



GALVESTON COUNTY INVESTMENT POLICY

TABLE OF CONTENTS

Investment Authority and Scope of Policy	1
General Statement	1
Funds Included	1
County Investment Officer(s)	1
Investment Objectives.....	2
General Statement	2
Safety of Principal.....	2
Maintenance of Adequate Liquidity	2
Diversification.....	2
Yield.....	2
Maturity	2
Quality and Capability of Investment Management	3
Monitoring Rating Changes	3
Investment Strategies	3
Investment Types	4
Authorized Investments	4
Prohibited.....	4
Investment Responsibility and Control.....	5
Investment Institutions Defined	5
Qualifications for Approval of Broker/Dealers.....	5
Standards of Operation	5
Methods to Monitor Market Price	5
Delivery vs. Payment	6
Audit Control.....	6
Standard of Care.....	6
Investment Evaluation Committee.....	6
Liability of Investment Officer or Investment Evaluation Committee	7
Investment Officer(s)	7
County Investment Officer’s Responsibility and Controls	7

Training Requirements.....	7
Investment Advisors and Brokers.....	8
Investment Advisors and Providers.....	8
Qualifications of Approval of Brokers/Dealers	8
Approval Process of Broker/Dealer	9
Removal from Approved List.....	9
Standards of Operation	9
Delivery vs. Payment.....	9
Competitive Bidding.....	10
Investment Reporting and Performance Evaluation	10
Significant Investment Changes	11
Investment Collateral and Safekeeping.....	11
Collateral or Insurance	11
Safekeeping.....	12
Exhibit A. Approved List of Broker/Dealers	13
Exhibit B. Certification.....	14
Exhibit C. Authorized Investment Statutes-Texas Government Code Chapter 2256.....	15
Government Code Sec. 2256.009 OBLIGATIONS OF OR GUARANTEED BY GOVERNMENTAL ENTITIES.....	15
Government Code Sec. 2256.010 CERTIFICATES OF DEPOSIT AND SHARE CERTIFICATES.	16
Government Code Sec. 2256.011 REPURCHASE AGREEMENTS.	17
Government Code Sec. 2256.013 COMMERCIAL PAPER.....	18
Government Code Sec. 2256.014 MUTUAL FUNDS.	19
Government Code Sec. 2256.016 INVESTMENT POOLS.....	20

Investment Authority and Scope of Policy

General Statement

This policy satisfies the statutory requirements of Texas Statutes, Local Government Code (LGC) Section 116.112 **Investment of Funds** and Government Code (GC) Chapter 2256 **Public Funds Investment** (PFIA) to define and adopt a formal investment policy. This policy will be reviewed and adopted by the Galveston County Commissioners Court at least annually according to *GC Section 2256.005(e)*. Texas statutes referenced herein are detailed in Appendix C.

This policy establishes guidelines for:

- 1) who can invest County funds,
- 2) how County funds will be invested, and
- 3) when and how periodic reviews of investments will be made.

Funds Included

This policy applies to all financial assets of all funds of the County of Galveston, Texas, unless expressly prohibited by law. This policy also covers registry funds held by the Galveston County Clerk and the Galveston County District Clerk and any other funds held by the Galveston County Tax Assessor, as appropriate. Idle funds required to be kept in a noninterest-bearing account are not subject to the investment policy.

County Investment Officer(s)

In accordance with sec. 116.112 (a), Local Government Code and/or Government Code Section 2256.005 (f) and (g), the County Investment Officer(s), under the supervision of the Commissioners Court, may invest County funds not immediately required to pay obligations of the County. The Commissioners Court shall designate by court action one or more officials or employees as investment officer.

The Investment Officer(s) shall attend training sessions meeting the requirements of Government Code Section 2256.008 (a) and (b).

If an investment officer has a personal business relationship with an entity or is related within the second degree by affinity or consanguinity to an individual seeking to sell an investment of the county, the Investment Officer must file a statement disclosing that personal business interest, or relationship, with the Texas Ethics Commission and the Commissioners' Court in accordance with Government Code 2256.005(i).

