

**WEBB COUNTY**  
**POLICY FOR THE INVESTMENT OF COUNTY FUNDS**  
**(2017)**

This policy for the investment of funds of Webb County is adopted by the Webb County Commissioners Court pursuant to Section 116.112 of the Texas Local Government Code, Chapter 2256 of the Texas Government Code, and Chapter 2257 of the Texas Government Code. This policy will be reviewed and adopted by order at least annually, in accordance with Section. 2256.005 (e) of the Texas Government Code.

**ARTICLE I. DEFINITIONS**

Unless the context requires otherwise, the following terms and phrases used shall mean the following:

- A. “Authorized Investment” -- the types of investments authorized for the investment of the County’s funds listed in Article IV hereof.
- B. “Commissioners Court” -- the Webb County Commissioners Court. Composed of four (4) Commissioners and a County Judge.
- C. “County” – Webb County.
- D. “FDIC” -- The Federal Deposit Insurance Corporation.
- E. “Funds” -- all funds and accounts containing money, investments, or other financial assets belonging to the County, the investment of which is governed by the Public Funds Investment Act.
- F. “Investment Officer” -- the County Treasurer and a County Treasurer’s employee designated as the County’s Investment Officer by the Commissioners Court; such person(s) is/are responsible for the investment of the County’s funds.
- G. “Investment Policy” -- this policy for the funds of Webb County.
- H. “Public Funds Collateral Act” -- Chapter 2257 of the Texas Government Code.
- I. “Public Funds Investment Act” -- Chapter 2256 of the Texas Government Code.

**ARTICLE II. INVESTMENT POLICY**

Section 2.01 Applicability. This Investment Policy applies to all funds. See Sections 3.02 through 3.04.

Section 2.02 Purpose. The Commissioners Court desires to adopt this Investment Policy in order to comply with the Public Funds Investment Act and to set forth the general policies governing investment of the Funds, the specific investment strategies applicable to each particular Fund, the guidelines for the investment of the Funds, including the types of investments authorized for the Funds, and the investment management policies of the County.

Section 2.03 Investment Policy. The primary concern of the Investment Officer in the investment of the Funds shall be the preservation and safety of the principal. To the extent that the principal is protected, the secondary concern of the Investment Officer in investing the Funds shall be the liquidity of the County’s investments. Finally, to the extent that principal is protected and there is liquidity, the Investment Officer shall invest the Funds to yield the market rate of return in accordance with this Investment Policy. The investment of all of the Funds shall be undertaken in accordance with the provisions of the Investment Policy.

Section 2.04 Standard of Care. The Investment Officer shall invest the Funds with the 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 the principal and probable income to be derived.

Section 2.05 Investment Diversification. Investments shall be diversified by security type and issuer. The investments shall also be diversified as to maturity as described in the investment strategies in Article III.

Section 2.06 Investment Yield. To the extent that the principal is protected and there is liquidity of the investments, the Funds shall be invested to yield the market rate of return of comparable maturity, taking into consideration the strength of any insured financial institution selling investments to the County, and complying with all applicable laws, rules, or regulations and any bond resolutions or orders adopted from time to time by the Commissioners Court requiring yield restrictions.

Section 2.07 Investment Maturities. The Funds shall be invested to mature to meet the County's cash requirements, but when cash requirements are met, the Funds shall be invested in accordance with the investment strategies developed for individual Funds, as described in Article III.

### **ARTICLE III. INVESTMENT STRATEGIES**

Section 3.01 Purpose. The purpose of this Article III is to describe the investment objectives for each separate Fund and to provide investment strategies to obtain such objectives in order to ensure that investments in a particular Fund are suitable for and meet the objectives of the Fund.

Section 3.02 General Fund, Special Revenue Funds, Enterprise Funds, Internal Service Funds, and Fiduciary Funds.

A. The same investment objectives apply to each of the following funds: General Fund, Special Revenue Funds, Enterprise Funds, Internal Service Funds and Fiduciary Funds. They are: (1) preserving the safety of the principal; (2) ensuring that money is available as needed to meet the liabilities of each fund, as estimated on its annual operating budget or cash flow; and (3) ensuring that the investments can be readily liquidated in the event there are unexpected additional operating costs.

B. The Investment Officer shall invest money of the General Fund, Special Revenue Funds, Enterprise Funds, Internal Service Funds and Fiduciary Funds in any Authorized Investment; provided that, however, for money needed for the County's monthly operating expenses, as determined by the annual operating budget and cash flow, investments will mature no later than the date the money will be needed to pay such operating expenses. For any operating reserve, no investment will have a maturity greater than 12 months from date of purchase, unless the Commissioners Court authorizes an investment with a longer maturity. At no time will investments of 12 months or more constitute more than 15% of the portfolios of the General Fund, Special Revenue Funds, Enterprise Funds, Internal Service Funds and Fiduciary Funds.

Section 3.03 Capital Projects Funds.

A. The investment objectives of the Capital Projects Funds are: (1) preserving the safety of the principal; (2) ensuring that money is available as needed to meet the construction needs of the County; and (3) to the extent principal is protected and there is adequate liquidity, obtaining the maximum yield on investments as permitted by market conditions.

B. When applicable, the engineer/architect for a project shall submit to the Commissioners Court and the Investment Officer semi-annual written reports stating the anticipated construction needs of the County for the succeeding 12 months. Unless otherwise directed by the Commissioners Court, the written reports shall be submitted two months prior to the end of the County's fiscal year and six months thereafter.

C. The Investment Officer shall invest money of the Capital Projects Funds in any Authorized Investment; provided, however, that for money needed to meet the construction needs of the County, investments will mature no later than the date the money is expected to be needed to pay for the project. For other monies, investments will mature no later than 12 months after the date of purchase, unless the Commissioners Court authorizes an investment with a longer maturity. At no time will investments with maturities of 12 months or more constitute more than 25% of the Capital Projects Funds portfolio.

Section 3.04 Debt Service Funds.

A. The Investment objectives of the Debt Service Funds are: (1) preserving the safety of the principal; (2) ensuring that money is available as necessary to meet the debt service needs of the County; and (3) to the extent that principal is protected and there is adequate liquidity, obtaining the maximum yield as permitted by market conditions.

B. The Investment Officer shall invest money in the Debt Service Funds in any Authorized Investment for such Funds, and in accordance with any covenants made regarding the investment of these Funds as provided in any applicable bond order or resolution; provided, however, that for money needed for the County's next debt service payments, the investments will mature no later than the date the debt service payment is due. Once the immediate succeeding debt service payment is funded, investments will be purchased for the next debt service payment. If the next two debt service payments are fully funded, excess funds can be used for investments with maturity dates not to exceed two years from date of purchase unless otherwise authorized by the Commissioners Court. At no time will investments with maturities of two years or more constitute more than 20% of the Debt Service Fund portfolio.

**ARTICLE IV. INVESTMENT GUIDELINES**

Section 4.01 Purpose. The purpose of this Article IV is to set forth the types of Authorized Investments in which the Funds may be invested and the manner in which certain investments may be made.

Section 4.02 Authorized Investments. The Investment Officer is authorized to invest the Funds in the following types of investments:

1. Obligations of, or Guaranteed by, the United States Government. The Funds may be invested in obligations of, or guaranteed by, the United States or one of its agencies or instrumentalities. Authorized Investments in obligations of, or guaranteed by, the United States shall not constitute more than 75% of the portfolio. This includes "pass-through" mortgage-backed securities issued by such agencies or instrumentalities, with the exception of mortgage-backed securities listed in Section 4.03.

2. Certificates of Deposit. The Funds may be invested in certificates of deposit issued by a federally insured state or national bank domiciled in Texas or by a savings bank domiciled in Texas. Principal and accrued interest on certificates issued by a savings bank shall not exceed FDIC limits. Principal and accrued interest on certificates issued by a state or national bank domiciled in Texas shall not exceed FDIC limits and /or the collateral pledged as security for the County's investments as set forth in Section 4.04. Authorized Investments in certificates of deposit shall not constitute more than 20% of the portfolio.

3. Investment Pools. The Funds may be invested in investment pools authorized by the Public Funds Investment Act, Section 2256.016 ("eligible investment pools"), if the Commissioners Court by resolution or order authorizes investment in the particular eligible investment pool. An eligible investment pool shall invest the funds it receives from the County in authorized investments permitted by the Public Funds Investment Act. The County by contract may delegate to an eligible investment pool the authority to hold legal

title as custodian of investments purchased with its local funds. Authorized Investments in eligible investments pool may constitute up to 100% of the portfolio.

4. Mutual Funds and Money Market Mutual Funds. The Funds may be invested in mutual funds and AAA-rated money market mutual funds permitted by and in conformance with the Public Funds Investment Act, Section 2256.014, Texas Government Code. Authorized Investments in mutual funds are restricted to 15% of the monthly average fund balance in accordance with the Public Funds Investment Act, Section 2256.014 ( c ) (1). No more than 80% of the County’s monthly average fund balance may be invested in the aggregate separately or collectively in money market funds and mutual funds. In accordance with the Public Funds Investment Act, Section 2256.014 ( c ) (3), no bond proceeds, reserves or debt service funds may be placed in mutual funds.

5. Repurchased Agreements. The Funds may be invested in fully collateralized repurchase agreements if the repurchase agreement 1) has a defined termination date; 2) is secured by obligations described by Section 2256.009 (a) (1) of the Public Funds Investment Act; 3) requires the securities being purchased by the County to be pledged to the County, held in the County’s name, and deposited at the time the investment is made with the County or with a third party selected and approved by the County; and 4) is placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in this state. In this section, “repurchase agreement” means a simultaneous agreement to buy, hold for a specified period of time, and sell back at a future date, obligations described by Section 2256.009 (a) (1) of the Public Funds Investment Act, at a market value at the time funds are disbursed of not less than the principal amount of the funds disbursed. Authorized investments in repurchase agreements shall not constitute more than 50% of the portfolio.

Section 4.03 Prohibited Investments. The Funds are strictly prohibited from being invested in any of the following investment instruments:

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

Section 4.04 Security of Funds/Collateral Policy.

A. All Funds held by an insured state or national bank domiciled in Texas in demand deposits or in certificates of deposit shall be secured by the FDIC and /or by 102% in pledged collateral. All Funds held in certificates of deposit by a savings bank domiciled in Texas must be fully secured by the FDIC. The County recognizes that the FDIC insurance is only available up to a maximum of \$250,000 per public unit.

B. To the extent the Funds held by banks domiciled in Texas are not insured by the FDIC, they shall be secured in the manner provided by law for the security of funds by the Public Funds Collateral Act. There shall be pledged as collateral for such funds, at a rate of 102% collateral, any of the following book entry securities: (1) government securities or obligations issued by the State of Texas, its agencies or political subdivisions, and approved by the Attorney General of Texas, payable from taxes; or (2) obligations of the United States or its agencies and instrumentalities, excluding mortgage backed securities; or (3) any other obligations or securities authorized to be collateral securing the funds of counties under the laws of the State of Texas that are approved by the Commissioners Court. All collateral shall be placed with an independent third party financial institution for safekeeping, with original safekeeping receipts issued to the County.

