

Collin County Community College District Board of Trustees

2016-5-2-2

May 24, 2016

H. Neil Matkin
District President

TITLE: First reading of Revised Board (Local) Policy CAK:
Appropriations and Revenue Sources - Investments

DISCUSSION: Proposed changes to Local Board Policy CAK:

- Adds language to authorize the College to contract with an SEC-registered investment advisor for non-discretionary management of the College investment portfolio; and
- Clarifies that the statutory trigger for reporting a conflict of interest to the Texas Ethics Commission is a relationship to an investment vendor that is within the second degree of affinity or consanguinity; and
- Authorizes investments in FDIC insured time or demand deposits pursuant to a depository spread program; and,
- Authorizes investments in domestic commercial paper rated A1/P1 or equivalent with a maximum maturity of 180 days; and,
- Authorizes investments in obligations of states, agencies, counties, cities and other political subdivisions of any US state rated A or equivalent by a nationally recognized rating agency; and,
- Authorizes investments in FDIC insured, brokered certificates of deposit securities issued by any bank in the US delivered versus payment to the College safekeeping agent; and,
- Authorizes the investment in share certificates of credit unions domiciled in the state insured by the National Credit Union Insurance Fund; and,
- Specifies that the custodian of collateral pledged for College investments shall be independent of and outside the holding company of the pledging institution or repurchase agreement counter-party; and,
- Specifies that securities owned by the College shall be held in a College contracted third-party institution; and,

- Adds a limitation that the entire portfolio of the College may not have a maximum weighted average maturity exceeding 12 months and changes the comparison benchmark of portfolio yield to the one-year Treasury Bill to match the maximum weighted average maturity of the portfolio; and,
- Adds a requirement that all securities transactions be settled on a Delivery versus Payment basis; and,
- Adds a requirement that all investments shall be purchased on a competitive basis with bids from three College authorized broker/dealers, except for new issue agency securities which still must be purchased from a College authorized broker/dealer; and,
- Specifies that the College District is not required to liquidate investments that were authorized investments at the time of purchase, but requires the Investment Officer to take prudent measures to liquidate any security that falls below a minimum rating required by state law; and,
- Requires the Investment Officer or Investment Advisor to monitor, at least weekly, the status and ownership of all banks issuing brokered Certificates of Deposit owned by the College; and,
- Requires the Investment Officer or Investment Advisor to monitor the credit ratings on all authorized investments in the portfolio based on information from an independent rating agency; and,
- Updates the current training requirements for Investment Officers so that the policy agrees with current state law; and,
- Extends the maximum maturities of securities held in the Operating Fund, Building Fund and Debt Service Reserve Funds to 3 years.

**DISTRICT PRESIDENT’S
RECOMMENDATION:**

The District President recommends approval of the proposed changes to Local Policy CAK: Appropriations and Revenue Sources – Investments for a first reading.

SUGGESTED MOTION:

This being a first reading of Local Policy CAK, no action is required.

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PURPOSE STATEMENT The College District is required under the Public Funds Investment Act Chapter 2256, Texas Government Code, to adopt a written investment policy. The College District is required to comply with the investment policy as approved by the Board in accordance with the standard of care as set forth in Chapter 2256.006, Texas Government Code.

STATEMENT OF INTENT The College District shall invest public funds in a manner that provides the maximum security while meeting the daily cash flow demands of the College District, providing maximum potential interest earnings, and conforming to all state and local statutes governing the investment of public funds.

SCOPE This investment policy applies to all financial assets of the College District. All funds are accounted for in the College District's Annual Financial and Compliance Report.

PRUDENCE 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.

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 the overall portfolio. Investment officers acting in accordance with 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.

Prudent measures shall be used to liquidate any investment that is downgraded to less than the required minimum rating.

OBJECTIVES The primary objectives, in priority order, of the College District's investment activities shall be:

1. **Safety:** Safety of principal is the foremost objective of the College District's investment program. Investments of the College District shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.
2. **Liquidity:** The College District's investment portfolio shall remain sufficiently liquid to enable the College District to meet all operating requirements that might be reasonably anticipated.
3. **Return on Investments:** The College District's investment portfolio shall be designed with the objective of attaining a

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~~rate of return~~ reasonable market yield throughout budgetary and economic cycles commensurate with the College District's investment risk constraints and the cash flow characteristics of the portfolio.

