

ARANSAS COUNTY INVESTMENT POLICY

As Reviewed / Amended / Adopted

May 26, 2020

**ARANSAS COUNTY
INVESTMENT POLICY**

**ADOPTED
MARCH 26, 1997**

**REVIEWED AND AMENDED
MARCH 25, 1998**

**REVIEWED AND AMENDED
SEPTEMBER 29, 1999**

**REVIEWED AND APPROVED
JULY 10, 2000**

**ADOPTED
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APRIL 24, 2002**

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**REVIEWED/ADOPTED
MARCH 31, 2004**

**REVIEWED/ADOPTED
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SEPTEMBER 28, 2005**

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MARCH 29, 2006**

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APRIL 25, 2007**

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**REVIEWED/AMENDED/ADOPTED
MARCH 31, 2010**

**REVIEWED / AMENDED / ADOPTED
MARCH 30, 2011**

**REVIEWED / AMENDED / ADOPTED
JUNE 29, 2011**

**Reviewed / Amended / Adopted
August 19, 2011**

[Change: Page 6, Section III Investment Strategy to include "Certificates of Deposit Certificates of Deposit issued by banks outside of this state if purchased through a Broker/Dealer that has its main office or a branch office in this state." as is described by Government Code Section 2256.010(b) as amended 6/17/2011 by HB2226.]

[Change: Page 9, Section VI B. Investment Instruments to include "or Certificates of Deposit issued by banks outside of this state if purchased through a Broker/Dealer that has its main office or a branch office in this state." as is described by Government Code Section 2256.010(b) as amended 6/17/2011 by HB2226.]

[Attach: Exhibit A – Resolution R29-2011 To Approve and Adopt Investment Policy as Amended August 19, 2011]

**Reviewed / Amended / Adopted
September 28, 2011**

[Attach: Exhibit B – Resolution R-31-2011 To Appoint Investment Officers and Approve and Adopt Investment Policy with the addition of these appointments]

**REVIEWED / AMENDED / ADOPTED
OCTOBER 8, 2012**

[Change: Page 5. Section III, Funds Included to include "Limited Tax Refunding Bond Funds"]

[Grammatical Changes: Page 6, Section III, Strategy Statement to include "Invest with", "Hold" and "Purchase"]

REVIEWED / AMENDED / ADOPTED
April 22, 2013

[Change: Table of Contents. Section VII, Investment Institutions to include "Exhibit B-1" to the wording]

[Change: Table of Contents. Section XI, Exhibits and Appendices to include "Exhibit B-1"]

[Change: Page 11. Section VII, Investment Institutions to include "Exhibit B-1" to the wording]

[Change: Page 15. Section XI, Exhibits and Appendices to include "Exhibit B-1"]

[Attach: Exhibit A – Resolution R-10-2013 To Approve and Adopt Investment Policy as Amended April 22, 2013]

[Attach: Exhibit B – Resolution R-11-2013 To Appoint Investment Officers and Approve and Adopt Investment Policy with the addition of these appointments, removing Darlene Irwin and adding Susan R. Woodley]

[Attach: Exhibit B-1 – Resolution R-12-2013 To Approve and Adopt Investment Broker/Dealer List with the removal of Morgan Stanley Smith Barney LLC]

REVIEWED / AMENDED / ADOPTED
April 28, 2014

Annual Review Only – NO AMENDMENTS, REVISIONS OR CHANGES

[Attach: Exhibit A – Resolution R-05-2014 To Approve and Adopt Investment Policy as Amended April 28, 2014]

[Attach: Exhibit B – Resolution R-06-2014 To Appoint Investment Officers and Approve and Adopt Investment Policy with the addition of these appointments]

[Attach: Exhibit B-1 – Resolution R-07-2014 To Approve and Adopt Investment Broker/Dealer List, removing First Victoria Bank]

REVIEWED / AMENDED / ADOPTED
January 26, 2015

Annual Review / Change Investment Officers / Approve Investment Broker/Deal List

[Attach: Exhibit A – Resolution R-01-2015 To Approve and Adopt Investment Policy as Amended January 26, 2015]

[Attach: Exhibit B – Resolution R-02-2015 To Appoint Investment Officers and Approve and Adopt Investment Policy with the addition of these appointments, removing Susan R. Woodley]

[Attach: Exhibit B-1 – Resolution R-03-2015 To Approve and Adopt Investment Broker/Dealer List, adding Frost Bank]

REVIEWED / AMENDED / ADOPTED
March 23, 2015

Change Investment Officers

[Attach: Exhibit A – Resolution R-06-2015 To Approve and Adopt Investment Policy as Amended March 23, 2015]

[Attach: Exhibit B – Resolution R-07-2015 To Appoint Investment Officers and Approve and Adopt Investment Policy with the addition of these appointments, adding Timi Latham]

REVIEWED / AMENDED / ADOPTED
March 28, 2016

ANNUAL REVIEW – APPROVE INVESTMENT BROKER DEALER LIST ADDING LOGIC

[Attach: Exhibit A – Resolution R-04-2016 To Approve and Adopt Investment Policy as Amended March 28, 2016]

[Attach: Exhibit B – Resolution R-05-2016 To Appoint Investment Officers and Approve and Adopt Investment Policy with the addition of these appointments]

[Attach: Exhibit B-1 – Resolution R-06-2016 To Approve and Adopt Investment Broker/Dealer List, adding LOGIC, removing Charter Bank and International Bank of Commerce IBC; changing broker for Wells Fargo Securities]

REVIEWED / AMENDED / ADOPTED
May 9, 2016

APPROVE INVESTMENT BROKER DEALER LIST ADDING NATIONAL ALLIANCE

[Attach: Exhibit B-1 – Resolution R-13-2016 To Approve and Adopt Investment Broker/Dealer List, adding National Alliance Securities]

REVIEWED / AMENDED / ADOPTED
March 13, 2017

ANNUAL REVIEW – APPROVE INVESTMENT BROKER DEALER LIST ADDING FTN FINANCIAL CAPITAL MARKETS

[Attach: Exhibit A – Resolution R-03-2017 To Approve and Adopt Investment Policy as Amended March 13, 2017]

[Attach: Exhibit B – Resolution R-04-2017 To Appoint Investment Officers and Approve and Adopt Investment Policy with the addition of these appointments]

[Attach: Exhibit B-1 – Resolution R-05-2017 To Approve and Adopt Investment Broker/Dealer List, adding FTN FINANCIAL CAPITAL MARKETS]

REVIEWED / AMENDED / ADOPTED
February 26, 2018

ANNUAL REVIEW – APPROVE UPDATED INVESTMENT BROKER DEALER LIST REMOVING COASTAL SECURITIES

[Attach: Exhibit A – Resolution R-02-2018 To Approve and Adopt Investment Policy as Amended February 26, 2018

[Attach: Exhibit B – Resolution R-03-2018 To Appoint Investment Officers and Approve and Adopt Investment Policy with the addition of these appointments]

[Attach: Exhibit B-1 – Resolution R-04-2018 To Approve and Adopt Investment Broker/Dealer List, removing Coastal Securities]

REVIEWED / AMENDED / ADOPTED
May 28, 2019

ANNUAL REVIEW – APPROVE UPDATED INVESTMENT BROKER DEALER LIST

[Attach: Exhibit A – Resolution R-17-2019 To Approve and Adopt Investment Policy as Amended May 28, 2019

[Attach: Exhibit B – Resolution R-18-2019 To Appoint Investment Officers and Approve and Adopt Investment Policy with the addition of these appointments]

[Attach: Exhibit B-1 – Resolution R-19-2019 To Approve and Adopt Investment Broker/Dealer List, adding Lone Star Investment Pool/First Public]

[Change: Page 5, Section III Investment Strategy to include “Transfer Station” to the Funds Listed paragraph and change “final maturity of 730 days” to read “final maturity of 365 days” under Other Funds.]

