officers for submittal to the Board of Trustees. The report shall include a summary statement of investment activity prepared in compliance with generally accepted accounting principles and Public Funds Investment Act and will include the following:

1. A listing of individual securities held at the end of the reporting period.
2. Additions and changes to the market value during the period.
3. Listing of investments by maturity date.
4. Fully accrued interest for the reporting period.
5. Average weighted yield to maturity of portfolio as compared to applicable benchmark.
6. Statement of compliance of the College's investment portfolio with state law and the investment strategy and policy approved by the Board of Trustees.

Marking to Market: Market Value of all securities in the portfolio will be determined on a quarterly basis if the nature of the investments warrants it. These values will be obtained from a reputable and independent source and reflected on the written report to the Board of Trustees. A formal annual review of the quarterly reports will be performed by an independent auditor with the results reported on the Board of Trustees.

8.0 Ethics and Conflicts of Interest:

Officers and employees 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 their ability to make impartial investment decisions. Employees and investment officials shall disclose to the President any material financial interests in financial institutions that conduct business within this jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the College, particularly with regard to the time of purchase and sale. An investment officer has a personal relationship with a business organization if:

1. the investment officer owns ten (10) percent or more of the voting stock or shares of the business organization or owns \$5,000 or more of the fair market value of the business organization;
2. funds received by the investment officer from the business organization exceed ten (10) percent of the investment officer's gross income for the previous year; or
3. the investment officer has acquired from the business organization during the previous year investments with a book value of \$2,500 or more for the personal account of the investment officer.

An investment officer of the College who has personal business relationship with an organization seeking to sell an investment to the College shall file a statement disclosing that personal business interest. An investment officer who is related within the second degree by affinity of consanguinity and seeking to sell an investment to the College shall file a statement disclosing that relationship. A statement required under this subsection must be filed with the Texas Ethics Commission and the governing body of the College.

9.0 Authorized Financial Dealers and Institutions:

If the District chooses to invest in securities that require the services of brokers/dealers, the Board of Trustees or the Investment Advisory Committee shall adopt a list of approved qualified brokers that are authorized to engage in investment transactions with the District. This list should be reviewed and revised at least annually.

A written copy of the investment policy shall be presented to any person offering to engage in an investment transaction with the District. The qualified representative of the business organization offering to engage in an

investment transaction with the District shall execute a written instrument in a form acceptable to the District and the business organization substantially to the effect that the business organization has:

1. received and reviewed the District's Investment Policy; and
2. acknowledged that the business organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the entity and the organizations that are not authorized by the District's Investment Policy.

The investment officer of the District may not acquire or otherwise obtain any authorized investment described in the investment policy of the District from a person who has not delivered to the District the instrument required.

The Comptroller will maintain a list of up to three approved security broker/dealers selected by credit worthiness who are authorized to provide investment services in Texas. The Comptroller will evaluate the performance of the security brokers and make a recommendation to the Investment Advisory Committee to drop from or continue them on the list based upon the following criteria:

- A. Prompt and accurate confirmation of transactions
- B. Number of transactions competitively won, competitive pricing
- C. Accurate market information
- D. Delayed transactions or continuing operational difficulties
- E. Efficient securities delivery, account servicing

Competitive Bidding: Competitive quotes must be taken from at least three qualifying institutions for any investment transaction requiring competitive bidding. Investment transactions may be done verbally, but followed by electronic or written confirmation. Funds will be authorized to be released after notification the purchased security has been received. Written confirmation shall be received from the financial institution or broker/dealer. All investments purchased will be held in the College's name in safekeeping at a third party custodial institution with a safekeeping receipt being sent to the College investment officer.

An annual review of the financial condition and registrations of qualified bidders will be conducted by the Comptroller. A current audited financial statement is required to be on file for each financial institution and broker/dealer in which the College invests.

Depository Bank: No public deposit shall be made except in a qualified public depository as established by Sections 20.42 and 23.80 of the Texas Education Code. The depository bank when selected shall serve for a term of two years and until its successor shall have been duly selected and qualified (Section 23.76 Texas Education Code). Prospective depository banks will complete a bid form in the format as specified in Section 23.77 of the Texas Education Code.

10.0 Authorized Investments:

All College investments shall comply with Section 23.80 and 20.42 of the Texas Education Code and the Public Funds Investment Act of 1987, as amended. It is the policy of El Paso County Community College District to limit its investments to:

- A. INTEREST BEARING ACCOUNTS in the College's depository bank for the Treasury, Accounts Payable, Payroll, Student Refunds, Federal Funds and any other accounts as deemed necessary. Interest earned on interest bearing accounts will be credited to these accounts.
- B. CERTIFICATES OF DEPOSIT issued by a depository institution that has its main office or a branch office in this state that are:
 - 1. guaranteed or insured by the Federal Deposit Insurance Corp. or its successor
 - 2. secured by obligations that are described in the policy section on collateralization.

