

ARMSTRONG COUNTY, TEXAS

INVESTMENT POLICY AND STRATEGY

Adopted April 14, 2025

I. INTRODUCTION

It is the policy of Armstrong County that the administration of its funds and the investment of those funds shall be handled as its highest public trust. Investments shall be made in a manner which will provide the maximum security of principal while meeting the daily cash flow needs of the County and conforming to the Public Funds Investment Act (the "Act") Texas Government Code Chapter 2256. It is the intent of the County to be in complete compliance with local law and the Act.

The receipt of a market rate of return will be secondary to the requirements for safety and liquidity. The earnings from investment will be used in a manner that best serves the interests of the County.

The purpose of this Policy is to set specific investment policy and strategy guidelines. Direct specific investment parameters for the investment of public funds in Texas are found in the Act. The Public Funds Collateral Act, Chapter 2257, Texas Government Code, specifies collateral requirements for all public Texas funds deposits.

II. SCOPE

This investment policy applies to all financial assets of the County and any new funds created unless specifically exempted by the County Commissioner's Court and this Policy.

III. OBJECTIVES

It is the policy of the County that all funds shall be managed and invested with four primary objectives, listed in order of their priority: safety, liquidity, diversification and yield. Investments are to be chosen in a manner which promotes diversity. To match anticipated cash flow requirements the maximum weighted average maturity (WAM) of the overall portfolio may not exceed 12 months.

Safety

The primary objective of the investment activity is the preservation of capital. Each investment transaction shall be conducted in a manner to avoid capital losses, whether from security defaults, safekeeping, or erosion of market value. Investments in high credit quality securities and decisions based on anticipated cash needs are primary factors in providing safety.

Liquidity

The investment portfolio shall be structured to meet all expected obligations in a timely manner. This shall be achieved by matching investment maturities with forecasted cash flow liabilities and maintaining additional liquidity for unexpected liabilities.

Diversification

The portfolio shall be diversified by institution, market sector and maturity as much as possible.

Yield

The benchmark for the commingled portfolio shall be the comparable period 12-month U.S. Treasury Bill, designated for its comparability to the expected average cash flow pattern and the Policy maximum weighted average maturity (WAM) limit of 12 months. The investment program shall seek to augment returns above this threshold consistent with risk limitations identified and the County's prudent investment strategy.

Cash management is the process of managing funds in order to insure maximum cash availability and reasonable yield on short-term investments. The County shall strive for a cash management program which includes timely collection of accounts receivable, vendor payments in accordance with invoice terms, and prudent investment of assets.

IV. INVESTMENT STRATEGY

The County may maintain one commingled portfolio for investment purposes which incorporates the specific uses and the unique characteristics of the funds in the portfolio. The investment strategy has as its primary objective assurance that anticipated liabilities are matched and adequate investment liquidity provided. The County shall pursue a pro-active but conservative portfolio management strategy. The maximum maturity of any security will be 36 months and will be calculated using the stated final maturity date of each security.

The investment strategy for debt service funds shall have as its primary objective the timely payment of debt service obligations. Successive debt service dates will be fully funded before any investment extensions are made.

V. DELEGATION OF RESPONSIBILITY

No unauthorized person may engage in an investment transaction and all transactions shall be executed as provided under the terms of this Policy and its supporting procedures.

Investment Officer(s)

The County Treasurer will be designated as Investment Officer, by County Court resolution, responsible for investment decisions and activities. The Investment Officer is responsible for creating and maintaining the portfolio in accordance with this Policy, providing timely quarterly reporting to the Court, and establishing supporting procedures.

The investment officer shall attend at least ten (10) hours of training, from sources approved by the Commissioner's Court, within twelve months of designation as investment officer and shall attend ten (10) hours of training every two successive fiscal years.

Investment Officer shall refrain from personal and business activity that could conflict with proper execution of the investment program or which could impair their ability to make impartial investment decisions. Disclosure shall be made to the Judge. An Investment Officer who has a personal business relationship within the two levels of blood or marriage with an organization seeking to sell an investment to the County who meets the parameters established in the Act, shall file a statement disclosing that relationship to the County Commissioner's Court and the Texas Ethics Commission.