[Change: Page 6, Section III Investment Strategy to include under Strategy Statement “Purchase Certificates of Deposit issued by Credit Unions”, “Invest with Lone Star Investment Pool/First Public”]

[Change: Page 9, Section VI Investment Instruments, Authorized Investment Instruments-updated per GC2256.009]

REVIEWED / AMENDED / ADOPTED
May 26, 2020

ANNUAL REVIEW – APPROVE UPDATED INVESTMENT BROKER DEALER LIST

[Attach: Exhibit A – Resolution R-11-2020 To Approve and Adopt Investment Policy as Amended May 26, 2020

[Attach: Exhibit B – Resolution R-12-2020 To Appoint Investment Officers and Approve and Adopt Investment Policy with the addition of these appointments]

[Attach: Exhibit B-1 – Resolution R-13-2020 To Approve and Adopt Investment Broker/Dealer List, adding FNC Financial Northeastern Companies and TX FIT/Water Walker Investments; deleting Funds Management Group]

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Appendix #1: Govt. Code, Title 10, Chapter 2256
 Public Funds Investment Act

Appendix #2: Govt. Code, Title 10, Chapter 2257
 Public Funds Investment Act

I INVESTMENT AUTHORITY & SCOPE OF POLICY

GENERAL STATEMENT

This policy serves to satisfy the statutory requirements of Local Government Code 116.112, Government Code Title 10, Chapter 2256, to define and adopt a formal investment policy. See Exhibit A: Resolution to Adopt Investment Policy. This policy will be reviewed and adopted by resolution at least annually according to Section 2256.005(e). Funds of the County will be invested in accordance with Chapter 2256, Government Code, Public Funds Investment Act of 1995, as amended, this policy and written administrative procedures. The County's investment portfolio shall be managed in a manner to attain the maximum rate of return allowed through prudent and legal investing of County funds while preserving and protecting capital in the overall portfolio.

FUNDS INCLUDED

This investment policy applies to all financial assets of all funds of the County of Aransas, Texas, at the present time, any funds to be created in the future and any other funds held in custody of the County Treasurer, unless expressly prohibited by law or unless it is in contravention of any depository contract between Aransas County and any depository bank.

COUNTY'S INVESTMENT OFFICER

In accordance with Sec. 116.112(a), Local Government Code and/or Texas Government Code Chapter 2256. Sec 2256.005(f) and (g), the County Treasurer, under the direction of the Aransas County Commissioners Court, may invest County funds that are not immediately required to pay obligations of the County. The commissioners court shall designate by resolution one or more officers or employees as investment officer. See Exhibit B: Resolution to appoint Investment Officer.

If the 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 to 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).

II INVESTMENT OBJECTIVES AND PRIORITIES

GENERAL STATEMENT

Funds of Aransas County will be invested in accordance with federal and state laws, this investment policy and written administrative procedures. The County's investment portfolio shall be managed in a manner to attain the maximum rate of return allowed through prudent and legal investing of County funds while preserving and protecting capital in the overall portfolio. This policy serves to satisfy the statutory requirements of the TEXAS GOVERNMENT CODE, ANN., Title 10, Section 2256. Public Funds Investment Act, to define and adopt a formal investment policy.

SAFETY AND MAINTENANCE OF ADEQUATE LIQUIDITY

Aransas County is concerned about the return on its principal; therefore, safety of principal is the primary objective in any investment transaction.

The Secondary objective of Aransas County is to strive to maintain adequate liquidity, through scheduled maturity of investments, to cover the cash needs of the County consistent with the objectives of this policy.

The County's investment portfolio shall be structured in conformance with a cash projection plan which provides for liquidity necessary to pay obligations as they become due. The cash projection plan will match maturities of investments with cash requirements and it will be the responsibility of the County Auditor to furnish the County Treasurer with the projected liability needs in order that the County Treasurer can match maturities of investments with those needs.

DIVERSIFICATION

It will be the policy of Aransas County to diversify its portfolio to eliminate the risk of loss resulting from over-concentration of assets in a specific maturity, a specific issuer or a specific class of investments. Investments of the County shall always be selected to provide for stability of income and reasonable liquidity.

In order to assure that Aransas County funds are diversified the County Treasurer will use these acceptable instruments:

- Obligations of the United States or its agencies and instrumentalities
- U.S. Agency Discount Notes
- U.S. Treasury Bills
- Texpool/Texpool PRIME (for diversification and contingency)
- Texas Class (for diversification and contingency)
- TexSTAR and LOGIC (for diversification and contingency)
- Lone Star Investment Pool-First Public (for diversification and contingency)
- TX FIT-Texas Fixed Income Trust (for diversification and contingency)
- Depository Bank overnight rate
- Depository Bank & Trust Sweep Accounts
- Certificates of Deposits

with maturities scheduled to liability needs.

YIELD

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

MATURITY

Portfolio maturities will be structured to meet the obligations of the County first and then to achieve the highest return of interest. When the County has funds that will not be needed to meet current-year obligations, maturity restraints will be imposed based upon the investment strategy for each fund. The maximum allowable stated maturity of any individual investment owned by the County is five (5) years. For pooled fund groups, the maximum dollar weighted average maturity allowed based on the stated maturity date for the portfolio will not exceed 365 days.

QUALITY AND CAPABILITY OF INVESTMENT MANAGEMENT

It is the policy of Aransas County to provide periodic Management training required by the Public Funds Act, Sec 2256.008 and periodic training in investments for the County Treasurer and/or Investment Officer through courses and seminars offered by professional organizations and associations in order to insure the quality, capability and currency of the County Treasurer/Investment Officer in making investment decisions. Training will include, but not be limited to Certification as required for County Treasurer. Further training as available through TexPool, Texas Class, TexSTAR, TAC, and/or Depository Bank either through scheduled workshops or seminars, shall be provided at least once annually. It is the policy of Aransas County to provide its investment officer and officers of the court periodic training as needed.

SPECIFIC REQUIREMENT FOR TRAINING

Treasurer and/or investment officer (if different) must attend at least one training session relating to investments within 12 months of taking office or assuming the duties or the law goes into effect. (HB 2459 effective September 1, 1995).

III INVESTMENT STRATEGY

GENERAL STATEMENT

In accordance with Chapter 2256 of the Public Funds Investment Act, Chapter A, the County Treasurer shall develop strategies for each fund, consistent with the Investment Policy.

In accordance with the Public Funds Investment Act, Section 2256.005(e), investment strategies will be reviewed and adopted by resolution at least annually.

FUNDS DEFINED

- Funds:** means public funds in the custody of the local government that the investing entity has the authority to invest.
- Investment Pool:** means an entity created under this code to invest public funds jointly on behalf of the entities that participate in the pool.
- 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.

FUNDS LISTED

Aransas County Pooled Cash Fund:

- Funds included are:** General Fund
Airport Fund
Road and Bridge Fund
Library Fund
Mosquito Control Fund
Transfer Station
Other funds in Operations Account

All funds of Aransas County that are invested, are invested by matching the maturity of investments with liabilities. Investments are made with the intention of holding to maturity, but with the ability to liquidate should funds be needed at any time. This strategy is achieved by utilizing highly liquid short term Treasury Bills and Agency Discount Notes with a stated final maturity of 730 days or less. Texpool, Texas CLASS, TexSTAR, LOGIC, Lone Star Investment Pool, Depository Bank and State and Federal Banks in Texas Certificate of Deposits will be used for diversification and contingency.