DESIGNATED
OFFICERS

The College District's vice president of administrative services and chief financial officer, the associate vice president of accounting and financial reporting, and the associate vice president/controller are expressly authorized by the Board to cause the investment of all available College District funds consistent with this policy and are therefore designated as the investment officers. Because of the various duties and responsibilities related to managing the investment portfolio, the College District's vice president of administrative services and chief financial officer, the associate vice president of accounting and financial reporting, or the associate vice president/controller may delegate specific duties and responsibilities to the revenues and receivables accountant. No person may engage in an investment transaction except as provided under the terms of this policy.

The College may contract with an SEC-registered investment adviser for non-discretionary management of the portfolio.

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 College District's investment program or that could impair their ability to make impartial investment decisions. Investment officials who have a personal business relationship with a business organization shall file a statement disclosing the relationship to the ~~Texas Ethics Commission and to the~~ College District's Board. Any material financial interests in financial institutions that conduct business with the College District, as well as any personal financial/investment positions that could be related to or have an impact upon the performance of the College District's portfolio, shall be disclosed.

Additionally, any investment official who is related within the second degree by affinity or consanguinity, as determined under Chapter 573, to an individual seeking to sell an investment to the College District shall file a statement disclosing that relationship to the Texas Ethics Commission. A personal business relationship is defined as:

1. Owning ten percent or more of the voting stock or shares of the business organization or owning \$5,000 or more of the fair market value of the business organization;

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2. Receiving funds from the business organization exceeding ten percent of gross income for the previous year; or
3. Acquiring from the business organization during the previous year investments with a book value of \$2,500 or more for a personal account.

AUTHORIZED
FINANCIAL DEALERS
AND INSTITUTIONS

The College District shall maintain a list of qualified brokers authorized to engage in investment transactions. The Board shall annually review, revise, and adopt this list of qualified brokers.

All approved brokers:

1. Must have completed a College District broker/dealer questionnaire; and
2. Must have executed a written statement by a qualified representative acknowledging receipt and review of the College District's investment policy and indicating that reasonable procedures and controls have been implemented to preclude investment activities being conducted between the College District and any investment provider unauthorized by the College District's investment policy, except to the extent that this authorization is dependent on an analysis of the make-up of the College District's entire portfolio or requires an interpretation of subjective investment standards.

Approved brokers shall have a current financial statement on file and, if necessary, shall have executed a Master Repurchase Agreement.

AUTHORIZED
INVESTMENTS

The College District shall pursue a conservative, pro-active approach to investment activity and although other investments may be authorized by law, the College District may invest only in investments authorized by the Board as listed below:

1. Treasury bills, treasury notes, and treasury bonds of the United States and other direct obligations of the agencies and instrumentalities of the United States.
2. FDIC insured or collateralized time or demand deposits issued by a state or national bank domiciled in this state ~~or a savings and loan association domiciled in the state~~ that are:
 - a. Guaranteed or insured by the Federal Deposit Insurance Corporation or its successor;
 - b. Secured by obligations described by the Public Funds Collateral Act, Chapter 2257; ~~or~~

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~~c. Secured in any other manner and amount provided by law for deposits of the investing entities; or~~

~~c-d. Provided through a depository spread program.~~

~~Bids for collateralized deposit may be solicited orally, in writing, electronically, or in any combination thereof.~~

3. Fully collateralized repurchase agreements, as expressly defined in Section 2256.011, Texas Government Code.
4. Local government investment pools approved by the College District's Board, by resolution, with a continuous rating of no lower than AAA or an equivalent rating by at least one nationally recognized rating service, and striving to maintain a \$1 net asset value.
5. ~~No-load m~~AAA-rated money market mutual funds meeting the following criteria:
 - a. The fund must be registered with and regulated by the Securities and Exchange Commission;
 - b. The fund must have a dollar-weighted average stated maturity of not more than 60 days;
 - c. An established objective of the fund must be to maintain a stable net asset value of \$1 for each share; and
 - d. The fund must meet all requirements of the Texas Public Funds Investment Act, as amended.
6. Domestic commercial paper rated A1/P1 or equivalent with a maximum maturity of 180 days.
7. Obligations of states, agencies, counties, cities, and other political subdivisions of any US state rated A or equivalent by a nationally recognized investment rating agency.
8. FDIC insured, brokered certificates of deposit securities issued by any bank in the US delivered versus payment to the College safekeeping agent.
9. Share certificates of credit unions domiciled in the state insured by the national Credit Union Insurance Fund.

