Travis County Commissioners Court Agenda Request

Meeting Date: September 9, 2014
Prepared By/Phone Number: Deborah Laudermilk/(512)854-9779
Elected/Appointed Official/Dept. Head: Leroy Nellis
Commissioners Court Sponsor: Judge Samuel T. Biscoe

AGENDA LANGUAGE:
Consider and take appropriate action on request to approve Order affirming Chapter 23 (Investment Policy and Procedures) of the Travis County Code.

BACKGROUND/SUMMARY OF REQUEST AND ATTACHMENTS:
Please see attached documentation

STAFF RECOMMENDATIONS:
Please see attached documentation.

ISSUES AND OPPORTUNITIES:
Please see attached documentation.

FISCAL IMPACT AND SOURCE OF FUNDING:
None

REQUIRED AUTHORIZATIONS:
Leroy Nellis, County Executive, Planning and Budget Office (854-8679)
Barbara Wilson, County Attorney's Office (854-9567)

AGENDA REQUEST DEADLINE: All agenda requests and supporting materials must be submitted as a pdf to David Salazar in the County Judge's office, agenda@co.travis.tx.us **by Tuesdays at 5:00 p.m.** for the next week's meeting.

CASH/INVESTMENT MANAGEMENT DEPARTMENT
TRAVIS COUNTY, TEXAS

Planning & Budget Office
700 Lavaca, Suite 1560
P.O. Box 1748
Austin, Texas 78767

Phone: (512) 854-9779
Fax: (512) 854-4210
Email: deborah.laudermilk@co.travis.tx.us

DATE: August 29, 2014

TO: Samuel T. Biscoe, Travis County Judge
Ron Davis, Commissioner, Precinct 1
Bruce Todd, Commissioner, Precinct 2
Gerald Daugherty, Commissioner, Precinct 3
Margaret Gomez, Commissioner, Precinct 4

FROM: Deborah A. Laudermilk, Investment Manager
Reagan Grimes, Assistant Investment Manager

RE: Review and Approval of Chapter 23, Investment Policy and Procedures

In conjunction with our annual review of the Travis County Investment Policy and Procedures, Cash/Investment Management (CIM) recommends no changes to the Travis County Investment Policy. During the last legislative session, there were no changes made to chapter 2256 of the Texas Government Code, also known as the Public Funds Investment Act, the basis for the County's investment policy.

The annual Investment Advisory Committee meeting was held August 25, 2014 and the committee agreed unanimously that there are no changes needed to the current Travis County Investment Policy and Procedures. Therefore, Cash/Investment Management is submitting the same policy from last year for the Travis County Commissioners' Court to affirm as the Investment Policy and Procedures for Fiscal 2015.

Cash/Investment Management recommends the Court approve the order affirming Chapter 23, Travis County Policy, Procedures, and Regulations Manual in the foregoing manner.

Attachment A, Chapter 23. Investment Policy and Procedures
Attachment B, Government Code Chapter 2256, Public Funds Investment Act
Attachment C. Order Affirming The Travis County Code Chapter 23

cc: Investment Advisory Committee

Leroy Nellis, Interim County Executive, Budget and Planning
Nicki Riley, County Auditor
Dolores Ortega-Carter, County Treasurer
Barbara Wilson, Assistant County Attorney
Rhonda Ambrose, County Treasurer's Office
Sabrina Bullard, County Auditor's Office

Attachment A

Chapter 23. Investment Policy and Procedures[1]

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[1] Chapter 23 was replaced by Travis County Commissioners Court on (9/24/2013), Item #(28)

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Subchapter A. Investment Authority and Scope of Policy

23.001 Legal Authority to Invest

TEX. LOC. GOV'T CODE ANN., § 116.112(a) (Vernon 1994) authorizes the Commissioners Court to invest county funds in compliance with TEX. GOV'T CODE ANN., ch. 2256.

23.002 Delegation of Investment Authority

(a) Commissioners Court delegates the authority to select investment instruments in which county funds may be placed and to prepare any documentation necessary to evidence the investment of county funds to the Investment Manager, Assistant Investment Manager, and Senior Financial Analyst. Occasionally, the Commissioners Court may designate in writing other Travis County personnel authorized to invest county funds as back-ups. The Commissioners Court approves or ratifies the investments, and the Commissioners Court retains ultimate responsibility as fiduciaries of the assets of Travis County. The Investment Manager, Assistant Investment Manager, and Senior Financial Analyst advise the Treasurer of the investment instruments purchased and the Treasurer wires the funds. No other person may invest, withdraw, transfer or manage Travis County funds without the express written authority of the Commissioners Court. Authority granted under this section is effective until rescinded by Commissioners Court or until termination of employment by Travis County of persons in the designated positions.

(b) These designated Cash/Investment Officers must perform their duties in compliance with Chapter 23 and Chapter 32, subchapter (a) Travis County Code and the Tex. Gov't Code Ann. ch 2256, known as the Texas Public Funds Investment Act. When these Cash/Investment Officers act in good faith and in compliance with these chapters, they have no personal liability for their actions.

(c) Officers and employees of any regional planning commission created under LOC. GOV'T. CODE ANN. ch. 391 are not eligible to be designated any authority under this section.

23.003 County Investment Portfolio Structure

The county funds of Travis County that are entrusted to the Commissioners Court for investment are divided into the following portfolios based on the source of funds:

(1) The operating account portfolio means funds from the general fund account, the risk management fund account, the employee benefit fund

account, the general county reserve account, and all other Travis County funds except capital projects, and debt service.

(2) The pooled bond funds portfolio means bond funds from all capital projects except road district funds.

(3) The debt service portfolio means all interest and sinking funds.

23.004 Applicability of Policy

This policy governs the investment of the operating account portfolio, the pooled bond funds portfolio, and the debt service portfolio. The pooled bond funds portfolio is managed in compliance with its governing ordinances and federal laws, including the Tax Reform Act of 1986, as amended, in addition to compliance with this policy.

In this policy, the words "bond proceeds", "book value", "funds", "investing entity", "entity", "investment pool", "local government", "market value", "separately invested asset", "qualified representative", and "state agency" are used as defined in the TEX. GOV'T CODE ANN. § 2256.002.

23.005 Prudence and Ethical Standards

These standards apply to Cash/Investment Officers and anyone acting on their behalf.

(a) Prudence

(1) Cash/Investment Officers serve as fiduciaries of Travis County and are responsible for prudently investing its assets. The Investment Officers shall comply with the provisions of this section, the Public Funds Investment Act, and all other applicable laws.

(2) Travis County uses the "prudent investor rule" when administering the duties of an investment officer within the applicable legal and policy constraints. The prudent investor rule is restated as follows: The Cash/Investment Officers shall invest and manage Travis County assets as a prudent investor would, by considering the purposes, terms, distribution requirements, and other circumstances of the portfolio. In satisfying this standard, the Investment Officers shall exercise professional care, skill, and judgment. Among circumstances that an Investment Officer shall consider in investing and managing Travis County assets are the following:

(A) general economic conditions,

(B) the yield curve,

(C) the role that each investment plays within the overall portfolio, and,

(D) the risk/reward relationship of investments considered.

(3) In determining whether an Investment Officer has exercised prudence with respect to an investment decision, the determination shall be made as follows:

(A) the Investment Officer's investment and portfolio management decisions must be evaluated not in isolation of an individual purchase or sale but in the context of the Travis County portfolio as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the portfolio; and

(B) whether the investment decision was consistent with chapter 23 of the Travis County Code.

(4) Cash/Investment Officers must be honest in the exercise of their duties and must not take actions that will discredit Travis County.

(5) Travis County Investment Officers must comply with the Travis County Ethics Policy.

(b) Avoidance of Conflicts of Interest

(1) Investment Officers shall be loyal to the interests of Travis County, the Travis County Commissioners Court, and to Travis County residents, to the extent that such loyalty is not in conflict with other duties or legal requirements. Officers shall avoid personal, employment, or business relationships that create conflicts of interest. Should they become aware of any conflict of interest, they have an affirmative duty to disclose and remedy the conflict promptly.

(2) A conflict of interest exists whenever Investment Officers have personal or private commercial or business relationships that could reasonably be expected to diminish their independence of judgment in the performance of their duties.

(3) Serving on the Board of a Local Government Investment Pool shall not be prohibited. However, the Board member should not be allowed to invest funds in that Pool without additional approval from another authorized signer, who does not serve on the board of the proposed investment pool and is not a subordinate of the board member.

(c) Acceptance of Gifts

(1) Cash/Investment Officers may not personally accept gifts or entertainment from vendors or consultants doing or seeking to do investment or banking related business with Travis County, except as noted below:

(2) Gifts, which may be accepted under these guidelines, should not exceed $50.00 per person, per vendor, in a given fiscal year. If gifts over $50.00 are provided, they must be returned, donated to a charitable cause, or shared with other County employees. However,

entertainment, food, or goods provided to all persons attending a conference or a continuing education activity and goods or services provided during meetings to conduct business and manage a contract generally do not violate this prohibition.

