

FORT BEND COUNTY INVESTMENT POLICY

Reviewed, Amended, and Adopted:
December 8, 2009

Reviewed and Adopted:
December 14, 2010

TABLE OF CONTENTS

INVESTMENT POLICY	1
I. INVESTMENT AUTHORITY	1
I.1 Investment Timing Committee	1
II. PURPOSE	1
III. SCOPE	1
IV. INVESTMENT OBJECTIVES	2
IV.1 GENERAL STATEMENT	2
IV.2 Safety and Maintenance of Adequate Liquidity	2
IV.3 Diversification	2
IV.4 Yield	2
IV.5 Maturity	2
IV.6 Quality and Capability of Investment Management	3
IV.7 Disclosure of Relationships	3
IV.8 Method of Monitoring	3
V. INVESTMENT STRATEGY	4
VI. INVESTMENT RESPONSIBILITY AND CONTROL	4
VI.1 Investment Advisory Committee	4
VI.2 Liability of Investment Officer and Investment Advisory Committee	5
VI.3 Audit	5
VI.4 Standard of Care	5
VI.5 Investment Institution Defined	5
VI.6 Qualification for Approval of Broker/Dealer	6
VI.6.1. Method of Soliciting and Selecting County Funds Investment Broker/Dealer	6
VI.7 Standard of Operation	7
VI.8 Delivery vs. Payment	7
VII. INVESTMENT REPORTING AND PERFORMANCE EVALUATION	7
VII.1 Quarterly Report	7
VII.2 Notification of Investment Changes	8

VIII. INVESTMENT COLLATERAL AND SAFEKEEPING	8
VIII.1 COLLATERAL OR INSURANCE	8
VIII.2 Safekeeping	9
IX. INVESTMENT TYPES	9
IX. 1 AUTHORIZED	9
IX. 2 UNAUTHORIZED	10
X. NON – COUNTY FUNDS	10
X.1 Tax Assessor/Collector	10
X.2 County Clerk Registry Funds	10
X.3 District Clerk Registry Funds	11
APPENDIX	
Public Funds Investment Act	

FORT BEND COUNTY, TEXAS

INVESTMENT POLICY

I. INVESTMENT AUTHORITY

This Investment Policy (the “**Policy**”) is adopted by the Fort Bend County Commissioners Court as the governing body of Fort Bend County in accordance with Section 116.112(a), of the Texas Local Government Code and Title X, Chapter 2256, §2256.005 of the Texas Government Code. The County Commissioners shall appoint under Section 2256.005 (f) of the Texas Government Code, the Investment Officer or Officers who, under the direction of the Fort Bend County Commissioners’ Court, may invest the County funds that are not immediately required to pay obligations of Fort Bend County (“the **County**”). The person appointed by Commissioners Court as Investment Officer will hereafter be referred to as “County Investment Officer”.

I.1 Investment Timing Committee

“Investment Timing Committee” is comprised of the County Treasurer, the County Auditor, the County Budget Director, and the County Investment Officer (If other than one of the aforementioned members).

The County Investment Officer will serve as the Chair for the Committee. The committee will meet at least monthly for the purpose of reviewing timing issues applicable to the cash flow needs of the county as related to the types of investments available, rates of return, time to maturity and associated risk factors. The committee’s findings will be advisory, not mandatory, and the Investment Officer will retain responsibility for the investment of the County’s monies.

II. PURPOSE

This policy with respect to Fort Bend County investments establishes policies and procedures that enhance opportunities for the prudent and systematic investment of Fort Bend County funds. The policy directs that the funds of Fort Bend County shall be invested and secured in compliance with the various provisions of Texas law, including the Public Funds Investment Act (Government Code Chapter 2256) (PFIA).

III. SCOPE

This policy will cover all Fort Bend County funds and funds under the direct control of Fort Bend County. These include funds of Fort Bend County, Fort Bend County Drainage District, Fort Bend County Toll Road Authority and Fort Bend County Flood Control Water Supply Corporation, as well as any other funds that may come under the control of the County and that may be legally invested by the County. The County, through the County Investment Officer, acts as an Investment Agent for Fort Bend County Community Supervision and Corrections Department.

IV. INVESTMENT OBJECTIVES

IV.1 General Statement

Funds of the County will be invested in compliance with federal and state laws, this investment policy and written administrative procedures. The County will invest according to investment strategies in Section V for each separate group of funds if different strategies are adopted by a commissioners court resolution.

IV.2 Safety and Maintenance of Adequate Liquidity

In accordance with sound and established practices of investing for Texas counties, safety of principal is a primary objective in any investment transaction. The County's investment portfolio must be structured in conformance with an asset/liability management plan that provides for liquidity necessary to pay obligations as they become due.

IV.3 Diversification

It will be the policy of the County to diversify its portfolio to eliminate the risk of loss resulting from a concentration of assets in a specific maturity (save and except zero duration funds), a specific issuer or a specific class of investments. To achieve this diversification, the County will limit investments in specific types of securities to the following percentages of the total portfolio:

<u>Investment Type</u>	<u>Maximum Investment %</u>
Repurchase Agreements	up to 35%
Certificates of Deposit	up to 50%
U.S. Treasury Bills/Notes	up to 100%
Other U.S. Government Securities	up to 80%
Authorized Local Government Investment Pools	up to 80%
No Load Money Market Mutual Funds	up to 50%
Bankers Acceptances	up to 15%

Investments of the County shall always be selected to provide stability of income and reasonable liquidity. The Investment Officer and County Treasurer may temporarily authorize changes to the above stated maximum investment percentage up to 100% if the investment type is at least 110% collateralized by government agencies or issues. If such changes are made, the Investment Officer and County Treasurer must notify the Investment Advisory Committee.

IV.4 Yield

The yield objective of the County is to earn the maximum rate of return allowed on its investments within the policies imposed by safety and liquidity objectives, the investment strategies for each group of funds and state and federal law governing investment of public funds.

IV.5 Maturity

The maximum allowable stated maturity of any individual investment owned by the county is thirty-six (36) months. Portfolio maturities will be structured to meet the obligations of the County first and then to achieve the highest rate of return of interest.

When the County has funds not required to meet current-year obligations, maturity restraints will be imposed based upon the investment strategy for the group of funds.

IV.6 Quality and Capability of Investment Management

It is the County's policy to provide training as required by the PFIA and other periodic training in investments for the County Investment Officer, County Treasurer and any county employee delegated the authority to place orders for investments. Adequate training will be provided to perform all acts required to acquire, pay for, hold, sell, exchange, tender or collect or account for investments. Training will be provided as required by law for members of Commissioners' Court and other County employees and officers engaged in investment activities or oversight. Such training will be by courses and seminars offered by professional organizations and associations in order to ensure the quality, capability and currency of county investment decisions. The County Investment Officer, County Treasurer (if not the appointed Investment Officer), and any county employee delegated investment authority by the County Investment Officer will be required to obtain County Investment Officer certification through a course offered by the Texas Association of Counties and attend at least twenty (20) hours of investment training each year.

IV.7 Disclosure of Relationships

If the person designated by Commissioners Court as Investment Officer has a personal business relationship as defined by the Public Funds investment Act with any business organization offering to engage in an investment transaction with the County, or if the Investment Officer is related within the second degree by affinity or consanguinity to an individual offering to engage in an investment transaction with the County, the Investment Officer shall file a statement as required by the Public Funds Investment Act with the Texas Ethics Commission, and will annually file the same statement with each member of the Commissioners Court.