Other Funds of Aransas County:

- Funds included are:** Grant Funds
Certificate of Obligation - I&S Funds
Capital Project Funds
Venue Tax Fund
Limited Tax Refunding Bond Funds

Other funds of Aransas County that are invested, are invested by matching maturity of investments with cash needs. This strategy is achieved by utilizing highly liquid, short term, Treasury Bills and Agency Discount Notes with a stated final maturity of 365 days or less. Texpool, Texpool PRIME, Texas CLASS, TexSTAR, LOGIC, Lone Star Investment Pool, Depository Bank and State and Federal Banks in Texas Certificates of Deposits will be used for diversification and contingency.

STRATEGY STATEMENT

Aransas County Treasurer/Investment Officer will match maturities of investments with cash requirements. Cash Projections to be furnished by the Aransas County Auditor.

County Treasurer will:

- Purchase obligations of the United States or its agencies and Instrumentalities of up to 36 months maturity and liquidate only if needed before maturity.
- Purchase short-term U.S. Treasury Bills securities (365 days) and reinvest at maturity.
- Maintain interest bearing checking accounts at depository bank to meet immediate cash flow needs OR demand deposit public fund checking accounts with use of County's compensated balance calculation less earnings credit to offset costs of services to meet immediate cash flow needs.
- Hold Depository Bank Sweep Accounts (MMKT Mutual Fund)
- Purchase Certificates of Deposit issued by Texas Banks
- Purchase Certificates of Deposit issued by banks outside of this state if purchased through a Broker/Dealer that has its main office or a branch office in this state.
- Purchase Certificates of Deposit issued by Credit Unions
- Invest with Texpool/Texpool PRIME for diversification and to meet emergency unforeseen cash needs.
- Invest with Texas Class for diversification and to meet emergency unforeseen cash needs.
- Invest with TexSTAR for diversification and to meet emergency unforeseen cash needs.
- Invest with LOGIC for diversification and to meet emergency unforeseen cash need.
- Invest with Lone Star Investment Pool/First Public for diversification and to meet emergency unforeseen cash needs.
- Invest with TX FIT for diversification and to meet emergency unforeseen cash needs.
- Other approaches added will be presented for approval to the commissioners' court.
- Participating brokers/dealers will be advised of any additional approved investment instruments or methods by being furnished a copy of Commissioners' Court order approving same.

ACTIVE PORTFOLIO MANAGEMENT

Aransas County intends to pursue an active versus a passive portfolio management philosophy. Securities may be sold or exchanged before they mature if market conditions present an opportunity for the County to benefit from the trade. Under this investment policy, all investments will be made with the intent of pursuing, at the time of purchase, the best rate of return on securities held until maturity, and not with the intent of speculative trading.

LIQUIDITY

Aransas County's investment portfolio must be structured in conformance with a liability projection plan which provides for liquidity necessary to pay obligations as they become due, and consider investing ONLY reserve funds, for a period beyond five (5) years.

The County's investment portfolio must be structured in a manner which will provide the liquidity necessary to pay obligations as they become due. The Investment Officer shall maintain a cash-flow analysis with the assistance of the County Auditor.

IV INVESTMENT RESPONSIBILITY AND CONTROL

COUNTY'S INVESTMENT OFFICER

In accordance with Sec. 2256.0050, Public Funds Investment Act, the County Treasurer, under the direction of Aransas County Commissioners' Court, may invest funds that are not immediately required to pay obligations of the County. The County Treasurer shall develop and maintain written administrative procedures for the operation of the investment program, consistent with this investment policy, and in consideration of available reserve funds.

INVESTMENT PROCEDURES

The County Treasurer shall determine the amount of cash available for payments required by Aransas County, shall invest the funds not required in the performance of that payment. The County Treasurer shall exercise her best judgment and discretion to effectuate the policies herein set forth. The County Treasurer shall be authorized to delegate to an employee the authority to place orders for such investments and to perform all acts required to acquire, pay for, hold, sell, exchange, tender or collect investments.

PRUDENCE, STANDARD OF CARE AND ETHICAL STANDARD

Aransas County shall apply the "prudent person rule" when managing the portfolios within the applicable legal and policy constraints. The prudent person rule is restated as follows:

"Investments must be made with the judgment and care, under prevailing circumstances, which persons of prudence, discretion and intelligence would exercise in the management of their own affairs for investment, not for speculation, considering the probable safety of their capital as well as the probable income to be derived."

Investment of funds shall be governed by the following investment objectives, in order of priority: preservation of principal; liquidity; and 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.

LIABILITY OF TREASURER

In accordance with Sec. 113.005, Local Government Code, the County Treasurer is not responsible for any loss of the County funds through the failure or negligence of a depository. This section does not release the treasurer from responsibility for a loss resulting from the official misconduct or negligence of the treasurer, including a misappropriation of the funds, or from responsibility for funds until a depository is selected and the funds are deposited.

AUDIT CONTROL

The Aransas County Treasurer will establish liaison with the Aransas County Auditor in preparing investment forms to assist the County Auditor for accounting and auditing control.

SUBJECT TO AUDIT

The Aransas County Treasurer is subject to audit by the Aransas County Auditor. In addition, it is the policy of the Aransas County Commissioners Court, at a minimum, to have an annual audit of all County funds by an independent auditing firm. The Aransas County Treasurer and the County's investment procedures shall be subject to the annual audit, investment policy review and any special audits as required.

In accordance with Government Code, Title 10, Chapter 2256.005(m), Aransas County must have a compliance audit of management controls and adherence to investment policy in conjunction with annual audit.

METHODS TO MONITOR THE MARKET PRICE OF INVESTMENTS

The County values (marks to market) the securities held in its portfolio on a periodic basis as required by the Public Funds Investment Act of Texas. One source always used for those valuations is Bloomberg Financial Markets. Prices reported on Bloomberg for U.S. Treasury and Federal agency securities are obtained from an array of sources (market makers) including the primary dealers who are recognized by and report positions to the Federal Reserve Bank of New York.

Bloomberg Financial Markets (and Bloomberg News) is a world-wide recognized resource for financial news, information, and market prices. Access to the Bloomberg system is obtained through Funds Management Group Inc. of Houston, Texas. Another source for monitoring the market price of investments is the Wall Street Journal.

V INVESTMENT REPORTING AND PERFORMANCE EVALUATION

QUARTERLY REPORT

The Aransas County Treasurer will report in writing quarterly to Commissioners' Court and to the County Auditor. The report shall include a detailed listing of all purchases, sales and payments with a narrative summation explaining cost and market comparisons, annualized yield, benchmark analyses, statement of conformation to law and policy, and current investment strategies and risks, and suggested policy changes that might enhance the overall investment program.

In accordance with Government Code 2256.023 the Aransas County treasurer will report not less than quarterly 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 officers of the County (if more than one)
3. Be signed by each investment officer of the County;
4. Contain a summary statement of each pooled fund group that states the :
 - beginning market value for the reporting period;
 - additions and changes to the market value during the period; and
 - ending market value for the period
5. state the book value and market value of each separately invested asset at the beginning and end of the reporting period by the type of asset and fund type invested;
6. State the maturity date of each separately invested asset that has a maturity date;
7. State the account or fund or pooled group fund in the County for which each individual investment was acquired; and
8. State the compliance of the investment portfolio of the County as it relates to:
 - the investment strategy expressed in the County's investment policy; and
 - relevant provisions of the investment law.
9. Collateral adequacy for bank deposits and certificates of deposit
10. Distribution of investments by dealer/broker/financial institution, and
11. Distribution of investments by type of investment

ANNUAL REPORT

The Aransas County Treasurer will conform to Subchapter B of Chapter 2256, Government Code, Title 10 and prepare a written yearly report concerning the County's local funds investment transactions for the preceding year and describing in detail the investment position of the County as of the date of the report.