County Commissioner's and Judge Responsibilities

The County Commissioner's Court holds ultimate fiduciary responsibility for the portfolio. It will designate investment officer, receive and review quarterly reporting, approve and provide for investment officer training, and annually review and adopt the Investment Policy and Strategy.

VI. PRUDENCE AND CONTROLS

The standard of prudence to be applied to all County investments shall be the "prudent person" rule, which states:
"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 under the County's control over which the officer has responsibility rather than a consideration as to the prudence of a single investment.

The Investment Officer, acting in accordance with written procedures and exercising due diligence, shall be responsible but not liable for a specific security's credit risk or market price changes, provided that these deviations are reported immediately and that appropriate action is taken to control adverse developments.

Internal Controls

The Investment Officer is responsible for establishing and maintaining internal controls to reasonably assure that assets are protected from loss, theft, or misuse. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived, and, the valuation of costs and benefits requires ongoing estimates and judgments by management.

The internal controls shall address the following points at a minimum:

- Control of collusion,
- Separation of transaction authority from accounting and record keeping,
- Safekeeping of owned and pledged securities,
- Clear delegation of authority,
- Written confirmation for all transactions, and
- Review, maintenance and monitoring of security procedures both manual and automated.

Annually the Investment Officer shall perform an internal compliance audit to assure compliance with requirements of this Policy and the Act. Annually, the County's external auditor shall review the quarterly reports.

Cash Flow Forecasting

Cash flow forecasting is designed to protect and sustain the cash flow requirements of the County. The Investment Officer will analyze needs and maintain a cash flow plan to monitor and forecast cash positions for investment purposes.

Competitive Bidding

All security transactions will be made on documented competitive bid basis to assure the County is receiving the best available market rates. When-issued US agency securities should be compared to other securities available in the secondary market to determine competitiveness.

Monitoring Credit Ratings

The Act requires that securities requiring a specific credit rating must be liquidated if the rating falls below the minimum rating. The Investment Officer shall monitor, on no less than a monthly basis, the credit rating on all authorized investments in the portfolio for which the policy requires a credit rating. The rating should be based upon independent information from a nationally recognized rating agency. If any security falls below the minimum rating required by Policy it must be liquidated. The Investment Officer shall notify the Judge of the loss of rating, and liquidation options within two days for a decision on liquidation.

Monitoring FDIC Status for Mergers and Acquisitions

A merger or acquisition of brokered CDs into one bank reduces FDIC coverage. The Investment Officer shall monitor, on no less than a monthly basis, the status and ownership of all banks issuing brokered CD securities owned by the County based upon information from the FDIC (fdic.gov). If any bank has been acquired or merged with another bank in which brokered CDs are owned by the County, the Investment Officer or Adviser shall immediately liquidate any brokered CD which places the County above the FDIC insurance level.

VII. AUTHORIZED INVESTMENTS

Assets of the County may be invested only in the following instruments as further defined by the Act. If changes are made to the Act they will not be authorized until this Policy is modified and adopted by the County Council. All investment transactions will be made on a competitive basis.

A. Obligations of the United States Government, its agencies and instrumentalities with a maximum stated maturity of 3 years excluding mortgage-backed securities

B. Fully insured or collateralized depository certificates of deposit from banks in Texas, with a maximum maturity of 2 years insured by the Federal Deposit Insurance Corporation, or its successor, or collateralized in accordance with this Policy.

C. AAA-rated, Texas Local Government Investment Pools which strive to maintain a \$1 net asset value (NAV) in accordance with the Act and authorized by resolution of the County Commissioner's Court.

D. AAA-rated, SEC registered money market mutual funds striving to maintain a \$1 net asset value.

F. FDIC insured or collateralized interest bearing and money market accounts from any FDIC insured bank in Texas, collateralized under the terms of this policy.