Investment Objectives

General Statement

Funds of the County will be invested in accordance with federal and state laws, this investment policy and written administrative procedures. The County will invest according to investment strategies for each fund as adopted by Commissioners' Court resolution in accordance with 2256.005(d).

Safety of Principal

GC Section 2256.005(b)(2)

Galveston County is concerned about the return of its principal. Therefore, safety of principal is the primary objective in any investment transaction.

Maintenance of Adequate Liquidity

The County's investment portfolio is structured in a manner which provides liquidity necessary to pay obligations as they become due.

Diversification

GC Section 2256.005(b)(3)

It will be the policy of Galveston County to diversify its portfolio to eliminate the risk of loss resulting from an overconcentration of cash in specific maturities, a specific issuer, or a specific class of investments. Nevertheless, Commissioners Court recognizes, in a diversified portfolio, occasional measured losses are inevitable, and must be considered within the context of the overall portfolio's investment return, provided that adequate diversification has been implemented.

Yield

GC Section 2256.005(b)(3)

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

Maturity

GC Section 2256.005(b)(3)

According to the governing statute, the policy must include the maximum stated maturity of any individual investment. For pooled funds, the policy must state the maximum average dollar-weighted maturity allowed. Portfolio maturities will be structured to meet the obligations of the County first and then to achieve the highest return of interest. The maximum allowable stated maturity of any individual investment owned by the County is as follows:

Maintenance and Operation Funds – maximum allowable stated maturity of any individual investment owned by this class of funds is 3 years.

Bond Proceeds – maximum allowable stated maturity of any individual investment owned by this class of funds is 2 years. All investments of tax-exempt debt proceeds will be limited to maturities that ensure the county is in compliance with Section 103 and Sections 141-150 of the Internal Revenue Code Title 26.

Quality and Capability of Investment Management

GC Section 2256.008

It is the County's policy to provide training required by the Public Funds Investment Act, Sec. 2256.008, and periodic training in investments for the County Investment Officer(s) through courses and seminars offered by professional organizations and associations to insure the quality and capability of the County Investment Officer in making investment decisions.

Monitoring Rating Changes

GC Section 2256.021

The investment officer(s) will monitor an investment that requires a minimum rating under this subchapter with the assistance of brokers and banking institutions. The county shall take all prudent measures that are consistent with its investment policy to liquidate an investment that does not have a minimum rating.

Investment Strategies

The County maintains control over three types of funds – operating funds, debt service funds, and capital project funds. For each of these funds, the primary objectives for the investment strategy of the County are as follows:

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
6. Yield
7. Maturity restrictions

To ensure diversity of investments, at no time should more than 75% of the County's total investments be placed in any one specific type of investment or in any single investment pool.

For operating funds, the County's investment strategy shall include the above prioritized objectives along with emphasis on assuring that anticipated cash flows are matched with investment liquidity.

For debt service and capital project funds, the County's investment strategy shall include the above-prioritized objectives with emphasis on matching investment maturities to required and projected cash flow needs.

Investment Types

Authorized Investments

Texas *Local Government Code 2256.005(b)(4)* requires the investment policy to list the types of investments in which the County may invest. The Galveston County Investment Officer(s) shall use any or all the following authorized investment instruments consistent with governing law. See Exhibit C of this policy for statutory requirements.

- Government Code Sec. 2256.009 OBLIGATIONS OF, OR GUARANTEED BY GOVERNMENTAL ENTITIES
- Government Code Sec. 2256.010 CERTIFICATES OF DEPOSIT AND SHARE CERTIFICATES
- Government Code Sec. 2256.011 REPURCHASE AGREEMENTS
- Government Code Sec. 2256.013 COMMERCIAL PAPER
- Government Code Sec. 2256.014 MUTUAL FUNDS
- Government Code Sec. 2256.016 INVESTMENT POOLS

The County may invest funds under its control through an eligible investment pool if the Commissioners Court of the entity by resolution, as appropriate, authorizes investment in the 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.