The annual report shall be a compilation of the quarterly reports.

NOTIFICATION OF INVESTMENT CHANGES

It shall be the duty of the Treasurer of Aransas County, Texas to notify the Aransas County Commissioners' Court of any significant changes in current investment methods and procedures prior to their implementation.

VI INVESTMENT INSTRUMENTS

AUTHORIZED INVESTMENT INSTRUMENTS

The Aransas County Treasurer/Investment Officer shall use any or all of the following authorized investment instruments consistent with governing law (Government Code 2256):

- A. Except as provided by Government Code 2256.009, the following are authorized investments:
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 the State of Texas 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 (FDIC) 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. Interest-bearing banking deposits that are guaranteed or insured by (a) the Federal Deposit Insurance Corporation (FDIC) or its successors; or (b) the National Credit Union Share Insurance Fund (NCUA) or its successor;
- B. Certificates of Deposit and Share Certificates issued by a depository institution that has its main office or a branch office in the State of Texas and national banks domiciled in this state, or Certificates of Deposit issued by banks outside of this state if purchased through a Broker/Dealer that has its main office or a branch office in this state. Certificates of deposits may be solicited orally, in writing, electronically or any combination of the above that are:
1. guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC), or its successor, or the National Credit Union Share Insurance Fund (NCUA);
 2. secured by obligations that are described by Section 2256.009(a) of the Public Funds Investment Act, 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) of the Public Funds Investment Act; or
 3. secured in any other manner and amount provided by law for deposits of the County.
- C. A fully collateralized repurchase agreement, as defined in the Public Funds Investment Act, if it:
1. has a defined termination date;
 2. is secured by obligations described by Section 2256.009(a) (1) of the Public Funds Investment Act; and
 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.

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

Money received by a County 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.

*D. A bankers' acceptance if it:

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.

*E. 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 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.

*F. Mutual funds and money market mutual funds with limitations described below:

A no-load money market mutual fund is authorized if it:

1. is regulated by the Securities and Exchange Commission;
2. has a dollar-weighted average stated maturity of 90 days or fewer; and
3. includes in its investment objectives the maintenance of a stable net asset value of \$1 for each share.

A no-load mutual fund is authorized if it:

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.
6. Money Market Fund specifically added by court order April 24, 1996, Cash Account Trust managed by DWS Scudder (fka Investors Cash Trust managed by Kemper Financial Services, Inc.) now known as Funds Management Group, Inc./Cash Account Trust/SAMCO Capital Markets.

Relative to mutual funds and money market mutual funds, the County may not:

1. invest in the aggregate more than 80 percent of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, in money market mutual funds or mutual funds, either separately or collectively;
2. 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;
3. invest any portion of bond proceeds, reserves and funds held for debt service, in mutual funds; or

4. 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 or money market mutual fund in an amount that exceeds 10 percent of the total assets of the mutual fund or money market mutual fund.
- G. Eligible investment pools (as discussed in the Public Funds Investment Act, Sec. 2256.016- 2256.019) if the Commissioners Court by resolution authorizes investment in the particular pool. An investment pool shall invest the funds it receives from entities in authorized investments permitted by the Public Funds Investment Act. A County by contract may delegate to an investment pool the authority to hold legal title as custodian of investments purchased with its local funds.

PROHIBITED

The Aransas County Treasurer/Investment Officer has no authority to use 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 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.

*** Will only be considered if recommended by Commissioners' Court, and with specific written authorization furnished.**

VII INVESTMENT INSTITUTIONS

INVESTMENT INSTITUTIONS DEFINED (Exhibit B-1)

The Aransas County Treasurer shall invest County funds with any or all of the following institutions or groups consistent with federal and state law and the current Depository Bank contract;

1. Depository bank; Fully collateralized Time Deposits, Certificates of Deposit, and interest-bearing checking accounts shall be placed at the County Depository Bank under a depository contract executed by Aransas County Commissioners Court and in compliance with V.C.T.A. Texas Local Government Code, Chapter 117.
2. Other state or national banks domiciled in Texas that are insured by FDIC;
3. Public funds investment pools; or
4. Federal Reserve Bank - Treasury Direct Account
5. Government securities brokers and dealers.

❖ **Aransas County will review and solicit broker/dealer relationships for a period of one year concurrent with annual review of Investment Policy.**

❖ **Aransas County will review the qualifications of the broker/dealer/financial institutions for compliance with this policy and will recommend approval of broker/dealer/financial institution upon the Treasurer / Investment Officer determining their compliance with the following criteria:**

- a. Institutional investment experience,
- b. Good references from public fund investment officers,
- c. Adequate capitalization per the Capital Adequacy Guidelines for government Securities Dealers published by the New York Federal Reserve Bank,
- d. An understanding of the "Investment Policy" - must return signed certification, (A registered principle of a firm, including the bank or brokerage firm, must sign an acknowledgment that

- they have read and understand the investment policy of the County and that it has taken reasonable procedures to preclude any imprudent investments being sold to the County.)
- e. Regulation by the Securities and Exchange Commission,
 - f. Membership in good standing in the National Association of Securities Dealers, Inc.,(when applicable) and;
 - g. Valid licensure from the State of Texas
6. The Investment Desk (Division) of the Depository Bank.

VIII INVESTMENT COLLATERAL AND SAFEKEEPING

COLLATERAL OR INSURANCE

The Aransas County Treasurer shall insure that all County funds are fully collateralized or insured consistent with federal and state law and the current Bank Depository Contract and in compliance with the Public Funds Collateral Act, Chapter 2257, Title 10, Government Code, in one or more of the following manners;

1. FDIC insurance coverage;
2. Investment security described as:
 - a. a direct obligation of the United States;
 - b. 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;
 - c. an obligation, the principal of and interest on which are unconditionally guaranteed by the United States;
 - d. an obligation of an agency or instrumentality of the United States, including a mortgaged-backed security of the agency or instrumentality;
 - e. a general or special obligation issued by a public agency, payable from taxes, revenues, or a combination of taxes and revenues; and
 - f. any security in which a public entity may invest under Government Code , Title 10, Chapter 2256, authorized investments. Excluded investments are excluded as collateral also. (Collateral as defined in Government Code, Title 10, Chapter 2257, Collateral for Public Funds.)
3. Any other manner allowed by law.

SAFEKEEPING OF PURCHASED SECURITIES

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. **Early release of security will require a signed release by the County Treasurer.**

All certificates of deposit, insured by FDIC, purchased outside the Depository Bank shall be held in safekeeping by either the County or a County account in a third party financial institution.

SAFEKEEPING OF PLEDGED COLLATERAL

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.

The amount of such securities pledged shall be determined by their market value.

COLLATERAL REPORTING

The Treasurer of Aransas County shall report to the County Commissioners Court his/her valuation of all collateral compared to all County deposits on a quarterly basis. Collateral deficiencies should be identified and immediately corrected through additional collateral deposited or reductions in the volume of deposited funds.