(3) Disclosure shall be made to the Executive Manager of Planning and Budget of the acceptance of all gifts, entertainment, food, goods, or services no later than 30 days following the calendar quarter in which received.

23.006 Quality and Capability of Investment Management

Subject to availability of funds, Travis County shall provide periodic training in investments for the Investment Manager, Assistant Investment Manager, and Senior Financial Analyst through courses and seminars offered by professional organizations and associations, in order to insure the quality and capability of the County's investment officers.

23.007 Disclosure of Personal Business

(a) Any investment officer of Travis County who has a personal business relationship, as described in Texas Government Code § 2256.005(i), with any qualified representative offering to engage in an investment transaction with Travis County, shall file a statement disclosing that personal business interest with the Texas Ethics Commission and the Commissioners Court (see Subchapter L, Forms).

(b) Any investment officer of Travis County who is related within the second degree by affinity or consanguinity, as determined under TEX. GOV'T CODE ANN., ch. 573, to an individual seeking to engage in an investment transaction with Travis County shall file a statement disclosing that relationship with the Texas Ethics Commission and the Commissioners Court (see subchapter L, Forms).

Subchapter B. Investment Objectives

23.008 Safety of Principal

The primary investment objective of Travis County is to ensure the safety of principal in all portfolios. (See Subchapter D, Safety of Principal.)

23.009 Maintenance of Adequate Liquidity

The secondary investment objective of Travis County for all portfolios is to provide the liquidity necessary to pay obligations as they become due. (See Subchapter E, Liquidity.)

23.010 Return on Investments

Travis County must invest its portfolios in eligible investments that yield the highest possible rate of return while providing the necessary protection of the principal. Travis County seeks to optimize return on investments in all portfolios. The average minimum rate of return for the entire portfolio, excluding funds needed for current obligations, must be at least equal to the Federal Reserve constant maturity treasury rate with a comparable maturity. The only exception to the average minimum rate of return is that the portfolios, during a period of rapidly rising interest rates, will not be able to meet or exceed the rate of return indicator. If funds are subject to yield restrictions due to federal arbitrage regulations, those funds are excluded from the yield calculation.

Travis County may only invest in a particular eligible investment if its yields are equal to or greater than the Treasury Convention or Street Convention yield provided by the Bloomberg Financial Information System or the Interactive Data Corporation yield on United States Treasury obligations of comparable maturity. The Investment Manager and the Investment Advisory Committee may establish additional appropriate criteria for investment performance measures.

23.011 Additional Objectives for Pooled Bond Funds Portfolio

The major objectives for the pooled bond funds portfolio governed by Federal arbitrage regulations are to maximize permitted market yield and to minimize investment costs.

Subchapter C. Investment Strategies

23.012 Operating Account Portfolio

The primary objective of the investment strategy for the operating account portfolio is to create a diversified structure (see 23.024 through 23.027) which will experience minimal volatility during economic cycles, thus providing for preservation and safety of principal.

The secondary objective is to assure that anticipated cash expenditures are matched with adequate liquidity.

The tertiary objective is to ensure that the portfolio is invested in eligible securities that yield the highest possible rate of return while providing the necessary protection of principal. The suitable securities to accomplish these objectives are high quality, marketable, short-to-medium term securities that complement each other in a laddered maturity structure. All eligible securities described by chapter 23, Travis County Code, are suitable for this fund. The dollar weighted average maturity of two and one-half years or less will be calculated using the stated final maturity dates of each security.

23.013 Debt Service Portfolio

The primary, secondary, and tertiary objectives of the investment strategy for the debt service portfolio are the same as the operating account portfolio. The suitable securities to accomplish these objectives are high quality, marketable, short-term securities that mature on or before the debt service payment dates. The securities suitable for this fund are described in 23.017(1).

23.014 Pooled Bond Funds Portfolio

The primary, secondary, and tertiary objectives of the investment strategy for the pooled bond funds portfolio are the same as the operating account portfolio. The suitable securities to accomplish these objectives are high quality, marketable, short-to-medium term securities that match forecasted project expenditures to investment maturities. In addition, a three month historical cash expenditure balance is maintained in highly liquid securities to cover unexpected project outlays. All eligible securities described by chapter 23, Travis County Code, are suitable for this fund.

Subchapter D. Safety of Principal

23.015 Protection of Principal

Travis County seeks to control the risk of loss due to the failure of a security issuer or grantor. To control that risk, Travis County purchases only eligible investments, requires prior approval of qualified representatives/business organizations with which it transacts business, diversifies investments in all portfolios based on maturity and type, monitors the market price of investments by way of independent sources such as market telecommunication services and financial publications, when possible, or through an approved Broker/Dealer other than the one that sold Travis County the security, and collateralizes deposits. The quarterly report will identify the method and source used to monitor the market price of investments. The quarterly report will also indicate whether the method and source changed from the previous quarterly report.

The ratings of all investments held by Travis County are monitored on a regular basis to ensure that the investments remain eligible. If an investment is downgraded to a level lower than the minimum rating required by Chapter 23, the investment officers take prudent action as described in 23.018 (b).

In addition, Travis County must execute the purchase of individual eligible investments only on the "delivery versus payment" (DVP) method with the exception of investment pools and money market mutual funds to ensure that county funds are not released until Travis County has received the securities purchased.

Investment securities must be held in Travis County's name by a third party custodian, as evidenced by safekeeping receipts from the institution with which the securities are deposited.

All investments made by Travis County must comply with all federal, state, and local statues, rules, and regulations.

Purchasing Only Eligible Investments

23.016 Ineligible Investments

The following investments, which are legal investments under the Public Funds Investment Act, are ineligible investments for Travis County:

(1) Collateralized mortgage obligations

(2) Any security the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

23.017 Eligible Investments

The following investments, which do not include all of the securities allowed by the Public Funds Investment Act, are the only eligible investments for all of Travis County's portfolios:

(1) Obligations of the United States or its agencies and instrumentalities;

(2) Direct obligations of the State of Texas or its agencies and instrumentalities;

(3) Other obligations, the principal and interest on which are unconditionally guaranteed or insured by or backed by the full faith and credit of the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States;

(4) 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.

(5) Domestic commercial paper, including commercial paper issued in the United States by corporations doing business and having a significant market presence in the United States, which are wholly owned by foreign entities, and with a stated maturity of 270 days or less from the date of its issuance that is rated not less than A-1 by Standard and Poor's, and P-1 by Moody's, two nationally recognized credit rating agencies.

(6) Fully collateralized repurchase agreements including direct security repurchase agreements and reverse security repurchase agreements that:

(A) have a defined termination date that does not exceed 90 days after delivery,

(B) are placed either through a primary government securities dealer as defined by the Federal Reserve, or a financial institution doing business in this state,

(C) are secured by a combination of cash and obligations described by 23.017(1), that are pledged to Travis County, held in Travis County's name, and deposited with a third party selected and approved by Travis County, and

(D) have a market value at the time funds are disbursed of not less than the principal amount of the funds disbursed. (See 23.032, Collateral Requirements for Repurchase Agreements.)

(7) Certificates of deposit issued by a depository institution that has its main office or a branch office in this state that are:

(A) guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor; or

(B) secured by obligations that are described by 23.017(1), 23.017(2), 23.017(3) or 23.017(4) that have a market value of not less than 102% of the principal amount plus accrued interest of the certificates. (See 23.028 Collateral Requirements for All Deposits.)

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

(8) Certificates of deposit when:

(A) the funds are invested through a broker that has its main office or a branch office in this state and is selected from a list adopted by the investing entity as required by 23.019 through 23.023 or

(B) the broker or the County depository 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 Travis County;

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

(D) Travis County appoints one of the following as its custodian for these certificates of deposit

(i) the County depository,

(ii) the Texas Treasury Safekeeping Trust Company;

(iii) a Federal Reserve Bank or a branch of a Federal Reserve Bank; or

(iv) a Federal Home Loan Bank

(9) A no-load money market mutual fund ("MMMF") that is registered with and regulated by the Securities and Exchange Commission and:

(A) has a dollar-weighted average stated maturity of 90 days or less,

(B) whose investment objectives include maintenance of a stable net asset value of $1 per share, and

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

(10) Public funds and local government investment pools ("LGIP") if the following conditions are met:

(A) the LGIP is organized under the Interlocal Cooperation Act, as amended,

(B) the Commissioners Court has authorized investment in that particular LGIP by an order,

(C) the assets of the LGIP consist exclusively of obligations that are authorized investments in the Tex. Gov't Code Ann. ch 2256, known as the Texas Public Funds Investment Act,

(D) the LGIP meets all eligibility acts including disclosure and reporting,

(E) the LGIP meets all management requirements of the Public Funds Investment Act, including existence and reliance on maintenance of advisory board, net asset value and maintenance ratings, and

(F) the LGIP must be continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service.