If the Investment Officer holds a position as Director or Advisor to any Local Government Investment Pool with which the County is authorized to do business or in which the County may invest, the relationship will be disclosed annually in writing to the members of the Commissioners Court.

IV.8 Method of Monitoring

It will be the policy of the County to purchase investments using a quotation method of purchasing. Except for approved local government investment pools or money market mutual funds, no investments will be purchased for the County without first obtaining quotations from at least three business organizations that have been approved by commissioner's court as broker/dealers. Money for the short term needs of the County may be held in accounts of the depository bank, local government investment pools, or money market mutual funds that qualify under the PFIA and are approved by the Commissioners Court.

V. INVESTMENT STRATEGY

The County will invest according to investment strategies for each fund as they are adopted by Commissioners Court resolution and in the following order of priority. Section 2256.005(6) (2-3), Gov. Code.

A. Safety of Principal

The primary objective of all investment activity is the preservation of capital and the safety of principal in the overall portfolio. Each investment transaction shall first seek to ensure that capital losses are avoided, whether they are from security defaults or erosion of market value.

B. Maintenance of Adequate Liquidity

The investment portfolio will remain sufficiently liquid to meet the cash flow requirements that might be reasonably anticipated. Liquidity shall be achieved by matching investment maturity with forecasted cash flow requirements; investing in securities with active secondary markets; and maintaining appropriate portfolio diversification.

C. Yield

It will be the County's objective to earn the maximum rate of return of its investments within the policies imposed by safety and liquidity objectives, investment strategies for each group of funds and state and federal law governing investments of public funds.

The investment strategy of each of the County's fund types is detailed in a separate document approved by Commissioners Court attached to this Investment policy.

VI. INVESTMENT RESPONSIBILITY AND CONTROL

VI.1 Investment Advisory Committee

The Investment Advisory Committee reviews investment policies and procedures, investment strategies, and investment performances. Members of the Committee include: one member appointed by the County Judge and one member appointed by each Commissioner, the County Attorney or appointee, one member appointed by the County Treasurer, and a member appointed by the Investment Officer of the County. In no case will any person named above appoint more than one member to the Investment Advisory Committee. The members will be expected to report their opinions and the results of meetings to the appointing official in order to keep them informed. Recommendations of the Committee are advisory. The County Investment Officer, County Treasurer, County Auditor and County Budget Officer will serve as ex-officio members of the committee. Members should have demonstrated knowledge and expertise in the area of finance, investments, or cash management. The Chair of the Committee will be elected from the regular, non ex-officio, members. Meetings will be quarterly, or more frequently if needed.

VI.2 Liability of Investment Officer and Investment Advisory Committee

The County Investment Officer and the Investment Advisory Committee are not responsible for any loss of county funds through the failure or negligence of the depository. This policy does not release the investment officer or any other person for a loss resulting from any act of official misconduct, or negligence, or for any misappropriation of such funds.

VI.3 Audit

The County Commissioners' Court will review the policy annually and, the County Auditor will insure an annual compliance audit of management controls on investments and adherence to established investment policies. The independent auditor will report the results of the audit to the County Commissioners' Court after completion of the audit.

VI.4 Standard of Care

Investments shall be made with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived. Investment of funds shall be governed by the following investment objectives, in order of priority: preservation and safety of principal; liquidity; and yield.

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

1. the investment of all funds, or funds under the county's control, over which the officer had responsibility rather than a consideration as to the prudence of a single investment; and
2. whether the investment decision was consistent with the written investment policy of the County.

VI.5 Investment Institution Defined

The County Investment Officer shall invest County funds with any or all of the institutions or groups consistent with federal and state regulations and approved by the commissioners' court.

VI.6 Qualifications for Approval of Broker/Dealer

A written copy of this investment policy shall be presented by the County Investment Officer to any person offering to engage in an investment transaction with the County. The qualified representative of the business organization seeking to sell an authorized investment shall execute a written instrument, provided by the County, that the business organization has:

1. received and thoroughly reviewed the investment policy of the county; and
2. acknowledged that the organization has implemented reasonable procedures and controls in an effort to preclude imprudent investment

- activities arising out of investment transactions conducted between the county and the organization; and
3. has adequate capital or insurance coverage to cover any investment if there is a default on any purchases and the business organization is found liable.

The investment officer may not buy any securities from a person who has not delivered to the county the said instrument signed by the qualified representative.

Along with the signed affidavit the business organization shall supply the County with the following:

1. Completed Broker/Dealer questionnaire.
2. Completed Anti-Collusion Agreement.
3. Executed PSA Master Repurchase Agreement. (primary dealers only)
4. Financial Statements. (required annually)
5. Delivery instructions.
6. NASD Certification Proof.
7. Texas State Securities Commission Registration Proof.
8. Original Proof of Insurance (if applicable).

VI.6.1 Method of soliciting and selecting County Funds Investment Broker/Dealer

The County Purchasing Agent, Acting on the behalf of the Fort Bend County Commissioners Court shall administer the solicitation and selection process for obtaining qualified Investment Broker/Dealers as follows:

1. County Commissioners Court, by order, grants an exemption to the formal competitive bid process as authorized by Section 262.024(a)(4) Texas Local Government Code for the purchase of a professional service – County Funds Investment Broker/Dealer.
2. County Commissioners Court authorizes the County Purchasing Agent to solicit Statements of Qualifications from Professional Investment Broker/Dealers.
3. County Purchasing Agent, working in conjunction with the County Investment Officer, will develop the Statement of Qualification package which shall be approved by the Commissioners Court.
4. County Purchasing Agent advertises, as required by the County Purchasing Act, the County's intent to obtain qualified Broker/Dealers for the purpose of Investing County Funds. All Statements of Qualification's will be submitted to the County Purchasing Agent and opened on the date, time and location cited in the published advertisement.
5. All Statements of Qualifications received within the published timeframe will be opened and the name of the firm read aloud.
6. County Purchasing Agent will facilitate the review of each Statement of Qualification package received with a review committee consisting of the County Investment Officer and any other person(s) appointed by Commissioners Court.

7. At the conclusion of the review process, the County Purchasing Agent will provide the Commissioners Court a list of qualified Professional Investment Broker/Dealers for consideration.
8. The commissioners Court must approve the list prior to the Investment Officer purchasing any security from a vendor on the list. Until the new list is approved, the prior year's list shall be use.

VI.7 Standards of Operation

The County Investment Officer shall develop and maintain written administrative procedures for the operation of the investment program set by the commissioners' court of the County. The County Investment Officer shall determine the amount of cash available for payments by the County, and invest the funds not required for payments using good judgment and discretion to put into effect the policies herein set forth. The County Investment Officer shall be authorized to delegate to an employee the authority to place orders for such investments and to perform all acts required to acquire, pay for, hold, sell, exchange, tender or collect investments.

VI.8 Delivery vs. Payment

It will be the policy of the County that all investment securities shall be purchased using "Delivery vs. Payment" (DVP) method through the Federal Reserve System. By doing so, the County funds are not released until the County has received, through the Federal Reserve wire, the securities purchased.