Prohibited

Galveston County Investment Officer(s) have no authority to purchase and are prohibited from purchasing any of the following investment instruments, which are strictly prohibited:

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 2 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
5. Repurchase agreements even though they are allowable within limits by *GC 2256.011(a)(1-4)*

Investment Responsibility and Control

Investment Institutions Defined

The Galveston County Investment Officer(s) shall invest County funds with any of the following institutions or groups consistent with federal and state law and the current Depository Bank contract:

- A. Depository bank
- B. Other state or national banks or state or federal credit unions that are insured by FDIC or NCUSIF
- C. Public funds investment pools
- D. Government securities brokers and dealers

Qualifications for Approval of Broker/Dealers

GC 2256.005(k)

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

1. received and reviewed the investment policy of the County; and acknowledged the organization has implemented reasonable procedures and controls to preclude imprudent investment activities arising out of investment transactions conducted between the County and the organization.
2. has adequate capital or insurance coverage to cover any investment if there is a default on any purchase and the business organization is found liable.

The investment officer(s) may not buy any securities from a person who has not delivered to the County the instrument signed by a qualified representative or the business organization. Along with the signed affidavit, the business organization shall supply the County with the following:

1. Completed Broker/Dealer Questionnaire
2. Financial Statements
3. Delivery instructions
4. NASD Certification Proof
5. Texas State Securities Commission Registration Proof

Standards of Operation

The County Investment Officer(s) shall develop and maintain written administrative procedures for the operation of the investment program, consistent with this investment policy.

Methods to Monitor Market Price

Outside sources of pricing information shall be contacted prior to the purchase of securities using public funds, excluding investment pools. No investments will be purchased for the County without first obtaining bids from at least three approved business organizations. These sources may include but are not limited to competing brokers/dealers, printed financial sections of periodicals, internet financial web sites, and Bloomberg Reports.

Delivery vs. Payment

It is the policy of the County to settle all transactions, except investment pool funds and mutual funds, on a "Delivery vs. Payment" (DVP) through the Federal Reserve System. By so doing, County funds are not released until the County has received, through the Federal Reserve wire, the securities purchased.

Audit Control

GC 2256.005(m)

The Galveston County Auditor will prepare the investment forms to codify the accounting and auditing controls needed to meet the policy requirements.

County Investments are subject to audit by the Galveston County Auditor's Office. In addition, it is the policy of the Galveston County Commissioners Court to include the investments and investment procedures in the annual audit of all County funds by an independent auditing firm. The County Investment Officer(s) and the County's investment procedures shall be subject to an annual compliance audit of management controls on investments and adherence to the County's established investment policies.

Standard of Care

GC 2256.006

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 persons 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. Understanding 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.
6. Yield.

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

Investment Evaluation Committee

The Investment Officer, together with two members of the Commissioners Court, the County Clerk, and the County Auditor, shall be members of the Investment Committee. The Investment Committee shall review the investment portfolio's status and performance, advise appropriate portfolio adjustments, monitor compliance with the Investment Policy and Strategies and perform other investment related duties as necessary.

Liability of Investment Officer or Investment Evaluation Committee

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

Investment Officer(s)

County Investment Officer's Responsibility and Controls

[GC 2256.005\(f\)](#)

The Commissioners Court shall designate, by resolution, the County Investment Officer(s) are responsible for investment of its funds as defined in this investment policy. Persons designated by the Commissioners Court to be responsible for investments must demonstrate quality and capability of investment management and shall exercise the judgment and care that a prudent person would exercise in the management of the person's own affairs. The Commissioners Court retains ultimate responsibility as fiduciaries of the assets of the County.

In accordance with Sec. 116.112 (a), the Commissioners Court may direct the Treasury office of the County Clerk to withdraw any county funds deposited in a county depository that are not immediately required to pay obligations of the county and invest those funds as directed by the County Investment Officer(s) unless such an investment or withdrawal is prohibited by law or the withdrawal is contrary to the terms of the depository contract.

To expedite the transfer of funds timely, the Commissioners Court has directed the Treasury Office to designate the County Investment Officer(s) as per statute to withdraw, under appropriate controls and reporting, the funds necessary to facilitate the investment of funds in an approved investment. The designee making the transfer must have prior approval from the other designee before initiating the transfer.

