

**LUBBOCK COUNTY, TEXAS
INVESTMENT POLICY**



**Lubbock County
Investment Policy**

Adopted April 10, 2023

By Lubbock County Commissioners' Court

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COUNTY JUDGE**

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LUBBOCK COUNTY, TEXAS

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I. POLICY

It is the policy of Lubbock County that after allowing for the anticipated cash flow requirements of Lubbock County 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 Lubbock County. Lubbock County's investment portfolio shall be designed and managed in such a manner as to maximize this revenue source, to be responsive to public trust, and to be in compliance with all 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 the terms of the Texas Government Code Chapter 2256 §2256.005(a) ("Public Funds Investment Act or "PFIA"), which requires Lubbock County to adopt a written investment policy regarding the investment of its funds and funds under its control. This Investment Policy addresses the methods, procedures and practices that must be exercised to ensure effective and judicious fiscal management of Lubbock County's funds.

III. SCOPE

This Investment Policy shall govern the investment of all financial assets of Lubbock County. These funds are accounted for in Lubbock County's Comprehensive Annual Financial Report (AFR) and include:

- General Fund - used to account for resources traditionally associated with government, which are not required to be accounted for in another fund.
- Special Revenue Funds - used to account for the proceeds from specific revenue sources.
- Capital Projects Funds - used to account for resources to be used for the acquisition or construction of major capital facilities.
- Trust and Agency Funds - used to account for the proceeds from specific revenue sources and to the extent not required by law or existing contract to be kept segregated and managed separately.

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- Debt Service Funds – used to account for resources to be used for the payment of principal, interest and related costs on general obligation debt, to the extent not required by law or existing contract to be kept segregated and managed separately.
- Any new fund created by Lubbock County, unless specifically exempted from this Policy by Commissioners’ Court or by law.

Lubbock County 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. The strategy developed for the pooled fund group will address the varying needs, goals and objectives of each fund.

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

IV. INVESTMENT OBJECTIVES

Lubbock County 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.

Lubbock County 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 idle cash.

Safety [GOVT. CODE §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 – Lubbock County 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.

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- Pre-qualifying the financial institutions and broker/dealers with which Lubbock County will do business.
 - * Diversifying the investment portfolio so that potential losses on individual issuers will be minimized.
- Interest Rate Risk – Lubbock County 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:
 - * Structuring the investment portfolio so that investments mature to meet cash requirements for ongoing operations, thereby avoiding the need to liquidate investments prior to maturity.
 - * Investing operating funds primarily in certificates of deposit, shorter-term securities, money market mutual funds, or local government investment pools functioning as money market mutual funds.
 - * Diversifying maturities and staggering purchase dates to minimize the impact of market movements over time.

Liquidity [GOVT. CODE §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 will consist of securities with active secondary or resale markets.

Public Trust

All participants in Lubbock County’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 Lubbock County’s ability to govern effectively.

Yield (Optimization of Interest Earnings) [GOVT. CODE §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. Securities shall generally be held until maturity with the following exceptions:

- An investment with declining credit may be liquidated early to minimize loss of principal.

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- A security swap that would improve the quality, yield, or target duration in the portfolio.
- Cash flow needs of Lubbock County require that the investment be liquidated.

V. INVESTMENT STRATEGIES

The investment portfolio of Lubbock County includes funds pooled together of all the fund groups. Each major fund type has varying cash flow requirements and liquidity needs. Therefore, strategies shall be implemented considering each fund's unique requirements.

Investment Pool Strategy

The County's Investment Pool is an aggregation of the majority of County Funds which includes tax receipts, fine and fee revenues, as well as some, but not all, bond proceeds, grants, special revenue fund revenue, debt service revenues and reserve balances. This portfolio is maintained to meet anticipated daily cash needs for Lubbock County operations, capital projects and debt service. The objectives of this portfolio are to:

- ensure safety of principal by investing only in high-quality securities for which a strong secondary market exists;
- ensure that anticipated cash flows are matched with adequate investment liquidity;
- manage market and credit risk through diversification; and
- attain the best feasible yield commensurate with the objectives and restrictions set forth in this Policy by actively managing the portfolio.

Bond Funds Strategy

Occasionally, separate non-pooled portfolios are established with the proceeds from bond sales. The objectives of these portfolios are to:

- ensure safety of principal by investing only in high-quality securities for which a strong secondary market exists;
- ensure that anticipated cash flows are matched with adequate investment liquidity;
- manage market and credit risk through diversification; and
- attain the best feasible yield commensurate with the objectives and restrictions set forth in this Policy and the bond ordinance by actively managing the portfolio.