Section 4.05 Competitive Bidding. At least three bids/offers shall be solicited for each investment. Bids/offers may be solicited orally, in writing, electronically, or in any combination thereof.

Section 4.06 Authorized Financial Dealers and Institutions. A list will be maintained by the Investment Officer of creditworthy financial institutions and dealers authorized to sell investments to the County. All financial institutions and dealers who would like to become qualified to bid/offer on investments other than certificates of deposit and repurchase agreements must submit the following to the investment officer: (1) audited financial statements; (2) proof of National Association of Securities Dealers (NASD) certification, or for financial institutions, a statement from a senior bank official that the institution is registered as a government securities dealer; (3) proof of state registration; and (4) certification required by the Public Funds Investment Act. Compliance with these requirements must be verified by the Investment Officer before any transaction can be completed. An annual review of the financial condition and registration of qualified dealers and institutions will be conducted by the Investment Officer.

Section 4.07 Electronic Wire Transfers. Electronic means may be used to transfer or invest all Funds.

Section 4.08 Delivery vs. Payment. All investments, except certificates of deposit, investment pool funds and mutual funds, will be executed by delivery vs. payment (DVP) to ensure that investments purchased are deposited in the County's financial institution prior to the release of money in payment therefore.

Section 4.09 Loss of Required Rating. An investment under Section 4.02 that requires a minimum rating does not qualify as an Authorized Investment during the period that the investment does not have the minimum rating. The Investment Officer shall take all prudent measures that are consistent with this Investment Policy to liquidate any investment that does not comply with a minimum rating requirement.

## **ARTICLE V. INVESTMENT MANAGEMENT**

Section 5.01 Designation of Investment Officer. The Commissioners Court may designate the County Treasurer, and/or one or more County Treasurer's employees to serve as the Investment Officer for the County. The Investment Officer has the authority to invest the Funds in accordance with this Investment Policy and applicable law.

Section 5.02 Investment Training. The Investment Officer (s) shall attend at least one training session relating to such person's responsibilities under the Public Funds Investment Act within 12 months after taking office or assuming duties and attend an investment training yearly to obtain not less than 10 hours of instruction relating to investment responsibilities from an independent source approved by the Webb County Commissioners Court. Training must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with this chapter.

Section 5.03 Compliance Audit. The County, in conjunction with its annual financial audit, shall perform a compliance audit of management controls on investments and adherence to this Investment Policy.

Section 5.04 Internal Management Reports. Not less than quarterly, the Investment Officer shall prepare and submit to the Commissioners Court a written report of investment transactions for all Funds as required by the Public Funds Investment Act, Section 2256.023 (b), Texas Government Code.

Section 5.05 Conflicts of Interest. In the event that the Investment Officer has a personal business relationship with an entity seeking to sell an investment to the County, the Investment Officer shall file a statement with the Commissioners Court and the Texas Ethics Commission disclosing that personal business relationship prior to purchasing such investment. An Investment Officer who is related within the second degree by affinity or consanguinity, as determined under Chapter 573 of the Texas Government Code, to an individual seeking to

sell an investment to the County shall file a statement with the Commissioners Court and the Texas Ethics Commission disclosing that relationship.

Section 5.06 Disclosure of Investment Policies.

A. The Investment Officer shall provide a copy of this Investment Policy to any person offering to engage in an investment transaction with the County. The qualified representative of the business organization or senior bank official offering to engage in an investment transaction with the County shall execute a written acknowledgment in the form set forth in Appendix "A" hereto, to the effect that the qualified representative or senior bank official has received and reviewed the Investment Policy of the County and acknowledged that the business organization has implemented reasonable procedures and controls in an effort to preclude the investment transactions conducted between the County and the organization that are not authorized by the County's investment policy. The Investment Officer shall not acquire or otherwise obtain any authorized investment described in the investment policy of the County from a person who has not delivered to the County a written acknowledgement substantially to the effect as set forth in Appendix "A".

B. The County shall present the Investment Officer with a copy of this Investment Policy and the Investment Officer shall execute a written statement in the form set forth in Appendix "B" to the effect that the Investment Officer has reviewed the Investment Policy and has implemented procedures and controls to comply with this Investment Policy.

**ARTICLE VI. MISCELLANEOUS**

Section 6.01 Open Meeting. The Commissioners Court officially finds, determines, and declares that this Investment Policy was reviewed, carefully considered, and adopted at a regular meeting of the Commissioners Court beginning at 9:00 a.m. on **August 28, 2017** and that a sufficient written notice of the date, hour, place, and subject of this meeting was posted at a place readily accessible and convenient to the public within the County and on a bulletin board located at a place convenient to the public in the Webb County Courthouse for the time required by law preceding this meeting, as required by the Open Meetings Act, Texas Government Code, Section 551, etsecy. as amended, and that this meeting had been open to the public as required by law at all times during which this Investment Policy was discussed, considered, and acted upon. The Commissioners Court further ratifies, approves and confirms such written notice and the contents and posting thereof.

Section 6.02.Effective Date. This Investment Policy shall be effective as of **August 28, 2017**.

(SEAL)

\_\_\_\_\_  
Tano E. Tijerina  
Webb County Judge

\_\_\_\_\_  
Margie Ramirez Ibarra  
Webb County Clerk

**WEBB COUNTY COMMISSIONERS COURT  
ORDER**

**WHEREAS**, the Commissioners Court of Webb County, Texas, desires to adopt an Investment Policy in order to comply with the Public Funds Investment Act as outlined under chapter 2256 of the Texas Government Code; and

**WHEREAS**, the Commissioners Court of Webb County, Texas, is desirous in its Investment Policy to set forth the general policies governing investment of Public Funds, the specific investment strategies applicable to each particular Fund, the guidelines for the investment of the Funds, and the investment management policies of Webb County; and

**WHEREAS**, the Commissioners Court of Webb County, pursuant to Texas Government Code section 2256.005, must review its Investment Policy on annual basis; and

**WHEREAS**, the Commissioners Court of Webb County, Texas has reviewed its Investment Policy and Investment Strategies for Fiscal Year 2017.

**NOW THEREFORE**, be it **ORDERED** that the Commissioners Court of Webb County, Texas adopts Webb County Investment Policy for fiscal year 2017.

Passed and Approved on this the 28th day of August, 2017.

\_\_\_\_\_  
Honorable Tano E. Tijerina  
Webb County Judge

**ATTESTED:**

\_\_\_\_\_  
Margie Ramirez Ibarra  
Webb County Clerk

# APPENDIX “A”





*Delia Perales*  
*Webb County Treasurer*

August 28, 2017

AUTHORIZED LOCAL BANK FOR SHORT TERM CD'S, FDIC OR NCUA National Credit Union Administration:

COMPASS BANK

TEXAS COMMUNITY BANK

WELLS FARGO

COMMERCE BANK

CHASE BANK

LAREDO FEDERAL CREDIT UNION



TEXAS PUBLIC FUNDS INVESTMENT ACT  
ACKNOWLEDGEMENT AND CERTIFICATION  
OF INVESTMENT POLICIES

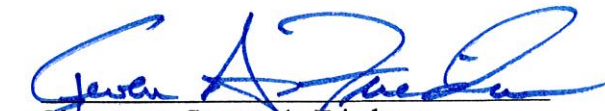
This Acknowledgement and Certification is executed on behalf of the Texas Local Government Investment Pools, TexPool and TexPool Prime (collectively, "TexPool"), and Federated Investment Counseling, as investment adviser to TexPool ("Adviser"), pursuant to Section 2256.005(k), Texas Government Code, in connection with investment transactions conducted between Webb County ("Investing Entity") and TexPool.

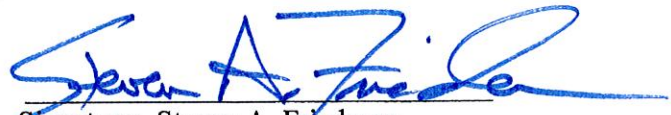
The undersigned, who is a qualified representative of both TexPool and Adviser (the "Qualified Representative") hereby certifies on behalf of TexPool and Adviser that, as of the date of this letter:

- (i.) The Qualified Representative is duly authorized to execute this Acknowledgment and Certification on behalf of TexPool and Adviser; and
- (ii.) The Qualified Representative has received and reviewed the Investing Entity's investment policy attached hereto as Exhibit A (the "Policy"); and
- (iii.) TexPool and Adviser have implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the Investing Entity and TexPool that are not authorized by the Policy, except to the extent that this authorization is dependent on an analysis of the makeup of the Investing Entity's entire portfolio or requires an interpretation of subjective investment standards.

TEXPOOL

FEDERATED INVESTMENT  
COUNSELING

  
Signature: Steven A. Friedman  
Authorized Signatory

  
Signature: Steven A. Friedman  
Vice President

Date: 7/21/2017

Date: 7/21/2017



# Monthly Newsletter: July 2017

## ANNOUNCEMENTS

### We welcome the following entities who joined TexPool in June 2017:

#### TexPool

Williamson County ESD 2  
 Texas Municipal League Intergovernmental Risk Pool  
 Rankin Road West MUD  
 Clay Road MUD  
 West Central Texas Municipal Water District

#### TexPool Prime

Texas Municipal League Intergovernmental Risk Pool  
 Rankin Road West MUD  
 City of Austin  
 Clay Road MUD  
 Victoria County Junior College District

### Upcoming Events

Jul 09, 2017 - Jul 11, 2017  
 TASSCUBO Summer Conference  
 San Antonio

Aug 23, 2017 - Aug 25  
 TAC Legislative Conference  
 Austin

Sep 11, 2017 - Sep 14, 2017  
 69th Annual County Treasurers' of Texas Annual Conference  
 Dallas/Addison

Oct 03, 2017 - Oct 06, 2017  
 TML Conference  
 Houston

### TexPool Advisory Board Members

Jose Elizondo, Jr.	Vivian Wood
Georgia Sanchez	Jerry Dale
Patrick Krishock	Sharon Matthews
Michele Tuttle	David Landeros

Overseen by the State of Texas Comptroller of Public Accounts Glenn Hegar.

Operated under the supervision of the Texas Treasury Safekeeping Trust Company

## Economic and Market Commentary: The quickening pace of rate hikes

July 1, 2017

After years of the same ultra-low rate of zero to 25 basis points, the three hikes the Federal Reserve (Fed) has made in the last six months seems like a stock car race. The conversation about monetary policy isn't whether more rate increases are coming, but how many and how fast.