~~MONITORING RATING
CHANGES~~

~~The College District shall monitor the credit ratings on securities that require minimum ratings. This may be accomplished through staff research or with the assistance of brokers/dealers, banks, safekeeping agents, or other sources. In the event that the credit~~

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~~rating of any security falls below the minimum required rating, the College District shall take all prudent measures that are consistent with its policy to liquidate the investment.~~

The College District is strictly prohibited from investing in any ~~type~~ of the following CMO derivatives, such as:

1. Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays 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 years.
4. Collateralized mortgage obligations that have interest rates determined by an index that adjusts opposite to the changes in a market index.

COLLATERALIZATION

Collateralization shall be required on ~~all bank time or demand certificates of deposits~~ and repurchase agreements. In order to anticipate market changes and provide a level of security for all funds, the collateralization level shall be 102 percent of market value of principal and accrued interest. The custodian shall be independent and outside the holding company of the pledging institution or repurchase agreement counter-party.

Acceptable collateral includes securities as specified in the Public Funds Collateral Act, Chapter 2257, Texas Government Code.

Additional collateral may be pledged or purchased as required, released as it is not needed, and substituted, if necessary, with the written consent of the investment officer or designee.

SAFEKEEPING AND
CUSTODY

All security transactions, including collateral for repurchase agreements, entered into by the College District shall be conducted on a delivery-versus-payment (DVP) basis. Securities owned by the College shall be held by a College contracted third-party ~~custodian~~ institution. Safekeeping receipts and clearance documents shall be required for all securities purchased by the College District and held in safekeeping by an authorized third party.

DIVERSIFICATION

~~Credit risk has been eliminated by restricting investment activity to authorized investments coupled with the strategy of holding all investments to maturity.~~ Diversification by investment maturity based on cash flow needs shall reduce the impact of adverse market fluctuations.

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MAXIMUM MATURITIES To the extent possible, the College District shall attempt to match its investments with anticipated cash flow requirements. Except as noted in the last paragraph at INVESTMENT STRATEGY, below, for the debt service reserve fund, the College District shall not directly invest in securities maturing more than 2436 months from the date of purchase ~~unless specifically limited by the Public Funds Investment Act as noted in Section 2256, Texas Government Code.~~

The maximum weighted average maturity of the total portfolio shall not exceed 12 months.

INTERNAL CONTROLS Duties related to investment activities shall be delegated so that segregation of duties shall be maintained with respect to purchasing, recording, authorizing, and reconciling investment accounts. The College District's vice president of administrative services and chief financial officer, the associate vice president of accounting and financial reporting, and the associate vice president/controller shall be designated as investment officers and shall be responsible for investment decisions. Written signature authorization of two of the aforementioned investment officers shall be required to execute all investment purchases.

As part of the annual financial audit, the external auditors shall perform a compliance audit of management controls on investments and adherence to investment policies and procedures.

Delivery versus Payment: All security transactions (with the exception of pool or fund participation) by the College District shall be purchased "delivery versus payment". That is, the College District shall authorize release of its funds only after a purchased security has been received by its safekeeping agent or after the College District has received notification from its safekeeping agent that a purchased security has been received in the College District's safekeeping account.

Competitive Bidding Required: All investments shall be purchased or sold on a competitive basis with bids or offers from three College District authorized broker/dealers for the best yield and maturity. Offers of new issue agencies need not be competitively bid but must be made from College District authorized broker/dealers.

Loss of Credit Rating: The College District shall monitor the credit ratings on securities that require minimum ratings. This may be accomplished through staff research or with the assistance of brokers/dealers, banks, safekeeping agents, adviser or other independent sources. In the event that the credit rating of any security falls below the minimum required rating, the College District shall

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take all prudent measures that are consistent with its policy to liquidate the investment.

The College District is not required to liquidate investments that were authorized investments at the time of purchase. (2256.017) However, should a security that requires a minimum rating under state law not have that required rating, the investment officer shall take all prudent measures to liquidate the security. (2256.021)

Monitoring FDIC Coverage: The Investment Officer or Investment Advisor shall monitor, on no less than a weekly basis, the status and ownership of all banks issuing brokered CDs owned by the College District based upon information from the FDIC. If any bank has been acquired or merged with another bank in which brokered CDs are owned, the Investment Officer or Advisor shall immediately liquidate any brokered CD which places the College District above the FDIC insurance level.

Monitoring Credit Ratings: The Investment Officer or investment advisor shall monitor, on no less than a weekly basis, the credit rating on all authorized investments in the portfolio based upon independent information from a nationally recognized rating agency. If any security falls below the minimum rating required by Policy, the Investment Officer or advisor shall notify the President of the loss of rating, conditions affecting the rating and possible loss of principal with liquidation options available, within five days after the loss of the required rating.