VI. RESPONSIBILITY AND CONTROL

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Delegation of Authority [GOVT. CODE §2256.005(f)]

Texas Local Government Code §116.112 authorizes the Commissioners' Court to invest county funds in accordance with Government Code §2256.003(a). According to Government Code §2256.005(f), the Commissioners' Court designates the County Auditor as Lubbock County's Investment Officer. An Investment Officer is authorized to execute investment transactions on behalf of Lubbock County. No person may engage in an investment transaction or the management of Lubbock County funds except as provided under the terms of this Investment Policy as approved by the Commissioners' Court. The investment authority granted to the Investing Officer is effective until rescinded by the Commissioners' Court.

Quality and Capability of Investment Management [GOVT. CODE 2256.005(b)-(3)]

Lubbock County shall provide periodic training in investments for the designated Investment Officer and other investment personnel through courses and seminars offered by professional organizations, associations, and other independent sources in order to ensure the quality and capability of investment management in compliance with the Public Funds Investment Act.

Training Requirement [GOVT. CODE 2256.008]

In accordance with the Public Funds Investment Act, the designated Investment Officer shall attend an investment training session not less than once in a two year period and receive not less than 10 hours of instruction relating to investment responsibilities under the PFIA. 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 Commissioners' Court. 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 Lubbock County may engage in an investment transaction.

Internal Controls (*Best Practice*)

The Investment Officer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of Lubbock County 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 the control should not exceed the benefits likely to be derived and (2) the valuation of cost and benefits requires estimates and judgments by management.

Controls deemed most important that shall be employed include the following:

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Imperative Controls

- Custodian safekeeping receipts records management.
- Avoidance of bearer-form securities.
- Documentation of investment events.
- Written confirmation of telephone transactions.
- Reconcilements and comparisons of security receipts with the investment subsidiary records.
- Compliance with investment policies.
- Verification of all interest income and security purchase and sell computations.

Controls Where Practical

- Control of collusion.
- Separation of duties.
- Separation of transaction authority from accounting and record-keeping.
- Clear delegation of authority.
- Accurate and timely reports.
- Validation of investment maturity decisions with supporting cash flow data.
- Adequate training and development of Investment Officials.
- Review of financial conditions of all brokers, dealers, and depository institutions.
- Staying informed about market conditions, changes and trends that require adjustments in investment strategies.

Accordingly, the Investment Officer shall establish a process to assure compliance with policies and procedures through Lubbock County's annual independent audit.

Prudence [GOVT. CODE §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."

The governing body recognizes that in diversifying the portfolio, occasional measured losses due to market volatility are inevitable, and must be considered within the context of the overall portfolio's investment return, provided that adequate diversification has been implemented. 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 Lubbock County'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 Lubbock County.

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Indemnification (Best Practice)

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 [GOVT. CODE §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.

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

VII. SUITABLE AND AUTHORIZED INVESTMENTS

Investments [GOVT. CODE §2256.005(b)-(4)-(A)]

Lubbock County 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 Lubbock County funds in any instrument or security not authorized for investment under the Act is prohibited. Lubbock County will not be required to liquidate an investment that becomes unauthorized subsequent to its purchase.

I. Authorized

- Direct obligations of the United States of America.
- Direct obligations of this state or its agencies and instrumentalities.

- Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security of which is guaranteed by an agency or instrumentality of the United States.
- Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the United States of America.
- Direct obligations of the following United States agencies and instrumentalities:

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- a) Federal Farm Credit System
- b) Federal Home Loan Bank System
- c) Federal Home Loan Mortgage Corp.
- d) Federal National Mortgage Association
- Certificates of Deposit issued by a Commissioners' Court authorized 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.

A Commissioners' Court approved depository is a state or national bank, savings bank, or state or federal credit union domiciled in this state provided:

- a) The County has on file a signed Depository Agreement which complies with the Local Government Code and details eligible collateral, collateralization ratios, standards for collateral custody and control, collateral valuation, and conditions for agreement termination.
 - Money Market Mutual funds that:
 - a) are registered and regulated by the Securities and Exchange Commission
 - b) have a dollar weighted average stated maturity of 90 days or less
 - c) seek to maintain a net asset value of \$1.00 per share
 - d) are rated AAA by at least one nationally recognized rating service
 - Local government investment pools, which:
 - a) meet the requirements of Chapter 2256.016 of the Public Funds Investment Act
 - b) are rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service
 - c) are authorized by resolution or ordinance by the Commissioners' Court

In addition, a local government investment pool created to function as a money market mutual fund must mark its portfolio to the market daily and, to the extent reasonably possible, stabilize at \$1.00 net asset value.

All prudent measures will be taken to liquidate an investment that is downgraded to less than the required minimum rating. [*GOVT. CODE §2256.021*]

Security swaps may be considered as an investment option for the County. A swap out of one instrument into another is acceptable to increase yield, realign for disbursement dates, extend or shorten maturity dates and improve market sector diversification. Swaps may be initiated by brokers/dealers who are on Lubbock County's approved list. A horizon analysis is required for each swap proving benefit to Lubbock County before the trade decision is made, which will accompany the investment file for record keeping.