To purchase an investment, funds may be withdrawn from the county depository and invested in an investment pool, money market mutual fund, or insured cash sweep, or used to purchase an investment instrument allowed under this policy. If an investment is redeemed, the funds received would be transferred to the county depository bank for use as the operational needs of the county may dictate or for re-investment. Written documentation of these account transfers shall be provided to the Treasury Office.

An exception may be made when seeking to purchase bond securities in a volatile market, where a quick turnaround time is critical to secure an offer, and/or the quantity of shares is limited.

Unless authorized by law, a person may not deposit, withdraw, transfer, or manage in any other manner the funds of the County.

Training Requirements

All investment training sources must be approved by the County Investment Academy of the Texas Association of Counties. Training must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with the *Section 2256.008(c) of the Texas Government Code*.

Training shall be paid out of the General Government budget for members of the Investment Committee, as well as one assistant County Auditor and one Financial Analyst from Professional Services.

Investment Advisors and Brokers

Investment Advisors and Providers

The Investment Officer(s) shall invest county funds consistent with federal and state law, the County's Investment Policy, and the current depository bank contract with any or all the following institutions or groups:

1. Depository bank;
2. Other state bank, national bank, savings and loan association, or a state or federal credit union domiciled in Texas insured in full by either Federal Savings and Loan Insurance Corporation or Federal Deposit Insurance Corporation;
3. Public Funds Investment Act Pools passage of a resolution by the Commissioners Court, as well as the required inter-local agreement;
4. Government securities brokers and dealers approved by Commissioners Court;
5. Money Market mutual funds reviewed and recommended by the Investment Committee and approved by the Commissioners Court.

Qualifications of Approval of Brokers/Dealers

GC Section 2256.005(k)

Investment advisors and investment providers shall adhere to the spirit, philosophy and specific terms of this policy and shall invest within the same "Standard of Care" whereby the primary objective is the preservation and safety of principal.

A written copy of the Galveston County Investment Policy shall be presented to any person seeking to sell to the County an authorized investment, including investment pools and money market mutual funds. The registered principal of the business organization seeking to sell an authorized investment to the County shall execute a written instrument substantially to the effect that the registered principal has:

1. Received, reviewed, and agreed to adhere to the investment policy of the County;
2. Acknowledged the organization has implemented reasonable procedures and controls to preclude investment transactions between the County and the organization not authorized by the investment policy;
3. Provided audited financial statements;
4. Provided proof of National Association of Securities Dealers (NASD) Certification;
5. Provided proof of state registration; and

6. Completed Broker/Dealer Request for Information.

Selected Investment Advisors and Investment Brokers/Dealers shall provide timely transaction confirmations and monthly activity reports.

The investment officer(s) may not buy any securities from a person who has not delivered to the County an instrument substantially in the form provided above according to *GC Section 2256.005(k-l)*.

Approval Process of Broker/Dealer

[GC Section 2256.005\(k\)](#), [GC Section 2256.025](#)

Upon execution of a written instrument as described above, any person offering to engage in an investment transaction with the County may present a written request to the Investment Committee. The Investment Committee shall review the request and if appropriate present the request to Commissioners Court for approval. The Investment Committee shall present annually a list of qualified investment brokers/ dealers to the Commissioners Court for review, revisions, and approval. Once the list of qualified brokers/dealers has been adopted, only those named brokers/dealers shall be approved and qualified to engage in investment transactions with the County.

Removal from Approved List

The Investment Committee may recommend at any time that a Broker/Dealer be removed by the Commissioners' Court from the approved list for any of the following reasons:

1. Placing County funds at risk.
2. Failure to maintain one or more of the criteria initially required in the Broker/Dealer selection process.
3. Consistently causing administrative burden with inaccurate documentation or untimely verifications.
4. Consistently offering securities at non-competitive yield.
5. The approved qualified representative of the broker/dealer has:
 - been disciplined by a self-regulatory organization (NASD or NYSE).
 - settled with a customer for claims over \$15,000.
 - been subjected to fines by their firm of over \$2,500.
 - been held in violation of any securities act.
 - been convicted of a criminal offense.
- B. For any other reason designated by the Investment Committee.