(11) A securities lending program in which the loan meets the following conditions:

(A) The loan may be terminated at any time;

(B) The loan is placed through

(i) 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

(ii) a financial institution doing business in this state that is rated no less than A or its equivalent by two nationally recognized rating services.

(C) The loan agreement has a term of one year or less and complies with the provisions of section 1058 of the Internal Revenue Code;

(D) The loan is secured by

(i) cash invested in accordance with subsections (1), (2), (3), (4), (5), (8), or (9) of section 23.017 for a term that ends no later than the expiration date of the loan agreement,

(ii) pledged irrevocable letters of credit issued by a bank that is organized and exists under the laws of the United States or any other state and is continuously rated by at least one nationally recognized investment rating firm at not less than A or its equivalent, or

(iii) pledged securities issued by the United States government or its agencies and instrumentalities as described in Section 23.017 (1) through (4) inclusive;

(E) The loan agreement requires securities being held as collateral to be pledged to Travis County, held in Travis County's name, and deposited at the time the investment is made with a third party approved by Travis County.

(F) The amount of the collateral is not be less than 102% of the market value of securities loaned, including accrued income with the market value of securities determined daily.

23.018 Purchasing Eligible Investments

(a) The Investment Manager may invest all portfolios in the eligible investments described by 23.017. When contemplating a new type of investment instrument, the Investment Manager will submit a description to the Travis County Attorney to ensure that the proposed investment instruments are eligible investments described by 23.017.

(b) If an investment that was eligible at the time of purchase becomes ineligible during the holding period, consistent with the Public Funds Investment Act, Sec. 2256.017, the Investment Manager is not required to liquidate the investment. The Investment Manager shall take all prudent measures that are consistent with this Policy to analyze the investment and determine the most prudent course of action to minimize any potential loss

23.019 Applications for Approval as Broker/Dealer/Financial Institutions

(a) When a primary broker/dealer/financial institution applies for approval, the Investment Manager provides a copy of chapter 23, Travis County Code to the qualified representative of that institution. To qualify for approval, the qualified representative of the primary broker/dealer/financial institution must comply with the following requirements:

(1) Provide the most recent audited financial statements of the institution,

(2) Sign the Certification in sec. 23.060,

(3) Acknowledge receipt, thorough review and understanding of chapter 23, Travis County Code, and

(4) Acknowledge that the primary broker/dealer/financial institution has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between it and Travis County that are not authorized by chapter 23, Travis County Code except to the extent that this authorization is dependent on an analysis of the makeup of Travis County's entire portfolio or requires an interpretation of subjective investment standards.

(b) When a non-primary broker/dealer/financial institution doing business that is regulated by or registered with a securities commission applies for approval, the Investment Manager provides a copy of chapter 23, Travis County Code to the qualified representative of that institution. To qualify for approval, the qualified representative of the broker/dealer/financial institution must submit a written application that complies with the following requirements:

(1) Provides references by public fund investment officers, preferably in Texas,

(2) Gives evidence of capital adequacy (See 23.020(b)(3)),

(3) Signs the Certification in 23.060,

(4) Acknowledges receipt, thorough review and understanding of chapter 23, Travis County Code,

(5) Acknowledges broker/dealer/financial institution has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between it and Travis County that are not authorized by chapter 23, Travis County Code except to the extent that this authorization is dependent on an analysis of the makeup of Travis County's entire portfolio or requires an interpretation of subjective investment standards, and

(6) Includes a completed Broker/Dealer Questionnaire in 23.061.

(c) Travis County strives to include in the application process broker/dealers located in Travis County who are currently serving institutional clients.

23.020 Qualifications for Approval as Broker/Dealer/Financial Institutions

The Investment Manager reviews the applications of the broker/dealer/financial institutions for compliance with this policy and recommends broker/dealer/financial institutions for approval. Although having an office in Texas is not a required criteria, Travis County prefers working with broker/dealer/financial institutions with offices located in Texas.

(a) To be recommended for approval, the qualified representative of the primary broker/dealer/financial institution must provide the information and comply with the requirements set forth in 23.019 (a).

(b) To be recommended for approval, a non-primary broker/dealer/financial institution and/or its qualified representative(s) must demonstrate possession of the following criteria:

(1) Institutional investment experience,

(2) Good references from public fund investment officers, preferably in Texas,

(3) Adequate capitalization in compliance with the Capital Adequacy Guidelines for Government Securities Dealers published by the New York Federal Reserve Bank for banks or adequate capitalization in compliance with the Securities and Exchange Commission for broker/dealers,

(4) Acknowledgement of a thorough review and understanding of this Investment Policy and Procedures Chapter,

(5) Regulation by the Comptroller of the Currency for banks or regulation by the Securities and Exchange Commission ("SEC") for broker/dealers,

(6) Membership in good standing in the Financial Industry Regulatory Authority (FINRA) by broker/dealers and subsidiaries of national banks,

(7) Valid licensure from the State of Texas, except for national banks, and

(8) Acknowledgement of implementation of reasonable controls and procedures in an effort to preclude investment transactions conducted between it and Travis County that are not authorized by chapter 23, Travis County Code except to the extent that this authorization is dependent on an analysis of the makeup of Travis County's entire portfolio or requires an interpretation of subjective standards.

(c) To be recommended for approval, broker/dealer/financial institutions previously approved by Commissioners Court will also be evaluated based on the following criteria:

(1) Performance since the last review based on participation in competitive bids documented on bid sheets, and

(2) Activity level based on proposals presented since the last review.

23.021 Approval of Broker/Dealer/Financial Institutions

The Commissioners Court reviews the recommendations of the Investment Manager and may approve any number of broker/dealer/financial institutions. Travis County and the Investment Manager may only purchase securities, except for commercial paper, from qualified broker/dealer/financial institutions. Commercial paper shall be purchased in compliance with section 23.044, Competitive Bidding. The Investment Manager may limit the number of institutions with which Travis County does business.

23.022 Annual Review of Approved Broker/Dealer/Financial Institutions

Each year new applicants and broker/dealer/financial institutions currently on the approved list must comply with 23.019 and 23.020 and submit applications to the Investment Manager. The Investment Manager's recommended changes to the approved list must be submitted to the Commissioners Court for approval on an annual basis.

23.023 Removal from Approved List

When the Investment Manager reviews and reevaluates the broker/dealer/financial institutions currently on the approved list and at any other time when the Investment Manager discovers good cause, the Investment Manager may recommend that a broker/dealer/financial institution be removed from the approved list for any of the following reasons:

(1) Placing Travis County's funds at risk,

(2) Inactivity of the broker/dealer/financial institution,

(3) Failure to maintain one or more of the criteria in 23.020,

(4) Offering to sell investments other than eligible investments described by 23.017,

(5) Consistently causing an administrative burden by inaccurate documentation or late verification of trade,

(6) Consistently offering/bidding securities at non-competitive prices, or

(7) Undergoing material change through divestiture, merger, purchase, or other similar corporate transformations.

23.024 Diversifying Operating Account Portfolio by Type

The Investment Manager must minimize loss of principal in the operating account portfolio by diversifying investments by type and maturity. The Investment Manager must maintain diversity in the types of eligible investments purchased for all Travis County portfolios combined (see 23.017 for full description of eligible investments) by limiting the percentage for each type of eligible investment to the percentage listed in this section. These percentages will be applied to all Travis County portfolios in aggregate. The limits will be tested each Tuesday and the Investment Manager will have 30 days following the test to bring the percentage back within the limits as described below:

Investment Type	**Percentage Limit For Combined Portfolios**
Obligations of the U.S. – Treasury Notes/Bonds/Bills	100%
Obligations of U.S. Agencies – U.S. Agencies	75%
Direct obligations of the State of Texas or its agencies and instrumentalities	60%
Other obligations, the principal and interest on which are unconditionally guaranteed or insured by or backed by the full faith and credit of the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States	60%
Obligations of states, agencies, counties, cities, and other political subdivisions of any state. The Investment Manager must not invest more than 5% of the portfolio in municipal securities of a single entity (see 23.017 for full description)	20%
Domestic commercial paper. The Investment Manager must not invest more than 5% of the portfolio in the commercial paper of a single entity. If the amount held exceeds 5% during the life of the investment, the Investment Manager must either reduce the amount of the entity's commercial paper owned or obtain authorization from Commissioners Court for an exception to the Policy (See 23.017 for full description.)	20%
0Fully collateralized repurchase agreements are limited to 15% of the portfolio when purchased from an individual broker. (See 23.017 for full description.)	50%