Delivery versus Payment

All securities shall be purchased on a delivery versus payment (DVP) settlement basis. Funds shall not be released until receipt of the security by the County's approved safekeeping depository. The depository shall provide the County with proof of ownership or claim by an original document delivered to the County.

VIII. REPORTING

Quarterly Reporting

The Investment Officer shall prepare and submit a signed quarterly investment report to the County Commissioner's Court in accordance with the Act giving detail information on each portfolio and bank position and summary information to permit an informed outside reader to evaluate the performance of the investment program. The report will include the following at a minimum:

- A full description of each individual security or bank/pool position held at the end of the reporting period,
- Earnings for the period (accrued interest),
- Statement of compliance of the investment portfolio with the Act and the Investment Policy signed by the Investment Officer.

IX. FINANCIAL COUNTER-PARTIES

Depository

At least every five years, a banking services depository shall be selected through a competitive request for proposal or bid process in accordance with the Texas Government Code. In selecting a primary depository, the services, cost of services, credit worthiness, earnings potential, and collateralization by the institutions shall be considered. If securities require safekeeping, the RFP/bid will request information on safekeeping services. The depository contract will provide for collateral if balances exceed the FDIC insurance balance per tax identification number.

All time and demand deposits in any depository of the County shall be insured or collateralized at all times in accordance with this Policy.

Other banking institutions, from which the County may purchase certificates of deposit or place interest bearing accounts, will also be designated as a depository for depository/collateral purposes. All depositories will execute a depository agreement and have the Bank's Board or Bank Loan Committee pass a resolution approving the agreement if collateral is required.

Each local government pool must be provided a copy of the County's current Investment Policy and must certify in writing to a review of the Policy stating that the pool has controls in place to assure only Policy approved investments will be sold to the County.

XI. COLLATERAL

Time and Demand Deposits Pledged Collateral

All bank time and demand deposits shall be collateralized above the FDIC coverage by pledged collateral. In order to anticipate market changes and provide a level of security for all funds, collateral will be maintained and monitored by the pledging depository at a market value of 102% of the total principal and accrued interest on the deposits. The bank shall monitor and maintain the margins on a daily basis. The bank shall provide monthly collateral reports to the County.

Collateral pledged to secure deposits shall be held by an independent financial institution outside the holding company of the depository. The collateral agreement with the depository shall be approved by resolution of the Bank Board or Bank Loan Committee. The Custodian or bank shall provide a monthly report of collateral directly to the County.

All collateral shall be subject to inspection and audit by the County or its independent auditors.

Authorized Collateral

Only the following securities are authorized as collateral for time and demand deposits or repurchase agreements:

- A. FDIC insurance coverage.
- B. Obligations of the United States, its agencies or instrumentalities, or evidence of indebtedness of the United States guaranteed as to principal and interest including MBS and CMO which pass the bank test.
- C. Obligations of any US state or of a county, County or other political subdivision of any state having been rated as investment grade (investment rating no less than "A" or its equivalent) by two nationally recognized rating agencies.
- D. Irrevocable letter of credit from the FHLB.

Preference will be given to pledged collateral securities.

XI. SAFEKEEPING

All purchased securities are to be cleared to the County's safekeeping agent on a delivery versus payment (DVP) basis. All safekeeping arrangements shall be approved by the Investment Officer and an agreement of the terms executed in writing. The independent third-party safekeeping agent shall be required to issue safekeeping receipts to the County listing each specific security, rate, description, maturity, cusip number, and other pertinent information.

XII. INVESTMENT POLICY ADOPTION

The County's Investment Policy shall be reviewed and adopted by resolution of the County Commissioner's Court no less than annually. Any changes made to the Policy must be noted in the adopting resolution.

ADOPTED this Monday, April 14, 2025.

Judge Adam Ensey

Commissioner Ned Dorsey, Precinct #3

Commissioner Tim Bagwell, Precinct #1

Commissioner Joe Neely, Precinct #4

Commissioner Clint Cornell, Precinct #2

ATTEST. County Clerk, Tawnee Blodgett