

Stephenville Independent School District
Investment Policy Review

The Stephenville Independent School District being a local government unit is required to be in compliance with PFIA (Public Funds Investment Act) as required under state law, Texas Government Code, Section 2256.008;

At the regularly scheduled Board Meeting on March 19, 2018, the Board of Trustees of Stephenville Independent School District reviewed the Investment policies of the District. Policies CDA (Legal) and CDA (Local) were reviewed.

Also reviewed were the changes in the PFIA Law from the legislative year 2017 or the 85th Session as attached:

HB 1003:

- Changed endowment exemptions;
- Clarified that interest bearing bank deposits insured by the FDIC or the National Credit Union Share Insurance Fund are authorized investments;
- Requires Money Market Funds to comply with SEC Rule 2a-7 which \$1 floating NAV disclosure but authorized investments;
- Modified Section 2256.014(b) which will limit investment in ultra-short term bonds (with less than one year duration as limited to investment grade securities;
- Modification of Section 2256.016 related to reporting, accounting, and disclosure to recognize both methods of amortized cost and fair value accounting as valid for eligible investment pools;
- Added Section 2256.0206 which authorizes certain entities (generally those with \$250 million in outstanding debt) to enter into hedging agreements to protect against loss due to price fluctuation of a commodity. Fuel or electricity in future periods.

HB 1238:

Revised training requirements, see attached chart

HB 1701:

Changes to Policy certification requirements regarding person offering investment transactions acknowledging that they have received and implemented procedures to preclude any transaction outside of the entities policy

HB 2647:

Modifies Section 2256.009(a) clarifying interest bearing bank deposits

HB 2928:

- Considers obligations of the Federal Home Loan Banks as authorized investments;
- Adds language in Section 2256.010(a) to reference to Chapter 2257 (The Public Funds Collateral Act) which clarifies that letters of credit from FHLB can be used as security on certificates of deposits.

As part of the review, the District Board of Trustees additionally approves the following organizations as qualified and appropriate avenue for the District's Investment Officer(s) for required Investment Officer Training.

- TASBO (Texas Association of School Business Officials);

- TASA (Texas Association of School Administrators);
- NTCOG (North Texas Council of Governments);
- Texas State University—William P. Hobby Center for Public Service;
- UNT (University of North Texas)—Center for Public Management;
- GFOA (Government Finance Officers Associations);
- TRWA (Texas Rural Water Association);
- TEA (Texas Education Agency and/or any of the ESC's (Educational Service Centers) hosted or co-hosted;
- FIRST Public;
- TEXPOOL Online;
- Southwest Securities (Hilltop);
- TCG;

Deborah Hummel
Executive Director of Finance & Operations

TEXAS PUBLIC FUNDS INVESTMENT ACT – 85TH LEGISLATIVE SESSION UPDATE

Several bills affecting the Texas Public Funds Investment Act ([PFIA](#)) were proposed during the recently concluded 85th Texas Legislative Session. A few of these bills passed and will make significant changes to the PFIA. We have provided below a list of these bills and their status as well as a brief summary of each. The hyperlinks will take you to the [Texas Legislature Online](#) website where you can find additional details on each bill.

BILLS THAT PASSED

HB 1003 – Passed in House and Senate, signed by Governor June 14, 2017, takes effect immediately. Makes a number of housekeeping updates and other revisions to the PFIA. We have summarized some of the more important ones here, but have not included all of the changes:

- Modifies Section 2256.004(a)(3), raising the required level of endowments that would exempt institutions of higher education from \$95 million on May 1, 1995 to \$150 million on September 1, 2017.
- Modifies Section 2256.009(a), clarifying that interest bearing bank deposits insured by the FDIC or the National Credit Union Share Insurance Fund are authorized investments. The same language is also included in HB 2647.
- Modifies Section 2256.014(a), removing the 90-day weighted average maturity limit and the \$1 NAV requirement for money market mutual funds. The PFIA will instead require money market funds to comply with [SEC Rule 2a-7](#). The result will be that prime money market funds will once again be authorized investments. Investors should bear in mind that these prime funds now come with a floating NAV as well as potential liquidity fees and redemption gates.
- Modifies Section 2256.014(b), adding language that authorizes so-called ultra-short bond funds that have a duration of less than one year and whose investments are limited to investment grade securities, excluding asset-backed securities. The exclusion of asset-backed securities was an intentional measure designed to reduce the risk of price volatility in these funds. While bond funds were authorized previously, their portfolios were limited to securities authorized in other sections of the PFIA, a restriction that effectively eliminated most of them. In the wake of money market reform, several of the large fund companies have created ultra-short bond funds as an alternative to prime money market funds. Subject to several restrictions, many of these will now be authorized investments under PFIA.
- Includes a number of tweaks to Section 2256.016, related to the reporting, accounting, and disclosure requirements for local government investment pools. HB 1003 decouples the pools from money market funds in light of the SEC money market reforms by removing any references to money market funds in Section 2256.016. The revision recognizes both amortized cost and fair value accounting methods as valid for eligible investment pools and also requires pools to disclose their policy for holding deposits in cash. The bill also directs a pool's governing body to take appropriate action if the net asset value of the portfolio falls outside of the prescribed range of 0.995 to 1.005.
- Adds Section 2256.0206, which specifically authorizes certain entities (generally those with at least \$250 million of outstanding debt) to enter into hedging agreements in order to "protect against economic loss due to price fluctuation of a commodity or related investment..." Eligible entities would be allowed to lock in costs for fuel, energy, construction expenses and the like. To illustrate the basic idea, consider a large school district and their bus fleet or electricity costs. The hedging language would allow that district to lock in their costs for fuel or electricity in future periods, hedging against price fluctuations and thereby providing budget certainty, avoiding situations like what occurred during 2008 and 2014 when oil prices spiked dramatically higher.