We see the Fed continuing down the rate normalization track. June's 25 basis-point increase of the target fed funds rate range to 1-1.25%—the third such increase since mid-December 2016—had been priced into the markets. What was a bit of surprise was the specificity of the balance sheet reduction plan the Fed announced with the policy statement after the June Federal Open Market Committee meeting, which likely was done to appease the bond market and avoid a repeat of 2013's taper tantrum. The Fed said it will start removing \$6 billion of Treasury bills and \$4 billion of mortgage-backed securities (MBS) off its balance sheet each month, gradually raising the amount to \$30 billion of Treasuries and \$20 billion of MBS—\$50 billion total—over a six-month period. It didn't say when it will initiate the plan, but we wouldn't be surprised to see it come in the third quarter of this year, before the likely additional rate increase.

*(continued page 6)*

### Performance as of June 30, 2017

	TexPool	TexPool Prime
Current Invested Balance	\$17,629,314,686.85	\$4,091,205,021.24
Weighted Average Maturity**	38 Days	37 Days
Weighted Average Life**	103 Days	58 Days
Net Asset Value	0.99999	1.00005
Total Number of Participants	2,422	269
Management Fee on Invested Balance	0.0473%	0.0638%
Interest Distributed	\$12,700,921.17	\$3,760,819.00
Management Fee Collected	\$664,101.73	\$175,167.96
Standard & Poor's Current Rating	AAAm	AAAm

### Month Averages

Average Invested Balance	\$17,537,248,240.03	\$4,023,646,472.32
Average Monthly Rate*	0.8817%	1.1371%
Average Weighted Average Maturity**	41	56
Average Weighted Average Life**	105	269

\*This average monthly rate for TexPool Prime for each date may reflect a waiver of some portion or all of each of the management fees.

\*\*See page 2 for definitions.

Past performance is no guarantee of future results.

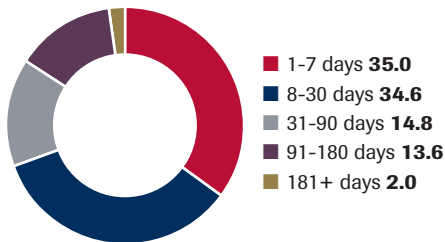
TexPool Participant Services  
 1001 Texas Avenue, Suite 1400 · Houston, TX 77002  
 Phone: 1-866-TEXPOOL (839-7665) · Fax: 1-866-839-3291 · TexPool.com

Managed and  
 Serviced by **Federated**<sup>®</sup>  
 G35884-24 (7/17)



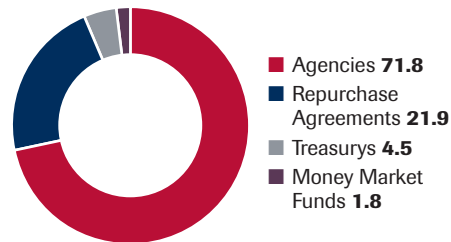
## Portfolio by Maturity (%)

As of June 30, 2017



## Portfolio by Type of Investment (%)

As of June 30, 2017



### Portfolio Asset Summary as of June 30, 2017

	Book Value	Market Value
Uninvested Balance	\$6,058.89	\$6,058.89
Receivable for Investments Sold	0.00	0.00
Accrual of Interest Income	6,272,158.74	6,272,158.74
Interest and Management Fees Payable	-12,700,934.31	-12,700,934.31
Payable for Investments Purchased	-250,000,000.00	-250,000,000.00
Accrued Expenses & Taxes	-22,256.34	-22,256.34
Repurchase Agreements	3,920,070,000.00	3,920,070,000.00
Mutual Fund Investments	315,022,103.88	315,022,103.88
Government Securities	12,837,594,557.05	12,837,705,884.44
U.S. Treasury Inflation Protected Securities	0.00	0.00
US Treasury Bills	174,456,843.75	174,418,475.00
US Treasury Notes	638,616,155.19	638,324,750.00
<b>Total</b>	<b>17,629,314,686.85</b>	<b>17,629,096,240.30</b>

Market value of collateral supporting the Repurchase Agreements is at least 102% of the Book Value. The portfolio is managed by Federated Investment Counseling and the assets are safe kept in a separate custodial account at State Street Bank in the name of TexPool. The only source of payment to the Participants is the assets of TexPool. There is no secondary source of payment for the pool such as insurance or State guarantee. Should you require a copy of the portfolio, please contact TexPool Participant Services.

### Participant Summary

	Number of Participants	Balance
School District	582	\$5,456,986,244.60
Higher Education	57	\$1,314,460,191.65
Healthcare	81	\$632,016,322.98
Utility District	764	\$2,629,205,708.85
City	456	\$4,168,980,196.16
County	185	\$1,723,164,006.79
Other	297	\$1,704,095,417.17

#### \*\*Definition of Weighted Average Maturity and Weighted Average Life

WAM is the mean average of the periods of time remaining until the securities held in TexPool (a) are scheduled to be repaid, (b) would be repaid upon a demand by TexPool, or (c) are scheduled to have their interest rate readjusted to reflect current market rates. Securities with adjustable rates payable upon demand are treated as maturing on the earlier of the two dates set forth in (b) and (c) if their scheduled maturity is 397 days or less; and the later of the two dates set forth in (b) and (c) if their scheduled maturity is more than 397 days. The mean is weighted based on the percentage of the amortized cost of the portfolio invested in each period.

WAL is calculated in the same manner as WAM, but is based solely on the periods of time remaining until the securities held in TexPool (a) are scheduled to be repaid or (b) would be repaid upon a demand by TexPool, without reference to when interest rates of securities within TexPool are scheduled to be readjusted.



## Daily Summary

Date	Money Mkt. Fund Equiv. (SEC Std.)	Dividend Factor	TexPool Invested Balance	NAV	WAM Days	WAL Days
6/1	0.8105%	0.000022206	\$17,612,313,586.02	1.00003	42	105
6/2	0.8059%	0.000022079	\$17,508,050,093.63	1.00004	42	108
6/3	0.8059%	0.000022079	\$17,508,050,093.63	1.00004	42	108
6/4	0.8059%	0.000022079	\$17,508,050,093.63	1.00004	42	108
6/5	0.8075%	0.000022122	\$17,451,903,008.33	1.00004	40	105
6/6	0.8083%	0.000022144	\$17,430,864,200.38	1.00004	39	105
6/7	0.8289%	0.000022710	\$17,446,763,508.82	1.00003	40	105
6/8	0.8367%	0.000022923	\$17,429,623,151.80	1.00003	42	105
6/9	0.8417%	0.000023060	\$17,559,559,205.34	1.00002	42	107
6/10	0.8417%	0.000023060	\$17,559,559,205.34	1.00002	42	107
6/11	0.8417%	0.000023060	\$17,559,559,205.34	1.00002	42	107
6/12	0.8322%	0.000022801	\$17,550,928,114.00	1.00002	41	105
6/13	0.8334%	0.000022834	\$17,664,355,913.30	1.00001	41	104
6/14	0.8474%	0.000023216	\$17,469,717,626.80	1.00000	41	105
6/15	0.9089%	0.000024902	\$17,412,993,336.53	0.99999	40	103
6/16	0.9220%	0.000025261	\$17,340,043,683.13	1.00000	43	107
6/17	0.9220%	0.000025261	\$17,340,043,683.13	1.00000	43	107
6/18	0.9220%	0.000025261	\$17,340,043,683.13	1.00000	43	107
6/19	0.9289%	0.000025448	\$17,359,524,648.85	0.99999	40	104
6/20	0.9275%	0.000025410	\$17,301,038,286.41	0.99999	40	106
6/21	0.9279%	0.000025421	\$17,453,628,338.40	0.99999	40	105
6/22	0.9279%	0.000025422	\$17,482,563,681.52	0.99999	39	101
6/23	0.9300%	0.000025480	\$17,809,821,677.13	0.99999	39	102
6/24	0.9300%	0.000025480	\$17,809,821,677.13	0.99999	39	102
6/25	0.9300%	0.000025480	\$17,809,821,677.13	0.99999	39	102
6/26	0.9468%	0.000025939	\$17,814,455,832.30	1.00000	39	102
6/27	0.9389%	0.000025724	\$17,845,567,451.85	0.99997	39	102
6/28	0.9392%	0.000025732	\$17,602,429,308.84	0.99997	39	102
6/29	0.9450%	0.000025891	\$17,507,038,542.27	0.99997	38	103
6/30	0.9566%	0.000026207	\$17,629,314,686.85	0.99999	38	103
<b>Average:</b>	<b>0.8817%</b>	<b>0.000024156</b>	<b>\$17,537,248,240.03</b>	<b>1.00001</b>	<b>41</b>	<b>105</b>

July 24, 2017

Ms. Delia Perales  
Treasurer  
Webb County  
1110 Washington St., Suite 202  
Laredo, TX 78042

Re: Webb County Investment Policy

Dear Ms. Perales:

Thank you for your interest in the Texas CLASS program. This letter is to acknowledge that the Texas CLASS staff has received from you (the "Investor") and reviewed the Investment Policy (described in (ii) below) and the form of resolution (the "Resolution") proposed for adoption by your governing body (the "Governing Body") approving the Investment Policy. According to the Resolution, the Investment Policy has been developed in accordance with the requirements of the Public Funds Investment Act, Texas Government Code, Chapter 2256 (the "Act"), and, upon adoption, will authorize you to deposit funds in Texas CLASS for investment by Texas CLASS. You also have represented to the undersigned that:

- i. The Investment Officer named in the Resolution has been, or upon adoption of the Resolution will be, (a) duly designated by official action of the Governing Body to act as its Investment Officer pursuant to the Act, (b) vested with full power and authority under the Act and other applicable law (collectively, the "Authorized Investments Law") to engage in investment activities on behalf of the Investor and to perform all obligations in connection therewith, and (c) duly authorized to execute this letter on behalf of the Investor for the purpose of confirming the representations of the Investor set forth herein;
- ii. Pursuant to the Act, the Governing Body of the Investor has, or will upon approval of the Resolution have, duly adopted a written investment policy, including an investment strategy (as the same may be amended, the "Investment Policy"), and the Investment Officer (a) has furnished a true and correct copy of the Investment Policy to us and (b) will promptly notify us of any rescission of, or amendment to, the Investment Policy, provided that we shall be entitled to rely upon the most recent version of the Investment Policy furnished by the Investment Officer; and
- iii. The Investor has implemented reasonable procedures and controls in an effort to preclude imprudent investment activities arising out of investment transactions with Texas CLASS, and prior to investing assets through the Texas CLASS program, the Investment Officer will determine that the contemplated investment is authorized under the Authorized Investments Law and is consistent with the Investment Policy.