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II. Not Authorized [GOVT. CODE 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 collateralized mortgage obligations with a maturity date of over 10 years are strictly prohibited.

VIII. INVESTMENT PARAMETERS

Maximum Maturities [GOVT. CODE §2256.005(b)-(4)-(B)]

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

Lubbock County attempts to match its investments with anticipated cash flow requirements. The maximum allowable stated maturity of any individual investment will not exceed more than fifteen years from the date of purchase.

The composite portfolio will have a weighted average maturity of 7 ½ years or less. This dollar-weighted average maturity will be calculated using the stated final maturity dates of each security. [GOVT. CODE §2256.005(b)-(4)-(C)]

Diversification [GOVT. CODE §2256.005(b)-(3)]

Lubbock County 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 overconcentration 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 (commercial paper),
 - Investing in investments with varying maturities, and
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- Continuously investing a portion of the portfolio in readily available funds such as local government investment pools to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

The following maximum limits, by instrument, are established for Lubbock County's total portfolio:

1. U.S. Treasury Securities100%

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2.	Agencies and Instrumentalities	85%
3.	Certificates of Deposit.....	50%
4.	Authorized Pools	75%

IX. SELECTION OF BANKS AND DEALERS

Depository [Chapter 116, Local Government Code]

At least every four (4) years a Depository shall be selected through Lubbock County’s banking services procurement process, which shall include a formal request for proposal (RFP). The selection of a depository will 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 [GOVT. CODE 2256.025]

Lubbock County shall, at least annually, review, revise, and adopt a list of qualified broker/dealers and financial institutions authorized to engage in securities transactions with Lubbock County. Those firms that request to become qualified broker/dealers for securities transactions will be required to provide:

- Information regarding creditworthiness, experience and reputation.
- A certification stating the firm has received read and understood Lubbock County’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 investment providers, including financial institutions, banks, money market mutual funds, and local government investment pools, must sign a certification acknowledging that the organization has received and reviewed Lubbock County’s Investment Policy and that reasonable procedures and controls have been implemented to preclude investment transactions that are not authorized by Lubbock County’s policy. [GOVT. CODE §2256.005(k-l)]

Delivery vs. Payment [GOVT. CODE §2256.005(b)-(4)-(E)]

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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.

X. CUSTODIAL CREDIT RISK MANAGEMENT

Safekeeping and Custodial Agreements

Securities either owned by Lubbock County as part of its investment portfolio or held as collateral to secure demand or time deposits will be held by a third party custodian. Securities owned by Lubbock County shall be held in Lubbock County'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 Lubbock County and pledged to Lubbock County 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 a Federal Reserve Bank or branch of a Federal Reserve Bank, a Federal Home Loan Bank, or a third party bank approved by Lubbock County.

Collateral Policy [PFCA §2257.023]

Consistent with the requirements of the Texas Government Code, Chapter 2257("Public Funds Collateral Act or "PFCA"), it is the policy of Lubbock County to require full collateralization of all Lubbock County funds on deposit with a depository bank. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 110% of market value of principal and accrued interest on the deposits or investments less an amount insured by the FDIC. At its discretion, Lubbock County may require a higher level of collateralization for certain investment securities. Securities pledged as collateral shall be held by an independent third party with whom Lubbock County has a current custodial agreement. The Investment Officer is responsible for entering into collateralization agreements with third party custodians in compliance with this Policy.

The agreements are to specify the acceptable investment securities for 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 Lubbock County and retained. Collateral shall be reviewed at least monthly to assure that the market value of the pledged securities is adequate.

Collateral Defined

Lubbock County shall accept only the following types of collateral:

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- Personal bond; surety bond; bonds; notes; and other securities; first mortgages on real property; real property; certificate of deposit; or a combination of these methods, as provided by Chapter 116, Subchapter C, Local Government or
- Investment securities or interests in them as provided by Chapter 726, Acts of the 67th Legislature, Regular Session, 1981 (Article 2529b-1, Vernon's Texas Civil Statutes).

Subject to Audit

All collateral shall be subject to inspection and audit by the Investment Officer or Lubbock County's independent auditors.

XI. PERFORMANCE

Performance Standards

Lubbock County'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 the cash flow requirements of Lubbock County.

Performance Benchmark

It is the policy of Lubbock County to purchase investments with maturity dates coinciding with cash flow needs. Through this strategy, Lubbock County shall seek to optimize interest earnings utilizing allowable investments available on the market at that time. Market value will be calculated on a quarterly basis on all securities owned and compared to current book value. Lubbock County's portfolio shall be designed with the objective of regularly meeting or exceeding the average rate of return on U.S. Treasury Bills at a maturity level comparable to Lubbock County's weighted average maturity in days.

XII. REPORTING [GOVT. CODE 2256.023]

Methods

Quarterly - 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 statement of investment activity prepared in compliance with generally accepted accounting principals.

