

INVESTMENT POLICY FOR THE CITY OF JEWETT

POLICY STATEMENT

It is the policy of the City of Jewett that the administration of its funds and the investment of those funds shall be handled as its highest public trust. Investments shall be made in a manner which will provide the maximum security of principal invested through limitations and diversification while meeting the daily cash flow needs of the City.

OBJECTIVES AND STRATEGY

It is the policy of the City that all funds shall be managed and invested with three primary objectives, listed in order of their priority: safety, liquidity and yield.

INTERNAL CONTROLS

The Investment Officer shall establish a system of written internal controls which will be reviewed annually with the independent auditor of the City.

CASH FLOW FORECASTING

Cash flow forecasting is designed to meet the cash flow requirement of the City. Supplemental to the financial and budgetary systems, the Investment Officer will maintain a cash flow forecasting process designed to monitor the cash position for investment purposes. Cash flow will include the historical researching and monitoring of revenues and yield as well as overall cash position.

AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

Acceptable investments under this policy shall be limited to the instruments listed below with the diversification limitations imposed. The investments are to be chosen in accordance with cash flow and in a manner which promotes diversification by market sector and maturity. The choice of high-grade government investments and high-grade money market instruments is designed to assure the liquidity of those investments should emergency fund needs arise.

It is the policy of the City to diversify its investment portfolio. Invested funds shall be diversified to minimize risk resulting from over-concentration of assets in a specific maturity, specific market security or specific issue. Diversification strategies shall be established and periodically reviewed. At a minimum, diversification standards by security type and issuer shall be:



This Ordinance is to be become effective immediately upon signature. Passed and Approved this the 20th day of July, 1998.

APPROVED:



ATTEST: ☆

*Virginia S. Sitton*  
VIRGINIA S. SITTON  
City Secretary, City of Jewett

*Herman Hammond*  
MAYOR HERMAN HAMMOND

**CHAPTER 2256. PUBLIC FUNDS INVESTMENT**  
**SUBCHAPTER A. AUTHORIZED INVESTMENTS FOR GOVERNMENTAL ENTITIES**

**§ 2256.001. Short Title**

This chapter may be cited as the Public Funds Investment Act.

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

**§ 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, § 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1421, § 1, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 1454, § 1, eff. Sept. 1, 1999.

### **§ 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, § 1, eff. Sept. 1, 1995; Acts 1999, 76th Leg., ch. 1454, § 2, eff. Sept. 1, 1999.

#### § 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, § 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 505, § 24, eff. Sept. 1, 1997; Acts 1997, 75th Leg., ch. 1421, § 2, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 62, § 8.21, eff. Sept. 1, 1999; Acts 1999, 76th Leg., ch. 1454, § 3, eff. Sept. 1, 1999.

#### § 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, § 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, § 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. A state agency also shall 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, § 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 685, § 1, eff. Sept. 1, 1997; Acts 1997, 75th Leg., ch. 1421, § 3, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 1454, § 4, eff. Sept. 1, 1999.

#### **§ 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, § 1, eff. Sept. 1, 1995.

#### **§ 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, § 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 73, § 1, eff. May 9, 1997; Acts 1997, 75th Leg., ch. 1421, § 4, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 1454, § 5, eff. Sept. 1, 1999.

### **§ 2256.008. Investment Training; Local Governments**

(a) Except as provided by Subsection (b), 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 Subsection (b), 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.

Amended by Acts 1995, 74th Leg., ch. 402, § 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1421, § 5, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 1454, § 6, eff. Sept. 1, 1999.

### **§ 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 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, § 1, eff. Sept. 1, 1995; Acts 1999, 76th Leg., ch. 1454, § 7, eff. Sept. 1, 1999.

**§ 2256.010. Authorized Investments: Certificates of Deposit and Share Certificates**

A certificate of deposit is an authorized investment under this subchapter if the certificate is issued by a state or national bank domiciled in this state, a savings bank domiciled in this state, or a state or federal credit union domiciled 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.

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

#### **§ 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, § 1, eff. Sept. 1, 1995.

#### **§ 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, § 1, eff. Sept. 1, 1995.

#### § 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, § 1, eff. Sept. 1, 1995.

#### § 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, § 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1421, § 7, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 1454, § 8, eff. Sept. 1, 1999.

#### **§ 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, § 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1421, § 8, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 1454, §§ 9, 10, eff. Sept. 1, 1999.

**§ 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, § 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1421, § 9, eff. Sept. 1, 1997.

#### **§ 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, § 5.46(a), eff. Sept. 1, 1995; Acts 1995, 74th Leg., ch. 402, § 1, eff. Sept. 1, 1995. Amended by Acts 1997, 75th Leg., ch. 1421, § 10, eff. Sept. 1, 1997.

#### **§ 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, § 1, eff. Sept. 1, 1995. Amended by Acts 1997, 75th Leg., ch. 1421, § 11, eff. Sept. 1, 1997.

#### **§ 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, § 1, eff. Sept. 1, 1995.

#### **§ 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, 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, and electric energy futures or options or similar contracts on those commodity futures as a protection against loss due to price fluctuation.

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

#### **§ 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, § 1, eff. Sept. 1, 1995.

#### **§ 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.

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

#### **§ 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, § 1, eff. Sept. 1, 1995. Amended by Acts 1997, 75th Leg., ch. 1421, § 12, eff. Sept. 1, 1997.

**§ 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, § 1, eff. Sept. 1, 1995.

**§ 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, § 13, eff. Sept. 1, 1997.

**§ 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, § 13, eff. Sept. 1, 1997.

**SUBCHAPTER B. MISCELLANEOUS PROVISIONS****§ 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.

<http://www.capitol.state.tx.us/statutes/go/go225600.html>

08/09/2001

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

#### **§ 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, § 1, eff. Sept. 1, 1995.

#### **§ 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, § 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1423, § 8.67, eff. Sept. 1, 1997.

#### **§ 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, § 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1423, § 8.68, eff. Sept. 1, 1997.

#### **§ 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, § 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1423, § 8.69, eff. Sept. 1, 1997.