Certificates of Deposit
(See 23.017 for full description.) 50%

A no-load money market mutual fund ("MMMF") that is registered with and regulated by the federal Securities and Exchange Commission. The Investment Manager must not make an investment in any MMMF that exceeds 10% of the total assets of that MMMF.
(See 23.017 for full description.) 20%

TexPool if the following conditions are met:

(A) TexPool is organized under the Interlocal Cooperation Act, as amended,

(B) the Commissioners Court has authorized investment in TexPool by an order,

(C) the assets of TexPool consist exclusively of obligations that are authorized investments in the Tex. Gov't Code Ann. ch 2256, known as the Texas Public Funds Investment Act,

(D) TexPool meets all eligibility requirements of the Public Funds Investment Act including disclosure and reporting, and

(E) TexPool meets all management requirements of the Public Funds Investment Act, including existence and reliance on maintenance of advisory board, net asset value and maintenance ratings 50%

Public funds and local government investment pools (LGIP's).
(See 23.017 for full description.) 30%

All LGIP's in total 60%

23.025 Diversifying All Other Portfolios by Type

Within the pooled bond funds portfolio and the debt service portfolio the proceeds of a single bond issue may be segregated and invested in a single eligible investment or group of eligible investments designed to facilitate compliance with arbitrage regulations if the Investment Manager or Travis County's arbitrage advisors determine that this type of strategy is necessary to comply with federal arbitrage restrictions or to facilitate arbitrage recordkeeping and calculation.

In all other cases, the Investment Manager must apply the diversification and measurement requirements to the pooled bond funds portfolio combined with all Travis County portfolios in accordance with 23.024.

23.026 Diversifying Operating Account Portfolio by Maturity

(a) The Investment Manager must monitor the maturity dates of all investments in the operating account portfolio to minimize risk of loss from interest rate fluctuations and to ensure that the maturities do not exceed the anticipated cash flow requirements of the operating account portfolio. The Investment Manager must also monitor the maturity dates of all investments in the operating account portfolio to ensure that the dollar-weighted average maturity does not exceed two and one-half years . The weighted average maturity is calculated as of the end of each month using the stated final maturity dates for each security.

If these levels are exceeded, the Investment Manager shall take all prudent measures that are consistent with this Policy to analyze the investment and determine the most prudent course of action to minimize any potential economic loss. (b) ..... The maximum allowable stated maturity of any individual investment owned by the operating account portfolio is as follows (see 23.017 for full description of eligible investments):

Investment Type	Maturity Limit
Obligations of the U.S. – Treasury Notes/Bonds/Bills	7 years
Obligations of U.S. Agencies	5 years
Direct obligations of the State of Texas or its agencies and instrumentalities	5 years
Other obligations, the principal and interest on which are unconditionally guaranteed or insured by or backed by the full faith and credit of the State of Texas or the United States their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States	5 years
Obligations of states, agencies, counties, cities, and other political subdivisions of any state (See 23.017 for full description)	5 years
Domestic commercial paper (See 23.017 for full description.)	270 days
Fully collateralized repurchase agreements (See 23.017 for full description.)	90 days
Certificates of Deposit (See 23.017 for full description)	18 months

A no-load money market mutual fund ("MMMF")
(See 23.017 for full description)..... 1 day

Public funds and local government investment pools (LGIP's)
(See 23.017 for full description)..... 1 day

TexasTERM local government investment pool ..... 365 days

23.027 Diversifying All Other Portfolios by Maturity

(a) The Investment Manager may limit the maturity of the pooled bond funds portfolio, the debt service portfolio and the agency funds portfolio to the "temporary period" as defined by the Internal Revenue Code, § 148, during which bond proceeds may be segregated and invested at an unrestricted yield. After the temporary period ends, the Investment Manager must consider the anticipated cash flow requirements of the funds and invest the portions of the pooled bond funds portfolio, the debt service portfolio and the agency funds portfolio subject to yield restriction within limits permitted by Federal arbitrage regulations.

(b) The Investment Manager must monitor the maturity dates of all investments in the pooled bond funds portfolio and the debt service portfolio to ensure that the dollar-weighted average maturity for each portfolio does not exceed one and one-half years.. The weighted average maturity is calculated as of the end of each month using the stated final maturity dates for each security.

If these levels are exceeded, the Investment Manager shall take all prudent measures that are consistent with this Policy to analyze the investment and determine the most prudent course of action to minimize any potential economic loss. (c)..... The maximum allowable stated maturity of any individual investment owned by the pooled bonds funds portfolio and the debt service portfolio, that is not subject to the temporary period, is the same as the operating portfolio (See section 23.026); except for the following:

Investment Type	**Maturity Limit**
Obligations of the U.S. – Treasury Notes/Bonds/Bills	5 years
Obligations of U.S. Agencies	3 years

Collateralizing Deposits

23.028 Collateral Requirements for All Deposits

(a) Certificates of deposit and bank deposits in financial institutions must be either federally insured or collateralized only with the following securities:

(1) Direct obligations of the United States or its agencies and instrumentalities;

(2) Other obligations, the principal and interest on which are unconditionally guaranteed or insured by or backed by the full faith and credit of the United States or its agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States;

(3) Letters of credit issued to Travis County by the Federal Home Loan Bank, if approved in advance by Travis County.

(b) If an event causes an increase in Collateral of more than $50 million to be needed after noon on any business day, the market value of collateral must be equal to or greater than 100% of the par value of the certificates of deposit, plus accrued interest, and equal to or greater than 100% of the bank deposits plus accrued interest, less the amount insured by the Federal Deposit Insurance Corporation and may remain at that level until the next business day when additional collateral can be obtained. At all other times, the market value of collateral must be equal to or greater than 105% of the par value of the certificate of deposits plus accrued interest and equal to or greater than 105% of the bank deposits plus accrued interest, less the amount insured by the Federal Deposit Insurance Corporation.

23.029 Monitoring Collateral Adequacy for All Deposits

Financial institutions with which Travis County has certificates of deposit or bank deposits must provide Travis County with monthly reports that state the market values of collateral. The Investment Manager monitors the adequacy of collateral at least weekly. If the value of the collateral falls below the required level, the financial institution must pledge additional collateral no later than the end of the next business day after the value falls below the required level.

23.030 Substituting Collateral for All Deposits

If the financial institution collateralizing certificates of deposit and bank deposits wants to substitute new collateral, the financial institution must contact the Treasurer for approval. The Investment Manager must calculate the value of the substituted collateral and determine that the substituted collateral is within the requirements of this Investment Policy and the Depository Bank Contract. The value of the new collateral must equal at least the value of the original collateral. If the collateral has sufficient value, the Treasurer may approve the substitution. The Treasurer must notify the

financial institution or the safekeeping agent holding the collateral when any substitution is approved. Although substitution is allowable, it should be limited to minimize a potential administrative burden. The Treasurer may limit substitutions and assess reasonable fees if requests for substitution become excessive or abusive.

23.031 Agreements and Safekeeping for All Deposits

Financial institutions serving as county depositories must enter agreements for the safekeeping of collateral with both Travis County and its safekeeping agent, or agree to cooperate with the Federal Reserve Bank under the terms of its Pledgee Agreement Form, to define Travis County's rights to the collateral in case of default, bankruptcy, or bank closing. All collateral securing deposits is held by the safekeeping agent.

23.032 Collateral Requirements for Repurchase Agreements

Issuers of repurchase agreements must collateralize them with obligations of the United States or its agencies. These issuers must wire transfer the collateral to the safekeeping agent designated by Travis County through the Federal Reserve System. If the collateral matures in one year or less, the value of the collateral must be at least 101% of the par value of the repurchase agreement plus accrued interest. If the collateral matures in one to two years, the value of the collateral must be at least 102% of the par value of the repurchase agreement plus accrued interest. Collateral maturity is limited to two years.

23.033 Monitoring Collateral Adequacy for Repurchase Agreements

The Investment Manager must monitor all collateral underlying repurchase agreements weekly. More frequent monitoring may be necessary during periods of market volatility. If the value of the collateral for a repurchase agreement falls below the required level, the Investment Manager must make a margin call unless the repurchase agreement matures within five business days and the difference between the value of the collateral and the required level is immaterial.

23.034 Substituting Collateral for Repurchase Agreements

Seller shall obtain written consent of Travis County prior to substitution. The duration (or maturity) of securities offered as substitutes may not exceed the duration or maturity of the originally purchased securities.

23.035 Safekeeping of Repurchase Agreement Collateral

Issuers of repurchase agreements must transfer collateral for repurchase agreements to the safekeeping agent with which Travis County has established a safekeeping agreement.