HB 1238 – Passed in House and Senate, signed by Governor June 15, 2017, takes effect September 1, 2017. HB 1238 revises the investment training requirements in Section 2256.008 and further confuses these requirements by creating another carve out, this one for housing authorities created under Chapter 392. Investment officers of these housing authorities will still need to obtain 10 hours of investment training within the first twelve months of assuming duties. In every subsequent two year period, they will need just five hours, unless they invest only in interest-bearing deposits or CD's in which case they will be exempted from the subsequent training provisions.

HB 1701 – Passed in House and Senate, signed by the Governor, takes effect September 1, 2017. This bill makes significant revisions to the policy certification requirements found in Section 2256.005 (k) and (l). Currently, any person offering to engage in an investment transaction must be provided a copy of the entity's investment policy and must sign a certification that acknowledges they have received it and have implemented procedures to preclude imprudent transactions. HB 1701 changes "person" to "business organization" and narrowly defines business organization as either an investment pool or an investment management firm under contract to manage the entity's portfolio with discretionary authority. Very few investment management contracts for public funds grant such discretion, meaning investment pools will generally be the only organizations still required to sign this certification. This bill has all but killed the *legal* requirement for the policy certification.

Public entities *may* wish to revise their investment policy as it seems likely that brokers, absolved of this legal requirement, may no longer be willing to sign those certifications. In our view, public entities should still provide their investment policy to their brokers, who in fact should be asking for it. Among other things, FINRA's "Know Your Customer" rules, largely established by the suitability requirements of FINRA Rule 2111, require that brokers, "have a reasonable basis to believe that a recommendation is suitable for a particular customer based on that customer's investment profile." Providing the broker with your investment policy should very clearly describe your investment profile, particularly with regard to the primary objective of safety of principal.

HB 2647 – Passed in House and Senate, signed by Governor June 15, 2017, takes effect immediately. HB 2647 modifies Section 2256.009(a), clarifying that interest bearing bank deposits insured by the FDIC or National Credit Union Share Insurance Fund are authorized investments. In addition, HB 2647 lays out specific language authorizing the shared deposit programs in a manner very similar to that already in the PFIA for shared certificates of deposit.

HB 2928 – Passed in House and Senate, signed by Governor June 15, 2017, takes effect September 1, 2017. HB 2928 makes two minor revisions. The first, to Section 2256.009(a) specifically includes obligations of the Federal Home Loan Banks as authorized investments. This solves a potential problem created by the Attorney General's opinion # KP-0128 which questioned whether the FHLB would be considered a U.S. agency or instrumentality for purposes of the PFIA. HB 2928 also modifies Section 2256.010(a) by adding a reference to Chapter 2257 (the Public Funds Collateral Act) in the section that describes the means for securing a certificate of deposit. This will clarify that certificates of deposit can be secured by an FHLB letter of credit.

BILLS THAT FAILED

HB 2648 – This bill did not make it out of committee, but much of the same language is included in HB 2928 which did pass (see above). HB 2648 would have specifically included obligations of the Federal Home Loan Banks as authorized investments.

HB 3082 – This bill did not make it out of committee and was not passed. HB 3082 would have revised the investment training requirements found in Section 2256.008. The initial 10 hours required within the first 12 months of taking office or assuming duties would remain. Subsequently, county treasurers would be required to attend 10 hours of training every two years while any other investment officer's training requirement would have been reduced to five hours every two years. With this bill failing, the requirement for most investment officers

remains at 10 hours within the first twelve months. Thereafter, the training requirement varies depending on the entity; with counties needing ten hours, school districts and other municipalities needing eight, and, thanks to HB 1238, five hours for housing authorities.

June 12, 2017

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Center for Public Management

Training Requirements

The Public Funds Investment Act ([Chapter 2256, Texas Government Code](http://www.statutes.legis.state.tx.us/Docs/GV/htm/GV.2256.htm) (<http://www.statutes.legis.state.tx.us/Docs/GV/htm/GV.2256.htm>)) requires Treasurers, Chief Financial Officers, and Investment Officers of local governments, including all political subdivisions, state agencies, and institutions of higher education (including community colleges) to complete training on topics pertaining to the Act.