IX INVESTMENT PROCEDURES

GENERAL STATEMENT

The dynamics of the investment market and time constraints of the County Investment Officer have created a necessity to formulate standards of conduct and operation beyond the scope of policies and procedures of Aransas County, Texas.

Because the Public Funds Investment Act emphasizes the protection of public money, Aransas County Commissioners Court and Aransas County Treasurer/Investment Officer have determined that a standard set of agreements between all investment providers (banks, brokers and broker/dealers) is necessary for the protection of public funds and for enumeration of the duties, procedures and standards required by all parties.

CERTIFICATION (EXHIBIT C) AND ACKNOWLEDGEMENT FORM (EXHIBIT D)

Each provider must agree in writing to comply with the federal, state and County investment requirements provided by the Governing Policies and Statutes in compliance with the Government Code Title 10, Section 2256 et. seq. (Appendix #1)

In accordance with 2256.005(l) of the Government Code, the County, or its Investment Officer, shall not buy any securities from a person who has not delivered to the County a signed instrument on a form approved by the County which states:

1. the Qualified representative is duly authorized to execute Certification (Exhibit C and Acknowledgement Form (Exhibit D) in accordance with 2256.002 (10), which states "Qualified representative" means a person who holds a position with a business organization and is authorized to act on behalf of the business organization and who is one of the following:
 - a). for a business organization doing business that is regulated by or registered with a securities commission, a person who is registered under the rules of the National Association of Securities Dealers;
 - b). for a state or federal bank, a savings bank, or a state or federal credit union, a member of the loan committee for the bank or branch of the bank or a person authorized by corporate resolution to act on behalf of and bind the banking institution;
 - c). for an investment pool, the person authorized by the elected official or board with authority to administer the activities of the investment pool to sign the written instrument on behalf of the investment pool; or
 - d). for an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or, if not subject to registration under that Act, registered with the State Securities Board, a person who is an officer or principal of the investment management firm.
2. states that the person has received a copy of these investment policies and has thoroughly reviewed the same; and
4. that the person/organization has implemented reasonable procedures and controls in an effort to preclude imprudent investment activities arising out of the investment transactions conducted between the County and the person/organization.

The acknowledgement must be signed by a registered principal of the organization, and shall be maintained in the files of the County Treasurer with a copy of the same being provided to the Commissioners' Court. The Investment Officer shall assure that persons/organizations seeking to sell securities to the County are provided with a copy of these policies and an acknowledgment form. The acknowledgment form to be used is the standard form attached hereto under Exhibit C and Exhibit D unless a different form is proposed by the Investment Institution which complies with state law and is approved by the County's legal counsel. Each provider must agree in writing to comply with the Public Funds Collateral Act as applicable contained in Government Code Title 10, Section 2257 et. seq. (Appendix #2)

Each provider must agree in writing to comply with policies, strategies and procedures of Aransas County Investment Policy and any other applicable regulations and policies adopted by Aransas County, Texas. Modifications and/or amendments will be forwarded within 30 days of adoption.

CONFIRMATION OF TRADE

A confirmation of trade will be provided by the broker/dealer to the Aransas County Treasurer for every purchase of an investment security. This trade ticket and confirmation will become a part of the file that is maintained on every investment security.

DELIVERY VS. PAYMENT

It will be the policy of the County that all Certificates of Deposit, Treasury Bills, Notes, and Bonds and Government Agencies' securities 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, through the Federal Reserve wire, the securities purchased.

BROKER REQUIREMENTS

The County Treasurer requires regular statements from the broker/broker dealer (monthly) mark to market of all investments purchased through your firm. These reports should be made in a timely manner to enable the County Treasurer to meet the compliance requirements of quarterly reporting market values and changes in market value.

THE INVESTMENT SERVICES REPRESENTATIVE

The Representative shall be responsible for a comprehensive knowledge of Government Code Title 10, Public Funds Investment, Section 2256, et. seq. The Representative shall be obligated to offer for sale or as collateral only securities in strict compliance with the applicable statutes or policies. On request, the Representative may be asked to provide references, financial statements and state or federal licensing documentation. Representatives shall make their place of business available for inspection.

PROFESSIONAL CONDUCT

Investment business shall be conducted in a manner consistent with professionalism and consideration for the time constraints of the County Investment Officer. Continued disregard for the available time of the County Investment Officer is cause for dismissal of brokers.

INVESTMENT/TRANSACTIONS, DOCUMENTATION AND RECORDING

The County Investment Officer, at his/her option, shall receive from time to time or solicit investments for purchase with County funds.

The County Investment Officer shall maintain documentation of each investment transaction, including but not limited to, a security description, CUSIP number, purchase date and price, par amount, corresponding Treasury rate and any sensitivity analysis necessary to properly evaluate the investment.

Unless all facets of investment documentation are provided to the County Investment Officer by the Representative, the transaction **IS NOT COMPLETE!**

X INVESTMENT POLICY REVIEW AND AMENDMENTS

REVIEW PROCEDURES

The Aransas County Commissioners Court shall review its investment policy and investment strategies not less than annually.

CHANGES TO THE INVESTMENT POLICY

The County Treasurer must review the Aransas County Investment Policy not less than annually and recommend any changes to the Commissioners' Court.

XI EXHIBITS AND APPENDICES

- Exhibit A:** Resolution Adopting Policy:
Aransas County Commissioners Court
- Exhibit B:** Resolution: Appointment of Investment Officer
Aransas County Commissioners Court Minutes
- Exhibit B-1:** Resolution: Authorized Investment Broker/Dealer List
- Exhibit C:** Broker/Dealer Certification
- Exhibit D:** Acknowledgement and Agreement of Investment Institution
- Appendix #1:** Govt. Code Title 10. Chapter 2256
The Public Funds Investment Act
- Appendix #2:** Govt. Code Title 10. Chapter 2257
The Public Funds Enactment Act

EXHIBIT "A"

The State of Texas §

Commissioners' Court

County of Aransas §

RESOLUTION # R-11-2020


BE IT REMEMBERED at a meeting of Commissioners' Court of Aransas County, Texas held on the 26th day of May, 2020 on duly motion made by Leslie Casterline, Commissioner of Precinct No. 2, and seconded by Jack Chaney, Commissioner of Precinct No. 1, the following Resolution was adopted:

WHEREAS the Commissioners' Court of Aransas County, Texas shall review its Investment Policy and investment strategies not less than annually;

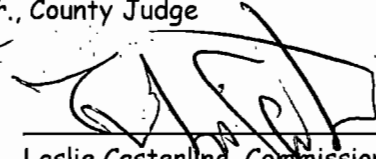
WHEREAS the Commissioners' Court of Aransas County, Texas desires the establishment of prudent investment policies; and

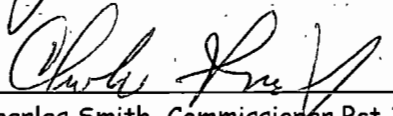
WHEREAS the Commissioners' Court of Aransas County, Texas has reviewed the Investment Policy and believes its enactment would be to the financial benefit of Aransas County:

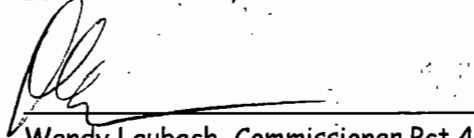
NOW, THEREFORE, BE IT RESOLVED by the Commissioners' Court of Aransas County that the Aransas County Treasurer implement the Investment Policy as amended, approved, and adopted, this 26th day of May, 2020.


