

MCLENNAN COUNTY PUBLIC FUNDS COLLATERAL POLICY

ART. 1. Eligible Security for Public Funds of McLennan County

§1.01 Any depository or subdepository of public funds of McLennan County, including any depository or subdepository selected under Chapter 116 and/or Chapter 117 of the *Local Government Code* (Vernon's Texas Codes Annotated), shall secure said public funds with "Eligible Security", as that term is defined at §2257.002, *Government Code* or any amendments thereto, to the extent and in the manner required by this Policy and the Public Funds Collateral Act, Chapter 2257, *Government Code* (hereinafter "the Act").

§1.02 All security is subject to the approval of the Commissioners Court or its authorized designee.

ART. 2. Level of Security Required

§2.01 The total value of Eligible Security to secure a deposit of public funds of the County held in a depository or subdepository designated pursuant to Chapter 116 and/or 117 of the *Local Government Code* **must** be not less than the amount of the deposit of public funds:

1. increased by the amount of any accrued interest; and
2. reduced to the extent that the United States or an instrumentality of the United States insures the deposit.

§2.02 The value of an Eligible Security shall be its market value as priced by a government securities broker or dealer who is not under the authority or control of the depository or subdepository, or related to the depository or subdepository or any parent or subsidiary company thereof.

§2.03 The value of a surety bond is its face value.

§2.04 The depository shall establish a security "cushion" to account for reasonable fluctuations in the deposits of the County. Such "cushion" may not be considered as excess collateral for purposes of charging excess collateral fees, if any, to the County.

ART. 3. Custody/Safekeeping of Collateral

- §3.01 Security/collateral for public funds will NOT be held by the depository or subdepository, and any depository agreement for public funds of the County must specify a custodian or trustee of the security.
- §3.02 The custodian or trustee must be approved by the Commissioners Court and must be a bank or trust company authorized under §2257.041(d) of the *Government Code*, or amendments thereto.
- §3.03 A written agreement shall be maintained with regard to the custody/safekeeping of the security between the County and the custodian/trustee. The standard Application for Safekeeping Account with the Federal Reserve Bank of Dallas shall be acceptable as a written memorandum of a safekeeping arrangement with the Federal Reserve Bank.
- §3.04 The safekeeping agent or custodian will be required to provide confirmation of the receipt of the collateral/safekeeping/trust receipts.
- §3.05 The interest of the County in the collateral shall be secured and perfected in accordance with law.
- §3.06 The Depository Agreement containing the agreement between the Depository and the County with regard to collateral must be approved by the Depository's Board of Directors or Loan Committee.

ART. 4. Substitution of Collateral

- §4.01 If provided for in a depository contract approved by the Commissioner's Court, the depository may be allowed to substitute for any one or more Eligible Securities other Eligible Securities of at least the same total market value, and of the character authorized by this Policy and the Act.
- §4.02 The procedure to be followed shall comply with any operational procedures/requirements of the custodian/trustee if the custodian/trustee is a government institution or agency, or is a Federal Reserve Bank. The procedure must comply with the requirements of section 116.082 of the *Local Government Code*.
- §4.03 Only persons authorized by the Commissioners Court may be signatories on any substitution documents, or on any pledge signature authorization forms.

§4.04 Notwithstanding anything herein to the contrary, the aggregate market value of all collateral pledged as security for public funds of the County by a depository or subdepository shall be at least equal to the amount of collateral required by this Policy and the Act.

ART. 5. Release of Collateral

§5.01 Any depository agreement shall provide for a procedure for the release of the collateral when the depository relationship terminates, the depository has properly paid out or transferred all deposits of the County in accordance with the directives of the County, and no liabilities of the depository to the County remain. This procedure shall be subject to approval by the Commissioner's Court of the depository agreement, and must be acceptable to the County Treasurer and the County Auditor.

§5.02 The depository agreement may provide for the release of collateral substituted for in accordance with Article 4, and the release may be given where:

- a. the collateral to be substituted for the collateral to be released is already in the possession of the custodian/trustee;
- b. the depository has requested the release from the County or its designee in a writing which; identifies the collateral to be released, identifies the collateral to be substituted therefor, states the current verified market value of each set of collateral, attests that the collateral to be substituted has been delivered to the custodian/trustee, and contains such other information which may be expressly required by the County Treasurer or County Auditor;
- c. the release will not result in the level of collateral dropping below the level required to secure public funds hereunder and under the Act; and
- d. the collateral to be taken in substitution is made up completely of Eligible Security under this policy and the Act.

§5.03 The procedure to be followed shall comply with any operational procedures/requirements of the custodian/trustee if the custodian/trustee is a government institution or agency, or is a Federal Reserve Bank. The procedure must comply with the requirements of section 116.083 of the *Local Government Code*.

§5.04 Only persons authorized by the Commissioners Court may be signatories on any release documents, or on any pledge signature authorization forms.

ART. 6. Recordkeeping and Reporting

§6.01 The depository must maintain at a minimum the records required by §2257.025 of the *Government Code*.

§6.02 The depository must also maintain such other records required by the depository agreement and/or the County Treasurer.

§6.03 All records of the depository with regard to the collateral securing County funds must be made available for examination by the County or its designee or agent at any reasonable time.

§6.04 The depository agreement must provide for at least monthly collateral reports to the County by the depository showing the collateral securing deposits of the County and the value thereof as of the last business day of the month. Said reports shall be provided by the depository to the County Treasurer.

§6.05 The County Treasurer shall provide a detailed Collateral Report to Commissioners' Court within 1 month following the end of each monthly reporting period. The Collateral Report must contain a detailed description of securities pledged. The description will include at a minimum, the Security Name, Cusip Number, Maturity Date, Rate of Return, Par Value, Market Value at the end of the monthly reporting period and Effective Date. The total amount of deposits for the last day of the monthly reporting period will be provided.

Commissioners' Court will either approve the collateral in the report or require corrective action in accordance with the depository agreement.

ART. 7. Investment Made Ineligible Regardless of Eligibility under Article 1, the Act, or Chapter 116 of the Local Government Code

§7.01 Notwithstanding the provisions of Article 1 above, and regardless of whether "eligible" under the Act or Chapter 116 of the *Local Government Code*, the following are not Eligible Security to serve as collateral for County funds although they might be technically "eligible" under the Act and/or Chapter 116:

- a. collateralized mortgage obligations or mortgage security derivatives whether or not issued by a federal agency or instrumentality,
- b. obligations of state or local governments with less than AA rating (or its equivalent) as rated by a nationally recognized investment rating firm,
- c. any type of investment that is not authorized by McLennan County's Investment Policies, or that has in the past been declined by the County's Investment Officer as being too speculative or having an unacceptable level of risk,
- d. any type of investment that is authorized by McLennan County's Investment Policies that has a maturity date that is more than 15 years from the date pledged.
- e. personal bonds,
- f. assignments of mortgages or direct mortgages of real property,
- g. real property, and
- h. Any investment that is identified as being unauthorized under Chapter 2256 of the *Local Government Code*.