	Initial Training	Renewal Training (every 2 years)	Exceptions	2 Year Training Period
Municipalities	10 hours within first 12 months in position	8 hours	No investments outside of Interest Bearing Accts and local CDs – Exempt from renewal training at the discretion of the Entity and the local auditor	Based on Entity's fiscal year
School Districts	10 hours within first 12 months in position	8 hours		Based on Entity's fiscal year
Other Local Governments	10 hours within first 12 months in position	10 hours		Based on Entity's fiscal year
State Agencies and Institutions of Higher Education	5 hours within first 6 months in position	5 hours		Based on the State fiscal biennium
Water Entities (Ch. 36 or 49 only)	6 hours within first 12 months in position	4 hours		Based on Entity's fiscal year

The Center for Public Management (CPM) revises its curriculum on a two-year cycle. September 1, 2015 was the beginning of a new two-year cycle ending August 31, 2017. The Public Funds Investment Act requires that investment training include education in investment controls, security risks, strategy risks, market risks, diversification of

investment portfolio, and compliance with the Act. CPM has developed several programs designed to meet the training requirements of the Public Funds Investment Act and the needs of trainees. At least once each year, for example, a workshop is offered for new Investment Officers with little experience in investing public funds. The actual content of each workshop will vary depending on the audience and the availability of speakers. There are no prerequisites for any workshops.

Upon successful completion of the workshop, each participant will receive a Certificate of Attendance. CPM investment training workshops qualify for PFIA, CPE, and [CGFO](#) ([../content/cgfo](#)) continuing education credit. In addition, the Texas Association of School Business Officials has approved the CPM workshops for TASBO certification credit. A test is given at the end of each workshop for those taking the course for TASBO certification credit.

Click [here](#) ([../node/34](#)) to view the complete CPM investment training curriculum.

For more information about the Public Funds Investment Act training requirements and/or CPM course content, please contact **Patrick Shinkle** (<mailto:patrick.shinkle@unt.edu>) or call 940-369-7950.

We are registered with the Texas State Board of Public Accountancy as a CPE sponsor (007716). This registration does not constitute an endorsement by the board as to the quality of our CPE program.

OTHER REVENUES
INVESTMENTS

CDA
(LEGAL)

Table of Contents	Definitions.....	2
	Business Organization	2
	Investment Pool	2
	Pooled Fund Group.....	2
	Separately Invested Asset.....	2
	Repurchase Agreement.....	2
	Hedging	2
	Corporate Bond.....	3
	Written Policies.....	3
	Annual Review	4
	Annual Audit.....	4
	Investment Strategies	4
	Investment Officer	4
	Investment Training.....	5
	Standard of Care.....	5
	Selection of Broker.....	7
	Authorized Investments	7
	Obligations of Governmental Entities	8
	Certificates of Deposit and Share Certificates	9
	Repurchase Agreements.....	10
	Securities Lending Program	11
	Banker's Acceptances.....	12
	Commercial Paper	12
	Mutual Funds	12
	Guaranteed Investment Contracts.....	13
	Investment Pools.....	14
	Corporate Bonds for Larger Districts	15
	Hedging Transactions	16
	Prohibited Investments.....	16
	Loss of Required Rating.....	17
	Sellers of Investments.....	17
	Donations	18
	Electronic Funds Transfer.....	18

OTHER REVENUES
INVESTMENTS

CDA
(LEGAL)

All investments made by a district shall comply with the Public Funds Investment Act (Texas Government Code Chapter 2256, Subchapter A) and all federal, state, and local statutes, rules, or regulations. *Gov't Code 2256.026*

Definitions

Business
Organization

"Business organization" means an investment pool or investment management firm under contract with a district to invest or manage the district's investment portfolio that has accepted authority granted by the district under the contract to exercise investment discretion in regard to the district's funds. *Gov't Code 2256.005(k)*

Investment Pool

"Investment pool" means an entity created under the Texas Government 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 preservation and safety of principal, liquidity, and yield.

Pooled Fund Group

"Pooled fund group" means an internally created fund of a district in which one or more institutional accounts of a district are invested.

Separately Invested
Asset

"Separately invested asset" means an account or fund of a district that is not invested in a pooled fund group.

Gov't Code 2256.002(6), (9), (12)

Repurchase
Agreement

"Repurchase agreement" means a simultaneous agreement to buy, hold for a specified time, and sell back at a future date obligations, described at Obligations of Governmental Entities, below, 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. *Gov't Code 2256.011(b)*

Hedging

"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.

Eligible Entity

"Eligible entity" means a political subdivision that has:

1. A principal amount of at least \$250 million in outstanding long-term indebtedness, long-term indebtedness proposed to be issued, or a combination of outstanding long-term indebtedness and long-term indebtedness proposed to be issued; and
2. 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 securi-

OTHER REVENUES
INVESTMENTS

CDA
(LEGAL)