Texas CLASS acknowledges that it has reviewed the investment policy of the above-named entity and has implemented reasonable procedures and controls in an effort to preclude investment transactions involving funds invested on behalf of Texas CLASS participants that

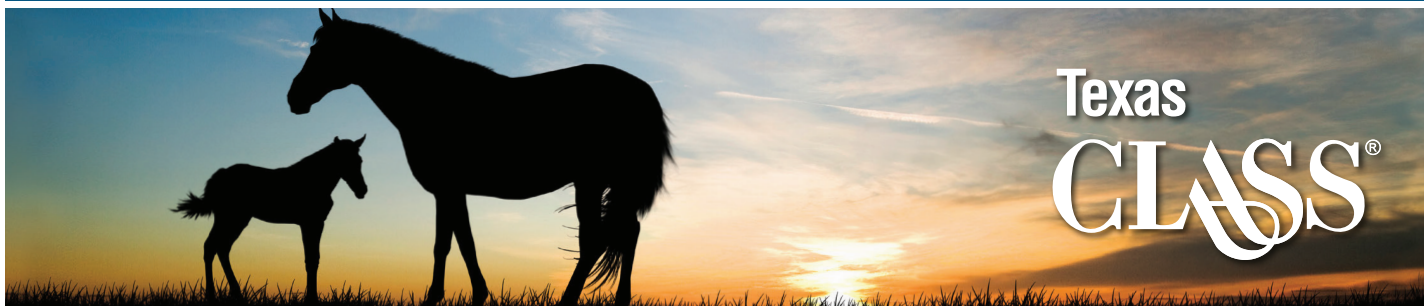
are not authorized by the entity's investment policy, except to the extent that this authorization is dependent on an analysis of the makeup of the entity's entire portfolio or requires an interpretation of subjective investment standards. The Texas CLASS Program allows the purchase of investments that are authorized by the Act. Texas CLASS is committed to the high standards and level of service that participants expect in the investments of their funds.

The foregoing representations of the Investor are true and correct as of the date hereof.

Sincerely,

A handwritten signature in blue ink, appearing to read "Gregory S. Wright", is written in a cursive style.

Gregory S. Wright  
Texas CLASS Administrator



Texas Cooperative Liquid Asset Securities System Trust

## TheNEWS

### Safety in a Rising Rate Environment

As summer heats up, we are pleased to be in the midst of the first rising rate environment in the last decade. We have seen three 25 basis point increases in the Fed Funds Target Rate within the past seven months which has led to a meaningful increase for the Texas CLASS rates. While increasing rates are always welcome, we want to remind our Texas CLASS Participants that the safety of Participants' funds is always our primary objective.

#### How does Texas CLASS focus on safety?

Texas CLASS has an all-encompassing view on safety. This means that we want your funds to be safe, your information to be secure, and all transactions to be safeguarded. Below are some highlights regarding the safety features of Texas CLASS:

**Experience:** The portfolio management team responsible for the day-to-day management of Texas CLASS has successfully managed local government investment pools for more than 25 years through multiple interest rate cycles and economic environments.

This team is guided by a proven credit research process approved by both the Texas CLASS Board of Trustees and Advisory Board that features strategic investments based on the time and research devoted to each investment decision. Investments are made via an approved list compiled by our portfolio management professionals who have a wealth of knowledge about the public funds sector, with over 75 combined years of experience.

**Rating:** Texas CLASS is rated 'AAAm' by S&P Global Ratings, the highest money market rating available. According to S&P\*, the world's leading provider of credit ratings, a 'AAAm' rating indicates an "extremely strong capacity to meet financial commitments" and is a direct reflection of the outstanding credit quality of the Texas CLASS portfolio holdings.

**State Statutes:** Texas CLASS investments are only made in accordance with the Public Funds Investment Act of Texas (PFIA). Under the PFIA established guidelines, Texas CLASS seeks out investments that optimize the opportunity to maximize safety and minimize risk while providing a competitive return.

**Additional Oversight:** Texas CLASS is governed by a Board of Trustees and an Advisory Board comprised of local government leaders and finance

officials who closely monitor the activities of the program. The individuals on these boards represent the varying units of local government within the state of Texas. This serves as an added level of oversight for investment decisions made on behalf of Texas CLASS and the safety of Participants' funds.

#### Board of Trustees

Mr. Steve Williams, Chairman  
Asst. City Administrator/CFO  
City of Conroe

Mr. Mike Hagar  
School Business Administrator  
Alamo Heights ISD

Mr. Roger Roecker  
City Manager  
City of Friendswood

Ms. Cindy Brown  
Treasurer  
Denton County

Ms. Amy Perez  
Investment Manager  
Harris County

Ms. Monika Arris  
Director of Budget & Finance  
Collin County

#### Advisory Board

Mr. Mark Burton  
Managing Partner  
Municipal Accounts & Consulting, L.P.

Mr. Rodney Rhoades  
Qualified Non-Participant

Mr. Arthur Martin  
Chief Financial Officer  
Crane ISD

**MYACCESS:** Texas CLASS is committed to ensuring a secure online transaction experience through MYACCESS. We have implemented and maintain strong security measures for MYACCESS because we understand the risks associated with retrieving public financial information online. MYACCESS features include multifactor authentication, masked account numbers, and "The Safe Zone" (data secured in a stored environment monitored by a live person who identifies any unauthorized access attempts).

As rates continue to rise, so does the continued need for safety and security within the management of public funds. Texas CLASS is committed to taking every precaution to best ensure the safekeeping of Participants' public funds. If you have any questions regarding Texas CLASS safety or the current rising rate environment, please feel free to contact our Texas CLASS investment professionals via [info@texasclass.com](mailto:info@texasclass.com).

\*Source: [S&P Global Ratings](#)

A 'AAAm' rating by S&P Global Ratings is obtained after S&P evaluates a number of factors, including credit quality, market price exposure, and management. Ratings are subject to change and do not remove market risk.

All comments and discussions presented are purely based on opinion and assumptions, not fact. These assumptions may or may not be correct based on foreseen and unforeseen events. The information above is not a recommendation to buy, sell, implement, or change any securities or investment strategy, function, or process. Any financial and/or investment decision should be made only after considerable research, consideration, and involvement with an experienced professional engaged for the specific purpose. Past performance is not an indication of future performance. Any financial and/or investment decision may incur losses.





## The**ECONOMY**

### Yield Curve steepens on Central Bank rhetoric; shorter rates also improving

The June labor report was mixed with an increasing pace of hiring contrasting with a slight increase in the unemployment rate. The U.S. added an above forecast 222k jobs in June, up from 138k in May. The pace of job growth increased as seasonal summer job hiring continued into June. By contrast, the unemployment rate increased to 4.40% from 4.30% a month earlier. The underemployment rate also increased by 0.20% to 8.60%. Despite historically low unemployment, broad-based wage growth remains elusive. The labor participation rate also improved to 62.80% from 62.70%. At 2.50%, the growth rate of average hourly earnings remains well below pre-financial crisis levels.

The Federal Reserve raised the Federal Funds rate on June 14, 2017 to the range of 1.00% to 1.25%. Their dot plots and the markets are now anticipating one additional rate hike in 2017. The September probability stands at 22.10% and the December probability is 56.10%. Inflation remains somewhat below the target 2.00% with the Consumer Price Index recorded at 1.90% in May. The lower run rate is labeled as temporary by Chair Yellen. The European Central Bank announced a slowing quantitative easing; this sparked the bond market to push yields higher late in June. The 10-year U.S. Treasury yield ended on June 30, 2017 at 2.31%.

### Portfolio Strategy

The third reading of Q1 GDP was revised 0.20% higher to 1.40% from the advance estimate of 1.20%. Looking ahead, the Atlanta Fed GDPNow forecast was revised slightly lower for the second quarter to an increase of 2.68% from 3.42%.

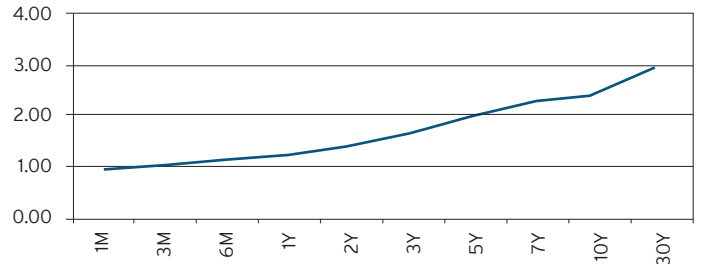
The portfolios are well positioned to capture the higher yields that are now available. Looking ahead, future rate increases remain dependent on the actual pace of fed policy normalization.

Texas CLASS and Texas CLASS Government are rated 'AAAm' by S&P Global Ratings

A 'AAAm' rating by S&P Global Ratings is obtained after S&P evaluates a number of factors, including credit quality, market price exposure, and management. Ratings are subject to change and do not remove market risk.

All comments and discussions presented are purely based on opinion and assumptions, not fact. These assumptions may or may not be correct based on foreseen and unforeseen events. The information above is not a recommendation to buy, sell, implement, or change any securities or investment strategy, function, or process. Any financial and/or investment decision should be made only after considerable research, consideration, and involvement with an experienced professional engaged for the specific purpose. **Past performance is not an indication of future performance. Any financial and/or investment decision may incur losses.**

### US Treasury Curve



Source: Bloomberg

### Treasury Yields

MATURITY	7/6/17	6/6/17	CHANGE
3 Month	1.018%	0.971%	0.047%
6 Month	1.132%	1.070%	0.061%
1 Year	1.217%	1.145%	0.072%

Source: Bloomberg

### Agency Yields

MATURITY	7/6/17	6/6/17	CHANGE
3 Month	1.060%	0.994%	0.066%
6 Month	1.130%	1.056%	0.074%
1 Year	1.279%	1.188%	0.091%

Source: Bloomberg

### Commercial Paper Yields (A-1/P-1)

MATURITY	7/6/17	6/6/17	CHANGE
1 Month	1.190%	1.000%	0.190%
3 Month	1.26%	1.170%	0.090%
6 Month	1.400%	1.330%	0.070%
9 Month	1.480%	1.460%	0.020%

Source: Bloomberg

### Current Economic Releases

DATA	PERIOD	VALUE
GDP QoQ	Q1 '17	1.40%
US Unemployment	Jun '17	4.40%
ISM Manufacturing	Jun '17	57.80
PPI YoY	May '17	2.60%
CPI YoY	May '17	1.90%
Fed Funds Target	Jul 07 '17	1.00% - 1.25%