A Certificate of Deposit (CD) is a fixed rate instrument with a specific maturity date and stated interest rate. The interest rates vary with different dates of purchase and maturity dates. The bank shall issue a certificate in the name of the College and account stating the purchase date, purchase price, rate of interest, number of days, interest earned, maturity value and maturity date. CD's can be invested for a term up to one year.
- C. U.S. GOVERNMENT OBLIGATIONS that are direct obligations of the U.S. Government or its agencies and instrumentalities. Government obligations may be purchased at auction or through the secondary market. In particular, treasury bills and treasury notes are considered prime investments and carry the highest possible credit ratings with the smallest degree of investment risk and are backed by the full faith and credit of the U.S. Government. Investments of U.S. Government Securities can include:
 - 1. Treasury Bills sold at a discount and redeemable for full value at maturity either 3, 6, or 12 months.
 - 2. Treasury Notes that have maturities of one to ten years. Interest is received every six months.

United States Government Agencies are also considered prime investments and are guaranteed by the issuing federal agency. Investments of U.S. Government Agencies can include discount notes issued at a discount from face (maturity) value. The investment return is the difference between the purchase price and face value. Discount notes are issued by Federal Farm Credit Banks, Federal National Mortgage Association and Federal Home Loan Banks.
- D. REPURCHASE AGREEMENTS are simultaneous purchase and sale of securities from a bank or dealer. Fully collateralized direct repurchase agreements having a defined termination date, secured by obligations of the United States or its agencies and instrumentalities, pledged with a third party selected or approved by

the District, and placed through a primary government securities dealer, as defined by the Federal Reserve, or financial institution doing business in the State of Texas may be acceptable.

With respect to repurchase agreements not invested in Treasuries:

1. The market value of the collateral shall equal at 100 percent of the cash value of the repurchase agreements.
2. All securities purchased and a repurchase agreement shall be held by the College's custodial safekeeping agent.
3. The seller of repurchase agreement securities shall be entitled to substitute securities used as collateral upon authorization by the College.
4. No repurchase agreement shall be entered into unless a master repurchase agreement has been executed between the College and its trading partners.
5. Where repurchase agreements have been entered into with the College's Depository, all confirmations and safekeeping receipts shall be maintained by a third-party safekeeping agent (i.e. Federal Reserve).

- E. A LOCAL GOVERNMENT INVESTMENT POOL is eligible if the College's Board of Trustees, by resolution, authorizes investment in the particular pool, meeting the eligibility requirements as described in Section 2256.016 Texas Government Code; meeting all other requirements of the investment pool as described in sections 2256.017 through 2256.019, Texas Government Code.

To maintain eligibility to receive and invest funds on behalf of the College, an investment pool must be continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service.

- F. NO-LOAD MONEY MARKET MUTUAL FUNDS AND NO-LOAD MUTUAL FUNDS are eligible investments if they meet the eligibility requirements as described in Section 2256.014 Texas Government Code and consist of investments as authorized in this Investment Policy.

A no-load money market mutual fund is authorized if:

1. It is registered with and regulated by the Securities and Exchange Commission;
2. It provides a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940;
3. It has a dollar-weighted average stated maturity of 90 days or fewer; and

4. It includes in its investment objectives the maintenance of a stable net asset value of \$1 for each share;
5. The College is prohibited from investing funds in any one money market mutual fund in an amount that exceeds 10 percent of the total assets of the mutual fund.

A no-load mutual fund is authorized if:

1. It is registered with and regulated by the Securities and Exchange Commission;
2. It has an average weighted maturity of less than two years;
3. It is invested exclusively in obligations approved by the Public Funds Investment Act and limited to authorized investments in this policy;
4. It is continuously rated by at least one nationally recognized investment rating firm of not less than AAA or its equivalent;
5. It conforms to the requirements set forth in Sections 2256.016(b) and (c) relating to the eligibility of investment pools to receive and invest funds;
6. The College is required to limit its investment to 15% of the monthly average fund balance, excluding bond proceeds, reserves, and debt service funds;
7. The College does not invest any portion of bond proceeds, reserves and funds held for debt service;
8. The College does not invest funds in any one mutual fund in an amount that exceeds 10 percent of the total assets of the mutual fund.

G. PROHIBITED INVESTMENTS:

The following are not authorized investments under the Public Funds Investment Act of 1987, as amended.

1. Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pay no principal.
2. Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest.
3. Collateralized mortgage obligations that have a stated final maturity date of greater than ten (10) years.
4. Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

11.0 Investment Strategy

A. Current Unrestricted and Unexpended Plant Funds:

The primary objective of the investment strategy for this fund is to make investments with maturities which match operating expenditure requirements. Investments will be laddered to correspond with the projected cash needs of the College. For Unexpended Plant funds, maturities should be planned to the extent possible based upon construction completion schedules.