Subchapter E. Liquidity

23.036 Achieving Liquidity

Investments are selected to meet anticipated cash needs. The Investment Manager must achieve liquidity by purchasing eligible investments described by 23.017 with active secondary markets, eligible MMMF's and LGIP's.

23.037 Liquidating Investments

The Investment Manager may liquidate an investment to meet unanticipated cash requirements, to redeploy cash into other investments expected to outperform current holdings, or to adjust the portfolios for other reasons.

Subchapter F. Investment Return Achievement

23.038 Priority of Investment Goals

The Investment Manager must consider legality, safety, liquidity, diversification, risk and rate of return in investment selection for all portfolios. Investments are made in securities with maturities corresponding to anticipated cash requirements. Investments are to take advantage of yield curves and earn additional returns. The Investment Manager must actively manage all Travis County portfolios to enhance total income in compliance with the "prudent investor rule" described by 23.005. The Investment Manager may use bond swaps to achieve these management goals.

23.039 Bond Swaps

If the demand for a bond from a particular agency creates a situation where the yields in that agency's bonds are the same or less than an equivalent treasury security, swapping the agency's bond for a treasury security can improve the quality of Travis County's portfolios. If bonds in a particular maturity range are limited in the market, swapping a bond in demand for a similar bond in a different maturity range may be advantageous. The Investment Manager may swap a bond held in any Travis County portfolio for a comparable bond in the market to improve portfolio yield even if the transaction results in an accounting loss. The Investment Manager may swap a bond held in any Travis County portfolio if the overall yield of the portfolio will not decrease after the swap and the date of maturity of the new security is less than 181 days after the maturity date of the old security. The Investment Manager must solicit competitive bids for bond swaps. All bids received are documented and filed for auditing purposes.

Subchapter G. Investment Responsibilities By Office

23.040 Training

The Treasurer, Investment Manager, Assistant Investment Manager, Senior Financial Analyst and Auditor shall attend at least one training session from an independent source approved by Commissioners Court and containing at least 10 hours of instruction relating to his/her responsibilities under the Public Funds Investment Act within twelve months after taking office. These persons shall also attend an investment training session not less than once in a two-year period that begins on the first day of Travis County's fiscal year and consists of two consecutive fiscal years after that date, and receive not less than 10 hours of instruction relating to investment responsibilities under the Public Funds Investment Act from an independent source approved by Commissioners Court. Training must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with the Public Funds Investment Act.

The independent sources approved by Commissioners Court are:

Government Finance Officers Association
Government Finance Officers Association of Texas
Government Treasurers Organization of Texas
Texas Association of Counties
Austin Treasury Management Association
Alliance of Texas Treasury Associations
Texas Municipal League
Texas Society of CPAs
Association of Government Accountants
University of North Texas
University of Texas
Texas A&M University
County Treasurers Association of Texas
Texas Association of County Auditors
Western CPE
First Southwest Company

23.041 Treasurer's Office

The Treasurer is the chief custodian of county funds. The Treasurer receives funds due to Travis County, makes disbursements authorized by the Commissioners Court after

the checks are co-signed by the Auditor, and keeps proper records of county finances. In the investment function, the Treasurer has the following responsibilities:

(1) Notifying of Controlled Disbursement Requirements. The Treasurer notifies the Investment Manager if additional funds are required for the daily controlled disbursement to ensure that investments are liquidated in time to meet the controlled disbursement requirements.

(2) Processing Investments. The Treasurer may transact wire transfers for investment purposes for Travis County. The Investment Manager notifies the Treasurer of the amount to be transferred. The Treasurer transfers funds to the safekeeping account to purchase the investment. In addition, the Treasurer and the Investment Manager approve the wire transfer form. The Treasurer records investments in the HTE investment module at par value.

(3) Depositing Investment Principal and Interest. The Treasurer deposits principal and interest at maturity to the funds bank account indicated by the Investment Manager.

(4) Ensuring Security of Investments. The Treasurer accesses the depository's files daily to verify Travis County's account balances. The Treasurer adds the certificates of deposit purchased by the Investment Manager, Tax Office, County Clerk, and District Clerk to the total county cash balances to obtain the total county balance. The Treasurer compares the total county balance to the total collateral purchased by the depository banks. The collateral must be 105% of Travis County's total balances held with the depository. If the collateral is less than 105% of Travis County's total balances, the Treasurer - must contact the depository bank to verify that the depository bank has increased the collateral to the required level.

(5) Reporting Accounts. The Treasurer provides to the Auditor copies of monthly statements of all fund bank accounts which include beginning balances, deposits, disbursements, and ending balances. The Treasurer prepares and submits to the Auditor a monthly report of all outstanding checks for the Jury, CAPSO, and Cash bond funds.

23.042 Cash/Investment Management Office

The Investment Manager is the primary manager of county investment portfolios. The Investment Manager makes investment decisions, and keeps proper records of county investments. In the investment function, the Investment Manager has the following responsibilities:

(1) Developing Investment Strategies. The Investment Manager develops an investment strategy to administer investments of Travis County. The Investment Manager uses the following procedures in the investment strategy:

(A) summarizes the economic and market analysis;

(B) forecasts available cash for investment;

(C) formulates strategies for asset mix, investment instruments, maturities, and target yields;

(D) monitors performance against the current investment strategy and evaluating reasons for variances;

(E) reports portfolio performance for the previous quarter to the Investment Advisory Committee and the Commissioners Court; and

(F) revises the investment strategy based on recommendations by the Investment Advisory Committee.

(2) Selecting and Processing Investments. The Investment Manager reviews the composition of the current portfolio and determines whether the securities under consideration maintain the portfolio within policy guidelines. The Investment Manager and the Treasurer approve the wire transfer form authorizing the transfer of funds for a specific investment transaction.

(3) Documenting Investments and Providing Details. The Investment Manager retains documentation of all investment transactions, including bond swaps. The Investment Manager provides information and supporting documentation for all investment transactions to the Auditor's Financial Reporting Division for entry in the General Ledger. The Investment Manager provides information and back-up documentation of all investment transactions to the Treasurer to ensure accurate calculation of cash position and accurate posting to appropriate fund bank accounts.

(4) Developing Cash Flow Projections for All Portfolios. The Investment Manager analyzes prior period data and meets with Travis County department staff to develop and amend cash flow projections of Travis County cash requirements. The Investment Manager uses cash flow projections to match assets and liabilities in addition to maximizing the return on investments.

(5) Determining Cash Available for Investment. The Investment Manager determines the amount of county funds available for investment each business day. All funds that can be legally invested and that are not required for that day's controlled disbursement are considered funds available for investment.

(6) Monitoring Investment Performance.

(A) The Investment Manager must routinely perform market and economic analysis to forecast probable market conditions for the investment period by assembling and analyzing current and trend data to develop and plan investment strategy. This

analysis uses information obtained from investment advisors, brokers, investment industry publications, and investment industry information systems.

(B) The Investment Manager monitors the current and expected yield curves for interest rate movements. When interest rates are expected to decline, maturity ranges are extended within portfolio and policy constraints. When interest rates are expected to increase, maturity ranges are shortened. The Investment Manager monitors yield spreads between various government agency issues and United States notes and bonds to determine the best value. The Investment Manager summarizes economic and market trend information and presents it at each regular meeting of the Investment Advisory Committee. The Investment Manager also presents recommendations for investment strategy based on economic and market conditions.

(C) If a Securities Lending agreement is executed, the Investment Manager will monitor the securities lending reports frequently or as needed, but not less than weekly, to reconcile safekeeping reports with lending reports. In addition to the investment manager's monitoring of the securities, regular valuation of the collateral also needs to be made to insure that the collateral held by the Lending Agent (the institution with which the securities lending agreement has been executed) is in compliance with the Travis County Investment Policy and remains above the 102% market value of the securities that were borrowed.

(7) Reconciling Investment Records and General Ledger. The Investment Manager provides the Auditor's Financial Reporting Division with a monthly report that states investments at par value, the identifying cusip number, the premium or discount and the interest purchased. The report includes monthly and year-to-date interest accruals and amortization/accretion of premium/discount. The Auditor reconciles this report to the investment accounts in the general ledger.

(8) Providing Revenue Estimates for All Portfolios. The Investment Manager provides an estimate of the investment revenue for the annual budget.

23.043 Auditor's Office

The Auditor is the primary monitor of county transactions. The Auditor prepares the general ledger and makes all entries in it, and performs internal audits of the controls of

county departments. In the investment function, the Auditor has the following responsibilities:

(1) Posting Investments and Reconciling to General Ledger. The Auditor's Financial Reporting Division posts investment transactions, investment interest revenue received, and accrued interest income to the General Ledger. The Auditor's Financial Reporting Division reviews and approves the monthly reconciliation of investments, investment interest revenue received, and accrued interest income to the General Ledger. The Auditor's Financial Reporting Division notifies the Investment Manager if there are any discrepancies between the monthly investment report described in 23.042 (7) and the general ledger so that these two departments can work together to reconcile the differences.