VII. INVESTMENT REPORTING AND PERFORMANCE EVALUATION

VII.1 Quarterly Report

The County Investment Officer shall see to the preparation of monthly investment reports in the format described below. At least quarterly, the County Investment Officer shall prepare and submit to the County Investment Advisory Committee and the County Commissioners' Court a written report of investment transactions for all funds for the three month reporting period. This report shall be prepared within a reasonable time after the end of the period. The report must:

1. describe in detail the investment position of the county on the date of the report;
2. be signed by the investment officer of the county;
3. contain a summary statement of each pooled fund group that states the;
 - A. beginning market value for the reporting period;
 - B. additions and changes to the market value during the period; and
 - C. ending market value for the period;
4. state the book value and market value of each separately invested asset at the beginning and the end of the reporting period by the type of asset and fund type invested;

5. state the maturity date of each separately invested asset that has a maturity date;
6. state the account or fund or pooled group fund in the County for which each individual investment was acquired;
7. provide detail of the investments/securities held by the investment pool, as provided by the pool;
8. list the purchase date and original principal of each County or entity investment
9. list all securities purchases, sales and calls including dates of each;
10. identify issuers of Commercial Paper, only A-1 or P-1;
11. record and report accrued interest/dividends/discounts earned on a monthly basis;
12. state the Book Value and Market Value of CMO's; and
13. state the compliance of the investment portfolio of the County as it relates to:
 - A. the investment strategy expressed in the County's investment policy; and
 - B. relevant provisions of the chapter.

VII.2 Notification of Investment Changes

It shall be the duty of the County Investment Officer of the County to notify the County Commissioners' Court of any significant changes in current investment methods and procedures prior to their implementation, regardless of whether they are authorized by this policy or not.

VIII. INVESTMENT COLLATERAL AND SAFEKEEPING

VIII.1 Collateral or Insurance

The County Investment Officer shall ensure that all invested County funds are fully collateralized or insured consistent with federal and state regulations and the current Bank Depository Contract per Section 2256 and Section 2257 of the Texas Government Code.

For example:

1. FDIC insurance coverage; and
2. United States Agency obligations, or
3. United States Treasury obligations.
4. Letters of Credit

VIII.2 Safekeeping

All purchased securities shall be held in safekeeping by the County, or a County account in a third party financial institution, or with the Federal Reserve Bank or with the Federal Home Loan Bank.

All FDIC Insured certificates of deposit, purchased outside the County Depository Bank, shall be held in safekeeping by the County.

All pledged securities by the County Depository Bank shall be held in safekeeping with the Federal Reserve Bank or the Federal Home Loan Bank.

IX. INVESTMENT TYPES

IX.1 Authorized

The County Investment Officer shall use any or all of the following authorized investment instruments consistent with Title X, Chapter 2256.009, Texas Government Code:

1. Obligations of the United States or its agencies and instrumentalities;
2. Direct obligations of this state or its agencies and instrumentalities;
3. No-load money market mutual funds that;
 - A. are registered and regulated by the SEC;
 - B. have a dollar-weighted average stated maturity of 90 days or less;
 - C. includes in its investment objectives the maintenance of a stable \$1.00 net asset value per each share; and
 - D. has supplied the County with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940.
4. Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, this state or the United States or their respective agencies or instrumentalities; and
5. Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment firm not less than A or its equivalent.
6. Certificates of deposit if issued by a state or national bank domiciled in this state and is;
 - A. guaranteed or insured by the Federal Deposit Insurance Corporation or its successor;
 - B. secured in any other manner and amount provided by law for deposits of the County.
7. Fully collateralized repurchase agreement, if it:
 - A. has a defined termination date;
 - B. is secured by obligations described by Section 2256.009(a)(1) of the Public Funds Investment Act; and
 - C. requires the securities being purchased by the county to be pledged to the county, held in the county's name, and deposited at the time the investment is made with the county or with a third party selected and approved by the county; and
 - D. is placed through a primary government securities dealer, approved by the county, or a financial institution doing business in this state.
8. Commercial paper is an authorized investment, if the commercial paper:
 - A. has a stated maturity of 270 days or fewer from the date of its issuance; and
 - B. is rated not less than A-1 or P-1 or an equivalent rating by at least:
 1. two nationally recognized credit rating agencies;

2. one nationally recognized credit rating agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state.
9. Eligible investment pools if the County Commissioners' Court by resolution authorizes investment in the particular pool. An investment pool shall invest the funds it receives from entities in authorized investments permitted by the Public Funds Investment Act. The County by contract may delegate to an investment pool the authority to hold legal title as custodian of investments purchased with its local funds
 - A. To maintain eligibility to receive funds from and invest funds on behalf of the County, an investment fund must be continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service.
10. Obligations acquired by the county prior to the establishment of the Public Funds Investment Act in 1995 shall be managed until they mature, and thereafter, all must comply with the policy and the Act.

IX.2 Unauthorized

The County is not authorized to invest in any investments unauthorized by the Public Funds Investment Act as detailed in Texas Government Code sec. 2256.009(b)

X. NON – COUNTY FUNDS

The Tax Assessor/Collector, County Clerk, and District Clerk funds fall into this category. These funds are not considered funds that belong to the County but could be considered a liability for the County. All funds in the custody of the Tax Assessor/Collector shall be invested in compliance with Title X, Chapter 2256, Texas Government Code. County Clerk and District Clerk registry funds will be invested in accordance with Section 117.053(c) of the Local Government Code.

X.1 Tax Assessor/Collector.

County funds received by the Tax Collector are invested to enhance investment return for the County before the County receives the funds in accordance with Texas Local Government Code §113.022. State funds in the custody of the Tax Assessor/Collector may be invested before remitting to the State.

X.2 County Clerk Registry Funds

County Clerk Registry funds are received by court order from the Commissioners' Court, County Court at Law, or County Courts. Registry funds may also be received without court order. These funds must be deposited in the County depository and then invested according to the PFIA and any court order. A court order is required from the County Courts and County Courts at Law prior to disbursement of the funds.

X.3 District Clerk Registry Funds

District Clerk Registry Funds are received by court order from the District Courts. These funds must be deposited in the County depository and then invested according to PFIA and any court orders. A court order is required from the District Courts prior to the disbursement of the funds.

PUBLIC FUNDS INVESTMENT ACT

GOVERNMENT CODE

TITLE 10. GENERAL GOVERNMENT

SUBTITLE F. STATE AND LOCAL CONTRACTS AND FUND MANAGEMENT

CHAPTER 2256. PUBLIC FUNDS INVESTMENT

GOVERNMENT CODE

TITLE 10. GENERAL GOVERNMENT

SUBTITLE F. STATE AND LOCAL CONTRACTS AND FUND MANAGEMENT

CHAPTER 2256. PUBLIC FUNDS INVESTMENT

SUBCHAPTER A. AUTHORIZED INVESTMENTS FOR GOVERNMENTAL
ENTITIES

Sec. 2256.001. SHORT TITLE. This chapter may be cited as the Public Funds Investment Act.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.002. DEFINITIONS. In this chapter:

(1) "Bond proceeds" means the proceeds from the sale of bonds, notes, and other obligations issued by an entity, and reserves and funds maintained by an entity for debt service purposes.

(2) "Book value" means the original acquisition cost of an investment plus or minus the accrued amortization or accretion.

(3) "Funds" means public funds in the custody of a state agency or local government that:

(A) are not required by law to be deposited in the state treasury; and

(B) the investing entity has authority to invest.

(4) "Institution of higher education" has the meaning assigned by Section 61.003, Education Code.