Annual Review	The board shall review its investment policy and investment strategies not less than annually. The board shall adopt a written instrument by 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. <i>Gov't Code 2256.005(e)</i>
Annual Audit	A district shall perform a compliance audit of management controls on investments and adherence to the district's established investment policies. The compliance audit shall be performed in conjunction with the annual financial audit. <i>Gov't Code 2256.005(m)</i>
Investment Strategies	<p>As an integral part of the investment policy, the board shall adopt a separate written investment strategy for each of the funds or group of funds under the board's control. Each investment strategy must describe the investment objectives for the particular fund using the following priorities in order of importance:</p> <ol style="list-style-type: none">1. Understanding of the suitability of the investment to the financial requirements of the district;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; and6. Yield. <p><i>Gov't Code 2256.005(d)</i></p>
Investment Officer	A district shall designate by resolution one or more officers or employees as investment officer(s) to be responsible for the investment of its funds consistent with the investment policy adopted by the board. If the board 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 contracting board's district. 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 board retains the ultimate responsibility as fiduciaries of the assets of the district. Unless authorized by law, a person may not deposit, withdraw, transfer, or manage in any other manner the funds of the district. Authority granted to a person to invest the district's funds is effective until rescinded by the district or until termination of the person's employment by a district, or for

OTHER REVENUES
INVESTMENTS

CDA
(LEGAL)

ties, without regard to the effect of any credit agreement or other form of credit enhancement entered into in connection with the obligation.

Eligible Project

"Eligible project" has the meaning assigned by Government Code 1371.001 (regarding issuance of obligations for certain public improvements).

Gov't Code 2256.0206(a)

Corporate Bond

"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, 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 is an unsecured debt obligation. *Gov't Code 2256.0204(a)*

Written Policies

The board shall adopt by resolution a written investment policy regarding the investment of its funds and funds under its control. The investment policies must primarily emphasize safety of principal and liquidity and must address investment diversification, yield, and maturity and the quality and capability of investment management. The policies must include:

1. A list of the types of authorized investments in which the district's funds may be invested;
2. The maximum allowable stated maturity of any individual investment owned by the district;
3. For pooled fund groups, the maximum dollar-weighted average maturity allowed based on the stated maturity date of the portfolio;
4. Methods to monitor the market price of investments acquired with public funds;
5. A requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis; and
6. Procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the provisions of Government Code 2256.021 [see Loss of Required Rating, below].

Gov't Code 2256.005(a), (b)

OTHER REVENUES
INVESTMENTS

CDA
(LEGAL)

an investment management firm, until the expiration of the contract with the district. *Gov't Code 2256.005(f)*

A district or investment officer may use the district's employees or the services of a contractor of the district to aid the investment officer in the execution of the officer's duties under Government Code, Chapter 2256. *Gov't Code 2256.003(c)*

Investment Training
Initial

Within 12 months after taking office or assuming duties, the treasurer, the chief financial officer if the treasurer is not the chief financial officer, and the investment officer of a district shall attend at least one training session from an independent source approved by the board or a designated investment committee advising the investment officer. This initial training must contain at least ten hours of instruction relating to their respective responsibilities under the Public Funds Investment Act. *Gov't Code 2256.008(a)*

Ongoing

The treasurer, or the chief financial officer if the treasurer is not the chief financial officer, and the investment officer of a district shall attend an investment training session not less than once in a two-year period that begins on the first day of the district'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 the Public Funds Investment Act from an independent source approved by the board or by a designated investment committee advising the investment officer. *Gov't Code 2256.008(a-1)*

Investment training must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with the Public Funds Investment Act. *Gov't Code 2256.008(c)*

Standard of Care

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 objectives, in order of priority:

1. Preservation and safety of principal;
2. Liquidity; and
3. Yield.

In determining whether an investment officer has exercised prudence with respect to an investment decision, the following shall be taken into consideration:

OTHER REVENUES
INVESTMENTS

CDA
(LEGAL)

1. The investment of all funds, or funds under the district's control, over which the office had responsibility rather than the prudence of a single investment; and
2. Whether the investment decision was consistent with the district's written investment policy.

Gov't Code 2256.006

Personal Interest

A district investment officer who has a personal business relationship with a business organization offering to engage in an investment transaction with the district 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 by Government Code Chapter 573 (regarding nepotism prohibition), to an individual seeking to sell an investment to the investment officer's district shall file a statement disclosing that relationship. A required statement must be filed with the board and with the Texas Ethics Commission. For purposes of this policy, an investment officer has a personal business relationship with a business organization if:

1. The investment officer owns ten 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 ten 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.

Gov't Code 2256.005(i)

Quarterly Reports

Not less than quarterly, the investment officer shall prepare and submit to the board a written report of investment transactions for all funds covered by the Public Funds Investment Act for the preceding reporting period. This report shall be presented not less than quarterly to the board and the superintendent within a reasonable time after the end of the period. The report must:

1. Describe in detail the investment position of the district on the date of the report;
2. Be prepared jointly and signed by all district investment officers;

OTHER REVENUES
INVESTMENTS

CDA
(LEGAL)

3. 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;
4. 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;
5. State the maturity date of each separately invested asset that has a maturity date;
6. State the account or fund or pooled group fund in the district for which each individual investment was acquired; and
7. State the compliance of the investment portfolio of the district as it relates to the investment strategy expressed in the district's investment policy and relevant provisions of the Public Funds Investment Act.

If a district 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 shall be formally reviewed at least annually by an independent auditor, and the result of the review shall be reported to the board by that auditor.