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This summary will be prepared in a manner that will allow Lubbock County to ascertain whether investment activities during the reporting period have conformed to the Investment Policy. The report will be provided to the Commissioners' Court. 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.
- Additions and changes to the market value during 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 Lubbock County's investment portfolio with state law and the investment strategy and policy approved by Commissioners' Court.

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

Monitoring Market Value [*GOVT. CODE §2256.005(b)-(4)-(D)*]

Market value of all securities in the portfolio will be determined on a quarterly basis. These values will be obtained from a reputable source and disclosed to the governing body quarterly in a written report.

XIII. INVESTMENT POLICY ADOPTION

Lubbock County's Investment Policy shall be reviewed and adopted by the Commissioners' Court. It is Lubbock County's intent to comply with state laws and regulations. Lubbock County's Investment Policy shall be subject to revisions consistent with changing laws, regulations, and needs of Lubbock County. The Commissioners' Court shall review the policy and investment strategies annually, approving any changes or modifications. [*GOVT. CODE §2256.005(e)*]

APPENDIX A

TEXAS STATUTES

Texas Local Government Code, §116.112

Vernon's Texas Code Annotated, Government Code Title 10, Chapters 2256 and 2257

Vernon's Texas Code Annotated, Government Code, Title 5, Chapter 573

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Vernon's Texas Code Annotated, Government Code, Title 7, Chapter 791

APPENDIX B

GLOSSARY

ACCRETION OF DISCOUNT: Periodic straight-line increases in the book or carrying value of a security so the amount of the purchase price discount below face value is completely eliminated by the time the bond matures or by the call date, if applicable.

ACCRUED INTEREST: The interest accumulated on a security from its issue date or since the last payment of interest up to but not including the purchase date. The purchaser of the security pays to the seller the market price plus accrued interest.

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AMORTIZATION OF PREMIUM: Periodic straight-line decreases in the book or carrying value of a security so the premium paid for a bond above its face value or call price is completely eliminated.

ASK: The price at which securities are offered by sellers.

BARBELL MATURITY STRATEGY: A maturity pattern within a portfolio in which maturities of the assets in the portfolio are concentrated in both the short and long ends of the maturity spectrum.

BASIS POINT: One one-hundredth (1/100) of one percent; 0.0001 in decimal form.

BENCHMARK: A comparative base for performance evaluation. A benchmark can be a broad-based bond index, a customized bond index, or a specific objective.

BID: The price offered for securities by purchasers. (e.g.- when selling securities, one asks for a bid).

BOND EQUIVALENT YIELD: Used to compare yields available from discounted securities that pay interest at maturity with yields available from securities that pay interest semi-annually.

BOOK ENTRY SECURITIES: Stocks, bonds, other securities, and some certificates of deposit that are purchased, sold, and held as electronic computer entries on the records of a central holder. These securities are not available for purchase in physical form; buyers get a receipt or confirmation as evidence of ownership.

BOOK VALUE: The original cost of the security as adjusted for amortization of any premium paid or accretion of discount since the date of purchase.

BROKER: A party who brings buyers and sellers together. Brokers do not take ownership of the property being traded. They are compensated by commissions. They are not the same as dealers; however, the same firms that act as brokers in some transactions may act as dealers in other transactions.

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GLOSSARY

CALLABLE BOND: A bond that the issuer has the right to redeem prior to maturity at a specified price. Some callable bonds may be redeemed on one call date while others may have multiple call dates. Some callable bonds may be redeemed at par while others can be redeemed only at a premium.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a certificate. Large-denomination (over \$100,000) CD's are typically negotiable.

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COLLATERAL: Securities, evidence of deposit or other property which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COLLATERALIZED MORTGAGE OBLIGATION (CMO): A type of mortgage-backed security created by dividing the rights to receive the principal and interest cash flows from an underlying pool of mortgages in separate classes or tiers.

COMMERCIAL PAPER: Short-term unsecured promissory notes issued by corporations for a maturity specified by the buyer. It is used primarily by corporations for short-term financing needs at a rate which is generally lower than the prime rate.

CONFIRMATION: The document used to state in writing the terms of the trade which had previously been agreed to verbally.

COUPON RATE: The stated annual rate of interest payable on a coupon bond expressed as a percentage of the bond's face value.

CREDIT RISK: The risk that (1) the issuer is downgraded to a lower quality category and/or (2) the issuer fails to make timely payments of interest or principal.

CUSIP NUMBER: A nine-digit number established by the Committee on Uniform Securities Identification Procedures that is used to identify publicly traded securities. Each publicly traded security receives a unique CUSIP number when the security is issued.

CUSTODY: The service of an organization, usually a financial institution, of holding (and reporting) a customer's securities for safekeeping. The financial institution is known as the custodian.

DEALER: A firm which buys and sells for its own account. Dealers have ownership, even if only for an instant, between a purchase from one party and a sale to another party. They are compensated by the spread between the price they pay and the price they receive.