(2) Allocating Office Expenses. The Auditor's Financial Reporting Division allocates the Cash/Investment Management Office budget expense against investment interest revenue in the Debt Service Fund.

(3) Confirming Balances and Performing Compliance Audit. The Auditor's Internal Audit Division, in conjunction with its annual financial audit, shall perform a compliance audit of management controls on investments and adherence to chapter 23, Travis County Code and Tex. Gov't Code Ann. ch 2256, known as the Texas Public Funds Investment Act.

(4) Monitoring Arbitrage. The Auditor monitors Travis County's arbitrage responsibilities and provides the bond fund transaction information required by Travis County's arbitrage advisors.

(5) Reconciling Safekeeping Reports with Investments. On a quarterly basis, the Auditor's Financial Reporting Division reconciles the investment securities Safekeeping Report, provided to the Treasurer's Office by the depository Bank, to the Report of currently owned investment securities as of that date, provided by the Cash/Investment Management Office.

(6) Allocating Budget from Interest Revenue. The Auditor's Financial Reporting Division allocates the interest revenue earned from investments proportionately to all funds that participate in the investment function.

Subchapter H. Investment Purchasing Procedures

23.044 Competitive Bidding

(a) Travis County requires competitive bidding for all individual security purchases except for those transactions with MMMFs, LGIPs, treasuries purchased through the Federal Reserve Treasury Direct Accounts, and for

government securities purchased at issue through an approved broker/dealer at the auction price. The Investment Manager may rely not only on yield in selecting MMMFs and LGIPs but also on adherence to applicable Securities and Exchange Commission (SEC) guidelines for MMMFs and other criteria determined by her.

(b) At least three bids or offers must be solicited in all transactions involving individual securities. For those situations where it may be impractical or unreasonable to receive three bids for an agency transaction due to secondary market availability, bids may be considered comparable for agencies with comparable structures and having maturities within 15 calendar days before and after the requested security. Competitive bidding for security swaps is also required. Bids may be solicited in any manner provided by law. All bids received must be documented and filed for auditing purposes.

(c) At least three bids or offers must be solicited in transactions involving domestic commercial paper. These bids shall be obtained from approved broker/dealers or from a financial information source, such as Bloomberg. When bids are obtained from a financial information source, the commercial paper selected may be purchased directly from the issuer. Different issuers may be compared to select the highest yielding, domestic commercial paper. The Investment Manager may rely not only on yield in selecting commercial paper but also on other criteria determined by her. The criteria to follow when soliciting bids are as follows:

(1) The maturity dates must be the same, and

(2) The method of settlement must be the same whether regular settlement next day or cash settlement same day.

23.045 Preliminary Requirements for Repurchase Agreements

Before Travis County enters into a repurchase agreement with any issuer, that issuer must sign a Master Repurchase Agreement approved by Commissioners Court and return it to the Investment Manager for filing. All Repurchase Agreements are recommended by the Investment Manager, reviewed by Travis County Attorney's Office, and approved by Commissioners Court.

23.046 Wire Transfer Procedures

(a) In executing investment transactions, the Treasurer must use pre-formatted repetitive wire transfers, whenever possible, to restrict transfers of funds to pre-authorized accounts.

(b) For transfer of investment funds via wire to non-county accounts, the agreement with the depository bank must require the depository bank to call the Investment Manager for confirmation that this transfer is authorized prior to the transfer.

Subchapter I. Performance Evaluation And Reporting

23.047 Levels of Evaluation

Evaluation is conducted at several levels. The Investment Manager continually monitors and evaluates the investment performance. Cashflow forecasts will be reviewed by the Investment Advisory Committee. The Investment Advisory Committee evaluates the investment strategies and portfolio performance. The Travis County, County Executive for Planning and Budget or the Travis County Budget Director evaluates the Investment Manager's entire performance.

23.048 Investment Advisory Committee

The Investment Advisory Committee reviews investment policies and procedures, investment strategies, and investment performance. Travis County members of the Committee include: two designated members of Commissioners Court, one of whom acts as Chair, the Executive Manager of Planning and Budget, the Investment Manager, the Treasurer, and the Auditor. Outside expertise is provided by at least six persons from the Austin Metropolitan Area, who have demonstrated knowledge and expertise in the area of investment portfolio management. The Chair calls annual meetings of the committee or more often as needed.

23.049 Performance Analysis and Reporting

The Investment Manager determines the level and content of daily and weekly performance analysis and reporting. The Investment Manager and the Commissioners Court jointly decide the level and content of monthly performance analysis and reporting.

23.050 Quarterly Performance Analysis and Reporting

(a) The Investment Manager and the Assistant Investment Manager(s) must prepare, provide, and sign a quarterly summary report, for each fund group, that describes in detail the investment position of Travis County and evaluates investment performance based on investment policy objectives. The quarterly report will identify the method and source used to monitor the market price of investments and also will indicate whether the method and source changed from the previous quarterly report. This report must be submitted to the Investment Advisory Committee and Commissioners Court. A comparison of the performance of Travis County's portfolio to appropriate benchmarks selected by the Investment Manager is presented. The report addresses compliance with the investment policy in diversification by type and maturity. The report also includes the following information:

(1) Cash availability,

(2) Market review,

(3) Investment strategy – next quarter,

(4) Performance measurement: the standard used by Travis County to measure its investment return is based on the yield to maturity of all investments in the portfolio, using the stated final maturity date of each security,

(5) Portfolio statistics,

(6) Collateral adequacy for repurchase agreements,

(7) Collateral adequacy for bank deposits and certificates of deposit,

(8) Investment activity,

(9) Market valuation:

(A) at beginning of quarter, and

(B) at end of the quarter, for each portfolio,

(10) Distribution of investments by broker/dealer/financial institution,

(11) Distribution of investments by type of investment,

(12) Fully accrued interest for the reporting period,

(13) For each separately invested asset,

(A) state book value and market value at the beginning and end of the quarter by the type of asset and fund type,

(B) state maturity date, and

(C) state the fund for which it was acquired, and

(14) Signatures of the Investment Manager and the Assistant Investment Manager(s) certifying compliance of the Travis County investment portfolios with the Travis County investment strategy, policy and the Public Funds Investment Act.

(b) The reference to Generally Accepted Accounting Principles in 23.050 (a) relates only to internal reporting of investments by the Investment Manager as required under Texas Government Code 2256.023, and does not apply to annual financial statements and other external reports of Travis County as a whole.

23.051 Annual Performance Analysis and Reporting

The Investment Manager compiles the quarterly reports into an annual report at the end of each fiscal year and submits it to the Investment Advisory Committee and the Commissioners Court by the end of the first quarter of the following fiscal year.

An independent auditor chosen to audit the County's annual financial statements must formally review the quarterly investment reports that are prepared in compliance with

the Public Funds Investment Act. In conjunction with this audit, Travis County shall perform a compliance audit of management controls on investments and adherence to this Investment Policy. This review should be performed at least annually and the results reported to Commissioners Court.

Subchapter J. Investment Policy Review And Amendment

23.052 Review Procedures

The Investment Manager and the Investment Advisory Committee must review chapter 23, Travis County Code annually to make revisions due to legislative actions and changing market conditions. This review must be done by the third quarter of the calendar year after each legislative session. The Investment Manager must present a summary report of the review with changes recommended by the Investment Advisory Committee to the Commissioners Court. The Commissioners Court must review the investment policy and strategies at least annually.

23.053 Changes to the Investment Policy

After adoption of chapter 23, Travis County Code, the Commissioners Court must approve any revisions to the policy manual before they become effective, by adopting a written instrument stating it has reviewed the Investment Policy and investment strategies. This written instrument must record any changes made to either the policy or strategies.

Subchapter K. Interpretive Provisions

23.054 Authorization

The Public Funds Investment Act and the Public Funds Collateral Act authorize the Commissioners Court to promulgate this chapter on investment policy and procedures.

23.055 Effective Date

Chapter 23, Travis County Code is effective upon adoption by the Commissioners Court.

23.056 Definitions

(a) In this manual, the following words and phrases have the following meanings:

(1) "Auditor" means the Travis County Auditor or her designees.

(2) "Investment Manager" means the Travis County Investment Manager or her designees.

(3) "Commissioners Court" means Travis County Commissioners Court.

(4) "Treasurer" means the Travis County Treasurer or her designees.

(b) Definitions in the Public Funds Investment Act shall be used to interpret this chapter.