Standards of Operation

The County Investment Officer(s) shall develop and maintain written administrative procedures for the operation of the investment program, which shall be consistent with this investment policy.

Delivery vs. Payment

[GC Section 2256.005\(b\)\(4\)\(E\)](#)

All investments except PFIA investment pools, or operating investments, shall be purchased using the "Delivery vs. Payment" (DVP) method through the Federal Reserve System. By so doing, County funds are not released

until the County has received the securities purchased through the Federal Reserve wire.

Competitive Bidding

When competitive offers are sought, the County will send a Request for Offer form to at least three approved and qualified broker/dealers. If a specific maturity date is required, offers will be requested for instruments which meet those purposes. The County Investment Officer(s) will accept the offer, which, in its sole discretion, is determined to best provide the highest rate of return within the maturity required. Offers will not be accepted which do not meet the specified criteria in the request for offer or where the deadline specified on the request for offer(s) is not met.

For those situations where market conditions may dictate a change in the offer process noted above, the County may accumulate at least three unsolicited offers of investments for consideration to purchase. The investments considered must be comparable in structure, term, maturity, and rate. Furthermore, the offers accumulated must be no older than 5 business days prior to the date of purchase notification.

Offers may be solicited in any manner provided by law, including e-mail. All offers must be from broker/ dealers previously approved and qualified by Commissioners Court. All offers received and considered which lead to an acceptance of the offer must be documented and filed for auditing purposes.

Investment Reporting and Performance Evaluation

In accordance with *GC Section 2256.023*, not less than quarterly, the County Investment Officer(s) shall prepare and submit to the Commissioners Court a written report of investment transactions for all funds for the preceding reporting period, within a reasonable time after the end of the period. The report must:

1. Describe in detail the investment position of the County on the date of the report;
2. Be prepared jointly by all Investment Officer(s);
3. Be signed by each Investment Officer;
4. Contain a summary statement of each pooled investment funds group that states:
 - a. Beginning market value for the reporting period;
 - b. Ending market value for the period; and
 - c. Fully accrued interest for the period
5. State the book value and market value of each separately invested asset at the end of the reporting period by the type of asset and fund type invested;
6. State the maturity date of each separately invested asset that has a maturity date;
7. State the account, fund or pooled group fund in the state agency or local government for which each individual investment was acquired;

8. State that compliance of the investment portfolio of the County complies with:
 - a. The County's investment policy;
 - b. Relevant provisions of *GC Chapter 2256*; and
 - c. Changes in ratings by Standard & Poor's or Moody's of investments owned at the end of the reported quarter (*GC Section 2256.005b*);
9. The County shall seek a third-party independent pricing source to determine the value of the County's investment portfolio.

Significant Investment Changes

The Investment Officer(s) are to notify the Investment Committee of significant changes in current investment methods and procedures prior to implementation, regardless of whether they are authorized by the policy or not.

The County is not required to liquidate investments that were authorized investments at the time of purchase according to *GC Section 2256.017*. However, Investment Officer(s) shall take all prudent measures that are consistent with this investment policy to liquidate an investment that does not have the minimum rating *GC Section 2256.021*.

Investment Collateral and Safekeeping

Collateral or Insurance

[GC 2256, 2257](#)

It is the policy of Galveston County to require full collateralization of all County investments and funds on deposit with a depository bank, other than investments which are obligations of the U.S. government and its agencies and instrumentalities. To anticipate possible market changes and ensure the security of funds, the collateralization level will be 102% of market value of principal and accrued interest on the deposits or investments less an amount insured by the FDIC or NCUSIF. Galveston County, at its discretion, reserves the right to require a higher level of collateralization for certain investment securities.

- A. FDIC or NCUSIF insurance coverage
- B. Obligations of the United States or its agencies and instrumentalities
- C. Direct obligations of the State of Texas or its agencies
- D. Other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States
- E. Obligations of states, agencies, counties, cities, and other political subdivision of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than "A" or its equivalent; or
- F. Any other manner allowed by Government Code Chapter 2257 (Public Funds Collateral Act).