Selection of the investments will be made which support the objective of the funds and emphasize the following priorities in their order of importance:

Suitability of the investment to the financial requirements of the College such as timing maturities to when funds are needed is most important;

Preservation and safety of principal by investing in only authorized investments and assuring that collateralization requirements are being met;

Liquidity should be considered to assure that cash requirements are met in a timely manner;

Marketability of the investment if the need arises to liquidate the investment before maturity, should unforeseen circumstances arise. However, securities are purchased with the intention of holding them until maturity;

Diversification of investments as needed to meet the short-term and long-term cash requirements obtaining the maximum yield on investments when considering all the above factors.

B. Debt Retirement Fund:

The primary objective of the investment strategy for the Debt Service funds shall be to provide assurance of liquidity on payment date adequate to cover the debt service requirements. The final maturity date of investments shall not exceed the debt service payment date.

The main purpose of the Debt Service Reserve Fund is to pay principal and interest on the bonds when and to the extent the amount in the Debt Service Funds is insufficient to make sure payments when due, whether on an interest payment date, redemption date, or maturity date, and in the event the bonds are to be paid or redeemed.

Money shall be invested in accordance with any bond covenants made regarding the investment of these funds as provided in any applicable bond order or resolution, provided that, for money needed for debt service payments, the investment shall mature no later than the date the debt service payment is due.

For money not needed for debt service requirements, the investment shall mature no later than two years after purchase, unless otherwise authorized by the Board of Trustees.

Investment strategies for Debt Retirement Funds shall consider and emphasize the selection of investments priorities listed above under the Current Unrestricted Funds and Unexpended Plant Funds.

12.0 Monitoring Investments

Since the maturity dates of short term investments are planned to coincide either with operating expenditure requirements, construction completion schedules, or debt service payment dates, investments should be held to maturity. The emphasis on monitoring these investments is on the projection of the amount and date that funds will be needed before an investment is purchased. Since these funds are not invested for speculation but rather to meet specific needs they are held until the maturity date minimizing the monitoring that is required for short term investments.

Any investments that have a minimum rating requirement will be monitored on a monthly basis.

In the event that the College has long term funds, such as endowment funds, the fund objectives and fund strategy shall dictate the investments which will be purchased and the methods to monitor the market price would need to be developed.

The College is not required to liquidate investments that were authorized investments at the time of purchase. All prudent measures will be taken to liquidate an investment that is downgraded to less than the required minimum rating.

13.0 Collateralization:

Consistent with the requirements of the Public Funds Collateral Act, it is the policy of the College to require full collateralization of all College investments and funds on deposit with a depository bank, other than investments which are obligations of the U.S. Government and its agencies and instrumentalities. The collateralization level will be at not less than one hundred percent (100%) of market value of the principal and accrued interest, reduced by that portion of funds insured by the FDIC. Securities pledged as collateral shall be held by an independent third party with whom the College has a current custodial agreement and will be of any type permitted by the provisions of the Public Funds Collateral Act, Title 10, Chapter 2257 of the Texas Government Code. The Vice President for Financial and Administrative Operations is responsible for entering into collateralization agreements with third party collateral, including provisions relating to possession of the collateral, the substitution or release of investment securities, ownership of securities and the method of valuation of securities. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the College and retained.

14.0 Safekeeping and Custody:

All security transactions, including collateral for repurchase agreements, entered into by the College shall be conducted on a delivery-versus-payment (DVP) basis, except those with investment pool funds and mutual funds. Securities will be held by a third party custodian designated by the Comptroller in the District's name and evidenced by safekeeping receipts.

15.0 Maximum Maturities:

To the extent possible, the College will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the College will not directly invest in securities maturing more than two (2) years from the date of purchase. However, the College may collateralize its repurchase agreements using longer-dated investments that either: (i) have a term to maturity not to exceed ten (10) years, or (ii) are marked-to-market at least weekly and require any valuation deficiencies below the required collateral margin to be cured within one business day. The composite portfolio will have a weighted average maturity of one (1) year or less. This dollar weighted average maturity will be calculated using the stated final maturity dates of each security.

16.0 Diversification:

El Paso Community College recognizes that investment risks can result from issuer defaults, market price changes or various technical complications leading to temporary liquidity. Risk is controlled through portfolio diversification which shall be achieved by the following general guidelines:

1. Limiting investments to avoid over concentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities).
2. Limiting investment in securities that have higher credit risks.
3. Investing in securities with varying maturities and
4. Continuously investing a portion of the portfolio in readily available funds such as local government investment pools (LGIP's), money market funds or overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

17.0 Investment Policy Adoption:

The College's investment policy shall be adopted by resolution of the College's Board of Trustees. The policy shall be reviewed annually by the Investment Advisory Committee and any modifications made thereto must be approved by the Board of Trustees. The Board of Trustees shall review its investment policy and investment strategies not less than annually even if no changes are required to the Policy. The Board shall adopt a written instrument by rule, order, ordinance, or resolution stating it has reviewed the investment policy and investment strategies and that the written instrument so adopted shall record any changes made to either the investment policy or investment strategies.