Gov't Code 2256.023

Selection of Broker

The board or the designated investment committee shall, at least annually, review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with a district.
Gov't Code 2256.025

Authorized Investments

A board may purchase, sell, and invest its funds and funds under its control in investments described below, in compliance with its adopted investment policies and according to the standard of care set out in this policy. *Gov't Code 2256.003(a)*

In the exercise of these powers, the board 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 this authority may not be for a term longer than two

OTHER REVENUES
INVESTMENTS

CDA
(LEGAL)

years. A renewal or extension of the contract must be made by the board by resolution. *Gov't Code 2256.003(b)*

The board may specify in its investment policy that any authorized investment is not suitable. *Gov't Code 2256.005(j)*

The following are authorized investments:

Obligations of
Governmental
Entities

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, 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. Bonds issued, assumed, or guaranteed by the state of Israel;
7. Interest-bearing banking deposits that are guaranteed or insured by the FDIC or its successor, or the National Credit Union Share Insurance Fund or its successor; and
8. Interest-bearing banking deposits other than those described at item 7 above if:
 - a. The funds are invested through a broker with a main office or a branch office in this state that the district selects from a list the board or designated investment committee of the district adopts as required at Selection of Broker above or a depository institution with a main office or a branch office in this state and that the district selects;
 - b. The broker or depository institution selected as described above arranges for the deposit of the funds in

OTHER REVENUES
INVESTMENTS

CDA
(LEGAL)

the banking deposits in one or more federally insured depository institutions, regardless of where located, for the district'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 district appoints as the district's custodian of the banking deposits issued for the district's account the depository institution selected as described above, an entity described by Government Code 2257.041(d) (regarding a custodian with which to deposit securities), or a clearing broker-dealer registered with the Securities and Exchange Commission and operating under Rule 15c3-3 (17 C.F.R. Section 240.15c3-3).

Gov't Code 2256.009(a)

*Unauthorized
Obligations*

The following investments are not authorized:

- 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 ten 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.

Gov't Code 2256.009(b)

Certificates of
Deposit and Share
Certificates

A certificate of deposit or share certificate is an authorized investment if the certificate is issued by a depository institution that has its main office or a branch office in Texas and is:

- 1. Guaranteed or insured by the FDIC or its successor or the National Credit Union Share Insurance Fund or its successor;
- 2. Secured by obligations described at Obligations of Governmental Entities, above, 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 described at Unauthorized Obligations, above; or

OTHER REVENUES
INVESTMENTS

CDA
(LEGAL)

3. Secured in accordance with Government Code Chapter 2257 (Public Funds Collateral Act) or in any other manner and amount provided by law for the deposits of the district.

Gov't Code 2256.010(a)

In addition to the authority to invest funds in certificates of deposit under the previous section, an investment in certificates of deposit made in accordance with the following conditions is an authorized investment:

1. The funds are invested by the district through a broker that has its main office or a branch office in this state and is selected from a list adopted by the district as required at Selection of Broker, above or a depository institution that has its main office or a branch office in this state and that is selected by the district;
2. The broker or depository institution selected by the district 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 district;
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 district appoints the depository institution selected by the district, an entity described by Government Code 2257.041(d) (regarding a custodian with which to deposit securities), 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 district with respect to the certificates of deposit issued for the account of the district.

Gov't Code 2256.010(b)

The district's investment policies may provide that bids for certificates of deposit be solicited orally, in writing, electronically, or in any combination of those methods. *Gov't Code 2256.005(c)*

Repurchase
Agreements

A fully collateralized repurchase agreement is an authorized investment if it:

1. Has a defined termination date;
2. Is secured by a combination of cash and obligations described at Obligations of Governmental Entities, above;

OTHER REVENUES
INVESTMENTS

CDA
(LEGAL)

3. Requires the securities being purchased by the district or cash held by the district to be pledged to the district, held in the district's name, and deposited at the time the investment is made with the district or a third party selected and approved by the district, and
4. Is placed through a primary government securities dealer, as defined by the Federal Reserve or a financial institution doing business in Texas.

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 district 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.

Government Code 1371.059(c) (regarding validity and incontestability of obligations for certain public improvements) applies to the execution of a repurchase agreement by a district.

Gov't Code 2256.011

Securities Lending
Program

A securities lending program is an authorized investment if:

1. The value of securities loaned is not less than 100 percent collateralized, including accrued income;
2. A loan allows for termination at any time;
3. A loan is secured by:
 - a. Pledged securities described at Obligations of Governmental Entities, above;
 - b. Pledged irrevocable letters of credit issued by a bank that is organized and existing under the laws of the United States or any other state, and 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 Government Code 2256.009 (obligations of governmental entities), 2256.013 (commercial paper), 2256.014 (mutual funds), or 2256.01 (investment pools);
4. The terms of a loan require that the securities being held as collateral be pledged to the district, held in the district's name, and deposited at the time the investment is made with the dis-

OTHER REVENUES
INVESTMENTS

CDA
(LEGAL)

trict or with a third party selected by or approved by the district; and

5. A loan is placed through 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 a financial institution doing business in this state.