The Investment Officer(s) are responsible for entering into collateralization agreements with third party custodians in compliance with this policy. The agreements are to specify the acceptable investment securities for collateral, including provisions relating to possession of the collateral, the substitution or release of investment securities,

ownership of securities, and the method of valuation of securities. Clearly marked evidence of ownership (safekeeping receipt) must be supplied to the County and retained. The investment officer or designee will approve and release all pledged collateral. Collateral will be monitored at least monthly to assure the market value of the pledged securities exceeds investments and/or the related bank balances.

Safekeeping

All purchased securities shall be held in safekeeping by the County, or a County account in a third-party financial institution, or with a Federal Reserve Bank. All certificates of deposit, insured by FDIC or NCUSIF, purchased outside the depository bank shall be held in safekeeping by either the County or a County account in a third-party financial institution. All pledged securities by the depository bank shall be held in safekeeping by the County, or a County account in a third-party financial institution, or with a Federal Reserve Bank.

Exhibit A. Approved List of Broker/Dealers

Deutsche Bank

Coastal Securities

First Public

LF Financial LLC

FTN Financial

FHN Financial

Craig Dismuke

BOSC, Inc.

Great Pacific Securities

Exhibit B. Certification

CERTIFICATION

I hereby certify that I have received and thoroughly reviewed the current investment policy of Galveston County. In addition, this firm is aware of the Texas Statutes, Local Government Code 113.005, 116.112 and Government Code 2256 and 2257. I have furthermore implemented reasonable procedures and controls designed to preclude imprudent investment activities arising out of investment transactions conducted between this firm and Galveston County. Further, transactions between this firm and Galveston County will be directed toward protecting Galveston County from credit and market risk in accordance with the Galveston County Investment Policy.

All sales personnel of this firm dealing with the Galveston County account have been informed and will be routinely informed of Galveston County's investment horizons, limitations, strategy and risk constraints, whenever we are so informed.

We further pledge due diligence in informing Galveston County of foreseeable risks associated with financial transactions connected to this firm, and that the firm is authorized to engage in investment transactions in the state of Texas.

Firm	Dealer Registration Number
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Firm Representative	Representative's Title
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Signature	Date
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Exhibit C. Authorized Investment Statutes-Texas Government Code Chapter 2256

Government Code Sec. 2256.009 OBLIGATIONS OF OR GUARANTEED BY GOVERNMENTAL ENTITIES.

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, including the Federal Home Loan Banks;
- (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;
- (6) bonds issued, assumed, or guaranteed by the State of Israel;
- (7) interest-bearing banking deposits that are guaranteed or insured by:
 - a. the Federal Deposit Insurance Corporation or its successor; or
 - b. the National Credit Union Share Insurance Fund or its successor; and
- (8) interest-bearing banking deposits other than those described by Subdivision (7) if:
 - a. the funds invested in the banking deposits are invested through:
 - (i) a broker with a main office or branch office in this state that the investing entity selects from a list the governing body or designated investment committee of the entity adopts as required by Section 2256.025; or
 - (ii) a depository institution with a main office or branch office in this state that the investing entity selects;
 - b. the broker or depository institution selected as described by Paragraph (A) arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the investing entity's account;
 - c. the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and
 - d. the investing entity appoints as the entity's custodian of the banking deposits issued for the entity's account:
 - (i) the depository institution selected as described by Paragraph (A);
 - (ii) an entity described by Section 2257.041(d); or
 - (iii) a clearing broker dealer registered with the Securities and Exchange Commission and operating under Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3).

(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.

Acts 2017, 85th Leg., R.S., Ch. 773 (H.B. 1003), Sec. 2, eff. June 14, 2017.

Acts 2017, 85th Leg., R.S., Ch. 863 (H.B. 2647), Sec. 1, eff. June 15, 2017.

Acts 2017, 85th Leg., R.S., Ch. 874 (H.B. 2928), Sec. 1, eff. September 1, 2017.

Government Code Sec. 2256.010 CERTIFICATES OF DEPOSIT AND SHARE CERTIFICATES.

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 accordance with Chapter 2257 or 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.

Acts 2005, 79th Leg., Ch. 128 (H.B. 256), Sec. 1, eff. September 1, 2005.