23.057 The Public Funds Investment Act

When this chapter is provided to broker/dealer/financial institutions, the Investment Manager shall also include a copy of the Public Funds Investment Act.

23.058 Construction, Precedents, and Interpretation

Chapter 23, Travis County Code must be construed to meet the following provisions:

(1) This chapter must be construed liberally to give all of the authorization intended for the investment of all portfolios.

(2) Commissioners Court resolves any questions about the interpretation of this chapter.

(3) If there is any conflict between this chapter and the state constitution, or any state law or any rule adopted under a state law or the United States constitution, this chapter prevails to the greatest extent possible without violating the United States constitution, the state constitution, any constitutional federal or state law or any constitutional rule adopted under either of these.

(4) The masculine, feminine and neuter genders are construed to include the other genders if required by the context or facts. The singular and plural are construed to include the other number if required by the context or facts. Words in the present tense are construed to include the future tense.

(5) Words and phrases are read in context and construed according to the rules of grammar and common usage. Words and phrases that have acquired a technical or particular meaning whether by definition in this chapter or otherwise, are construed according to the acquired meaning. Throughout the chapter, words defined in this section are shown with an initial capital. The use of an initial capital is construed to mean that the definition of the capitalized word or phrase is the definition in this section.

(6) Throughout this chapter, headings for sections, subsections and portions of the text are inserted for convenience only. These headings are not to be construed to expand or limit the interpretation of the text that follows the heading.

(7) When a period is stated in days, the days are construed as calendar days unless otherwise stated. If the last day of any period is a

Saturday, Sunday or county holiday, the period is extended to include the next day that is not a Saturday, Sunday or county holiday.

23.059 Disclosure

Investment officers required by 23.007 to make disclosure shall report in a manner that is substantially similar to the forms in 23.059 (1) and (2).

(1) Personal business interests which require disclosure should be reported in a format similar to the following:

Disclosure of Required Personal Business Interest Form

Date

Texas Ethics Commission

201 E. 14th Street (or current address)

Sam Houston Building, 10th Floor

Austin, Texas 78701

Dear Sir or Madam:

This letter is a disclosure statement to comply with the 1999 Public Funds Investment Act passed by the Texas Legislature, which requires, in § 2256.005 (i), that 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.

Travis County purchases investments through *Name of Business Organization*. As an investment officer of the Travis County Cash/Investment Department, I hereby disclose that I use *Name of Business Organization* for personal investment transactions.

Sincerely,

Signature of Travis County Investment Officer

Name of Travis County Investment Officer

CC: Travis County Commissioners Court
Travis County Executive Manager, Planning and Budget
Travis County Investment Manager

(2) Investment officers who have a relationship within the second degree by affinity or consanguinity must use a form similar to the following example:

Disclosure of Relationship Within Second Degree of Affinity or Consanguinity

Date

Texas Ethics Commission

201 E. 14th Street (or current address)

Sam Houston Building, 10th Floor

Austin, Texas 78701

Dear Sir or Madam:

This letter is a disclosure statement to comply with the 1999 Public Funds Investment Act passed by the Texas Legislature, which requires, in § 2256.005 (i), that 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.

Travis County purchases investments through *Name of Individual* with *Name of Business Organization*. As an investment officer of the Travis County Cash/Investment Department, I hereby disclose that I am related to *Name of Individual* with *Name of Business Organization* within the second degree of affinity or consanguinity.

Sincerely,

Signature of Travis County Investment Officer

Name of Travis County Investment Officer

CC: Travis County Commissioners Court
Travis County Executive Manager, Planning and Budget
Travis County Investment Manager

23.060 Certification

TEXAS PUBLIC FUNDS INVESTMENT ACT

CERTIFICATION BY BUSINESS ORGANIZATION

This certification is executed on behalf of Travis County and (the Business Organization) pursuant to the Texas Public Funds Investment Act, Chapter 2256, Government Code, Texas Codes Annotated (the Act), in connection with investment transactions conducted between Travis County and the Business Organization.

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

(i) Public Funds Investment Act Section 2256.005 (k): Nothing in this Certification relieves Travis County of the responsibility for monitoring the investments made by Travis County to determine that they are in compliance with the Travis County Investment Policy.

(ii) The undersigned is a Qualified Representative of the Business Organization offering to enter into an investment transaction with Travis County as such terms are used in the Public Funds Investment Act, Chapter 2256, Texas Government Code;

(iii) The Qualified Representative of the Business Organization has received and thoroughly reviewed the Investment Policy furnished by the Travis County Investment Officer;

(iv) Public Funds Investment Act Section 2256.005 (k) (2): The Qualified Representative of the Business Organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between Travis County and the Business Organization that are not authorized by Travis County's Investment Policy, except to the extent that this authorization is dependent on an analysis of the makeup of Travis County's entire portfolio or requires an interpretation of subjective investment standards.

Qualified Representative of the Business Organization

Signature _____

Name _____

Title _____

Date _____

23.061 Broker/Dealer/Financial Institution Questionnaire

Non-Primary Broker/Dealer/Financial Institutions must complete a Broker/Dealer Questionnaire in the following form to comply with 23.019 and 23.020:

TRAVIS COUNTY, TEXAS

BROKER/DEALER/FINANCIAL INSTITUTION QUESTIONNAIRE

Travis County operates under the laws of the State of Texas, including the State of Texas Public Funds Investment Act. Travis County manages an investment portfolio ranging in size from $373 million to $668 million, which is comprised mainly of U.S. Treasury and Agency obligations, Commercial Paper, and Local Government Investment Pools. Travis County has adopted a written Investment Policy which regulates the standards and procedures used in its cash management activities. A copy of the Investment Policy is included, as well as a copy of the Public Funds Investment Act.

Travis County will review and substantiate information and references requested in this Questionnaire; therefore, please answer all questions as thoroughly as possible. Travis County will notify Broker/Dealers of their approval/non-approval in writing. No transactions will be conducted with a Broker/Dealer who has not signed the Travis County Certification. Travis County solicits competitive bids and offers on the majority of its transactions. All securities will be delivered against payment to the third party custodian named by Travis County.

Note that instructions in bold print require information to be provided in addition to the completed questionnaire.

1.Name of Firm _____

2. Local Address _____

3. National Address _____

4. Local telephone number (____) _____

National telephone number (____) _____

5. Primary representative (the person Travis County will be primarily doing business with)

Name_____
Title _____
Telephone number (____) _____ CRD # _____

6. Secondary representative

Name_____
Title _____
Telephone number (____) _____ CRD # _____

7. Identify all personnel who will be trading with or quoting securities to the Travis County Cash/Investment Management staff (additional back-ups)

Name	Title	CRD number
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

PLEASE ATTACH RESUMES of all the above persons.

8. Have all of the above personnel read our investment policies and procedures and signed our certification?

Yes [ ] No [ ]

If above answer is no, please explain: _____
_____
_____
_____

9. (A) If you are a broker/dealer or subsidiary of a national bank, is your firm licensed to do business in Texas?

Yes [ ] No [ ]

(B) If you are a broker/dealer or subsidiary of a national bank, is your firm a member of Financial Industry Regulatory Authority (FINRA) in good standing?

Yes [ ] No [ ]

Please provide your firm's CRD number _____

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

Firm-wide $ _____
Number of Transaction _____
Local office $ _____ _____
Number of Transactions _____

11. Which instruments are offered regularly by your local desk?

[ ] Treasury Bills
[ ] Treasury notes/bonds
[ ] Agencies - specify

_____
_____
_____

[ ] Commercial paper

[ ] Other – specify

_____
_____
_____

12. Please identify at least three of your most directly comparable public sector clients in Texas who have done business with the primary representative listed in question 5.

Entity	Contact Person	Telephone no.	Client since
_____	_____	(____)_____	_____
_____	_____	(____)_____	_____
_____	_____	(____)_____	_____
_____	_____	(____)_____	_____

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

_____
_____
_____
_____
_____
_____

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

15. Are you representing a parent corporation or a subsidiary of another corporation?

Parent [ ] Subsidiary [ ]

If you are a SUBSIDIARY, please provide the most recent audited financial statements for your PARENT corporation.

16. If your institution is a bank,

(A) Has your bank consistently complied with the Federal Reserve Bank's capital adequacy guidelines?

(B) Is your bank in compliance with these guidelines on the date of this questionnaire?

(C) Has your capital position ever fallen short of these guidelines?

(D) Does your bank presently exceed the capital adequacy guidelines' measure of risk? If so, by what factor? Example: 1.5X, 2X, etc.

(E) Please provide certified documentation of your capital adequacy as measured by the Federal Reserve Bank standards.

17. If your institution is a broker/dealer or a subsidiary of a national bank, please provide your most recent FOCUS report.

18. Please provide your delivery instructions. Our Safekeeping unit requires that we provide this information when we purchase a security.