An agreement to lend securities under a securities lending program must have a term of one year or less.

Gov't Code 2256.0115

Banker's
Acceptances

A banker's acceptance is an authorized investment if it:

1. Has a stated maturity of 270 days or fewer from the date of 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 on nationally recognized credit rating agency.

Gov't Code 2256.012

Commercial Paper

Commercial paper is an authorized investment if it has a stated maturity of 270 days or fewer from the date of issuance; and is rated not less than A-1 or P-1 or an equivalent rating by at least:

1. Two nationally recognized credit rating agencies; or
2. 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 law or any state.

Gov't Code 2256.013

Mutual Funds

A no-load money market mutual fund is an authorized investment if the mutual fund:

1. Is registered with and regulated by the Securities and Exchange Commission;

OTHER REVENUES
INVESTMENTS

CDA
(LEGAL)

2. Provides the district with a prospectus and other information required by the Securities and Exchange Act of 1934 (15 U.S.C. 78a et seq.) or the Investment Company Act of 1940 (15 U.S.C. 80a-1 et seq.); 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.).

Gov't Code 2256.014(a)

In addition to the no-load money market mutual fund authorized above, a no-load mutual fund is an authorized investment if it:

1. Is registered with the Securities and Exchange Commission;
2. Has an average weighted maturity of less than two years; and
3. Either has a duration of less than one year or more and is invested exclusively in obligations approved by the Public Funds Investment Act, or has a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities.

Gov't Code 2256.014(b)

Limitations

A district is not authorized 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 Government Code 2256.014(b);
2. Invest any portion of bond proceeds, reserves and funds held for debt service, in mutual funds described in Government Code 2256.014(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 Government Code 2256.014(a) or (b) in an amount that exceeds ten percent of the total assets of the mutual fund.

Gov't Code 2256.014(c)

Guaranteed
Investment
Contracts

A guaranteed investment contract is an authorized investment for bond proceeds if the guaranteed investment contract:

1. Has a defined termination date;

OTHER REVENUES
INVESTMENTS

CDA
(LEGAL)

2. Is secured by obligations described at Obligations of Governmental Entities, above, excluding those obligations described at Unauthorized Obligations, in an amount at least equal to the amount of bond proceeds invested under the contract; and
3. Is pledged to the district and deposited with the district or with a third party selected and approved by the district.

Bond proceeds, other than bond proceeds representing reserves and funds maintained for debt service purposes, may not be invested in a guaranteed investment contract with a term longer than five years from the date of issuance of the bonds.

To be eligible as an authorized investment:

1. The board must specifically authorize guaranteed investment contracts as eligible investments in the resolution authorizing the issuance of bonds;
2. The district must receive bids from at least three separate providers with no material financial interest in the bonds from which proceeds were received;
3. The district 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.

Government Code 1371.059(c) (regarding validity and incontestability of obligations for certain public improvements) applies to the execution of a guaranteed investment contract by a district.

Gov't Code 2256.015

Investment Pools

A district may invest its funds or funds under its control through an eligible investment pool if the board by resolution authorizes the investment in the particular pool. *Gov't Code 2256.016, .019*

To be eligible to receive funds from and invest funds on behalf of a district, an investment pool must furnish to the investment officer or other authorized representative of the district an offering circular or other similar disclosure instrument that contains the information specified in Government Code 2256.016(b). To maintain eligibility, an investment pool must furnish to the investment officer or other

OTHER REVENUES
INVESTMENTS

CDA
(LEGAL)

authorized representative investment transaction confirmations and a monthly report that contains the information specified in Government Code 2256.016(c). A district by contract may delegate to an investment pool the authority to hold legal title as custodian of investments purchased with its local funds. *Gov't Code 2256.016(b)-(d)*

Corporate Bonds for
Larger Districts

A district that qualifies as an issuer as defined by Government Code 1371.001 [see CCF], may purchase, sell, and invest its funds and funds under its control in corporate bonds (as defined above) 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.

A district is not authorized 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.

A district subject to these provisions may purchase, sell, and invest its funds and funds under its control in corporate bonds if the board:

1. Amends its investment policy to authorize corporate bonds as an eligible investment;
2. Adopts procedures to provide for monitoring rating changes in corporate bonds acquired with public funds and liquidating the investment in corporate bonds; and
3. Identifies the funds eligible to be invested in corporate bonds.

The district investment officer, 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

OTHER REVENUES
INVESTMENTS

CDA
(LEGAL)

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

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

Gov't Code 2256.0204

Hedging
Transactions

The board of an eligible entity (as defined above) shall establish the entity's policy regarding hedging transactions. 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.

Government Code 1371.059(c) (regarding validity and incontestability of obligations for certain public improvements) applies to the execution by an eligible entity of a hedging contract and any related security, credit, or insurance agreement.

An eligible entity may:

1. 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.
2. Credit any amount the entity receives under a hedging contract against expenses associated with a commodity purchase.

An eligible entity's cost of or payment under a hedging contract or agreement may be considered an operation and maintenance expense, an acquisition expense, or construction expense of the eligible entity; or a project cost of an eligible project.