C. H. "Burt" Mills, Jr., County Judge


Jack Chaney, Commissioner Pct 2


Leslie Casterline, Commissioner Pct 2


Charles Smith, Commissioner Pct 3


Wendy Laubach, Commissioner Pct 4

ATTEST:

Valerie Annason, County Clerk

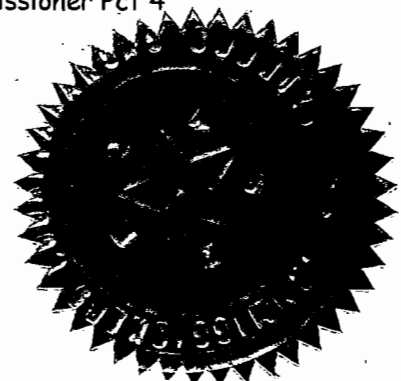


EXHIBIT "B"

The State of Texas §

Commissioners' Court

County of Aransas §

RESOLUTION # R-12-2020


BE IT REMEMBERED at a meeting of Commissioners' Court of Aransas County, Texas held on the 26th day of May, 2020 on duly motion made by Jack Chaney, Commissioner of Precinct No. 1, and seconded by Leslie Casterline, Commissioner of Precinct No. 2, the following Resolution was adopted:

WHEREAS the Commissioners' Court of Aransas County, Texas has reviewed the Investment Policy as presented by the County Treasurer on this date, with its stated changes and amendments, and believes its enactment would be to the financial benefit of Aransas County;

WHEREAS the Commissioners' Court of Aransas County, Texas shall designate, by rule, ordinance, or resolution, one or more officers or employees as Investment Officers to be responsible for the investment of its funds consistent with the Investment Policy adopted herein;


NOW, THEREFORE, BE IT RESOLVED by the Commissioners' Court of Aransas County that ALMA CARTWRIGHT, County Treasurer, be appointed Investment Officer, to invest Aransas County's funds in accordance with the foregoing Investment Policy, until the termination of the officer's term or the termination of the person's employment with Aransas County, and that the Aransas County Investment Policy be approved and adopted with the addition of this appointment.

RESOLVED AND PASSED by Aransas County Commissioners' Court on May 26, 2020.


C. H. "Burt" Mills, Jr., County Judge


Jack Chaney, Commissioner Pct 1


Leslie Casterline, Commissioner Pct 2


Charles Smith, Commissioner Pct 3


Wendy Laubach, Commissioner Pct 4

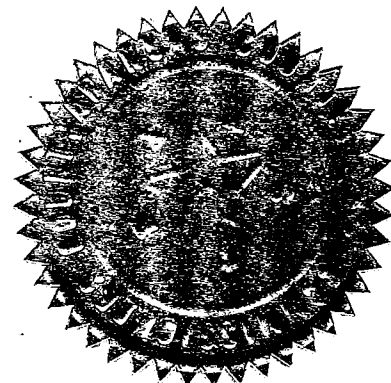


EXHIBIT "B-1"

The State of Texas §

Commissioners' Court

County of Aransas §

RESOLUTION # R-13-2020

BE IT REMEMBERED at a meeting of Commissioners' Court of Aransas County, Texas held on the 26th day of May, 2020 on duly motion made by Leslie Casterline, Commissioner of Precinct No. 2, and seconded by Jack Chaney, Commissioner of Precinct No. 1, the following Resolution was adopted:

WHEREAS the following investment firms, broker/dealers have expressed an interest in, or is currently, purchasing securities for Aransas County, and;

WHEREAS Aransas County funds may be invested in numerous instruments in accordance with its Investment Policy for investing in these instruments issued by the Federal, State and Local governments;

WHEREAS Aransas County accepts this list of broker/dealers and it is hereby agreed and understood that it is not an exclusive authorization to any one firm or dealer and may be canceled by Aransas County at any time;

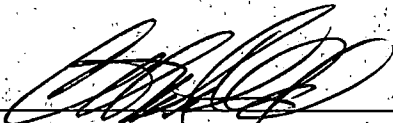
NOW, THEREFORE, BE IT RESOLVED by the Commissioners' Court of Aransas County that Aransas County acknowledges the following firms, broker/dealers as being authorized to provide services as required to Aransas County:


1. **FHN FINANCIAL**
920 Memorial City Way, 11th Floor
Houston, Texas 77024
John Saragusa, Senior Vice President
800-267-2663 Cell: 512-626-7331
john.saragusa@ftnfinancial.com
2. **FNC FINANCIAL NORTHEASTERN COMPANIES**
8717 Ken Aaron Court
Austin, Texas 78717
Samuel E. Vaughan, Sr. Vice President/Servicing Agent/Principal
800-683-3644 Fax: 713-626-5742
3. **TEXPOOL PARTICIPANT SERVICES
FEDERATED INVESTORS INC.**
1001 Texas Avenue, Suite 1150
Houston, Texas 77002
Jerry Landrum, Vice President, TexPool Relations
Diane Parker, Manager
866-839-7665 Fax: 866-839-3291
4. **WELLS FARGO SECURITIES, LLC**
1445 Ross Ave., 4th Floor, Suite 420
Dallas, Texas 75202
Susan Ward, Director, Fixed Income Sales
214-777-4078 Fax: 844-879-7582
5. **TEXAS CLASS/ PUBLIC TRUST ADVISORS, LLC**
2435 North Central Expressway, Suite 1200
Richardson, Texas 75080
Danny King, Marketing Manager
800-707-6242 Fax: 855-848-9910
6. **TEXSTAR**
Hilltop Securities, Inc
1201 Elm Street, Suite 3500
Dallas, Texas 75270
Mica Owens-Weary, Vice President
800-839-7827 Fax: 214-953-8878

7. **LOGIC**
 Hilltop Securities, Inc.
 1201 Elm Street, Suite 3500
 Dallas, Texas 75270
 Mica Owens-Weary, Vice President
 800-839-7827 ax: 214-953-8878
8. **FROST BANK - Capital Markets Division**
 100 W. Houston, Suite 110
 San Antonio, Texas 78205
 Cody Hundley, A.V.P.
 210-220-6156 Fax: 210-220-4111
9. **Lone Star Investment Pool**
 First Public
 12007 Research Blvd
 Austin, Texas 78759
 Edward Contreras, Assist. Vice President
 800-558-8875 Cell: 210-639-4714


10. **National Alliance Securities**
 111 Congress Ave, 8th Floor
 Austin, Texas 78701
 J. Howard LeDet, Managing Director
 512-609-1748
11. **PROSPERITY BANK-ROCKPORT**
 1505 Highway 35 N
 Rockport, Texas 78382
 Pat Lizzcano, President, Rockport Bank Center
 361-729-7411 ax: 361-729-4240
12. **TX FIT Texas Fixed Income Trust**
 P.O. Box 780547
 San Antonio, Texas 78278
 Ken Couch, Client Advisory Director
 210-888-0452

RESOLVED, PASSED AND APPROVED in Commissioners' Court on the 28th day of May, 2019.