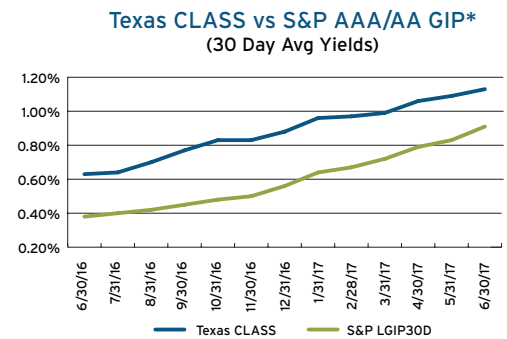
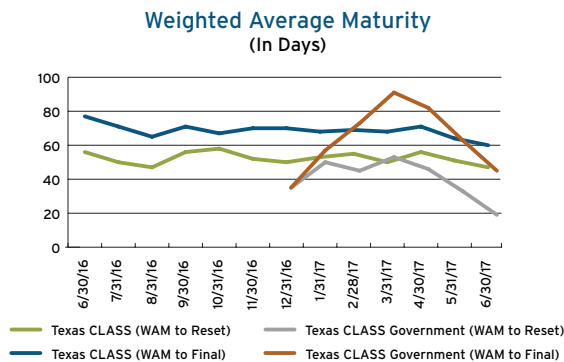
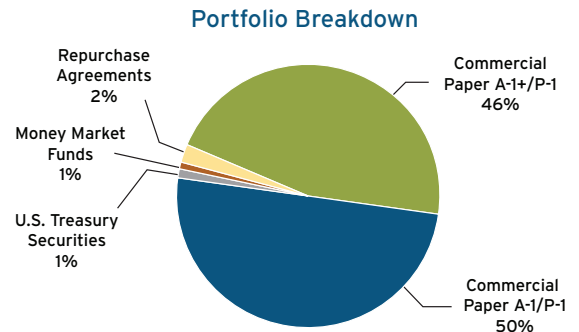
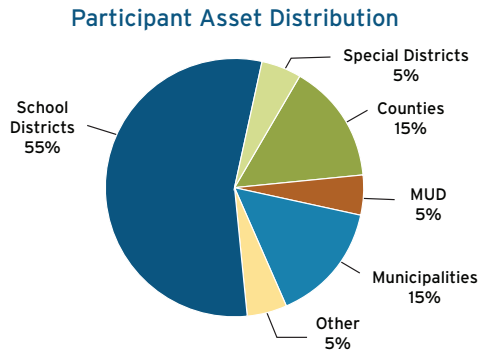
Source: Bloomberg



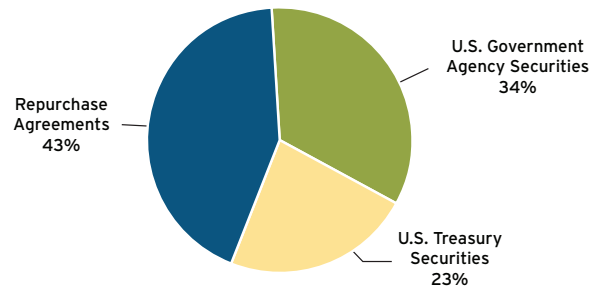
The**FUND**

Fund Highlights as of June 30, 2017 (Unaudited)

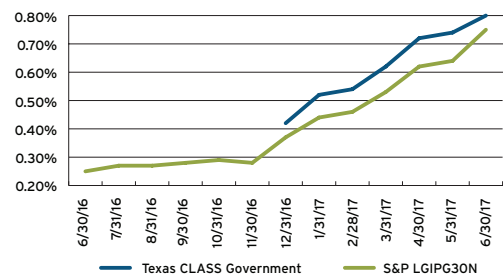
The following information is provided in accordance with Texas state statute 2256.0016. As of June 30, 2017 the portfolio contained the following types of securities:



Texas CLASS Government Portfolio Breakdown



Texas CLASS Government vs S&P AAA/AA GIP\* (30 Day Avg Yields)



Month End	Avg Yield	Month Ending Assets	Share Balance	Market Value	Amortized Cost	NAV	WAM (Reset)	WAM (Final)
<b>Texas CLASS</b>								
Apr-17	1.06%	\$6,932,246,210	\$6,930,859,000	\$6,931,958,530	\$6,930,571,320	1.00	56	71
May-17	1.09%	\$6,364,154,089	\$6,363,263,938	\$6,363,729,361	\$6,362,839,209	1.00	51	64
Jun-17	1.13%	\$6,018,091,995	\$6,018,144,785	\$6,017,892,799	\$6,017,945,590	1.00	47	60
<b>Texas CLASS Government Prior Month Comparison</b>								
Apr-17	0.72%	\$111,664,976	\$111,684,713	\$111,622,932	\$111,642,669	1.00	46	82
May-17	0.74%	\$117,055,295	\$117,074,689	\$117,000,273	\$117,019,666	1.00	33	63
Jun-17	0.80%	\$117,139,274	\$117,150,879	\$117,061,551	\$117,073,156	1.00	19	45

Data Unaudited. All comments and discussion presented are purely based on opinion and assumptions, not fact. These assumptions may or may not be correct based on foreseen and unforeseen events. The information above is not a recommendation to buy, sell, implement, or change any securities or investment strategy, function, or process. Any financial and/or investment decision should be made only after considerable research, consideration, and involvement with an experienced professional engaged for the specific purpose. **Additionally, past performance is not an indication of future performance. Any financial and/or investment decision may incur losses.**

\*The benchmark, the S&P US AAA & AA Rated GIP All 30 Day Net Yield (LGIP30D) is a performance indicator of rated GIPs that maintain a stable net asset value of \$1.00 per share and is an unmanaged market index representative of the LGIP universe. The S&P benchmark utilized in this comparison is comprised of pools that invest in U.S. Government securities, U.S. Treasury securities, Repurchase agreements collateralized by U.S. government and treasury securities or any combination of the above. GIPs in the index include only those rated based on S&P's money market criteria. Pools rated 'AAAm' offer very good safety and a strong capacity to maintain principal value (Source: Standard & Poor's website). The comparison between this index and the portfolio may differ in holdings, duration, fees, and percentage composition of each holding. Such differences may account for variances in yield.

The benchmark, the S&P AAA & AA Rated GIP Govt 30 Day Net Yield (LGIP30N) is a performance indicator of rated GIPs that maintain a stable net asset value of \$1.00 per share and is an unmanaged market index representative of the LGIP universe. The S&P benchmark utilized in this comparison is comprised of pools that invest in U.S. Government securities, U.S. Treasury securities, Repurchase agreements collateralized by U.S. government and treasury securities or any combination of the above. GIPs in the index include only those rated based on S&P's money market criteria. Pools rated 'AAAm' offer very good safety and a strong capacity to maintain principal value (Source: Standard & Poor's website). The comparison between this index and the portfolio may differ in holdings, duration, fees, and percentage composition of each holding. Such differences may account for variances in yield.



## The**FUND**

### Fund Highlights as of June 30, 2017

(Unaudited)

For the month of June, 2017, the Program Administrator accrued fees of \$509,708.20 and had average shares outstanding of \$6,223,832,629.41 for Texas CLASS. For Texas CLASS Government, the Program Administrator accrued fees of \$0.00 and had average shares outstanding of \$117,111,423.69. The fees for both Texas CLASS and Texas CLASS Government are accrued on a daily basis by multiplying the investment property value by the applicable fee rate, and divided by 365 or 366 days in the event of a leap year. The investment property value shall be based on the current day's shares outstanding. For weekend days and holidays, the shares outstanding for the previous business day will be utilized for the calculation of fees. The applicable fee rate is located in Exhibit F of the Seventh Amended and Restated Trust Agreement. The Program Administrator reserves the right to abate fees listed in the Seventh Amended and Restated Trust Agreement. The monthly fee is the sum of all daily fee accruals for the month of June. The fees are paid monthly upon notification to the custodian bank. As of June 30, 2017 the fee for Texas CLASS was 0.10 basis points and the fee for Texas CLASS Government was 0.0 basis points.

- Both funds are rated 'AAAm' by Standard and Poor's Global Ratings.
- Net Asset Value for both funds from June 1 to June 30, 2017 is equal to \$1.00.
- The final maturity dates of all securities were less than one year.
- The custodian bank for Texas CLASS is Wells Fargo Bank.
- Total Number of Participants is 595.
- There are currently no investments that have a stated maturity greater than one year.
- The portfolio manager for Texas CLASS is Randy Palomba, CFA.
- All sources of payment are the underlying assets of the local government investment pool at market value.
- The Seventh Amended and Restated Trust Agreement was adopted by the Board of Trustees on August 5, 2016. You can access your copy of the Seventh Amended and Restated Trust Agreement by visiting our website at [www.texasclass.com](http://www.texasclass.com).

### Texas CLASS

2435 North Central Expressway  
Suite 1200  
Richardson, TX 75080  
T 214-473-4224  
[info@texasclass.com](mailto:info@texasclass.com)  
[www.texasclass.com](http://www.texasclass.com)

### Advisory Board Members

NAME	TERM
Mark Burton Municipal Accounts & Consulting, L.P.	2017
Arthur Martin Crane Independent School District	2018
Rodney Rhoades Qualified Non-Participant	2018

### Board of Trustee Members

NAME	TERM
Monika Arris Collin County	2018
Cindy Brown Denton County	2017
Mike Hagar Alamo Heights ISD	2018
Amy Perez Harris County	2017
Roger Roecker City of Friendswood	2017
Steve Williams City of Conroe	2017

A 'AAAm' rating by Standard and Poor's is obtained after S&P evaluates a number of factors, including credit quality, market price exposure, and management. Ratings are subject to change and do not remove market risk.

# APPENDIX “B”

<b>Investment Account #</b>	<b>Fund Number</b>	<b>Fund Name</b>
<i>TEXPOOL</i>		
Bank Acct: 24022000:		
005	5200	PERMANENT SCHOOL FUND
006	1001	GENERAL FUND
016	4100	DEBT SERVICE
018	2004	HOTEL MOTEL OCCUPANCY TAX
020	7200	WATER UTILITY
027	2180	CONST. PCT. 1 FED FORFEIT
030	5100	AVAILABLE SCHOOL FUND
031	2151	SHERIFF STATE FORFEITURE
032	2153	SHERIFF FEDERAL FORFEITURE
033	2160	DISTRICT ATTORNEY STATE FORFEITURE
041	2823	VERTEX TARGETD OPPORTUNITY
047	2827	TJPC-P JJAEP TEXAS EDUCATION
048	2909	CHILD WELFARE UNIT
068	3015	CONTINGENCY RESERVE FUND
078	2170	COUNTY ATTORNEY STATE FORFEITURE
079	2007	OLD MILWAUKEE DEPOSITED FUNDS (ROAD & BRIDGE)
087	2171	COUNTY ATTORNEY FEDERAL FORFEITURE
088	2152	SHERIFF JUSTICE FEDERAL FORFEITURE
089	2023	DETENTION PROPERTY FUND
090	2172	COUNTY ATTY FEDERAL TREASURY FORFEITURE
091	3866	INTEREST INCOME SERIES 2016
	3864	JUDICIAL & PUBLIC SAFETY 2016
	7220	WATER UTILITY IMPROVEMENT SERIES 2016
	3865	CAMPUS CHILLER SERIES 2016
092	3140	JUVENILE DRUG REHAB & DETOX 2013
	3175	LAND & BUILDING PURCHASE 2013

**Investment  
Account #**

**Fund  
Number**

**Fund Name**

*TEXAS CLASS*

Bank Acct Ending: 0102320:

001 2007

GENERAL FUND

# EXHIBITS

# **EXHIBIT I**

## **CHAPTER 2256. GOVERNMENT CODE PUBLIC FUNDS INVESTMENT**



# GOVERNMENT CODE CHAPTER 2256. PUBLIC FUNDS INVESTMENT

## GOVERNMENT CODE

### TITLE 10. GENERAL GOVERNMENT

#### SUBTITLE F. STATE AND LOCAL CONTRACTS AND FUND MANAGEMENT

#### CHAPTER 2256. PUBLIC FUNDS INVESTMENT

##### SUBCHAPTER A. AUTHORIZED INVESTMENTS FOR GOVERNMENTAL ENTITIES

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

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

Sec. 2256.002. DEFINITIONS. In this chapter:

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

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

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

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

(B) the investing entity has authority to invest.