Gov't Code 2256.0206

Prohibited
Investments

Except as provided by Government Code 2270 (regarding prohibited investments), a district is not required to liquidate investments that were authorized investments at the time of purchase. *Gov't Code 2256.017*

OTHER REVENUES
INVESTMENTS

CDA
(LEGAL)

Note: As an “investing entity” under Government Code 2270.0001(7)(A), a district must comply with Chapter 2270, including reporting requirements, regarding prohibited investments in scrutinized companies listed by the comptroller in accordance with Government Code 2270.0201.

Loss of Required
Rating

An investment that requires a minimum rating does not qualify as an authorized investment during the period the investment does not have the minimum rating. A district shall take all prudent measures that are consistent with its investment policy to liquidate an investment that does not have the minimum rating. *Gov’t Code 2256.021*

**Sellers of
Investments**

A written copy of the investment policy shall be presented to any business organization (as defined above) offering to engage in an investment transaction with a district. The qualified representative of the business organization offering to engage in an investment transaction with a district shall execute a written instrument in a form acceptable to the district and the business organization substantially to the effect that the business organization has:

1. Received and reviewed the district investment policy; and
2. Acknowledged that the business organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the district and the organization that are not authorized by the district’s investment policy, except to the extent that this authorization:
 - a. Is dependent on an analysis of the makeup of the district’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.

The investment officer of a district may not acquire or otherwise obtain any authorized investment described in the district’s investment policy from a business organization that has not delivered to the district the instrument required above.

Gov’t Code 2256.005(k)–(l)

OTHER REVENUES
INVESTMENTS

CDA
(LEGAL)

Nothing in this section relieves the district of the responsibility for monitoring investments made by the district to determine that they are in compliance with the investment policy. *Gov't Code 2256.005(k)*

Donations

A gift, devise, or bequest made to a district to provide college scholarships for district graduates may be invested by the board as provided in Property Code 117.004 (Uniform Prudent Investor Act), unless otherwise specifically provided by the terms of the gift, devise, or bequest. *Education Code 45.107*

Investments donated to a district for a particular purpose or under terms of use specified by the donor are not subject to the requirements of the Public Funds Investment Act. *Gov't Code 2256.004(b)*

**Electronic Funds
Transfer**

A district may use electronic means to transfer or invest all funds collected or controlled by the district. *Gov't Code 2256.051*

OTHER REVENUES
INVESTMENTS

CDA
(LOCAL)

Investment Authority

The Superintendent or other person designated by Board resolution shall serve as the investment officer of the District and shall invest District funds as directed by the Board and in accordance with the District's written investment policy and generally accepted accounting procedures. All investment transactions except investment pool funds and mutual funds shall be settled on a delivery versus payment basis.

**Training of
Personnel**

In compliance with the Public Funds Investment Act 2256.008 and District policies, the District shall provide for investment personnel periodic training in investments through courses and seminars offered by professional organizations and associations approved annually by the Board.

**Approved
Investment
Instruments**

From those investments authorized by law and described further in CDA(LEGAL) under Authorized Investments, the Board shall permit investment of District funds in only the following investment types, consistent with the strategies and maturities defined in this policy:

1. Obligations of, or guaranteed by, governmental entities as permitted by Government Code 2256.009.
2. Certificates of deposit and share certificates as permitted by Government Code 2256.010.
3. Fully collateralized repurchase agreements permitted by Government Code 2256.011.
4. A securities lending program as permitted by Government Code 2256.0115.
5. Banker's acceptances as permitted by Government Code 2256.012.
6. Commercial paper as permitted by Government Code 2256.013.
7. No-load money market mutual funds and no-load mutual funds as permitted by Government Code 2256.014.
8. A guaranteed investment contract as an investment vehicle for bond proceeds, provided it meets the criteria and eligibility requirements established by Government Code 2256.015.
9. Public funds investment pools as permitted by Government Code 2256.016.

**Effect of Loss of
Required Rating**

Upon awareness by the investment office or investment staff of a downgrade in a District investment, prudent measures shall be taken to liquidate an investment that is downgraded to less than

OTHER REVENUES
INVESTMENTS

CDA
(LOCAL)

the required minimum rating as outlined in the law, Government Code 2256.015.

Safety

The primary goal of the investment program is to ensure safety of principal, to maintain liquidity, and to maximize financial returns within current market conditions in accordance with this policy. Investments shall be made in a manner that ensures the preservation of capital in the overall portfolio, and offsets during a 12-month period any market price losses resulting from interest-rate fluctuations by income received from the balance of the portfolio. No individual investment transaction shall be undertaken that jeopardizes the total capital position of the overall portfolio.

**Investment
Management**

In accordance with Government Code 2256.005(b)(3), the quality and capability of investment management for District funds shall be in accordance with the standard of care, investment training, and other requirements set forth in Government Code Chapter 2256.

**Liquidity and
Maturity**

Any internally created pool fund group of the District shall have a maximum dollar weighted maturity of 180 days. The maximum allowable stated maturity of any other individual investment owned by the District shall not exceed two years from the time of purchase. The Board may specifically authorize a longer maturity for a given investment, within legal limits.

