

TEXAS PUBLIC FUNDS INVESTMENT ACT COMPLIANCE ITEMS FOR LOCAL GOVERNMENTS

Ref.	Compliance Point	In compliance?	
		Yes	No
2256.005(a)	Governing body shall adopt a written policy		
2256.005(b)	Investment policy must:		
	- be written		
	- primarily emphasize safety of principal and liquidity		
	- address diversification, yield, maturity		
	- address quality and capability of investment management		
2256.005(b)	Investment policy must include:		
	- a list of authorized investments		
	- maximum allowable stated maturity on any investment		
	- maximum dollar-weighted average maturity authorized - based on stated maturity dates		
	- method to monitor market price		
	- requirement to settle all transaction (except pools/funds) delivery versus payment		
	- procedures to monitor rating changes		
2256.005(c)	Policy <u>may</u> provide for CD bids to be solicited orally, in writing, or electronically		
2256.005(d)	As part of the policy governing body must adopt a strategy for each portfolio		
	Written strategy must describe the objectives in the following priority order:		
	- understanding the suitability of the investments to financial requirements of the entity		
	- preservation of principal		
	- liquidity		
	- marketability of the investment if liquidity needs arise		
	- diversification of the portfolio		
	- yield		
2256.005(e)	Governing body shall review policy and strategies not less than annually		
	Governing body shall adopt a written instrument by rule, ordinance, order or resolution		
	Written instrument shall record any changes made to the policy or strategies		
2256.005(f)	Governing body shall designate investment officer(s) to be responsible		
	- investment officer may be employees or officers of the entity		
	- if entity contracts with an entity to invest its funds, that investment officer may be their Officer		
	Authority to invest remains until rescinded or termination of employment or contract expiration		
	Investment officer must exercise its judgment under the standard of care		
	Funds must be invested in accordance with the policy and strategy only		
2256.005(i)	Investment officers must disclose personal business relationships with firms selling to entity		
	Investment officers must disclose relationships to Texas Ethics Commission if:		
	- Officer owns 10% or more of voting stock/shares of business		
	- Officer owns \$5,000 or more of fair market value of business		
	- Officer receives over 10% of his income from the business		
	- Officer has acquired \$2,500 or more investments from business during prior year		
2256.005(j)	Entity <u>may</u> specify unauthorized investment in the policy		
2256.005(k)	Written policy must be presented to any firm offering to sell an investment to entity (b/d, pools, banks)		
	Language in policy certification must be acceptable to both parties (need not be statutory language)		
	Authorized individual from the firm certify to review and intent to comply to policy		
2256.005(k)	Nothing in certification relieves entity from monitoring investments for compliance		
2256.005(l)	Officer may not acquire/obtain investments from firm without the policy certification		
2256.005(m)	Investing entity shall perform a compliance audit of controls and adherence of policy annually		
	- compliance audit should be performed in conjunction with annual audit		
2256.006	Investments shall be made in accordance with the standard of care (prudent person rule)		
	Prudence by investment officers shall consider the investment of all funds and compliance to policy		
2256.008	Investment officer and treasurer, and CFO (if treasurer is not CFO) shall attend mandatory training		
	- training must be from an approved training source (as approved by governing body or committee)		
	- 10 hours of investment training must be attended within 12 months of taking position		
	- 8 hours of investment training must be attended within each two-years period		
	- period begins on the first day of the entity's fiscal year		
	- excludes Toll Road Authorities and Conservation/Reclamation Districts with <5 employees		
	- excludes entities contracted with an investment management firm <u>if</u> entity's officer attends 4 hours		

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	- excludes districts created under the Water Code Chapter 36/49		
	- training must include: investment controls, security, strategy, and market risks, diversification		
	- training must address compliance to this Act		
	- training provisions do not apply to Water Districts (see Water Code Ch. 36 and 49)		
	- training does not apply if city (1) does not invest, or (2) uses only a bank for time and demand accounts		
2256.009	Authorized investments include only: 2256.009 - 2256-016 (with some additional exceptions later listed)		
2256.009	- obligations of the US Government, its agencies and instrumentalities		
	- direct obligations of Texas		
	- collateralized mortgage obligations of a US Agency		
	- FDIC insured investments		
	- obligations of states, agencies, counties, cities or subdivisions of any state rated A or better		
2256.010	- FDIC Insured or collateralized depository certificates of deposit from Texas banks		
	- FDIC insured brokered certificates of deposit <i>securities</i> from any US state from a broker/dealer in Texas		
	- CDARS spread depository certificates of deposit from a bank in Texas (which can be spread throughout US)		
2256.011	- Fully collateralized repo agreements with executed master agreement - structured as a buy-sell		
2256.0115	- Securities lending transactions with a Texas bank or primary dealer as defined by Act		
2256.012	- Banker Acceptances eligible as Fed collateral with short term rating of bank at A1/P1		
2256.013	- Commercial paper rated A1/P1 by two rating agencies or one agency and a letter of credit		
2256.014	- <i>Money market mutual fund</i> , SEC registered, striving to maintain a \$1 NAV		
	- No-load SEC registered <i>mutual fund</i> invested in Act authorized investments with a max WAM of 2 years		
	- mutual funds can not be used for bond proceeds or debt service funds or < 15% of operating funds		
2256.015	- Guaranteed Insurance Contracts (GIC), defined termination, secured and held by third party		
2256.016	- local government investment pools rated AAA as defined by the Act		
2256.009(b)	Certain securities are un-authorized:		
	- mortgage backed interest only bonds, principal only bonds, inverse CMO, or those with maturity > 10 years		
2256.017	Entity need not liquidate securities if authorized when purchased (by Act or Policy)		
2256.201	Municipal Utility for electric or gas energy may enter hedging contracts in accord with CFTC		
2256.0202	Mineral Rights funds of cities may be invested under the Trust Code		
2256.0204	ISD issuers with >50,000 students may purchase corporate bonds rated AA- if monitored and liquidates on CR		
2256.0205	Cities Nuclear Decommissioning Trusts may invest under the Trust Code		
2256.021	Entity shall take prudent measures to liquidate securities which lose the required rating		
2256.023	Investment officers shall prepare written quarterly reports and submit it to the governing body		
	The quarterly report must be presented no less than quarterly to the governing body		
	The quarterly report must be submitted on a timely basis.		
	The quarterly report must:		
	- describe in detail the position of the entity on the report date		
	- be prepared jointly by all investment officers		
	- be signed by each investment officer of the entity		
	- contain summary information on each portfolio to include:		
	- beginning and ending market value for the reporting period		
	- fully accrued interest for the period (to be defined as total <u>earnings</u> including amortization)		
	- state the book and market values of each investment position		
	- state the maturity date of each investment position		
	- state the fund or portfolio to which each asset belongs		
	- state the compliance of the portfolio to the strategy or policy and relevant portions of the Act		
2256.023(d)	If the entity invests in other than CDs and pools the external auditor must review the quarterly reports		
2256.025	Governing body or governing body's designated committee must adopt a list of authorized brokers		
	- the list of brokers must be reviewed and adopted at least annually		
2256.026	All investment must comply with this Act and federal, state and local regulations		