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

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

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

(A) preservation and safety of principal;

(B) liquidity; and

(C) yield.

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

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

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

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

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

# GOVERNMENT CODE CHAPTER 2256. PUBLIC FUNDS INVESTMENT

(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;

# GOVERNMENT CODE CHAPTER 2256. PUBLIC FUNDS INVESTMENT

(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, Sec. 1

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

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

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

(i) An investment officer of an entity who has a personal business relationship with a business organization offering to engage in an investment transaction with the entity shall file a statement disclosing that personal business interest. An investment officer who is related within the second degree by affinity or consanguinity, as determined under Chapter 573, to an individual seeking to sell an investment to the investment officer's entity shall file a statement disclosing that relationship. A statement required under this subsection must be filed with the Texas Ethics Commission and the governing body of the entity. For purposes of this subsection, an investment officer has a personal business relationship with a business organization if:

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

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

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

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

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

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

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

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

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

(n) Except as provided by Subsection (o), at least once every two years a state agency shall arrange for a compliance audit of management controls on investments and adherence to the agency's established investment policies. The compliance audit shall be performed by the agency's internal auditor or by a private auditor employed in the manner provided by Section 321.020. Not later than January 1 of each even-numbered year a state agency shall report the results of the most recent audit performed under this subsection to the state auditor. Subject to a risk assessment and to the legislative audit committee's approval of including a review by the state auditor in the audit plan under Section 321.013, the state auditor may review information provided under this section. If review by the state auditor is approved by the legislative audit committee, the state auditor may, based on its review, require a state agency to also report to the state auditor other information the state auditor determines necessary to assess compliance with laws and policies applicable to state agency investments. A report under this subsection shall be prepared in a manner the state auditor prescribes.

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

# GOVERNMENT CODE CHAPTER 2256. PUBLIC FUNDS INVESTMENT

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 (H.B. 2226), 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 (H.B. 2226), Sec. 2, eff. June 17, 2011.

Sec. 2256.008. INVESTMENT TRAINING; LOCAL GOVERNMENTS.

Text of subsection as amended by Acts 2015, 84th Leg., R.S., Ch. 222 (H.B. 1148), Sec. 1

(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), (e), and (f), 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.

Text of subsection as amended by Acts 2015, 84th Leg., R.S., Ch. 1248 (H.B. 870), Sec. 1

(a) Except as provided by Subsections (a-1), (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) 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.

(a-1) In addition to the requirements of Subsection (a)(1), the treasurer, or the chief financial officer if the treasurer is not the chief financial officer, and the investment officer of a school district or a municipality shall attend an investment training session not less than once in a two-year period that begins on the first day of the school district's or municipality's fiscal year and consists of the two consecutive fiscal years after that date, and receive not less than eight hours of instruction relating to investment responsibilities under this subchapter from an independent source approved by the governing body of the school district or municipality, or by a designated investment committee advising the investment officer as provided for in the investment policy of the school district or municipality.

(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.

(f) Subsection (a)(2) does not apply to an officer of a municipality if the municipality:

- (1) does not invest municipal funds; or
- (2) only deposits municipal funds in:
  - (A) interest-bearing deposit accounts; or
  - (B) certificates of deposit as authorized by Section 2256.010.

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 (H.B. 2226), Sec. 3, eff. June 17, 2011.
- Acts 2015, 84th Leg., R.S., Ch. 222 (H.B. 1148), Sec. 1, eff. September 1, 2015.
- Acts 2015, 84th Leg., R.S., Ch. 1248 (H.B. 870), Sec. 1, eff. September 1, 2015.

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 (H.B. 2226), 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 (H.B. 256), Sec. 1, eff. September 1, 2005.

# GOVERNMENT CODE CHAPTER 2256. PUBLIC FUNDS INVESTMENT

Acts 2011, 82nd Leg., R.S., Ch. 1004 (H.B. 2226), 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 (H.B. 2226), 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.

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(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 (H.B. 2226), 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.

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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 (H.B. 2226), 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 (S.B. 495), 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 (S.B. 894), 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 (H.B. 2346), 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:



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(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 (S.B. 1543), 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 (S.B. 1464), 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;

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(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 (H.B. 2226), 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.

# **EXHIBIT II**

## **CHAPTER 2257. GOVERNMENT CODE COLLATERAL FOR PUBLIC FUNDS**

GOVERNMENT CODE

TITLE 10. GENERAL GOVERNMENT

SUBTITLE F. STATE AND LOCAL CONTRACTS AND FUND MANAGEMENT

CHAPTER 2257. COLLATERAL FOR PUBLIC FUNDS

SUBCHAPTER A. GENERAL PROVISIONS

Sec. 2257.001. SHORT TITLE. This chapter may be cited as the Public Funds Collateral Act.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993.

Sec. 2257.002. DEFINITIONS. In this chapter:

- (1) "Bank holding company" has the meaning assigned by Section 31.002(a), Finance Code.
- (2) "Control" has the meaning assigned by Section 31.002(a), Finance Code.
- (3) "Deposit of public funds" means public funds of a public entity that:
  - (A) the comptroller does not manage under Chapter 404; and
  - (B) are held as a demand or time deposit by a depository institution expressly authorized by law to accept a public entity's demand or time deposit.
- (4) "Eligible security" means:
  - (A) a surety bond;
  - (B) an investment security;
  - (C) an ownership or beneficial interest in an investment security, other than an option contract to purchase or sell an investment security;
  - (D) a fixed-rate collateralized mortgage obligation that has an expected weighted average life of 10 years or less and does not constitute a high-risk mortgage security;
  - (E) a floating-rate collateralized mortgage obligation that does not constitute a high-risk mortgage security; or
  - (F) a letter of credit issued by a federal home loan bank.
- (5) "Investment security" means:
  - (A) an obligation that in the opinion of the attorney general of the United States is a general obligation of the United States and backed by its full faith and credit;
  - (B) a general or special obligation issued by a public agency that is payable from taxes, revenues, or a combination of taxes and revenues; or
  - (C) a security in which a public entity may invest under Subchapter A, Chapter 2256.
- (6) "Permitted institution" means:
  - (A) a Federal Reserve Bank;
  - (B) a clearing corporation, as defined by Section 8.102, Business & Commerce Code;
  - (C) a bank eligible to be a custodian under Section 2257.041; or
  - (D) a state or nationally chartered bank that is controlled by a bank holding company that controls a bank eligible to be a custodian under Section 2257.041.
- (7) "Public agency" means a state or a political or governmental entity, agency, instrumentality, or subdivision of a state, including a municipality, an institution of higher education, as defined by Section 61.003, Education Code, a junior college, a district created under Article XVI, Section 59, of the Texas Constitution, and a public hospital.

(8) "Public entity" means a public agency in this state, but does not include an institution of higher education, as defined by Section 61.003, Education Code.

(9) "State agency" means a public entity that:

(A) has authority that is not limited to a geographic portion of the state;

and

(B) was created by the constitution or a statute.

(10) "Trust receipt" means evidence of receipt, identification, and recording, including:

(A) a physical controlled trust receipt; or

(B) a written or electronically transmitted advice of transaction.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993. Amended by Acts 1995, 74th Leg., ch. 76, Sec. 5.48(a), eff. Sept. 1, 1995; Acts 1995, 74th Leg., ch. 914, Sec. 5, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 254, Sec. 1, eff. Sept. 1, 1997; Acts 1997, 75th Leg., ch. 891, Sec. 3.22(4), eff. Sept. 1, 1997; Acts 1997, 75th Leg., ch. 1423, Sec. 8.70, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 62, Sec. 7.63, eff. Sept. 1, 1999.

Amended by:

Acts 2011, 82nd Leg., R.S., Ch. 783 (H.B. 2103), Sec. 1, eff. June 17, 2011.

Sec. 2257.0025. HIGH-RISK MORTGAGE SECURITY. (a) For purposes of this chapter, a fixed-rate collateralized mortgage obligation is a high-risk mortgage security if the security:

(1) has an average life sensitivity with a weighted average life that:

(A) extends by more than four years, assuming an immediate and sustained parallel shift in the yield curve of plus 300 basis points; or

(B) shortens by more than six years, assuming an immediate and sustained parallel shift in the yield curve of minus 300 basis points; and

(2) is price sensitive; that is, the estimated change in the price of the mortgage derivative product is more than 17 percent, because of an immediate and sustained parallel shift in the yield curve of plus or minus 300 basis points.

(b) For purposes of this chapter, a floating-rate collateralized mortgage obligation is a high-risk mortgage security if the security:

(1) bears an interest rate that is equal to the contractual cap on the instrument;

or

(2) is price sensitive; that is, the estimated change in the price of the mortgage derivative product is more than 17 percent, because of an immediate and sustained parallel shift in the yield curve of plus or minus 300 basis points.

Added by Acts 1997, 75th Leg., ch. 254, Sec. 2, eff. Sept. 1, 1997.

Sec. 2257.003. CHAPTER NOT APPLICABLE TO DEFERRED COMPENSATION PLANS. This chapter does not apply to funds that a public entity maintains or administers under a deferred compensation plan, the federal income tax treatment of which is governed by Section 401(k) or 457 of the Internal Revenue Code of 1986 (26 U.S.C. Sections 401(k) and 457).

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993.

Sec. 2257.004. CONFLICT WITH OTHER LAW. This chapter prevails over any other law relating to security for a deposit of public funds to the extent of any conflict.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993.

Sec. 2257.005. CONTRACT GOVERNS LEGAL ACTION. A legal action brought by or against a public entity that arises out of or in connection with the duties of a depository, custodian, or permitted institution under this chapter must be brought and maintained as provided by the contract with the public entity.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993.

SUBCHAPTER B. DEPOSITORY; SECURITY FOR DEPOSIT OF PUBLIC FUNDS

Sec. 2257.021. COLLATERAL REQUIRED. A deposit of public funds shall be secured by eligible security to the extent and in the manner required by this chapter.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993.