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DEALER Cont.: Dealers are not the same as brokers; however, the same firms which act as dealers in some transactions may act as brokers in other transactions.

DELIVERY VERSUS PAYMENT (DVP): The safest method of settling a trade involving a book entry security. In a DVP settlement, the funds are wired from the buyer's account and the security is delivered from the seller's account in simultaneous, interdependent wires.

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DEPOSITORY TRUST COMPANY (DTC): An organization that holds physical certificates for stocks and bonds and issues receipts to owners. Securities held by DTC are immobilized so that they can be traded on a book entry basis.

DERIVATIVE: A security that derives its value from an underlying asset, group of assets, reference rate, or an index value. Some derivatives can be highly volatile and result in a loss of principal in changing interest rate environments.

DISCOUNT: The amount by which the price paid for a security is less than its face value.

DISCOUNT SECURITIES: Securities that do not pay periodic interest. Investors earn the difference between the discount issue price and the full face value paid at maturity.

DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent returns, to reduce risk inherent in particular securities.

DURATION: A sophisticated measure of the weighted average maturity of a bond's cash flow stream, where the present values of the cash flows serve as the weights.

ECONOMIC CYCLE (BUSINESS CYCLE): As the economy moves through the business cycle, interest rates tend to follow the levels of production, output, and consumption - rising as the economy expands and moves out of recession and declining after the economy peaks, contracts, and heads once again into recession.

EFFECTIVE MATURITY: The average maturity of a bond, given the potential for early call. For a non-callable bond, the final maturity date serves as the effective maturity. For a callable bond, the effective maturity is bounded by the first call date and the final maturity date; the position within this continuum is a function of the call price, the current market price, and the reinvestment rate assumed.

FACE VALUE: The principal amount due and payable to a bondholder at maturity; par value. Also, the amount on which coupon interest is computed.

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FAIL: The event of a securities purchase or sale transaction not settling as intended by the parties.

FAIR VALUE: The amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, currently up to \$300,000 per depositor (\$100,000 for non-interest bearing

LUBBOCK COUNTY, TEXAS INVESTMENT POLICY

demand deposits, \$100,000 for interest bearing demand, savings or time deposits and a separate \$100,000 for interest and sinking funds).

FEDERAL FARM CREDIT BANKS (FFCB): A government-sponsored corporation that was created in 1916 and is a nationwide system of banks and associations providing mortgage loans, credit, and related services to farmers, rural homeowners, and agricultural and rural cooperatives. The banks and associations are cooperatively owned, directly or indirectly, by their respective borrowers. The Federal Farm Credit System is supervised by the Farm Credit Administration, an independent agency of the U.S. government. (See Government Sponsored Enterprise)

FEDERAL FUNDS: Monies within the Federal Reserve System representing a member bank's surplus reserve funds. Banks with excess funds may sell their surplus to other banks whose funds are below required reserve levels. Normally, Federal funds are employed in settling all government securities transactions. The Federal Funds Rate is the rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

FEDERAL HOME LOAN BANKS (FHLB): Government-sponsored wholesale banks (currently twelve regional banks) which lend funds and provide correspondent banking services to member commercial bank, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district Bank. (See Government Sponsored Enterprises)

FEDERAL HOME LOAN MORTGAGE CORPORATION (FHLMC or "Freddie Mac"): A government-sponsored corporation that was created in July 1970, by the enactment of Title III of the Emergency Home Finance Act of 1970. Freddie Mac was established to help maintain the availability of mortgage credit for residential housing, primarily through developing and maintaining an active, nationwide secondary market in conventional residential mortgages. (See Government Sponsored Enterprises)

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FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA or Fannie Mae): FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae is a private stockholder-owned corporation. FNMA securities are highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest. (See Government Sponsored Enterprises)

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FEDERAL OPEN MARKET COMMITTEE (FOMC): Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank presidents.

The president of the New York Federal Reserve Bank is a permanent member while the other presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of government securities in the open market as a means of influencing the volume of bank credit and money.

FEDERAL RESERVE SYSTEM: The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., twelve regional banks and about 5700 commercial banks that are members of the system.

FIXED-INCOME SECURITY: A financial instrument promising a fixed amount of periodic income over a specified future time span.

GOVERNMENT-SPONSORED ENTERPRISES (GSE's): Payment of principal and interest on securities issued by these corporations is not guaranteed explicitly by the U.S. government, however, most investors consider these securities to carry an implicit U.S. government guarantee. The debt is fully guaranteed by the issuing corporations. GSE's include: Farm Credit System, Federal Home Loan Bank System, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Student Loan Marketing Association, and the Tennessee Valley Authority.

INSTRUMENTALITIES: See Government-Sponsored Enterprises

INTEREST RATE RISK: The risk that the general level of interest rates will change, causing unexpected price appreciations or depreciations.