Acts 2011, 82nd Leg., R.S., Ch. 1004 (H.B. 2226), Sec. 5, eff. June 17, 2011.

Acts 2017, 85th Leg., R.S., Ch. 874 (H.B. 2928), Sec. 2, eff. September 1, 2017.

Government Code Sec. 2256.011 REPURCHASE AGREEMENTS.

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) or 2256.013 or, if applicable, Section 2256.0204;
 - (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) or 2256.013 or, if applicable, Section 2256.0204, 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.
- (e) Section 1371.059(c) applies to the execution of a repurchase agreement by an investing entity. 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.

Acts 2017, 85th Leg., R.S., Ch. 773 (H.B. 1003), Sec. 3, eff. June 14, 2017.

Acts 2019, 86th Leg., R.S., Ch. 1133 (H.B. 2706), Sec. 1, eff. September 1, 2019.

Government Code Sec. 2256.013 COMMERCIAL PAPER.

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 365 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.

Acts 2019, 86th Leg., R.S., Ch. 1133 (H.B. 2706), Sec. 2, eff. September 1, 2019.

Government Code Sec. 2256.014 MUTUAL FUNDS.

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.); and
 - (3) complies with federal Securities and Exchange Commission Rule 2a-7 (17 C.F.R. Section 270.2a-7), promulgated under the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.).
- (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; and
 - (3) either:
 - (A) has a duration of one year or more and is invested exclusively in obligations approved by this subchapter; or
 - (B) has a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities.
- (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.

Acts 2017, 85th Leg., R.S., Ch. 773 (H.B. 1003), Sec. 4, eff. June 14, 2017.

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;
 - (12) the performance history of the pool, including yield, average dollar-weighted maturities, and expense ratios; and
 - (13) the pool's policy regarding holding deposits in cash.

- (c) To maintain eligibility to receive funds from and invest funds on behalf of an entity under this chapter, an investment pool must furnish to the investment officer or other authorized representative of the entity:
 - (1) investment transaction confirmations; and
 - (2) a monthly report that contains, at a minimum, the following information:
 - (A) the types and percentage breakdown of securities in which the pool is invested;
 - (B) the current average dollar-weighted maturity, based on the stated maturity date, of the pool;
 - (C) the current percentage of the pool's portfolio in investments that have stated maturities of more than one year;
 - (D) the book value versus the market value of the pool's portfolio, using amortized cost valuation;
 - (E) the size of the pool;
 - (F) the number of participants in the pool;
 - (G) the custodian bank that is safekeeping the assets of the pool;
 - (H) a listing of daily transaction activity of the entity participating in the pool;
 - (I) the yield and expense ratio of the pool, including a statement regarding how yield is calculated;
 - (J) the portfolio managers of the pool; and
 - (K) any changes or addenda to the offering circular.

- (d) An entity by contract may delegate to an investment pool the authority to hold legal title as custodian of investments purchased with its local funds.
- (e) In this section, for purposes of an investment pool for which a \$1.00 net asset value is maintained, "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:
 - (1) a public funds investment pool that uses amortized cost or fair value accounting must mark its portfolio to market daily; and
 - (2) if the investment pool uses amortized cost:
 - (A) the investment pool must, to the extent reasonably possible, stabilize at a \$1.00 net asset value, when rounded and expressed to two decimal places;
 - (B) the governing body of the investment pool must, 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, take action as the body determines necessary to eliminate or reduce to the extent reasonably practicable any dilution or unfair result to existing participants, including a sale of portfolio holdings to attempt to maintain the ratio between 0.995 and 1.005; and
 - (C) the investment pool must, in addition to the requirements of its investment policy and any other forms of reporting, 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.

Acts 2011, 82nd Leg., R.S., Ch. 1004 (H.B. 2226), Sec. 7, eff. June 17, 2011.

Acts 2017, 85th Leg., R.S., Ch. 773 (H.B. 1003), Sec. 6, eff. June 14, 2017.

Acts 2019, 86th Leg., R.S., Ch. 1133 (H.B. 2706), Sec. 3, eff. September 1, 2019.