Sec. 2257.022. AMOUNT OF COLLATERAL. (a) Except as provided by Subsection (b), the total value of eligible security to secure a deposit of public funds must be in an amount not less than the amount of the deposit of public funds:

(1) increased by the amount of any accrued interest; and

(2) reduced to the extent that the United States or an instrumentality of the United States insures the deposit.

(b) The total value of eligible security described by Section 45.201(4)(D), Education Code, to secure a deposit of public funds of a school district must be in an amount not less than 110 percent of the amount of the deposit as determined under Subsection (a). The total market value of the eligible security must be reported at least once each month to the school district.

(c) The value of a surety bond is its face value.

(d) The value of an investment security is its market value.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993. Amended by Acts 2003, 78th Leg., ch. 201, Sec. 46, eff. Sept. 1, 2003.

Sec. 2257.023. COLLATERAL POLICY. (a) In accordance with a written policy approved by the governing body of the public entity, a public entity shall determine if an investment security is eligible to secure deposits of public funds.

(b) The written policy may include:

(1) the security of the institution that obtains or holds an investment security;

(2) the substitution or release of an investment security; and

(3) the method by which an investment security used to secure a deposit of public funds is valued.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993.

Sec. 2257.024. CONTRACT FOR SECURING DEPOSIT OF PUBLIC FUNDS. (a) A public entity may contract with a bank that has its main office or a branch office in this state to secure a deposit of public funds.

(b) The contract may contain a term or condition relating to an investment security used as security for a deposit of public funds, including a term or condition relating to the:

(1) possession of the collateral;

(2) substitution or release of an investment security;

(3) ownership of the investment securities of the bank used to secure a deposit of public funds; and

(4) method by which an investment security used to secure a deposit of public funds is valued.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993. Amended by Acts 1999, 76th Leg., ch. 344, Sec. 5.006, eff. Sept. 1, 1999.

Sec. 2257.025. RECORDS OF DEPOSITORY. (a) A public entity's depository shall maintain a separate, accurate, and complete record relating to a pledged investment security, a deposit of public funds, and a transaction related to a pledged investment security.

(b) The comptroller or the public entity may examine and verify at any reasonable time a pledged investment security or a record a depository maintains under this section.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993. Amended by Acts 1997, 75th Leg., ch. 891, Sec. 3.16, eff. Sept. 1, 1997.

Sec. 2257.026. CHANGE IN AMOUNT OR ACTIVITY OF DEPOSITS OF PUBLIC FUNDS. A public entity shall inform the depository for the public entity's deposit of public funds of a significant change in the amount or activity of those deposits within a reasonable time before the change occurs.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993.

#### SUBCHAPTER C. CUSTODIAN; PERMITTED INSTITUTION

Sec. 2257.041. DEPOSIT OF SECURITIES WITH CUSTODIAN. (a) In addition to other authority granted by law, a depository for a public entity other than a state agency may deposit with a custodian a security pledged to secure a deposit of public funds.

(b) At the request of the public entity, a depository for a public entity other than a state agency shall deposit with a custodian a security pledged to secure a deposit of public funds.

(c) A depository for a state agency shall deposit with a custodian a security pledged to secure a deposit of public funds. The custodian and the state agency shall agree in writing on the terms and conditions for securing a deposit of public funds.

(d) A custodian must be approved by the public entity and be:

- (1) a state or national bank that:
  - (A) is designated by the comptroller as a state depository;
  - (B) has its main office or a branch office in this state; and
  - (C) has a capital stock and permanent surplus of \$5 million or more;
- (2) the Texas Treasury Safekeeping Trust Company;
- (3) a Federal Reserve Bank or a branch of a Federal Reserve Bank;
- (4) a federal home loan bank; or
- (5) a financial institution authorized to exercise fiduciary powers that is

designated by the comptroller as a custodian pursuant to Section [404.031\(e\)](#).

(e) A custodian holds in trust the securities to secure the deposit of public funds of the public entity in the depository pledging the securities.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993. Amended by Acts 1995, 74th Leg., ch. 1010, Sec. 1, eff. June 17, 1995; Acts 1997, 75th Leg., ch. 891, Sec. 3.17, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 344, Sec. 5.007, eff. Sept. 1, 1999.

Amended by:

Acts 2009, 81st Leg., R.S., Ch. 486 (S.B. [638](#)), Sec. 3, eff. September 1, 2009.



Sec. 2257.042. DEPOSIT OF SECURITIES WITH PERMITTED INSTITUTION. (a) A custodian may deposit with a permitted institution an investment security the custodian holds under Section 2257.041.

(b) If a deposit is made under Subsection (a):

(1) the permitted institution shall hold the investment security to secure funds the public entity deposits in the depository that pledges the investment security;

(2) the trust receipt the custodian issues under Section 2257.045 shall show that the custodian has deposited the security in a permitted institution; and

(3) the permitted institution, on receipt of the investment security, shall immediately issue to the custodian an advice of transaction or other document that is evidence that the custodian deposited the security in the permitted institution.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993.

Sec. 2257.043. DEPOSITORY AS CUSTODIAN OR PERMITTED INSTITUTION. (a) A public entity other than a state agency may prohibit a depository or an entity of which the depository is a branch from being the custodian of or permitted institution for a security the depository pledges to secure a deposit of public funds.

(b) A depository or an entity of which the depository is a branch may not be the custodian of or permitted institution for a security the depository pledges to secure a deposit of public funds by a state agency.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993.

Sec. 2257.044. CUSTODIAN AS BAILEE. (a) A custodian under this chapter or a custodian of a security pledged to an institution of higher education, as defined by Section 61.003, Education Code, whether acting alone or through a permitted institution, is for all purposes the bailee or agent of the public entity or institution depositing the public funds with the depository.

(b) To the extent of any conflict, Subsection (a) prevails over Chapter 8 or 9, Business & Commerce Code.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993.

Sec. 2257.045. RECEIPT OF SECURITY BY CUSTODIAN. (a) On receipt of an investment security, a custodian shall immediately identify on its books and records, by book entry or another method, the pledge of the security to the public entity.

(b) For a deposit of public funds under Subchapter F, the custodian shall issue and deliver to the comptroller a trust receipt for the pledged security.

(c) For any other deposit of public funds under this chapter, at the written direction of the appropriate public entity officer, the custodian shall:

(1) issue and deliver to the appropriate public entity officer a trust receipt for the pledged security; or

(2) issue and deliver a trust receipt for the pledged security to the public entity's depository and instruct the depository to deliver the trust receipt to the public entity officer immediately.

(d) The custodian shall issue and deliver the trust receipt as soon as practicable on the same business day on which the investment security is received.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993.

Amended by:

Acts 2013, 83rd Leg., R.S., Ch. 434 (S.B. 581), Sec. 1, eff. June 14, 2013.

Sec. 2257.046. BOOKS AND RECORDS OF CUSTODIAN; INSPECTION. (a) A public entity's custodian shall maintain a separate, accurate, and complete record relating to each pledged investment security and each transaction relating to a pledged investment security.

(b) The comptroller or the public entity may examine and verify at any reasonable time a pledged investment security or a record a custodian maintains under this section. The public entity or its agent may inspect at any time an investment security evidenced by a trust receipt.

(c) The public entity's custodian shall file a collateral report with the comptroller in the manner and on the dates prescribed by the comptroller.

(d) At the request of the appropriate public entity officer, the public entity's custodian shall provide a current list of all pledged investment securities. The list must include, for each pledged investment security:

- (1) the name of the public entity;
- (2) the date the security was pledged to secure the public entity's deposit;
- (3) the Committee on Uniform Security Identification Procedures (CUSIP) number of the security;
- (4) the face value and maturity date of the security; and
- (5) the confirmation number on the trust receipt issued by the custodian.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993. Amended by Acts 1997, 75th Leg., ch. 891, Sec. 3.18, eff. Sept. 1, 1997.

Amended by:

Acts 2013, 83rd Leg., R.S., Ch. 434 (S.B. 581), Sec. 2, eff. June 14, 2013.

Sec. 2257.047. BOOKS AND RECORDS OF PERMITTED INSTITUTION. (a) A permitted institution may apply book entry procedures when an investment security held by a custodian is deposited under Section 2257.042.

(b) A permitted institution's records must at all times state the name of the custodian that deposits an investment security in the permitted institution.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993.

Sec. 2257.048. ATTACHMENT AND PERFECTION OF SECURITY INTEREST. (a) A security interest that arises out of a depository's pledge of a security to secure a deposit of public funds by a public entity or an institution of higher education, as defined by Section 61.003, Education Code, is created, attaches, and is perfected for all purposes under state law from the time that the custodian identifies the pledge of the security on the custodian's books and records and issues the trust receipt.

(b) A security interest in a pledged security remains perfected in the hands of a subsequent custodian or permitted institution.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993.

#### SUBCHAPTER D. AUDITS AND EXAMINATIONS; PENALTIES

Sec. 2257.061. AUDITS AND EXAMINATIONS. As part of an audit or regulatory examination of a public entity's depository or custodian, the auditor or examiner shall:

- (1) examine and verify pledged investment securities and records maintained under Section 2257.025 or 2257.046; and
- (2) report any significant or material noncompliance with this chapter to the comptroller.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993. Amended by Acts 1997, 75th Leg., ch. 891, Sec. 3.19, eff. Sept. 1, 1997.

Sec. 2257.062. PENALTIES. (a) The comptroller may revoke a depository's designation as a state depository for one year if, after notice and a hearing, the comptroller makes a written finding that the depository, while acting as either a depository or a custodian:

- (1) did not maintain reasonable compliance with this chapter; and
- (2) failed to remedy a violation of this chapter within a reasonable time after

receiving written notice of the violation.

(b) The comptroller may permanently revoke a depository's designation as a state depository if the comptroller makes a written finding that the depository:

- (1) has not maintained reasonable compliance with this chapter; and
- (2) has acted in bad faith by not remedying a violation of this chapter.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993. Amended by Acts 1997, 75th Leg., ch. 891, Sec. 3.19, eff. Sept. 1, 1997.

Sec. 2257.063. MITIGATING CIRCUMSTANCES. (a) The comptroller shall consider the total circumstances relating to the performance of a depository or custodian when the comptroller makes a finding required by Section 2257.062, including the extent to which the noncompliance is minor, isolated, temporary, or nonrecurrent.

(b) The comptroller may not find that a depository or custodian did not maintain reasonable compliance with this chapter if the noncompliance results from the public entity's failure to comply with Section 2257.026.

(c) This section does not relieve a depository or custodian of the obligation to secure a deposit of public funds with eligible security in the amount and manner required by this chapter within a reasonable time after the public entity deposits the deposit of public funds with the depository.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993. Amended by Acts 1997, 75th Leg., ch. 891, Sec. 3.19, eff. Sept. 1, 1997.