LADDERED MATURITY STRATEGY: A maturity pattern within a portfolio in which maturities of the assets in the portfolio are equally spaced. Over time, the shortening of the remaining lives of the assets provides a steady source of liquidity or cash flow. Given a normal yield curve with a positive slope this passive strategy provides the benefit of being able to take advantage of the higher, longer-term yields without sacrificing safety or liquidity.

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LIQUIDITY: An entity's capacity to meet future monetary outflows (whether they are required or optional) from available resources. Liquidity is often obtained from reductions of cash or by converting assets into cash.

LIQUIDITY RISK: The risk that an investment will be difficult to sell at a fair market price in a timely fashion.

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

LUBBOCK COUNTY, TEXAS INVESTMENT POLICY

MARKING-TO-MARKET: The practice of valuing a security or portfolio according to its market value, rather than its cost or book value.

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer to liquidate the underlying securities in the event of default by the seller.

MATURITY DATE: The date on which the principal or face value of an investment becomes due and payable.

MONEY MARKET INSTRUMENT: Generally, a short-term debt instrument that is purchased from a broker, dealer, or bank. Sometimes the term "money market" with "short-term", defines an instrument with no more than 12 months remaining from the purchase date until the maturity date. Sometimes the term "money market" is used more restrictively to mean only those instruments that have active secondary markets.

MORTGAGE-BACKED SECURITIES (MBS): Securities composed of, or collateralized by, loans that are themselves collateralized by liens on real property.

OFFER: The price asked by a seller of securities. (e.g.-when purchasing securities, one asks for an offer.)

OPEN MARKET OPERATIONS: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

APPENDIX B

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OPPORTUNITY COST: The cost of pursuing one course of action measured in terms of the foregone return that could have been earned on an alternative course of action that was not undertaken.

PAR: See Face Value

POOLED FUND GROUP: An internally created fund of an investing entity in which one or more institutional accounts of the investing entity are invested (as defined by the Public Funds Investment Act).

LUBBOCK COUNTY, TEXAS INVESTMENT POLICY

PREMIUM: The amount by which the price paid for a security exceeds its face value.

PRIMARY DEALER: A group of government securities dealers that submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.

PRINCIPAL: The face or par value of an instrument, exclusive of accrued interest.

PRUDENT PERSON RULE: An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the state. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

QUALIFIED PUBLIC DEPOSITORIES: A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

QUALIFIED REPRESENTATIVE: A person who holds a position with - and is authorized to act on behalf of - a business organization (as defined by the Public Funds Investment Act).

RATE OF RETURN: The amount of income received from an investment, expressed as a percentage. A market rate of return is the yield that an investor can expect to receive in the current interest-rate environment utilizing a buy-and-hold to maturity investment strategy.

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GLOSSARY

REINVESTMENT RATE: The interest rate earned on the reinvestment of coupon payments.

REINVESTMENT RATE RISK: The risk that the actual reinvestment rate falls short of the expected or assumed reinvestment rate.

REPURCHASE AGREEMENT (RP or REPO): An agreement of one party to sell securities at a specified price to a second party and a simultaneous agreement of the first party to repurchase the securities at a specified price on demand or at a specified later date. The difference between the selling price and the repurchase price provides the interest income to the party that provided the funds. Every transaction where a security is sold under an agreement to

LUBBOCK COUNTY, TEXAS INVESTMENT POLICY

be repurchased is a repo from the seller/borrower's point of view and a reverse repo from the buyer/lender's point of view.

SAFEKEEPING: A procedure where securities are held by a third party acting as custodian for a fee.

SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.

SECURITIES AND EXCHANGE COMMISSION: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SEC RULE 15C3-1: See Uniform Net Capital Rule

STRUCTURED NOTES: Debt obligations whose principal or interest payments are determined by an index or formula.

SEPARATELY INVESTED ASSET: An account or fund of a state agency or local government that is not invested in a pooled fund group (as defined by the Public Funds Investment Act).

SPREAD: Most commonly used when referring to the difference between the bid and asked prices in a quote.

STRIPS: Separation of the principal and interest cash flows due from any interest-bearing securities into different financial instruments. Each coupon payment is separated from the underlying investment to create a separate security. Each individual cash flow is sold at a discount. The amount of the discount and the time until the cash flow is paid determine the investor's return.

APPENDIX B

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SWAP: The trading of one asset for another. Sometimes used in active portfolio management to increase investment returns by "swapping" one type of security for another.

TOTAL RETURN: Interest income plus capital gains (or minus losses) on an investment.

TREASURY BILLS: A non-interest bearing discount security issued by the U.S. Treasury, generally having initial maturities of 3 months, 6 months, or 1 year.

TREASURY BONDS: Long-term, coupon bearing U.S. Treasury securities having initial maturities of more than 10 years.

