

Action Item xx. Review and approve the Harris County Appraisal District Investment Policy and Investment Strategies.

Recommendation

That the board review and approve the Harris County Appraisal District Investment Policy and Investment Strategies.

Discussion

The Public Funds Investment Act, Chapter 2256 of the Texas Government Code, requires the adoption of a formal investment policy. Section 2256.005(e) provides for an annual review of the policy and investment strategies.

Comments on the Proposal

The current policy is governed by the following investment objectives, in order of priority:

- (1) preservation and safety of principal;
- (2) liquidity; and
- (3) yield.

Among the investments permitted by the Public Funds Investment Act, the investment policy authorizes investments in certificates of deposits, direct obligations of the State of Texas or its agencies and instrumentalities, direct obligations of the United States or its agencies and instrumentalities, overnight investments (NOW account) with the district's depository, repurchase agreements, and local government investment pools.

Currently, the TexPool yield is 1.00% and the depository yield is 0.01%. Benchmarks used are 90-day Treasury Bills, most recently at 0.01% and the Fed Fund rate at 0.06%. One year ago, the TexPool yield was 0.46%; the depository yield was 0.01%; 90-day Treasury Bills at 0.11% and the Fed Fund rate at 0.04%. Staff has been keeping funds primarily in TexPool, short term municipal bonds with yields ranging from 0.22% to 0.33%. Staff continues to review rates on a monthly basis and will reallocate funds if rate movement is advantageous.

No changes are proposed.

Motion

A board member would move to approve the investment policy.

Resource staff

Theresa Paul
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Investment Policy

Harris County Appraisal District

May 19, 2021

Chapter 7. Investments

7.1 Scope

This chapter applies to the district's investment activities and is intended to be in compliance with Chapter 2256 (Public Funds Investment Act) of the Texas Government Code. All district funds (general fund and self-insurance fund) shall be administered in accordance with the provisions of this policy to the extent permitted by law and the district's depository contracts.

7.2 Investment Objectives

The district's investment officer shall exercise due care, caution and good judgment in making its investments. Consideration shall be given to the safety of capital, liquidity, and a reasonable return of interest income.

7.2.1 Standard of Care

Section 2256.006 of the Public Funds Investment Act provides that investments shall be made with judgment and care, under prevailing circumstances, that a prudent person would exercise in the management of the person's own affairs. Investment of funds shall be governed by the following investment objectives, in order of priority:

- (a) preservation and safety of principal,
- (b) liquidity, and
- (c) yield.

In determining whether an investment officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration:

- (a) the investment of all funds, or funds under the entity's control, over which the officer had responsibility rather than a consideration as to the prudence of a single investment; and
- (b) whether the investment decision was consistent with the written investment policy of the entity.

7.2.2 Preservation and Safety of Principal

Safety of principal is a primary objective of this policy. In no event, except investments with an authorized local government investment pool (LGIP) shall an investment and earned interest exceed the maximum amount insured by the Federal Deposit Insurance Corporation combined with U. S. government securities pledged as collateral. The investment officer shall make all investments in the name of the district. District funds may not be commingled with any funds, which are not district assets. Funds invested in an authorized LGIP or in direct obligations of the U. S. do not require Federal Deposit Insurance Corporation insurance or collateralization by U. S. government securities.

7.2.3 Liquidity

The investment officer shall structure the investment portfolio in a manner, which will provide the liquidity necessary to correspond with the cash flow needs of the district.

7.2.4 Diversification

The investment officer shall move towards a more diversified portfolio, with a goal of investing no more than 80% of total assets in any one institution (excluding U. S. Treasury securities).

7.2.5 Yield

The investment officer shall invest the funds to earn the maximum interest rate allowed within the constraints of safety, liquidity, and convenience.

7.2.6 Maturity

The investment portfolio will be staggered in a way to achieve the highest return of interest and provide for the necessary liquidity to meet the cash needs of the district. In no event shall an investment be made for a maturity period of longer than two years at the time of purchase.

7.2.7 Legal Compliance

The investment officer shall make all investments in a manner that complies with all applicable law and with the district's depository contract.

7.3 Investment Responsibility and Control

The chief appraiser is the district's chief administrator and chief executive officer and is responsible for the district's assets. The board of directors retains ultimate responsibility as fiduciaries of the assets of the entity.