Sec. 2257.064. REINSTATEMENT. The comptroller may reinstate a depository's designation as a state depository if:

(1) the comptroller determines that the depository has remedied all violations of this chapter; and

(2) the depository assures the comptroller to the comptroller's satisfaction that the depository will maintain reasonable compliance with this chapter.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993. Amended by Acts 1997, 75th Leg., ch. 891, Sec. 3.19, eff. Sept. 1, 1997.

#### SUBCHAPTER E. EXEMPT INSTITUTIONS

Sec. 2257.081. DEFINITION. In this subchapter, "exempt institution" means:

- (1) a public retirement system, as defined by Section 802.001; or
- (2) the permanent school fund, as described by Section 43.001, Education Code.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993. Amended by Acts 1997, 75th Leg., ch. 165, Sec. 6.31, eff. Sept. 1, 1997.

Sec. 2257.082. FUNDS OF EXEMPT INSTITUTION. An exempt institution is not required to have its funds fully insured or collateralized at all times if:

(1) the funds are held by:

(A) a custodian of the institution's assets under a trust agreement; or

(B) a person in connection with a transaction related to an investment; and

(2) the governing body of the institution, in exercising its fiduciary responsibility, determines that the institution is adequately protected by using a trust agreement, special deposit, surety bond, substantial deposit insurance, or other method an exempt institution commonly uses to protect itself from liability.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993.

Sec. 2257.083. INVESTMENT; SELECTION OF DEPOSITORY. This chapter does not:

(1) prohibit an exempt institution from prudently investing in a certificate of deposit; or

(2) restrict the selection of a depository by the governing body of an exempt institution in accordance with its fiduciary duty.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993.

#### SUBCHAPTER F. POOLED COLLATERAL TO SECURE

##### DEPOSITS OF CERTAIN PUBLIC FUNDS

Sec. 2257.101. DEFINITION. In this subchapter, "participating institution" means a financial institution that holds one or more deposits of public funds and that participates in the pooled collateral program under this subchapter.

Added by Acts 2009, 81st Leg., R.S., Ch. 486 (S.B. 638), Sec. 1, eff. September 1, 2009.

Sec. 2257.102. POOLED COLLATERAL PROGRAM. (a) As an alternative to collateralization under Subchapter B, the comptroller by rule shall establish a program for centralized pooled collateralization of deposits of public funds and for monitoring collateral maintained by participating institutions. The rules must provide that deposits of public funds of a county are not eligible for collateralization under the program. The comptroller shall provide for a separate collateral pool for any single participating institution's deposits of public funds.

(b) Under the pooled collateral program, the collateral of a participating institution pledged for a public deposit may not be combined with, cross-collateralized with, aggregated with, or pledged to another participating institution's collateral pools for pledging purposes.

(c) A participating institution may pledge its pooled securities to more than one participating depositor under contract with that participating institution.

(d) The pooled collateral program must provide for:

(1) participation in the program by a participating institution and each affected public entity to be voluntary;

(2) uniform procedures for processing all collateral transactions that are subject to an approved security agreement described by Section 2257.103; and

(3) the pledging of a participating institution's collateral securities using a single custodial account instead of an account for each depositor of public funds.

Added by Acts 2009, 81st Leg., R.S., Ch. 486 (S.B. 638), Sec. 1, eff. September 1, 2009.

Sec. 2257.103. PARTICIPATION IN POOLED COLLATERAL PROGRAM. A financial institution may participate in the pooled collateral program only if:

- (1) the institution has entered into a binding collateral security agreement with a public agency for a deposit of public funds and the agreement permits the institution's participation in the program;
- (2) the comptroller has approved the institution's participation in the program; and
- (3) the comptroller has approved or provided the collateral security agreement form used.

Added by Acts 2009, 81st Leg., R.S., Ch. 486 (S.B. 638), Sec. 1, eff. September 1, 2009.

Sec. 2257.104. COLLATERAL REQUIRED; CUSTODIAN TRUSTEE. (a) Each participating institution shall secure its deposits of public funds with eligible securities the total value of which equals at least 102 percent of the amount of the deposits of public funds covered by a security agreement described by Section 2257.103 and deposited with the participating institution, reduced to the extent that the United States or an instrumentality of the United States insures the deposits. For purposes of determining whether collateral is sufficient to secure a deposit of public funds, Section 2257.022(b) does not apply to a deposit of public funds held by the participating institution and collateralized under this subchapter.

(b) A participating institution shall provide for the collateral securities to be held by a custodian trustee, on behalf of the participating institution, in trust for the benefit of the pooled collateral program. A custodian trustee must qualify as a custodian under Section 2257.041.

(c) The comptroller by rule shall regulate a custodian trustee under the pooled collateral program in the manner provided by Subchapter C to the extent practicable. The rules must ensure that a custodian trustee depository does not own, is not owned by, and is independent of the financial institution or institutions for which it holds the securities in trust, except that the rules must allow the following to be a custodian trustee:

- (1) a federal reserve bank;
- (2) a banker's bank, as defined by Section 34.105, Finance Code; and
- (3) a federal home loan bank.

Added by Acts 2009, 81st Leg., R.S., Ch. 486 (S.B. 638), Sec. 1, eff. September 1, 2009.

Sec. 2257.105. MONITORING COLLATERAL. (a) Each participating institution shall file the following reports with the comptroller electronically and as prescribed by rules of the comptroller:

- (1) a daily report of the aggregate ledger balance of deposits of public agencies participating in the pooled collateral program that are held by the institution, with each public entity's funds held itemized;
- (2) a weekly summary report of the total market value of securities held by a custodian trustee on behalf of the participating institution;
- (3) a monthly report listing the collateral securities held by a custodian trustee on behalf of the participating institution, together with the value of the securities; and
- (4) as applicable, a participating institution's annual report that includes the participating institution's financial statements.

(b) The comptroller shall provide the participating institution an acknowledgment of each report received.

(c) The comptroller shall provide a daily report of the market value of the securities held in each pool.

(d) The comptroller shall post each report on the comptroller's Internet website.

Added by Acts 2009, 81st Leg., R.S., Ch. 486 (S.B. 638), Sec. 1, eff. September 1, 2009.

Sec. 2257.106. ANNUAL ASSESSMENT. (a) Once each state fiscal year, the comptroller shall impose against each participating institution an assessment in an amount sufficient to pay the costs of administering this subchapter. The amount of an assessment must be based on factors that include the number of public entity accounts a participating institution maintains, the number of transactions a participating institution conducts, and the aggregate average weekly deposit amounts during that state fiscal year of each participating institution's deposits of public funds collateralized under this subchapter. The comptroller by rule shall establish the formula for determining the amount of the assessments imposed under this subsection.

(b) The comptroller shall provide to each participating institution a notice of the amount of the assessment against the institution.

(c) A participating institution shall remit to the comptroller the amount assessed against it under this section not later than the 45th day after the date the institution receives the notice under Subsection (b).

(d) Money remitted to the comptroller under this section may be appropriated only for the purposes of administering this subchapter.

Added by Acts 2009, 81st Leg., R.S., Ch. 486 (S.B. 638), Sec. 1, eff. September 1, 2009.

Sec. 2257.107. PENALTY FOR REPORTING VIOLATION. The comptroller may impose an administrative penalty against a participating institution that does not timely file a report required by Section 2257.105.

Added by Acts 2009, 81st Leg., R.S., Ch. 486 (S.B. 638), Sec. 1, eff. September 1, 2009.

Sec. 2257.108. NOTICE OF COLLATERAL VIOLATION; ADMINISTRATIVE PENALTY. (a) The comptroller may issue a notice to a participating institution that the institution appears to be in violation of collateral requirements under Section 2257.104 and rules of the comptroller.

(b) The comptroller may impose an administrative penalty against a participating institution that does not maintain collateral in an amount and in the manner required by Section 2257.104 and rules of the comptroller if the participating institution has not remedied the violation before the third business day after the date a notice is issued under Subsection (a).

Added by Acts 2009, 81st Leg., R.S., Ch. 486 (S.B. 638), Sec. 1, eff. September 1, 2009.

Sec. 2257.109. PENALTY FOR FAILURE TO PAY ASSESSMENT. The comptroller may impose an administrative penalty against a participating institution that does not pay an assessment against it in the time provided by Section 2257.106(c).

Added by Acts 2009, 81st Leg., R.S., Ch. 486 (S.B. 638), Sec. 1, eff. September 1, 2009.

Sec. 2257.110. PENALTY AMOUNT; PENALTIES NOT EXCLUSIVE. (a) The comptroller by rule shall adopt a formula for determining the amount of a penalty under this subchapter. For each violation and for each day of a continuing violation, a penalty must be at least \$100 per day and not more than \$1,000 per day. The penalty must be based on factors that include:

(1) the aggregate average weekly deposit amounts during the state fiscal year of the institution's deposits of public funds;

(2) the number of violations by the institution during the state fiscal year;

(3) the number of days of a continuing violation; and

(4) the average asset base of the institution as reported on the institution's year-end report of condition.

(b) The penalties provided by Sections 2257.107-2257.109 are in addition to those provided by Subchapter D or other law.

Added by Acts 2009, 81st Leg., R.S., Ch. 486 (S.B. 638), Sec. 1, eff. September 1, 2009.

Sec. 2257.111. PENALTY PROCEEDING CONTESTED CASE. A proceeding to impose a penalty under Section 2257.107, 2257.108, or 2257.109 is a contested case under Chapter 2001.

Added by Acts 2009, 81st Leg., R.S., Ch. 486 (S.B. 638), Sec. 1, eff. September 1, 2009.

Sec. 2257.112. SUIT TO COLLECT PENALTY. The attorney general may sue to collect a penalty imposed under Section 2257.107, 2257.108, or 2257.109.

Added by Acts 2009, 81st Leg., R.S., Ch. 486 (S.B. 638), Sec. 1, eff. September 1, 2009.

Sec. 2257.113. ENFORCEMENT STAYED PENDING REVIEW. Enforcement of a penalty imposed under Section 2257.107, 2257.108, or 2257.109 may be stayed during the time the order is under judicial review if the participating institution pays the penalty to the clerk of the court or files a supersedeas bond with the court in the amount of the penalty. A participating institution that cannot afford to pay the penalty or file the bond may stay the enforcement by filing an affidavit in the manner required by the Texas Rules of Civil Procedure for a party who cannot afford to file security for costs, subject to the right of the comptroller to contest the affidavit as provided by those rules.

Added by Acts 2009, 81st Leg., R.S., Ch. 486 (S.B. 638), Sec. 1, eff. September 1, 2009.

Sec. 2257.114. USE OF COLLECTED PENALTIES. Money collected as penalties under this subchapter may be appropriated only for the purposes of administering this subchapter.

Added by Acts 2009, 81st Leg., R.S., Ch. 486 (S.B. 638), Sec. 1, eff. September 1, 2009.