LUBBOCK COUNTY, TEXAS INVESTMENT POLICY

TREASURY NOTES: Intermediate-term, coupon bearing U.S. Treasury securities having initial maturities of 2 - 10 years.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called *net capital rule* and *net capital ratio*. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

YIELD TO MATURITY (YTM): The promised return assuming all interest and principal payments are made and reinvested at the same rate taking into account price appreciation (if priced below par) or depreciation (if priced above par).

APPENDIX C

QUALIFIED BROKER/DEALERS AND FINANCIAL INSTITUTIONS

City Bank

Ben Wells

5211 Brownfield Hwy
Lubbock, Texas 79408
Phone: (806) 792-7101

TexCLASS

Karen Proctor

717 17th Street, Suite 1850
Denver, Colorado 80202
(800)707-6242

Client services@texasclass.com

LUBBOCK COUNTY, TEXAS INVESTMENT POLICY

TexPool Participant Services

1001 Texas Ave., Suite 1150
Houston, Texas 77002
Phone: (866) 839-7665

Multi-Bank Securities, Inc.

Luigi Mancini
Vice President
Downtown Republic Center,
325 North St. Paul Street, Suite 3101,
Dallas, TX 75201
(800)967-9045
lmancini@mbssecurities.com

Stifel Financial Corporation (Vining Sparks)

Michael Smith
Senior Vice President
Vining Sparks IBG, L.P.
775 Ridge Lake Blvd | Memphis, TN | 38120
T: 800.786.0866 | T: 901.766.3116 | C: 214.250.0997

Meredith Allen, CFA, CPA
Senior Vice President
Vining Sparks IBG, L.P.
775 Ridge Lake Blvd | Memphis, TN | 38120
T: 888.415.4833 | T: 901.766.3219 | C: 901.351.2139

APPENDIX D

Certification by Business Organization/Dealer

This certification is executed on behalf of the County of Lubbock, Texas and _____ (the Business Organization) in connection with investment transactions conducted between the County and the Business Organization.

The undersigned Qualified Representative of the Business Organization hereby certifies on behalf of the Business Organization that:

1. Public Fund Investment Act §2256.005 (k): nothing in this Certification relieves Lubbock County of the responsibility for monitoring the investments made by Lubbock County to determine that they are in compliance with the Lubbock County Investment Policy,
2. The undersigned is a Qualified Representative of the Business Organization offering to enter an investment transaction with the County as such terms are

**LUBBOCK COUNTY, TEXAS
INVESTMENT POLICY**

used in the Public Funds Investment Act, Chapter 2256, TX Government Code,

3. The Qualified Representative of the Business Organization has received and reviewed the Investment Policy of the County, and
4. For an investment pool or investment management firm contracted with the County, the Qualified Representative of the Business Organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the Business Organization and the County that are not authorized by the County’s Investment Policy except to the extent that this authorization is dependent on an analysis of the makeup of the County’s entire portfolio or requires an interpretation of subjective investment standards.

Qualified Representative of the Business Organization

Firm _____

Firm Representative _____

Representative’s Title _____

Signature _____

Date _____

APPENDIX E

Broker/Dealer Questionnaire

Name of Firm: _____

Name of Parent Company (*if applicable*): _____

Local Address:

National Address:

Phone: (_____) _____ - _____ (800) _____ - _____

**LUBBOCK COUNTY, TEXAS
INVESTMENT POLICY**

Fax: (_____) _____ - _____ E-Mail _____

Registered principal: _____

Title: _____

Account Representative: _____

Title: _____ CRD# _____

Backup Representative: _____

Title: _____ CRD# _____

Do you have an office of the firm for brokerage or other services located within our area?

Address of office _____

Has/have the representative(s) listed above been authorized by the firm to be the account representative(s) for Lubbock County? _____

By Whom? _____

**Lubbock County,
Texas Broker/Dealer
Questionnaire Page 2**

Identify all personnel who will be trading with Lubbock County, Texas cash/investment management staff (additional back-ups)

Name Title CRD number _____

PLEASE ATTACH RESUMES of all the above persons.

Have all of the above personnel read our investment policies and procedures and signed our certification? Yes [] No []

If the above answer is no, please explain: _____

If you are a broker/dealer or subsidiary of a national bank, is your firm licensed to do business in Texas? Yes [] No []

LUBBOCK COUNTY, TEXAS INVESTMENT POLICY

If you are a broker/dealer or subsidiary of a national bank, is your firm a member of Financial Industry Regulatory Authority (FINRA) in good standing? Yes [] No []

Please provide your firm's CRD number _____

What was your firm's trading volume in United States Government and Agency securities for the most recent fiscal year? _____

Firm-wide? \$ _____

Number of Transactions _____

Local Office \$ _____

Number of Transactions _____

Which instruments are offered regularly by your local desk?