 C. H. "Burt" Mills, Jr., County Judge


 Jack Chaney, Commissioner Pct 1


 Leslie Casterline, Commissioner Pct 2


 Charles Smith, Commissioner Pct 3


 Wendy Laubach, Commissioner Pct 4

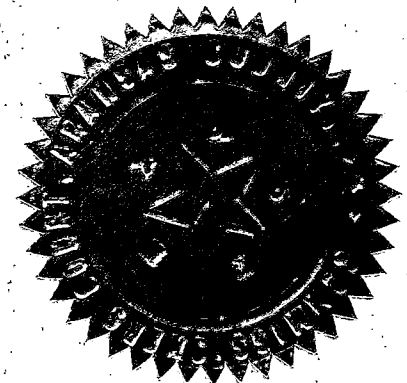
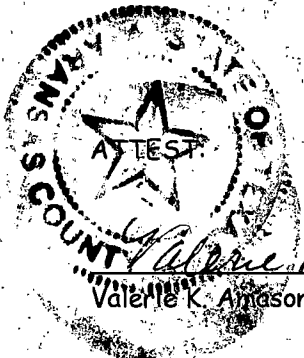


EXHIBIT "C"

CERTIFICATION BY QUALIFIED REPRESENTATIVE TO ARANSAS COUNTY

This is to certify that _____, a qualified representative who holds a position with and is authorized to act on behalf of _____, (the "business organization") is authorized to execute this Certificate (Exhibit C) and Acknowledgment form (Exhibit D) pursuant to the Government Code, Chapter 2256, short title PUBLIC FUNDS INVESTMENT ACT, and Government Code, Chapter 2257, short title PUBLIC FUNDS COLLATERAL ACT, in connection with investment transactions conducted between the investor, Aransas County, and the business organization.

"QUALIFIED REPRESENTATIVE" (Government Code, Chapter 2256.002 (10)) 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: (Please circle)

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

The undersigned, qualified representative/principal, (a) is registered under the rules of the National Association of Securities Dealer; (b) is authorized by corporate resolution to act on behalf of and bind the banking institution; (c) is 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) is registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or registered with the State Securities Board (an officer or principal of the investment management firm).

Date

Business Organization

Qualified Representative

Principal

Signature - Qualified Representative

Signature - Principal

EXHIBIT "D"

ACKNOWLEDGMENT AND AGREEMENT OF INVESTMENT INSTITUTION

In accordance with 2256.005(k) of the Government Code, I certify that I have received and thoroughly reviewed and read the Investment Policies, Strategies, and Objectives of Aransas County, Texas, as well as a copy of Government Code, Chapter 2256 (short title PUBLIC FUNDS INVESTMENT ACT,) and copy of Government Code, Chapter 2257 (short title PUBLIC FUNDS COLLATERAL ACT) and agree to abide by said laws and policies. I further certify that my organization has implemented reasonable procedures and controls designed to preclude imprudent investment activities arising out of transactions conducted between our organization and Aransas County, Texas. We will notify you immediately by telephone and in writing in the event of a material adverse change in our financial condition. I pledge to exercise due diligence in informing you of all feasible risk associated with financial transactions conducted with our firm.

No investment will be made in contravention of Aransas County's Investment Policies and Investment Strategies, unless specifically authorized in writing by the Commissioners' Court of Aransas County, Texas. In no event shall an investment be made that is in violation of Chapter 2256 of the Government Code. Our firm recognizes that the primary emphasis on the investment of public funds is safety and the maintenance of liquidity. Our firm shall not encourage or recommend investments that are speculative or that would be contrary to the paramount considerations in investment of the public funds of the County.

Our firm further states that we will provide the County or its Investment Officer with information requested with regard to their investment activities with our firm upon reasonable notice. We also pledge to provide all such documentation required under any agreements between our firm and the County in a timely manner and in an informative form.

Neither the County Investment Officer nor any member of the Commissioners' Court holds an interest in our firm or derives a substantial portion of their income from our firm. Likewise, to the best of our knowledge, neither the County Investment Officer nor any member of the Commissioners' Court is related within the second degree of consanguinity or the second degree in affinity to any principal of our firm. No gift or gratuity has been given to any member of the Commissioners' Court or to the Investment Officer in consideration of the County doing business with our firm.

I certify that I have personally read and understand the Investment Policies of Aransas County, and have implemented reasonable procedures and controls designed to fulfill their objectives and conditions.

Name of Business Organization

Date

Qualified Representative

Principal

I have provided a copy of Aransas County's Investment Policies and Strategies as Amended and Adopted May 26, 2020, a copy of the Texas Public Funds Investment Act, Chapter 2256 and Texas Public Funds Collateral Act, Chapter 2257 to the above named qualified representative or principal and pledge to maintain this Agreement on file.

Alma Cartwright, CIO, Aransas County Treasurer
Investment Officer

Date

GOVERNMENT CODE

TITLE 10. GENERAL GOVERNMENT

SUBTITLE F. STATE AND LOCAL CONTRACTS AND FUND MANAGEMENT

CHAPTER 2256. PUBLIC FUNDS INVESTMENT

SUBCHAPTER A. AUTHORIZED INVESTMENTS FOR GOVERNMENTAL ENTITIES

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

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

Sec. 2256.002. DEFINITIONS. In this chapter:

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

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

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

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

(B) the investing entity has authority to invest.

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

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

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

(A) preservation and safety of principal;

(B) liquidity; and

(C) yield.

(7) "Local government" means a municipality, a county,

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

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

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

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

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

(B) for a state or federal bank, a savings bank, or a state or federal credit union, a member of the loan committee for the bank or branch of the bank or a person authorized by corporate resolution to act on behalf of and bind the banking institution;

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

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

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

(12) "Separately invested asset" means an account or

fund of a state agency or local government that is not invested in a pooled fund group.

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

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

Sec. 2256.003. AUTHORITY TO INVEST FUNDS; ENTITIES SUBJECT TO THIS CHAPTER. (a) Each governing body of the following entities may purchase, sell, and invest its funds and funds under its control in investments authorized under this subchapter in compliance with investment policies approved by the governing body and according to the standard of care prescribed by Section 2256.006:

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

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

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

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

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

- (1) a public retirement system as defined by Section 802.001;
- (2) state funds invested as authorized by Section 404.024;
- (3) an institution of higher education having total endowments of at least \$150 million in book value on September 1, 2017;
- (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.

Amended by:

Acts 2017, 85th Leg., R.S., Ch. 773 (H.B. 1003), Sec. 1, eff. June 14, 2017.

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 business organization offering to engage in an investment transaction with an investing entity. For purposes of this subsection and Subsection (l), "business organization" means an investment pool or investment management firm under contract with an investing entity to invest or manage the entity's investment portfolio that has accepted authority granted by the entity under the contract to exercise investment discretion in regard to the investing entity's funds. 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:

(A) is dependent on an analysis of the makeup of the entity's entire portfolio;

(B) requires an interpretation of subjective investment standards; or

(C) relates to investment transactions of the entity that are not made through accounts or other contractual

arrangements over which the business organization has accepted discretionary investment authority.

(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 business organization that has not delivered to the entity the instrument required by Subsection (k).

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

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

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

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

78th Leg., ch. 785, Sec. 41, eff. Sept. 1, 2003.

Amended by:

Acts 2011, 82nd Leg., R.S., Ch. 1004 (H.B. 2226), Sec. 1, eff. June 17, 2011.

Acts 2017, 85th Leg., R.S., Ch. 149 (H.B. 1701), Sec. 1, eff. September 1, 2017.

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.

(a) Except as provided by Subsections (a-1), (b), (b-1), (e), and (f), 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) Except as provided by Subsection (g), 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, in addition to the requirements of Subsection (a)(1), 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.

(b-1) A housing authority created under Chapter 392, Local Government Code, may satisfy the training requirement provided by Subsection (a)(2) by requiring the following person to attend, in

each two-year period that begins on the first day of that housing authority's fiscal year and consists of the two consecutive fiscal years after that date, at least five hours of appropriate instruction:

(1) the treasurer, or the chief financial officer if the treasurer is not the chief financial officer, or the investment officer; or

(2) if the authority does not have an officer described by Subdivision (1), another officer of the authority.