7.3.1 Investment Officer

The board of directors may appoint one or more employees to perform the activities of an investment officer under the direction of the chief appraiser. In the absence of such appointment, the chief appraiser is the district's investment officer.

7.3.2 Investment Officer Training

The district's investment officer(s) shall attend at least one training session of at least 10 hours relating to investment responsibilities within 12 months after assuming investment officer duties. Investment officer(s) shall attend an investment training session of at least 10 hours not less than once in a two-year period thereafter. These training sessions must include education in investment controls, security risks, strategy risks, market risks, and compliance with Chapter 2256 of the Government Code. The statutory reporting requirements are satisfied by a report to the district's director of administration from the sponsoring or organizing entity of a training program or seminar no later than December 31 of each year.

7.3.3 Accounting and Audit Control

The budget and finance division director shall insure that all necessary forms for accounting and audit control of investments are safely kept and maintained current. All accounting shall comply with GASB Statement 3, *Deposits with Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements*. The district's investments may be audited at any time.

7.3.4 Internal Controls

The district will maintain a written system of internal controls. Controls shall be designed to prevent 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 district. Controls shall specifically address:

- (a) separation of duties,
- (b) control of collusion,
- (c) separation of transaction authority from accounting and record keeping,
- (d) custodial safekeeping,
- (e) clear delegation of authority,
- (f) written confirmation of telephone transactions, and
- (g) documentation of transactions and strategies.

7.3.5 Audit by Independent Auditing Firm

As required by §6.063, Property Tax Code, the board of directors shall require a financial audit to be performed by an independent auditing firm at least annually. In conjunction with its financial audit, the district's auditor shall perform a compliance audit of management controls on investments and adherence to the district's established investment policies. District staff shall review financial matters, controls, and adherence to policy as often as may be necessary to insure compliance with this policy.

7.4 Investment Policy Compliance

The district shall provide a copy of this policy to any person seeking to sell investments to the district. The district may not purchase securities from any business organization seeking to sell an investment unless the registered principal of the organization first executes a written instrument stating that the principal has received and thoroughly reviewed the district's investment policy and acknowledges that the organization has implemented reasonable procedures and controls in an effort to preclude imprudent investment activities. A sample form instrument is incorporated in this policy as Exhibit 1 following this chapter.

7.5 Investment Reporting

The investment officer shall maintain a detailed listing of the district's investment portfolio along with corresponding pledged securities and safekeeping receipt numbers. The listing shall state:

- (a) the date each certificate or security was purchased,
- (b) the term of the investment,
- (c) the amount of the investment,
- (d) book and market value at the beginning and ending of each reporting period,
- (e) the rate of return on the investment,
- (f) the projected earnings of the investment,
- (g) the list of securities pledged to guarantee the investment(s),
- (h) the market value of the pledged securities,
- (i) comparison to the Fed Funds rate and the 90-day T-Bill rate, and
- (j) the rating of the investment from a nationally recognized rating service.

The investment officer shall prepare a monthly report on the district's investments and present it to the board of directors as part of the regular financial report. The report shall contain the elements required in §2256.023, Government Code. The investment officer shall notify the board of directors of any significant changes in current investment methods and procedures prior to their implementation.

7.6 Investment Instruments

Investments are subject to §7.2.2 of this policy concerning safety and preservation of principal. Specifically, to the extent an investment in an instrument(s), including principal and interest, exceeds the amount insured by the Federal Depository Insurance Corporation or other federal agency, the excess must be collateralized by direct obligations of the United States or its agencies.

7.6.1 Authorized Investment Instruments

The investment officer may invest district funds in the following instruments.

- (a) Certificates of Deposit issued by a state or national bank, a savings bank, or a state or federal credit union domiciled in Harris County. Payment of the certificates must be insured in full by the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Share Insurance Fund and/or collateralized by pledged securities. The investment officer must obtain three quotes (orally, in writing, electronically, or in any combination of the three methods), before purchasing a Certificate of Deposit.
- (b) Direct obligations of the United States or its agencies and instrumentalities as provided by §2256.009, Government Code.
- (c) Overnight Investments. Cash in the district's reserve account may be invested in overnight accounts in the form of negotiable order of withdrawal (NOW) accounts, money market accounts, or other lawful means. An investment confirmation shall be issued to the district on the day the reserve account is charged for the purchase.
- (d) Repurchase Agreements. Investments in repurchase agreements are not authorized unless a Master Repurchase Agreement has been executed with the trading partner.
- (e) Direct obligations of the State of Texas or its agencies and instrumentalities.