(5) "Investing entity" and "entity" mean an entity subject to this chapter and described by Section 2256.003.

(6) "Investment pool" means an entity created under this code to invest public funds jointly on behalf of the entities that participate in the pool and whose investment objectives in order of priority are:

- (A) preservation and safety of principal;
- (B) liquidity; and
- (C) yield.

(7) "Local government" means a municipality, a county, a school district, a district or authority created under Section 52(b)(1) or (2), Article III, or Section 59, Article XVI, Texas Constitution, a fresh water supply district, a hospital district, and any political subdivision, authority, public corporation, body politic, or instrumentality of the State of Texas, and any nonprofit corporation acting on behalf of any of those entities.

(8) "Market value" means the current face or par value of an investment multiplied by the net selling price of the security as quoted by a recognized market pricing source quoted on the valuation date.

(9) "Pooled fund group" means an internally created fund of an investing entity in which one or more institutional accounts of the investing entity are invested.

(10) "Qualified representative" means a person who holds a position with a business organization, who is authorized to act on behalf of the business organization, and who is one of the following:

(A) for a business organization doing business that is regulated by or registered with a securities commission, a person who is registered under the rules of the National Association of Securities Dealers;

(B) for a state or federal bank, a savings bank, or a state or federal credit union, a member of the

loan committee for the bank or branch of the bank or a person authorized by corporate resolution to act on behalf of and bind the banking institution;

(C) for an investment pool, the person authorized by the elected official or board with authority to administer the activities of the investment pool to sign the written instrument on behalf of the investment pool; or

(D) for an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or, if not subject to registration under that Act, registered with the State Securities Board, a person who is an officer or principal of the investment management firm.

(11) "School district" means a public school district.

(12) "Separately invested asset" means an account or fund of a state agency or local government that is not invested in a pooled fund group.

(13) "State agency" means an office, department, commission, board, or other agency that is part of any branch of state government, an institution of higher education, and any nonprofit corporation acting on behalf of any of those entities.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1421, Sec. 1, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 1454, Sec. 1, eff. Sept. 1, 1999.

Sec. 2256.003. AUTHORITY TO INVEST FUNDS; ENTITIES SUBJECT TO THIS CHAPTER. (a) Each governing body of the following entities may purchase, sell, and invest its funds and funds under its control in investments authorized under this subchapter in compliance with investment policies

approved by the governing body and according to the standard of care prescribed by Section 2256.006:

- (1) a local government;
- (2) a state agency;
- (3) a nonprofit corporation acting on behalf of a local government or a state agency; or
- (4) an investment pool acting on behalf of two or more local governments, state agencies, or a combination of those entities.

(b) In the exercise of its powers under Subsection (a), the governing body of an investing entity may contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control. A contract made under authority of this subsection may not be for a term longer than two years. A renewal or extension of the contract must be made by the governing body of the investing entity by order, ordinance, or resolution.

(c) This chapter does not prohibit an investing entity or investment officer from using the entity's employees or the services of a contractor of the entity to aid the investment officer in the execution of the officer's duties under this chapter.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1999, 76th Leg., ch. 1454, Sec. 2, eff. Sept. 1, 1999.

Sec. 2256.004. APPLICABILITY. (a) This subchapter does not apply to:

- (1) a public retirement system as defined by Section 802.001;

(2) state funds invested as authorized by Section 404.024;

(3) an institution of higher education having total endowments of at least \$95 million in book value on May 1, 1995;

(4) funds invested by the Veterans' Land Board as authorized by Chapter 161, 162, or 164, Natural Resources Code;

(5) registry funds deposited with the county or district clerk under Chapter 117, Local Government Code; or

(6) a deferred compensation plan that qualifies under either Section 401(k) or 457 of the Internal Revenue Code of 1986 (26 U.S.C. Section 1 et seq.), as amended.

(b) This subchapter does not apply to an investment donated to an investing entity for a particular purpose or under terms of use specified by the donor.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 505, Sec. 24, eff. Sept. 1, 1997; Acts 1997, 75th Leg., ch. 1421, Sec. 2, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 62, Sec. 8.21, eff. Sept. 1, 1999; Acts 1999, 76th Leg., ch. 1454, Sec. 3, eff. Sept. 1, 1999.

Sec. 2256.005. INVESTMENT POLICIES; INVESTMENT STRATEGIES; INVESTMENT OFFICER. (a) The governing body of an investing entity shall adopt by rule, order, ordinance, or resolution, as appropriate, a written investment policy regarding the investment of its funds and funds under its control.

(b) The investment policies must:

(1) be written;

(2) primarily emphasize safety of principal and liquidity;

(3) address investment diversification, yield, and maturity and the quality and capability of investment management; and

(4) include:

(A) a list of the types of authorized investments in which the investing entity's funds may be invested;

(B) the maximum allowable stated maturity of any individual investment owned by the entity;

(C) for pooled fund groups, the maximum dollar-weighted average maturity allowed based on the stated maturity date for the portfolio;

(D) methods to monitor the market price of investments acquired with public funds; and

(E) a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis.

(c) The investment policies may provide that bids for certificates of deposit be solicited:

(1) orally;

(2) in writing;

(3) electronically; or

(4) in any combination of those methods.

(d) As an integral part of an investment policy, the governing body shall adopt a separate written investment strategy for each of the funds or group of funds under its control. Each investment strategy must describe the investment objectives for the particular fund using the following priorities in order of importance:

(1) understanding of the suitability of the investment to the financial requirements of the entity;

(2) preservation and safety of principal;

(3) liquidity;

(4) marketability of the investment if the need arises to liquidate the investment before maturity;

(5) diversification of the investment portfolio;
and

(6) yield.

(e) The governing body of an investing entity shall review its investment policy and investment strategies not less than annually. The governing body shall adopt a written instrument by rule, order, ordinance, or resolution stating that it has reviewed the investment policy and investment strategies and that the written instrument so adopted shall record any changes made to either the investment policy or investment strategies.

(f) Each investing entity shall designate, by rule, order, ordinance, or resolution, as appropriate, one or more officers or employees of the state agency, local government, or investment pool as investment officer to be responsible for the investment of its funds consistent with the investment policy adopted by the entity. If the governing body of an investing entity has contracted with another investing entity to invest its funds, the investment officer of the other investing entity is considered to be the investment officer of the first investing entity for purposes of this chapter. Authority granted to a person to invest an entity's funds is effective until rescinded by the investing entity, until the expiration of the officer's term or the termination of the person's employment by the investing entity, or if an investment management firm, until the expiration of the contract with the investing entity. In the administration of the duties of an investment officer, the person designated as investment officer shall exercise the judgment and care, under prevailing circumstances, that a prudent person would exercise in the management of the person's own affairs, but the governing body of the investing entity retains ultimate responsibility as fiduciaries of the assets of the entity. Unless authorized by law, a person may not deposit, withdraw, transfer, or

manage in any other manner the funds of the investing entity.

(g) Subsection (f) does not apply to a state agency, local government, or investment pool for which an officer of the entity is assigned by law the function of investing its funds.

Text of subsec. (h) as amended by Acts 1997, 75th Leg., ch. 685, Sec. 1

(h) An officer or employee of a commission created under Chapter 391, Local Government Code, is ineligible to be an investment officer for the commission under Subsection (f) if the officer or employee is an investment officer designated under Subsection (f) for another local government.