Treasury Bills

Treasury notes/bonds

Other Agencies

Please specify _____

Commercial paper

Other-Please specify

**Lubbock County,
Texas Broker/Dealer
Questionnaire Page 3**

Please identify at least three of your most directly comparable public sector clients in Texas who have done business with the primary representative

Entity	Contact Person	Telephone No.	Client since
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

Has your firm or any of your employees ever been investigated by a regulatory or state agency for alleged improper, fraudulent, disreputable, or unfair business practices in the sale of securities or money market instruments? If yes, please explain:

Please provide the most recent AUDITED financial statements for your firm.

Please provide your most recent FOCUS report.

Is your firm a subsidiary of another firm? [] yes [] no; if yes please provide the most recent audited financial statements for your parent corporation.

LUBBOCK COUNTY, TEXAS INVESTMENT POLICY

How long has the direct representative been an institutional governmental securities broker?

How long has the direct representative been an institutional fixed-income broker?

Is your firm a member of FINRA (Financial Industry Regulatory Authority)?

If not, why?

Place an X by each regulatory agency that your firm is examined by and/or subject to its rules and regulations.

FDIC _____ SEC _____ NYSE _____ Federal Reserve System _____

Comptroller of Currency _____

Do you have full SIPC (Securities Investor Protection Corporation) insurance coverage?

SIPC policy number _____

Lubbock County, Texas Broker/Dealer Questionnaire Page 4

Does the business organization have additional insurance coverage? _____ if yes, provide name of company, policy number, and amount _____

Please provide information on a separate sheet regarding additional coverage for your customers in case of default or failures.

Does the firm have primary dealer status with the Federal Reserve Bank of New York?

How long has the firm had primary dealer status?

Are the firm and the account representative(s) registered with the Texas State Securities Board?

Since?

**LUBBOCK COUNTY, TEXAS
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Please provide references from at least four comparable public sector clients. We would prefer public sector clients located in the State of Texas, if possible.

Client Name

Address

Person to contact

Telephone Number

Length of relationship

Client Name

Address

Person to contact

Telephone Number

Length of relationship

**Lubbock County,
Texas Broker/Dealer
Questionnaire Page 5**

Client Name

Address

Person to contact

Telephone Number

Length of relationship

Client Name

Address

Person to contact

Telephone Number

Length of relationship

LUBBOCK COUNTY, TEXAS INVESTMENT POLICY

The following section is to be completed by any firm that does not currently hold primary dealer status.

In which market sectors does the local firm/desk specialize, if any?

Please identify your most directly comparable public sector clients.

How long has your firm been in business?

Are you a subsidiary of another firm?

If yes, which firm?

How long have the two firms been associated?

What was the firm's total volume in United States Treasuries and agencies for the last fiscal year?

Firm wide: \$

**Lubbock County,
Texas Broker/Dealer
Questionnaire Page 6**

This office: \$ _____

Is your firm an inventory dealer?

Do you take a position in securities that you sell or buy?

Does your firm comply with the SEC (Securities Exchange Commission) net capital guidelines on a continuous basis? _____

How much excess capital do you maintain? _____

Through which firm do you clear?

Do you clear on a fully disclosed basis, i.e., will the clearing firm be acting as principal on the transaction?

LUBBOCK COUNTY, TEXAS INVESTMENT POLICY

Please attach a separate sheet with your full delivery instructions.

Please return to:

Kathy Williams
Lubbock County Auditor
kwilliams@lubbockcounty.gov
916 Main, Suite 700
Lubbock, Texas 79408

APPENDIX F

Investment Pool Questionnaire

Name of Investment Pool or Mutual Fund _____

Name of Managing firm(s) _____

Address: _____

Phone: (____) ____ - _____ (800) ____ - _____

Fax: (____) ____ - _____ E-Mail _____

Website _____

Registered Principal: _____

Title: _____

Account Representative: _____

**LUBBOCK COUNTY, TEXAS
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Title: _____

Backup Representative: _____

Is the Investment Pool or Mutual Fund continuously rated by at least one nationally recognized investment rating firm?

Moody's ____ Rating _____ Standard & Poor's ____ Rating _____

Fitch ____ Rating _____

Other specify _____ Rating _____

Please return to:

Kathy Williams
Lubbock County Auditor
kwilliams@lubbockcounty.gov
916 Main, Suite700
Lubbock, Texas 79408

**ORDER OF THE
LUBBOCK COUNTY COMMISSIONERS' COURT**

This Lubbock County, Texas Investment Policy is adopted during the regular session of the Lubbock County Commissioners' Court on this the 10th day of April, 2023 and becomes a part of the official minutes of the County Commissioners' Court.

MOTION BY: _____

SECONDED BY: _____

Entered in the official minutes of the Lubbock County Commissioners' Court.

Terence Kovar, Precinct 1

Jason Corley, Precinct 2

**LUBBOCK COUNTY, TEXAS
INVESTMENT POLICY**

Gilbert Flores, Precinct 3

Jordan Rackler, Precinct 4

Curtis Parrish, County Judge

ATTEST:

Kelly Pinion
COUNTY CLERK