7.6.2 Repurchase Agreements

A fully collateralized repurchase agreement is an authorized investment if the repurchase agreement:

- (a) has a defined termination date;
- (b) is secured by obligations of the United States or its agencies and instrumentalities;
- (c) requires the securities being purchased by the district to be pledged to the district, held in the district's name, and deposited at the time the investment is made with the district or custodian for safekeeping; and
- (d) is placed through a primary or regional government securities dealer, or a financial institution doing business in Texas.

A reverse repurchase agreement is not authorized.

7.6.3 Public Funds Investment Pools

The investment officer may invest funds in local government investment pools (LGIP) for political subdivisions of the State of Texas. The board of directors must approve by resolution, participation in a specific pool. Funds invested in local government investment pools do not require Federal Deposit Insurance Corporation insurance or collateralization by U. S. government securities. Authorized local government investment pools must comply with all the reporting requirements of Chapter 2256.016 of the Government Code.

A local government 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 or at an equivalent rating by at least one nationally recognized rating service. The pool should have a weighted average maturity no greater than 100 days. If the pool falls below the rating requirements, the investment officer should take prudent measures that are consistent with this investment policy to liquidate an investment that does not have the minimum rating.

7.6.4 Unauthorized Investment Instruments

No other investment instrument is authorized.

7.6.5 Delivery vs. Payment

All trades where applicable will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds.

7.6.6 Market Conditions

The authorized investments, once made, should be compared to the financial market to assure the district is receiving a fair rate of return. The following two indicators should be used:

- (a) the Fed fund rate, and
- (b) 90-day T-bill rate.

7.7 Investment Institutions Defined

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

- (a) depository bank,
- (b) other state or national banks located in Harris County that are fully insured by the Federal Deposit Insurance Corporation,
- (c) fully insured primary or regional government securities dealers that report to the Market Reports Division of the Federal Reserve Bank of New York,
- (d) authorized local government investment pools, and
- (e) Federal Reserve Banks.

7.8 Collateralization and Safekeeping

When investments require pledged collateral, a copy of the safekeeping receipts(s) showing the Federal Reserve System branch bank or other custodian where the securities are held shall be delivered by facsimile to the district by the close of business on the day of the investment. The original safekeeping receipt(s) shall be delivered to the district no later than the second day after the investment is made. The district's depository bank is

not permitted to be the custodian of collateral for district investments made at or through the depository bank. The depository bank may be the custodian for U. S. government securities owned by and held in the name of the district.

7.8.1 Permitted Collateral

United States Treasury bills, notes, bonds, or agency securities shall be pledged as collateral in the same manner as required for deposits in the district depository.

7.8.2 Permitted Custodians

A custodian for collateral for district investments must be approved by the investment officer and may be:

- (a) a state or national bank that has its main office or a branch office in Harris County;
- (b) a Federal Reserve Bank or a branch of a Federal Reserve Bank; or
- (c) a federal home loan bank.

The custodian may not be a branch of the district's depository.

EXHIBIT 1
Investment Policy Affidavit

Name of Organization: _____

Address: _____

Telephone: _____

My name is _____. I am the registered principal of the above named business organization seeking to sell an authorized investment to Harris County Appraisal District.

I have received and have thoroughly reviewed the Harris County Appraisal District Investment Policy, revised _____.

The above named business organization, of which I am the registered principal, has implemented reasonable procedures and controls in an effort to preclude imprudent investment activities arising out of investment transactions conducted between Harris County Appraisal District and my organization.

This instrument is executed to comply with §2256.005(k), Texas Government Code.

Signed this _____ day of _____, 20_____.

Name

Title

The State of Texas
County of _____

SUBSCRIBED AND SWORN TO before me this the _____ day of _____, 20_____.

Notary Public, State of Texas
My commission expires _____