Text of subsec. (h) as amended by Acts 1997, 75th Leg., ch. 1421, Sec. 3

(h) An officer or employee of a commission created under Chapter 391, Local Government Code, is ineligible to be designated as an investment officer under Subsection (f) for any investing entity other than for that commission.

(i) An investment officer of an entity who has a personal business relationship with a business organization offering to engage in an investment transaction with the entity shall file a statement disclosing that personal business interest. An investment officer 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 investment officer's entity shall file a statement disclosing that relationship. A statement required under this subsection must be filed with the Texas Ethics Commission and the governing body of the entity. For purposes of this subsection, an investment officer has a personal business relationship with a business organization if:

(1) the investment officer owns 10 percent or more of the voting stock or shares of the business organization or owns \$5,000 or more of the fair market value of the business organization;

(2) funds received by the investment officer from the business organization exceed 10 percent of the investment officer's gross income for the previous year; or

(3) the investment officer has acquired from the business organization during the previous year investments with a book value of \$2,500 or more for the personal account of the investment officer.

(j) The governing body of an investing entity may specify in its investment policy that any investment authorized by this chapter is not suitable.

(k) A written copy of the investment policy shall be presented to any person offering to engage in an investment transaction with an investing entity or to an investment management firm under contract with an investing entity to invest or manage the entity's investment portfolio. For purposes of this subsection, a business organization includes investment pools and an investment management firm under contract with an investing entity to invest or manage the entity's investment portfolio. Nothing in this subsection relieves the investing entity of the responsibility for monitoring the investments made by the investing entity to determine that they are in compliance with the investment policy. The qualified representative of the business organization offering to engage in an

investment transaction with an investing entity shall execute a written instrument in a form acceptable to the investing entity and the business organization substantially to the effect that the business organization has:

(1) received and reviewed the investment policy of the entity; and

(2) acknowledged that the business organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the entity and the organization that are not authorized by the entity's investment policy, except to the extent that this authorization is dependent on an analysis of the makeup of the entity's entire portfolio or requires an interpretation of subjective investment standards.

(l) The investment officer of an entity may not acquire or otherwise obtain any authorized investment described in the investment policy of the investing entity from a person who has not delivered to the entity the instrument required by Subsection (k).

(m) An investing entity other than a state agency, in conjunction with its annual financial audit, shall perform a compliance audit of management controls on investments and adherence to the entity's established investment policies.

(n) Except as provided by Subsection (o), at least once every two years a state agency shall arrange for a compliance audit of management controls on investments and adherence to the agency's established investment policies. The compliance audit shall be performed by the agency's internal auditor or by a private auditor employed in the manner provided by Section 321.020. Not later than January 1 of each even-numbered year a state agency shall report the results of the most recent audit performed under this subsection to the state auditor. Subject to a risk assessment and to the legislative audit committee's

approval of including a review by the state auditor in the audit plan under Section 321.013, the state auditor may review information provided under this section. If review by the state auditor is approved by the legislative audit committee, the state auditor may, based on its review, require a state agency to also report to the state auditor other information the state auditor determines necessary to assess compliance with laws and policies applicable to state agency investments. A report under this subsection shall be prepared in a manner the state auditor prescribes.

(o) The audit requirements of Subsection (n) do not apply to assets of a state agency that are invested by the comptroller under Section 404.024.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 685, Sec. 1, eff. Sept. 1, 1997; Acts 1997, 75th Leg., ch. 1421, Sec. 3, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 1454, Sec. 4, eff. Sept. 1, 1999; Acts 2003, 78th Leg., ch. 785, Sec. 41, eff. Sept. 1, 2003.

Sec. 2256.006. STANDARD OF CARE. (a) Investments shall be made with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived. Investment of funds shall be governed by the following investment objectives, in order of priority:

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

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

(1) the investment of all funds, or funds under the entity's control, over which the officer had responsibility rather than a consideration as to the prudence of a single investment; and

(2) whether the investment decision was consistent with the written investment policy of the entity.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.007. INVESTMENT TRAINING; STATE AGENCY BOARD MEMBERS AND OFFICERS. (a) Each member of the governing board of a state agency and its investment officer shall attend at least one training session relating to the person's responsibilities under this chapter within six months after taking office or assuming duties.

(b) The Texas Higher Education Coordinating Board shall provide the training under this section.

(c) Training under this section must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with this chapter.

(d) An investment officer shall attend a training session not less than once in a two-year period and may receive training from any independent source approved by the governing body of the state agency. The investment officer shall prepare a report on this subchapter and deliver the report to the governing body of the state agency not later than the 180th day after the last day of each regular session of the legislature.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 73, Sec. 1, eff. May 9, 1997; Acts 1997, 75th Leg., ch. 1421, Sec. 4, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 1454, Sec. 5, eff. Sept. 1, 1999.

Sec. 2256.008. INVESTMENT TRAINING; LOCAL GOVERNMENTS. (a) Except as provided by Subsections (b) and (e), the treasurer, the chief financial officer if the treasurer is not the chief financial officer, and the investment officer of a local government shall:

(1) attend at least one training session from an independent source approved by the governing body of the local government or a designated investment committee advising the investment officer as provided for in the investment policy of the local government and containing at least 10 hours of instruction relating to the treasurer's or officer's responsibilities under this subchapter within 12 months after taking office or assuming duties; and

(2) except as provided by Subsections (b) and (e), 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 this subchapter from an independent source approved by the governing body of the local government or a designated investment committee advising the investment officer as provided for in the investment policy of the local government.

(b) An investing entity created under authority of Section 52(b), Article III, or Section 59, Article XVI, Texas Constitution, that has contracted with an investment management firm under Section 2256.003(b) and has fewer than five full-time employees or an investing entity that has contracted with another investing entity to invest the entity's funds may satisfy the training requirement

provided by Subsection (a)(2) by having an officer of the governing body attend four hours of appropriate instruction in a two-year period. The treasurer or chief financial officer of an investing entity created under authority of Section 52(b), Article III, or Section 59, Article XVI, Texas Constitution, and that has fewer than five full-time employees is not required to attend training required by this section unless the person is also the investment officer of the entity.

(c) Training under this section must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with this chapter.

(d) Not later than December 31 each year, each individual, association, business, organization, governmental entity, or other person that provides training under this section shall report to the comptroller a list of the governmental entities for which the person provided required training under this section during that calendar year. An individual's reporting requirements under this subsection are satisfied by a report of the individual's employer or the sponsoring or organizing entity of a training program or seminar.

(e) This section does not apply to a district governed by Chapter 36 or 49, Water Code.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1421, Sec. 5, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 1454, Sec. 6, eff. Sept. 1, 1999; Acts 2001, 77th Leg., ch. 69, Sec. 4, eff. May 14, 2001.

Sec. 2256.009. AUTHORIZED INVESTMENTS: OBLIGATIONS OF, OR GUARANTEED BY GOVERNMENTAL ENTITIES. (a) Except as

provided by Subsection (b), the following are authorized investments under this subchapter:

(1) obligations, including letters of credit, of the United States or its agencies and instrumentalities;

(2) direct obligations of this state or its agencies and instrumentalities;

(3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States;

(4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, this state or the United States or their respective agencies and instrumentalities;

(5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; and

(6) bonds issued, assumed, or guaranteed by the State of Israel.

(b) The following are not authorized investments under this section:

(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 10 years; and

(4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1999, 76th Leg., ch. 1454, Sec. 7, eff. Sept. 1, 1999; Acts 2001, 77th Leg., ch. 558, Sec. 1, eff. Sept. 1, 2001.