REPORTING

Not less than quarterly, a written report of investment transactions for all funds shall be prepared and signed by the Investment Officers (College District's vice president of administrative services and chief financial officer, the associate vice president of accounting and financial reporting, and the associate vice president/controller) and shall be submitted to the Board. Reports shall be prepared in accordance with requirements as specified in Section 2256.023, Texas Government Code. The quarterly written reports shall be reviewed annually during the compliance audit of an independent auditor with the results reported to the Board.

MARKET PRICE

The investment portfolio shall be marked to market monthly. Pricing information shall be obtained from Bloomberg, ~~Tracs Financial Group~~, or sources deemed independent and comparable by the associate vice president of accounting and financial reporting or the associate vice president/controller. If the price of a security is not available, the price may be estimated by analyzing similar securities' market values (matrix pricing).

TRAINING

The College District's vice president of administrative services and chief financial officer, the associate vice president of accounting

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and financial reporting, and the associate vice president/controller, being designated by the Board as the investment officers for the College District, shall receive ten hours of instruction in accordance with the Public Funds Investment Act of the State of Texas within the first twelve months of assuming the position. Every succeeding two years the officers shall receive at least 10 additional hours of training relating to investment responsibility from an independent source approved by the Board. ~~In addition, he or she shall attend at least one ten-hour training session under the Public Funds Investment Act of the State of Texas within 12 months of taking office or assuming duties.~~

INVESTMENT POLICY
REVIEW AND
ADOPTION

The College District's investment policy shall be adopted by written resolution of the Board stating that the Board has reviewed the investment policy and strategy and shall include any changes made to either. The investment policies and strategies shall be reviewed by the Board not less than annually. All revisions shall be formally approved by the Board.

INVESTMENT
STRATEGY

The College District maintains portfolios that use four specific investment strategy considerations designed to address the unique characteristics of the fund groups represented in the portfolio(s).

Investment of funds shall be governed by the following investment objectives, in order of priority, for each fund listed below:

1. Investment suitability as it relates to the financial requirement of the College District;
2. Preservation and safety of principal to ensure that capital losses are avoided whether they be from defaults or erosion of market value;
3. Liquidity to the extent needed to pay the College District's obligations as they become due;
4. Investment marketability provided the need arises for the College District to liquidate the investment prior to its maturity date, although securities of all types are purchased with the intention of holding until maturity;
5. Investment diversification by maturity and market sector; and
6. Yield to attain the best rate of return on investments, while considering risk constraints and cash flow needs; the basis or benchmark used to determine whether market yields are being achieved shall be the three-month-one-year Treasury Bill chosen for its comparability to the portfolio's maximum weighted average maturity.

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Operating Fund: The primary objective of the investment strategy for the operating fund shall be to ensure that anticipated cash flows are matched with adequate investment liquidity. Maturities shall be staggered to meet operating expenditures, based on known and projected cash flows and market conditions. ~~Twenty-four~~Thirty-six months is the maximum maturity for the majority of securities in the portfolio.

Building Fund: ~~Like the operating fund, t~~The primary objective of the investment strategy for the building fund shall be to ensure that maturities are matched with anticipated cash flows. Maturities shall be staggered so that they coincide with estimated draw down dates based on construction schedules and estimated project completion dates. In any case, investment maturity shall not be greater than ~~24~~thirty-six months except on bond proceeds ~~investments,~~ which can be invested to the IRS temporary period.

Debt Service: The primary objective of the investment strategy for the debt service fund shall be to ensure that investment liquidity is adequate to cover each succeeding the debt service obligation on the required payment date. Securities purchased shall not have a stated final maturity date longer than one year and no investment made be made that exceeds the next unfounded debt service payment date. ~~Investments for this fund shall generally be short term (360 days or less).~~

Debt service reserve funds: Debt service reserves have no anticipated expenditures. The funds are deposited to provide annual debt service payment protection to bond holders. Market conditions and arbitrage regulation compliance determine the advantage of security diversification and liquidity. Generally, if investment rates exceed the applicable arbitrage yield for a specific bond issue, the College District is best served by locking in investment maturities and reducing liquidity. If the arbitrage yield cannot be exceeded, the concurrent market conditions shall determine the attractiveness of locking in maturities or investing shorter and anticipating future increased yields. Managing the portfolios maturities to not exceed the call provisions of the bond issue shall reduce the investment's market risk if the College District's bonds are called and the reserve fund liquidated. No investment maturity shall exceed three yearsthe final maturity of the bond issue. All portfolio investments shall be in compliance with bond covenants and insurance requirements of all bond issues.