(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 or housing authority if the municipality or housing authority:

(1) does not invest municipal or housing authority funds, as applicable; or

(2) only deposits those funds in:

(A) interest-bearing deposit accounts; or

(B) certificates of deposit as authorized by Section 2256.010.

(g) Subsection (a-1) does not apply to the treasurer, chief financial officer, or investment officer of a school district if:

(1) the district:

(A) does not invest district funds; or

(B) only deposits those funds in:

(i) interest-bearing deposit accounts; or

(ii) certificates of deposit as authorized

by Section 2256.010; and

(2) the treasurer, chief financial officer, or investment officer annually submits to the agency a sworn affidavit identifying the applicable criteria under Subdivision (1) that apply to the district.

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.

Acts 2017, 85th Leg., R.S., Ch. 324 (S.B. 1488), Sec. 8.015, eff. September 1, 2017.

Acts 2017, 85th Leg., R.S., Ch. 1000 (H.B. 1238), Sec. 1, eff. September 1, 2017.

Acts 2017, 85th Leg., R.S., Ch. 1000 (H.B. 1238), Sec. 2, eff. September 1, 2017.

Acts 2019, 86th Leg., R.S., Ch. 477 (H.B. 293), Sec. 1, eff. June 7, 2019.

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.

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.

Amended by:

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.

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.

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 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.

Amended by:

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

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.

Amended by:

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

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.

(d) Section 1371.059(c) applies to the execution of a guaranteed investment contract by an investing entity.

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.

Amended by:

Acts 2017, 85th Leg., R.S., Ch. 773 (H.B. 1003), Sec. 5, 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.

Amended by:

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.

Sec. 2256.017. EXISTING INVESTMENTS. Except as provided by Chapter 2270, 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.

Amended by:

Acts 2017, 85th Leg., R.S., Ch. 96 (S.B. 253), Sec. 2, eff. May 23, 2017.

Sec. 2256.019. RATING OF CERTAIN INVESTMENT POOLS. A public funds investment pool must be continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service.

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

Amended by:

Acts 2011, 82nd Leg., R.S., Ch. 1004 (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:

(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) Repealed by Acts 2019, 86th Leg., R.S., Ch. 1133 (H.B. 2706), Sec. 5, eff. September 1, 2019.

Added by Acts 2011, 82nd Leg., R.S., Ch. 1347 (S.B. 1543), Sec. 1, eff. June 17, 2011.

Amended by:

Acts 2019, 86th Leg., R.S., Ch. 1133 (H.B. 2706), Sec. 5, eff. September 1, 2019.

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. 2256.0206. AUTHORIZED INVESTMENTS: HEDGING
TRANSACTIONS. (a) In this section:

(1) "Eligible entity" means a political subdivision
that has:

(A) a principal amount of at least \$250 million
in:

(i) outstanding long-term indebtedness;

(ii) long-term indebtedness proposed to be
issued; or

(iii) a combination of outstanding
long-term indebtedness and long-term indebtedness proposed to be
issued; and

(B) outstanding long-term indebtedness that is
rated in one of the four highest rating categories for long-term
debt instruments by a nationally recognized rating agency for
municipal securities, without regard to the effect of any credit
agreement or other form of credit enhancement entered into in
connection with the obligation.

(2) "Eligible project" has the meaning assigned by
Section 1371.001.

(3) "Hedging" means acting to protect against economic
loss due to price fluctuation of a commodity or related investment
by entering into an offsetting position or using a financial
agreement or producer price agreement in a correlated security,
index, or other commodity.

(b) This section prevails to the extent of any conflict
between this section and:

(1) another law; or

(2) an eligible entity's municipal charter, if
applicable.

(c) The governing body of an eligible entity shall establish
the entity's policy regarding hedging transactions.

(d) An eligible entity may enter into hedging transactions,
including hedging contracts, and related security, credit, and
insurance agreements in connection with commodities used by an

eligible entity in the entity's general operations, with the acquisition or construction of a capital project, or with an eligible project. A hedging transaction must comply with the regulations of the federal Commodity Futures Trading Commission and the federal Securities and Exchange Commission.

(e) An eligible entity may pledge as security for and to the payment of a hedging contract or a security, credit, or insurance agreement any general or special revenues or funds the entity is authorized by law to pledge to the payment of any other obligation.

(f) Section 1371.059(c) applies to the execution by an eligible entity of a hedging contract and any related security, credit, or insurance agreement.

(g) An eligible entity may credit any amount the entity receives under a hedging contract against expenses associated with a commodity purchase.

(h) An eligible entity's cost of or payment under a hedging contract or agreement may be considered:

- (1) an operation and maintenance expense of the eligible entity;
- (2) an acquisition expense of the eligible entity;
- (3) a project cost of an eligible project; or
- (4) a construction expense of the eligible entity.

Added by Acts 2017, 85th Leg., R.S., Ch. 773 (H.B. 1003), Sec. 7, eff. June 14, 2017.

Sec. 2256.0207. AUTHORIZED INVESTMENTS: PUBLIC JUNIOR COLLEGE DISTRICT FUNDS FROM MANAGEMENT AND DEVELOPMENT OF MINERAL RIGHTS. (a) In addition to other investments authorized under this subchapter, the governing board of a public junior college district may invest funds received by the district from a lease or contract for the management and development of land owned by the district 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 the governing board of a public junior college district under this section shall be segregated and accounted for separately from other funds of the district.

Added by Acts 2017, 85th Leg., R.S., Ch. 344 (H.B. 1472), Sec. 1, eff. September 1, 2017.

Redesignated from Government Code, Section 2256.0206 by Acts 2019, 86th Leg., R.S., Ch. 467 (H.B. 4170), Sec. 21.001(34), eff. September 1, 2019.

Sec. 2256.0208. LOCAL GOVERNMENT INVESTMENT OF BOND PROCEEDS AND PLEDGED REVENUE. (a) In this section, "pledged revenue" means money pledged to the payment of or as security for:

- (1) bonds or other indebtedness issued by a local government;
- (2) obligations under a lease, installment sale, or other agreement of a local government; or
- (3) certificates of participation in a debt or obligation described by Subdivision (1) or (2).

(b) The investment officer of a local government may invest bond proceeds or pledged revenue only to the extent permitted by this chapter, in accordance with:

- (1) statutory provisions governing the debt issuance or the agreement, as applicable; and
- (2) the local government's investment policy regarding the debt issuance or the agreement, as applicable.

Added by Acts 2019, 86th Leg., R.S., Ch. 1133 (H.B. 2706), Sec. 4, eff. September 1, 2019.

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

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

Sec. 2256.022. EXPANSION OF INVESTMENT AUTHORITY. Expansion of investment authority granted by this chapter shall require a risk assessment by the state auditor or performed at the direction of the state auditor, subject to the legislative audit

committee's approval of including the review in the audit plan under Section 321.013.

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

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

(b) The report must:

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

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

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

(4) contain a summary statement of each pooled fund group that states the:

(A) beginning market value for the reporting period;

(B) ending market value for the period; and

(C) fully accrued interest for the reporting period;

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

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

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

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

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

(B) relevant provisions of this chapter.

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

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

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

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

Amended by:

Acts 2011, 82nd Leg., R.S., Ch. 1004 (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) and Section 2256.017, 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.

Amended by:

Acts 2017, 85th Leg., R.S., Ch. 96 (S.B. 253), Sec. 3, eff. May 23, 2017.

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.

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.