Sec. 2256.010. AUTHORIZED INVESTMENTS: CERTIFICATES OF DEPOSIT AND SHARE CERTIFICATES. (a) A certificate of deposit or share certificate is an authorized investment under this subchapter if the certificate is issued by a depository institution that has its main office or a branch office in this state and is:

(1) guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor;

(2) secured by obligations that are described by Section 2256.009(a), including mortgage backed securities directly issued by a federal agency or instrumentality that have a market value of not less than the principal amount of the certificates, but excluding those mortgage backed securities of the nature described by Section 2256.009(b); or

(3) secured in any other manner and amount provided by law for deposits of the investing entity.

(b) In addition to the authority to invest funds in certificates of deposit under Subsection (a), an investment in certificates of deposit made in accordance with the following conditions is an authorized investment under this subchapter:

(1) the funds are invested by an investing entity through a depository institution that has its main

office or a branch office in this state and that is selected by the investing entity;

(2) the depository institution selected by the investing entity under Subdivision (1) arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the investing entity;

(3) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States;

(4) the depository institution selected by the investing entity under Subdivision (1) acts as custodian for the investing entity with respect to the certificates of deposit issued for the account of the investing entity; and

(5) at the same time that the funds are deposited and the certificates of deposit are issued for the account of the investing entity, the depository institution selected by the investing entity under Subdivision (1) receives an amount of deposits from customers of other federally insured depository institutions, wherever located, that is equal to or greater than the amount of the funds invested by the investing entity through the depository institution selected under Subdivision (1).

Amended by Acts 1995, 74th Leg., ch. 32, Sec. 1, eff. April 28, 1995; Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1421, Sec. 6, eff. Sept. 1, 1997.

Amended by:

Acts 2005, 79th Leg., Ch. [128](#), Sec. 1, eff. September 1, 2005.

Sec. 2256.011. AUTHORIZED INVESTMENTS: REPURCHASE AGREEMENTS. (a) A fully collateralized repurchase agreement is an authorized investment under this subchapter if the repurchase agreement:

- (1) has a defined termination date;
- (2) is secured by obligations described by Section 2256.009(a)(1); and
- (3) requires the securities being purchased by the entity to be pledged to the entity, held in the entity's name, and deposited at the time the investment is made with the entity or with a third party selected and approved by the entity; and
- (4) is placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in this state.

(b) In this section, "repurchase agreement" means a simultaneous agreement to buy, hold for a specified time, and sell back at a future date obligations described by Section 2256.009(a)(1), at a market value at the time the funds are disbursed of not less than the principal amount of the funds disbursed. The term includes a direct security repurchase agreement and a reverse security repurchase agreement.

(c) Notwithstanding any other law, the term of any reverse security repurchase agreement may not exceed 90 days after the date the reverse security repurchase agreement is delivered.

(d) Money received by an entity under the terms of a reverse security repurchase agreement shall be used to acquire additional authorized investments, but the term of the authorized investments acquired must mature not later than the expiration date stated in the reverse security repurchase agreement.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.0115. AUTHORIZED INVESTMENTS: SECURITIES LENDING PROGRAM. (a) A securities lending program is an authorized investment under this subchapter if it meets the conditions provided by this section.

(b) To qualify as an authorized investment under this subchapter:

(1) the value of securities loaned under the program must be not less than 100 percent collateralized, including accrued income;

(2) a loan made under the program must allow for termination at any time;

(3) a loan made under the program must be secured by:

(A) pledged securities described by Section 2256.009;

(B) pledged irrevocable letters of credit issued by a bank that is:

(i) organized and existing under the laws of the United States or any other state; and

(ii) continuously rated by at least one nationally recognized investment rating firm at not less than A or its equivalent; or

(C) cash invested in accordance with Section:

(i) 2256.009;

(ii) 2256.013;

(iii) 2256.014; or

(iv) 2256.016;

(4) the terms of a loan made under the program must require that the securities being held as collateral be:

(A) pledged to the investing entity;

(B) held in the investing entity's name;

and

(C) deposited at the time the investment is made with the entity or with a third party selected by or approved by the investing entity;

(5) a loan made under the program must be placed through:

(A) a primary government securities dealer, as defined by 5 C.F.R. Section 6801.102(f), as that regulation existed on September 1, 2003; or

(B) a financial institution doing business in this state; and

(6) an agreement to lend securities that is executed under this section must have a term of one year or less.

Added by Acts 2003, 78th Leg., ch. 1227, Sec. 1, eff. Sept. 1, 2003.

Sec. 2256.012. AUTHORIZED INVESTMENTS: BANKER'S ACCEPTANCES. A bankers' acceptance is an authorized investment under this subchapter if the bankers' acceptance:

(1) has a stated maturity of 270 days or fewer from the date of its issuance;

(2) will be, in accordance with its terms, liquidated in full at maturity;

(3) is eligible for collateral for borrowing from a Federal Reserve Bank; and

(4) is accepted by a bank organized and existing under the laws of the United States or any state, if the short-term obligations of the bank, or of a bank holding company of which the bank is the largest subsidiary, are rated not less than A-1 or P-1 or an equivalent rating by at least one nationally recognized credit rating agency.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff.
Sept. 1, 1995.

Sec. 2256.013. AUTHORIZED INVESTMENTS: COMMERCIAL PAPER. Commercial paper is an authorized investment under this subchapter if the commercial paper:

(1) has a stated maturity of 270 days or fewer from the date of its issuance; and

(2) is rated not less than A-1 or P-1 or an equivalent rating by at least:

(A) two nationally recognized credit rating agencies; or

(B) one nationally recognized credit rating agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff.
Sept. 1, 1995.

Sec. 2256.014. AUTHORIZED INVESTMENTS: MUTUAL FUNDS. (a) A no-load money market mutual fund is an authorized investment under this subchapter if the mutual fund:

(1) is registered with and regulated by the Securities and Exchange Commission;

(2) provides the investing entity with a prospectus and other information required by the Securities Exchange Act of 1934 (15 U.S.C. Section 78a et seq.) or the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.);

(3) has a dollar-weighted average stated maturity of 90 days or fewer; and

(4) includes in its investment objectives the maintenance of a stable net asset value of \$1 for each share.

(b) In addition to a no-load money market mutual fund permitted as an authorized investment in Subsection (a), a no-load mutual fund is an authorized investment under this subchapter if the mutual fund:

(1) is registered with the Securities and Exchange Commission;

(2) has an average weighted maturity of less than two years;

(3) is invested exclusively in obligations approved by this subchapter;

(4) is continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent; and

(5) conforms to the requirements set forth in Sections 2256.016(b) and (c) relating to the eligibility of investment pools to receive and invest funds of investing entities.

(c) An entity is not authorized by this section to:

(1) invest in the aggregate more than 15 percent of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, in mutual funds described in Subsection (b);

(2) invest any portion of bond proceeds, reserves and funds held for debt service, in mutual funds described in Subsection (b); or

(3) invest its funds or funds under its control, including bond proceeds and reserves and other funds held for debt service, in any one mutual fund described in Subsection (a) or (b) in an amount that exceeds 10 percent of the total assets of the mutual fund.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1421, Sec. 7, eff.

Sept. 1, 1997; Acts 1999, 76th Leg., ch. 1454, Sec. 8, eff. Sept. 1, 1999.