19. What portfolio information do you require from your clients?

20. What reports, transactions, confirmations, and paper trail will we receive?

Attachment B

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;

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

(F) procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the provisions of Section 2256.021.

(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,

(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.
Amended by:

Acts 2011, 82nd Leg., R.S., Ch. 1004, Sec. 1, eff. June 17, 2011.

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 each state fiscal biennium 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.
Amended by:

Acts 2011, 82nd Leg., R.S., Ch. 1004, Sec. 2, eff. June 17, 2011.

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 that begins on the first day of that local government's fiscal year and consists of the two consecutive fiscal years after that date, 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 that begins on the first day of that local government's fiscal year and consists of the two consecutive fiscal years after that date. 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.
Amended by:

Acts 2011, 82nd Leg., R.S., Ch. 1004, Sec. 3, eff. June 17, 2011.

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, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States;

(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.

Amended by:

Acts 2011, 82nd Leg., R.S., Ch. 1004, Sec. 4, eff. June 17, 2011.

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) a broker that has its main office or a branch office in this state and is selected from a list adopted by the investing entity as required by Section 2256.025; or

(B) 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 broker or 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; and

(4) the investing entity appoints the depository institution selected by the investing entity under Subdivision (1), an entity described by Section 2257.041(d), or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the investing entity with respect to the certificates of deposit issued for the account of the investing entity.

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.

Acts 2011, 82nd Leg., R.S., Ch. 1004, Sec. 5, eff. June 17, 2011.

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 a combination of cash and obligations described by Section 2256.009(a)(1); and

(3) requires the securities being purchased by the entity or cash held 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.

Amended by:

Acts 2011, 82nd Leg., R.S., Ch. 1004, Sec. 6, eff. June 17, 2011.

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. An investment pool may invest its funds in money market mutual funds to the extent permitted by and consistent with this subchapter and the investment policies and objectives adopted by the investment pool.

(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, including a statement regarding how yield is calculated;

(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. In addition to the requirements of its investment policy and any other forms of reporting, a public funds investment pool created to function as a money market mutual fund shall report yield to its investors in accordance with regulations of the federal Securities and Exchange Commission applicable to reporting by money market funds.

(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.

(i) If the investment pool operates an Internet website, the information in a disclosure instrument or report described in Subsections (b), (c)(2), and (f) must be posted on the website.

(j) To maintain eligibility to receive funds from and invest funds on behalf of an entity under this chapter, an investment pool must make available to the entity an annual audited financial statement of the investment pool in which the entity has funds invested.

(k) If an investment pool offers fee breakpoints based on fund balances invested, the investment pool in advertising investment rates must include either all levels of return based on the breakpoints provided or state the lowest possible level of return based on the smallest level of funds invested.

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.

Amended by:

Acts 2011, 82nd Leg., R.S., Ch. 1004, Sec. 7, eff. June 17, 2011.

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.

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.

Amended by:

Acts 2011, 82nd Leg., R.S., Ch. 1004, Sec. 8, eff. June 17, 2011.

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. 2256.0202. AUTHORIZED INVESTMENTS: MUNICIPAL FUNDS FROM MANAGEMENT AND DEVELOPMENT OF MINERAL RIGHTS. (a) In addition to other investments authorized under this subchapter, a municipality may invest funds received by the municipality from a lease or contract for the management and development of land owned by the municipality and leased for oil, gas, or other mineral development in any investment authorized to be made by a trustee under Subtitle B, Title 9, Property Code (Texas Trust Code).

(b) Funds invested by a municipality under this section shall be segregated and accounted for separately from other funds of the municipality.

Added by Acts 2009, 81st Leg., R.S., Ch. 1371, Sec. 1, eff. September 1, 2009.

Sec. 2256.0203. AUTHORIZED INVESTMENTS: PORTS AND NAVIGATION DISTRICTS. (a) In this section, "district" means a navigation district organized under Section 52, Article III, or Section 59, Article XVI, Texas Constitution.

(b) In addition to the authorized investments permitted by this subchapter, a port or district may purchase, sell, and invest its funds and funds under its control in 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.

Added by Acts 2011, 82nd Leg., R.S., Ch. 804, Sec. 1, eff. September 1, 2011.

Sec. 2256.0204. AUTHORIZED INVESTMENTS: INDEPENDENT SCHOOL DISTRICTS. (a) In this section, "corporate bond" means a senior secured debt obligation issued by a domestic business entity and

rated not lower than "AA-" or the equivalent by a nationally recognized investment rating firm. The term does not include a debt obligation that:

(1) on conversion, would result in the holder becoming a stockholder or shareholder in the entity, or any affiliate or subsidiary of the entity, that issued the debt obligation; or

(2) is an unsecured debt obligation.

(b) This section applies only to an independent school district that qualifies as an issuer as defined by Section 1371.001.

(c) In addition to authorized investments permitted by this subchapter, an independent school district subject to this section may purchase, sell, and invest its funds and funds under its control in corporate bonds that, at the time of purchase, are rated by a nationally recognized investment rating firm "AA-" or the equivalent and have a stated final maturity that is not later than the third anniversary of the date the corporate bonds were purchased.

(d) An independent school district subject to this section 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, reserves, and other funds held for the payment of debt service, in corporate bonds; or

(2) invest more than 25 percent of the funds invested in corporate bonds in any one domestic business entity, including subsidiaries and affiliates of the entity.

(e) An independent school district subject to this section may purchase, sell, and invest its funds and funds under its control in corporate bonds if the governing body of the district:

(1) amends its investment policy to authorize corporate bonds as an eligible investment;

(2) adopts procedures to provide for:

(A) monitoring rating changes in corporate bonds acquired with public funds; and

(B) liquidating the investment in corporate bonds; and

(3) identifies the funds eligible to be invested in

corporate bonds.

(f) The investment officer of an independent school district, acting on behalf of the district, shall sell corporate bonds in which the district has invested its funds not later than the seventh day after the date a nationally recognized investment rating firm:

(1) issues a release that places the corporate bonds or the domestic business entity that issued the corporate bonds on negative credit watch or the equivalent, if the corporate bonds are rated "AA-" or the equivalent at the time the release is issued; or

(2) changes the rating on the corporate bonds to a rating lower than "AA-" or the equivalent.

(g) Corporate bonds are not an eligible investment for a public funds investment pool.

Added by Acts 2011, 82nd Leg., R.S., Ch. 1347, Sec. 1, eff. June 17, 2011.

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 of each pooled fund group that states the:

(A) beginning market value for the reporting period;

(B) ending market value for the period; and

(C) fully accrued interest for the reporting period;

(5) state the book value and market value of each separately invested asset at the 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.

Amended by:

Acts 2011, 82nd Leg., R.S., Ch. 1004, Sec. 9, eff. June 17, 2011.

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.

Attachment C

ORDER OF THE TRAVIS COUNTY COMMISSIONERS COURT AFFIRMING THE TRAVIS COUNTY CODE CHAPTER 23, INVESTMENT POLICIES AND PROCEDURES

STATE OF TEXAS §
§
COUNTY OF TRAVIS §

Recitals

The Public Funds Investment Act, Chapter 2256 of the Texas Government Code, section 2256.005 (e) provides as follows:

> (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.

In March, 1995, Travis County Commissioners Court adopted a written investment policy regarding the investment of its funds and the funds under its control by order in the form of Chapter 23, Investment Policies and Procedures in the Travis County Policies, Procedures and Regulations Manual.

Travis County Commissioners Court has annually reviewed Chapter 23, Investment Policies and Procedures and amended it as appropriate each year.

Travis County Commissioners Court established an Investment Advisory Committee composed of individuals experienced in the investment of public funds in the central Texas area. In August, 2014, the Investment Advisory Committee reviewed Chapter 23, Investment Policies and Procedures and unanimously recommended that no changes be made at this time.

In September, 2014, Travis County Commissioners Court reviewed the current Travis County Code, Chapter 23, Investment Policies and Procedures and, consistent with the recommendation of the Investment Advisory Committee, has found that the investment policies and strategies stated in Chapter 23, Investment Policies and Procedures of the Travis County Code remain appropriate and that no changes are needed at this time.

Order

Now, therefore, the Travis County Commissioners Court orders that the investment policies and strategies currently stated in Chapter 23, Investment Policies and Procedures of the Travis

County Code be affirmed for its fiscal year ending September 30, 2015.

Date of Order: _____

TRAVIS COUNTY COMMISSIONERS COURT

_____
Samuel T. Biscoe, County Judge

_____
Ron Davis
Commissioner, Precinct 1

_____
Bruce Todd
Commissioner, Precinct 2

_____
Gerald Daugherty
Commissioner, Precinct 3

_____
Margaret Gómez
Commissioner, Precinct 4