The District's investment portfolio shall have sufficient liquidity to meet anticipated cash flow requirements.

Diversity

The investment portfolio shall be diversified in terms of investment instruments, maturity scheduling, and financial institutions to reduce risk of loss resulting from overconcentration of assets in a specific class of investments, specific maturity, or specific issuer.

**Monitoring Market
Prices**

The investment officer shall monitor the investment portfolio and shall keep the Board informed of significant changes in the market value of the District's investment portfolio. Information sources may include financial/investment publications and electronic media, available software for tracking investments, depository banks, commercial or investment banks, financial advisers, and representatives/advisers of investment pools or money market funds. Monitoring shall be done monthly or more often as economic conditions warrant by using appropriate reports, indices, or benchmarks for the type of investment.

**Monitoring Rating
Changes**

In accordance with Government Code 2256.005(b), the investment officer shall develop a procedure to monitor changes in investment ratings and to liquidate investments that do not maintain satisfactory ratings.

OTHER REVENUES
INVESTMENTS

CDA
(LOCAL)

Funds / Strategies

Investments of the following fund categories shall be consistent with this policy and in accordance with the applicable strategy defined below. All strategies described below for the investment of a particular fund should be based on an understanding of the suitability of an investment to the financial requirements of the District and consider preservation and safety of principal, liquidity, marketability of an investment if the need arises to liquidate before maturity, diversification of the investment portfolio, and yield.

Operating Funds

Investment strategies for operating funds (including any commingled pools containing operating funds) shall have as their primary objectives preservation and safety of principal, investment liquidity, and maturity sufficient to meet anticipated cash flow requirements.

Agency Funds

Investment strategies for agency funds shall have as their primary objectives preservation and safety of principal, investment liquidity, and maturity sufficient to meet anticipated cash flow requirements.

Debt Service Funds

Investment strategies for debt service funds shall have as their primary objective sufficient investment liquidity to timely meet debt service payment obligations in accordance with provisions in the bond documents. Maturities longer than one year are authorized provided legal limits are not exceeded.

Capital Project Funds

Investment strategies for capital project funds shall have as their primary objective sufficient investment liquidity to timely meet capital project obligations. Maturities longer than one year are authorized provided legal limits are not exceeded.

Trust Funds

Investment strategies for trust funds shall have as their primary objectives preservation and safety of principal, investment liquidity, and maturity sufficient to meet anticipated cash flow requirements.

Safekeeping and Custody

The District shall retain clearly marked receipts providing proof of the District's ownership. The District may delegate, however, to an investment pool the authority to hold legal title as custodian of investments purchased with District funds by the investment pool.

Sellers of Investments

Prior to handling investments on behalf of the District, a broker/dealer or a qualified representative of a business organization must submit required written documents in accordance with law. [See Sellers of Investments, CDA(LEGAL)]

Representatives of brokers/dealers shall be registered with the Texas State Securities Board and must have membership in the Securities Investor Protection Corporation (SIPC), and be in good standing with the Financial Industry Regulatory Authority (FINRA).

OTHER REVENUES
INVESTMENTS

CDA
(LOCAL)

**Soliciting Bids for
CDs**

In order to get the best return on its investments, the District may solicit bids for certificates of deposit in writing, by telephone, or electronically, or by a combination of these methods.

Interest Rate Risk

To reduce exposure to changes in interest rates that could adversely affect the value of investments, the District shall use final and weighted-average-maturity limits and diversification.

The District shall monitor interest rate risk using weighted average maturity and specific identification.

Internal Controls

A system of internal controls shall be established and documented in writing and must include specific procedures designating who has authority to withdraw funds. Also, they shall be designed to protect against losses of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the District. Controls deemed most important shall include:

1. Separation of transaction authority from accounting and recordkeeping and electronic transfer of funds.
2. Avoidance of collusion.
3. Custodial safekeeping.
4. Clear delegation of authority.
5. Written confirmation of telephone transactions.
6. Documentation of dealer questionnaires, quotations and bids, evaluations, transactions, and rationale.
7. Avoidance of bearer-form securities.

These controls shall be reviewed by the District's independent auditing firm.

Portfolio Report

In addition to the quarterly report required by law and signed by the District's investment officer, a comprehensive report on the investment program and activity shall be presented annually to the Board.

Annual Review

The Board shall review this investment policy and investment strategies not less than annually and shall document its review in writing, which shall include whether any changes were made to either the investment policy or investment strategies.

Annual Audit

In conjunction with the annual financial audit, the District shall perform a compliance audit of management controls on investments and adherence to the District's established investment policies.

**Limitation of
Personal Liability**

The investment officer and those with delegated investment authority under this policy, when acting in accordance with the written procedures and this policy and in accord with the Prudent Person Rule, shall be relieved of personal responsibility and liability in the management of the portfolio provided that deviations from expectations for a specific security's credit risk or market price change or portfolio shifts are reported in a timely manner and that appropriate action is taken to control adverse market effects.

Stephenville ISD
Approved Brokers for Investment Use

Hilltops Securities
TCG Advisors