Sec. 2256.015. AUTHORIZED INVESTMENTS: GUARANTEED INVESTMENT CONTRACTS. (a) A guaranteed investment contract is an authorized investment for bond proceeds under this subchapter if the guaranteed investment contract:

- (1) has a defined termination date;
- (2) is secured by obligations described by Section 2256.009(a)(1), excluding those obligations described by Section 2256.009(b), in an amount at least equal to the amount of bond proceeds invested under the contract; and

- (3) is pledged to the entity and deposited with the entity or with a third party selected and approved by the entity.

(b) Bond proceeds, other than bond proceeds representing reserves and funds maintained for debt service purposes, may not be invested under this subchapter in a guaranteed investment contract with a term of longer than five years from the date of issuance of the bonds.

(c) To be eligible as an authorized investment:

- (1) the governing body of the entity must specifically authorize guaranteed investment contracts as an eligible investment in the order, ordinance, or resolution authorizing the issuance of bonds;

- (2) the entity must receive bids from at least three separate providers with no material financial interest in the bonds from which proceeds were received;

- (3) the entity must purchase the highest yielding guaranteed investment contract for which a qualifying bid is received;

(4) the price of the guaranteed investment contract must take into account the reasonably expected drawdown schedule for the bond proceeds to be invested; and

(5) the provider must certify the administrative costs reasonably expected to be paid to third parties in connection with the guaranteed investment contract.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1421, Sec. 8, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 1454, Sec. 9, 10, eff. Sept. 1, 1999.

Sec. 2256.016. AUTHORIZED INVESTMENTS: INVESTMENT POOLS. (a) An entity may invest its funds and funds under its control through an eligible investment pool if the governing body of the entity by rule, order, ordinance, or resolution, as appropriate, authorizes investment in the particular pool. An investment pool shall invest the funds it receives from entities in authorized investments permitted by this subchapter.

(b) To be eligible to receive funds from and invest funds on behalf of an entity under this chapter, an investment pool must furnish to the investment officer or other authorized representative of the entity an offering circular or other similar disclosure instrument that contains, at a minimum, the following information:

(1) the types of investments in which money is allowed to be invested;

(2) the maximum average dollar-weighted maturity allowed, based on the stated maturity date, of the pool;

(3) the maximum stated maturity date any investment security within the portfolio has;

(4) the objectives of the pool;

(5) the size of the pool;

(6) the names of the members of the advisory board of the pool and the dates their terms expire;

(7) the custodian bank that will safekeep the pool's assets;

(8) whether the intent of the pool is to maintain a net asset value of one dollar and the risk of market price fluctuation;

(9) whether the only source of payment is the assets of the pool at market value or whether there is a secondary source of payment, such as insurance or guarantees, and a description of the secondary source of payment;

(10) the name and address of the independent auditor of the pool;

(11) the requirements to be satisfied for an entity to deposit funds in and withdraw funds from the pool and any deadlines or other operating policies required for the entity to invest funds in and withdraw funds from the pool; and

(12) the performance history of the pool, including yield, average dollar-weighted maturities, and expense ratios.

(c) To maintain eligibility to receive funds from and invest funds on behalf of an entity under this chapter, an investment pool must furnish to the investment officer or other authorized representative of the entity:

(1) investment transaction confirmations; and

(2) a monthly report that contains, at a minimum, the following information:

(A) the types and percentage breakdown of securities in which the pool is invested;

(B) the current average dollar-weighted maturity, based on the stated maturity date, of the pool;

(C) the current percentage of the pool's portfolio in investments that have stated maturities of more than one year;

(D) the book value versus the market value of the pool's portfolio, using amortized cost valuation;

(E) the size of the pool;

(F) the number of participants in the pool;

(G) the custodian bank that is safekeeping the assets of the pool;

(H) a listing of daily transaction activity of the entity participating in the pool;

(I) the yield and expense ratio of the pool;

(J) the portfolio managers of the pool; and

(K) any changes or addenda to the offering circular.

(d) An entity by contract may delegate to an investment pool the authority to hold legal title as custodian of investments purchased with its local funds.

(e) In this section, "yield" shall be calculated in accordance with regulations governing the registration of open-end management investment companies under the Investment Company Act of 1940, as promulgated from time to time by the federal Securities and Exchange Commission.

(f) To be eligible to receive funds from and invest funds on behalf of an entity under this chapter, a public funds investment pool created to function as a money market mutual fund must mark its portfolio to market daily, and, to the extent reasonably possible, stabilize at a \$1 net asset value. If the ratio of the market value of the portfolio divided by the book value of the portfolio is less than 0.995 or greater than 1.005, portfolio holdings shall be sold as necessary to maintain the ratio between 0.995 and 1.005.

(g) To be eligible to receive funds from and invest funds on behalf of an entity under this chapter, a public funds investment pool must have an advisory board composed:

(1) equally of participants in the pool and other persons who do not have a business relationship with

the pool and are qualified to advise the pool, for a public funds investment pool created under Chapter 791 and managed by a state agency; or

(2) of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool, for other investment pools.

(h) To maintain eligibility to receive funds from and invest funds on behalf of an entity under this chapter, an investment pool must be continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1421, Sec. 9, eff. Sept. 1, 1997.

Sec. 2256.017. EXISTING INVESTMENTS. An entity is not required to liquidate investments that were authorized investments at the time of purchase.

Added by Acts 1995, 74th Leg., ch. 76, Sec. 5.46(a), eff. Sept. 1, 1995; Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995. Amended by Acts 1997, 75th Leg., ch. 1421, Sec. 10, eff. Sept. 1, 1997.

Sec. 2256.019. RATING OF CERTAIN INVESTMENT POOLS. A public funds investment pool must be continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service or no lower than investment grade by at least one nationally recognized rating service with a weighted average maturity no greater than 90 days.

Added by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995. Amended by Acts 1997, 75th Leg., ch. 1421, Sec. 11, eff. Sept. 1, 1997.

Sec. 2256.020. AUTHORIZED INVESTMENTS: INSTITUTIONS OF HIGHER EDUCATION. In addition to the authorized investments permitted by this subchapter, an institution of higher education may purchase, sell, and invest its funds and funds under its control in the following:

- (1) cash management and fixed income funds sponsored by organizations exempt from federal income taxation under Section 501(f), Internal Revenue Code of 1986 (26 U.S.C. Section 501(f));
- (2) negotiable certificates of deposit issued by a bank that has a certificate of deposit rating of at least 1 or the equivalent by a nationally recognized credit rating agency or that is associated with a holding company having a commercial paper rating of at least A-1, P-1, or the equivalent by a nationally recognized credit rating agency; and
- (3) corporate bonds, debentures, or similar debt obligations rated by a nationally recognized investment rating firm in one of the two highest long-term rating categories, without regard to gradations within those categories.

Added by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.0201. AUTHORIZED INVESTMENTS; MUNICIPAL UTILITY. (a) A municipality that owns a municipal electric utility that is engaged in the distribution and sale of electric energy or natural gas to the public may enter into a hedging contract and related security and

insurance agreements in relation to fuel oil, natural gas, coal, nuclear fuel, and electric energy to protect against loss due to price fluctuations. A hedging transaction must comply with the regulations of the Commodity Futures Trading Commission and the Securities and Exchange Commission. If there is a conflict between the municipal charter of the municipality and this chapter, this chapter prevails.

(b) A payment by a municipally owned electric or gas utility under a hedging contract or related agreement in relation to fuel supplies or fuel reserves is a fuel expense, and the utility may credit any amounts it receives under the contract or agreement against fuel expenses.

(c) The governing body of a municipally owned electric or gas utility or the body vested with power to manage and operate the municipally owned electric or gas utility may set policy regarding hedging transactions.

(d) In this section, "hedging" means the buying and selling of fuel oil, natural gas, coal, nuclear fuel, and electric energy futures or options or similar contracts on those commodities and related transportation costs as a protection against loss due to price fluctuation.

Added by Acts 1999, 76th Leg., ch. 405, Sec. 48, eff. Sept. 1, 1999.

Amended by:

Acts 2007, 80th Leg., R.S., Ch. [7](#), Sec. 1, eff. April 13, 2007.

Sec. 2256.0205. AUTHORIZED INVESTMENTS;
DECOMMISSIONING TRUST. (a) In this section:

(1) "Decommissioning trust" means a trust created to provide the Nuclear Regulatory Commission assurance that funds will be available for decommissioning

purposes as required under 10 C.F.R. Part 50 or other similar regulation.

(2) "Funds" includes any money held in a decommissioning trust regardless of whether the money is considered to be public funds under this subchapter.

(b) In addition to other investments authorized under this subchapter, a municipality that owns a municipal electric utility that is engaged in the distribution and sale of electric energy or natural gas to the public may invest funds held in a decommissioning trust in any investment authorized by Subtitle B, Title 9, Property Code.

Added by Acts 2005, 79th Leg., Ch. [121](#), Sec. 1, eff. September 1, 2005.

Sec. 2256.021. EFFECT OF LOSS OF REQUIRED RATING. An investment that requires a minimum rating under this subchapter does not qualify as an authorized investment during the period the investment does not have the minimum rating. An entity shall take all prudent measures that are consistent with its investment policy to liquidate an investment that does not have the minimum rating.

Added by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.022. EXPANSION OF INVESTMENT AUTHORITY. Expansion of investment authority granted by this chapter shall require a risk assessment by the state auditor or performed at the direction of the state auditor, subject to the legislative audit committee's approval of including the review in the audit plan under Section 321.013.

Added by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995. Amended by Acts 2003, 78th Leg., ch. 785, Sec. 42, eff. Sept. 1, 2003.

Sec. 2256.023. INTERNAL MANAGEMENT REPORTS. (a) Not less than quarterly, the investment officer shall prepare and submit to the governing body of the entity a written report of investment transactions for all funds covered by this chapter for the preceding reporting period.

(b) The report must:

(1) describe in detail the investment position of the entity on the date of the report;

(2) be prepared jointly by all investment officers of the entity;

(3) be signed by each investment officer of the entity;

(4) contain a summary statement, prepared in compliance with generally accepted accounting principles, of each pooled fund group that states the:

(A) beginning market value for the reporting period;

(B) additions and changes to the market value during the period;

(C) ending market value for the period; and

(D) fully accrued interest for the reporting period;

(5) state the book value and market value of each separately invested asset at the beginning and end of the reporting period by the type of asset and fund type invested;

(6) state the maturity date of each separately invested asset that has a maturity date;

(7) state the account or fund or pooled group fund in the state agency or local government for which each individual investment was acquired; and

(8) state the compliance of the investment portfolio of the state agency or local government as it relates to:

(A) the investment strategy expressed in the agency's or local government's investment policy; and

(B) relevant provisions of this chapter.

(c) The report shall be presented not less than quarterly to the governing body and the chief executive officer of the entity within a reasonable time after the end of the period.

(d) If an entity invests in other than money market mutual funds, investment pools or accounts offered by its depository bank in the form of certificates of deposit, or money market accounts or similar accounts, the reports prepared by the investment officers under this section shall be formally reviewed at least annually by an independent auditor, and the result of the review shall be reported to the governing body by that auditor.

Added by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995. Amended by Acts 1997, 75th Leg., ch. 1421, Sec. 12, eff. Sept. 1, 1997.

Sec. 2256.024. SUBCHAPTER CUMULATIVE. (a) The authority granted by this subchapter is in addition to that granted by other law. Except as provided by Subsection (b), this subchapter does not:

(1) prohibit an investment specifically authorized by other law; or

(2) authorize an investment specifically prohibited by other law.

(b) Except with respect to those investing entities described in Subsection (c), a security described in Section 2256.009(b) is not an authorized investment for a state agency, a local government, or another investing entity, notwithstanding any other provision of this chapter or other law to the contrary.

(c) Mortgage pass-through certificates and individual mortgage loans that may constitute an investment described in Section 2256.009(b) are authorized investments with respect to the housing bond programs operated by:

(1) the Texas Department of Housing and Community Affairs or a nonprofit corporation created to act on its behalf;

(2) an entity created under Chapter 392, Local Government Code; or

(3) an entity created under Chapter 394, Local Government Code.

Added by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.025. SELECTION OF AUTHORIZED BROKERS. The governing body of an entity subject to this subchapter or the designated investment committee of the entity shall, at least annually, review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the entity.

Added by Acts 1997, 75th Leg., ch. 1421, Sec. 13, eff. Sept. 1, 1997.

Sec. 2256.026. STATUTORY COMPLIANCE. All investments made by entities must comply with this subchapter and all federal, state, and local statutes, rules, or regulations.

Added by Acts 1997, 75th Leg., ch. 1421, Sec. 13, eff.
Sept. 1, 1997.

SUBCHAPTER B. MISCELLANEOUS PROVISIONS

Sec. 2256.051. ELECTRONIC FUNDS TRANSFER. Any local government may use electronic means to transfer or invest all funds collected or controlled by the local government.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff.
Sept. 1, 1995.

Sec. 2256.052. PRIVATE AUDITOR. Notwithstanding any other law, a state agency shall employ a private auditor if authorized by the legislative audit committee either on the committee's initiative or on request of the governing body of the agency.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff.
Sept. 1, 1995.

Sec. 2256.053. PAYMENT FOR SECURITIES PURCHASED BY STATE. The comptroller or the disbursing officer of an agency that has the power to invest assets directly may pay for authorized securities purchased from or through a member in good standing of the National Association of Securities Dealers or from or through a national or state bank on receiving an invoice from the seller of the securities showing that the securities have been purchased by the board or agency and that the amount to be paid for the securities is just, due, and unpaid. A purchase of securities may not be made at a price that exceeds the existing market value of the securities.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1423, Sec. 8.67, eff. Sept. 1, 1997.

Sec. 2256.054. DELIVERY OF SECURITIES PURCHASED BY STATE. A security purchased under this chapter may be delivered to the comptroller, a bank, or the board or agency investing its funds. The delivery shall be made under normal and recognized practices in the securities and banking industries, including the book entry procedure of the Federal Reserve Bank.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1423, Sec. 8.68, eff. Sept. 1, 1997.

Sec. 2256.055. DEPOSIT OF SECURITIES PURCHASED BY STATE. At the direction of the comptroller or the agency, a security purchased under this chapter may be deposited in trust with a bank or federal reserve bank or branch designated by the comptroller, whether in or outside the state. The deposit shall be held in the entity's name as evidenced by a trust receipt of the bank with which the securities are deposited.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1423, Sec. 8.69, eff. Sept. 1, 1997.