



SOS Category: Fiscal Affairs
Sub-Category: Finance, Budget & Asset Mgmt.
Authority: Board of Regents
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Statewide Standard

FA 2.03 POLICY FOR INVESTMENTS

POLICY

It is the policy of Texas State Technical College (TSTC) to prudently invest funds not needed for immediate operating purposes and other funds such as plant funds, endowment funds, and other reserve funds. All TSTC funds will be appropriately invested according to each fund type in consideration of preservation and safety of principal, liquidity, and yield, while meeting the daily cash flow needs of the college. All deposits and investments shall conform to the [Public Funds Investment Act](#).

REFERENCES

[TSTC Website Investment Disclosure](#)

[Public Funds Investment Act, Chapter 2256 of the Government Code](#)

[Texas Education Code, Chapter 135.2](#)

[Section 404.0211 of the Government Code](#)

[Section 51.923 of the Education Code](#)

[Section 51.003\(a\) of the Education Code](#)

[Securities and Exchange Commission \(SEC\) Rule 15C3-1](#)

[Section 573 of the Government Code](#)

SCOPE

This SOS is applicable to both internal and external stakeholders, with an emphasis on ensuring compliance and transparency in the management of public funds.

DEFINITIONS

1. Authorized Broker/Dealers - "Authorized Broker/Dealers" means those entities that have been approved as provided herein.
2. Funds - "Funds" is defined by Government Code § 2256.002 and 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.
3. Funds Subject to Board of Regents Control - "Funds Subject to Board of Regents Control" is defined by Texas Education Code § 51.002 and means:
 1. student fees of all kinds;
 2. charges for uses of rooms and dormitories;
 3. receipts from meals and cafeterias;
 4. fees on deposit, refundable to students under certain conditions;
 5. income from student publications and other student activities;
 6. receipts from the sale of publication products and miscellaneous supplies and equipment;
 7. students' voluntary deposits of money for safekeeping;
 8. all other fees and local or institutional funds arising out of and by virtue of educational activities, research, or demonstrations carried on by the institution; and
 9. donations and gifts to the institution.
4. Investment Officer - "Investment Officer" means the person(s) appointed by the Board as prescribed by this policy, and any authorized designee.
5. Managing Entity - "Managing Entity" means the entity holding and managing the investment of funds, and may include Texas State Technical College, an external asset management firm, or Authorized Broker / Dealers.
6. Prudent Person Standard - "Prudent Person Standard" is defined by Texas Education Code § 51.0031(d) and described in Article VII, Section 11b of the Texas Constitution, and means that standard of judgment and care that prudent investors, exercising reasonable care, skill, and caution, would acquire or retain in light of the purposes, terms, distribution requirements, and other circumstances of the fund then prevailing, taking into

consideration the investment of all the assets of the fund rather than a single investment.

PURPOSE, INVESTMENT OBJECTIVE AND STRATEGY

Purpose: The purpose of the Policy for Investments is to outline the following general provisions affecting the investments by:

1. Assisting the Investment Officer(s) and Regents to fulfill their fiduciary responsibilities.
2. Conveying the investments' purpose, investment objective, investment strategy and constraints.
3. Setting forth the role and responsibilities of the Investment Officers, Regents, and other relevant parties.

Investment Objectives and Strategy: The investment objectives for TSTC, in order of priority are:

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

The investment strategy is to safeguard principal by investing only in authorized investments at qualified institutions, and then retaining appropriate liquidity to meet daily operating demands while seeking a higher yield on cash and risk-adjusted returns on reserves and other funds through an appropriately diversified investment portfolio.

To meet the investment objectives and execute the strategy, the TSTC Investment Officer(s) shall insure that:

1. All TSTC funds subject to the Board of Regents control are invested pursuant to the Prudent Person Standard;
2. The TSTC portfolio contains liquid interest-earning investments;
3. Income and expenditure patterns are monitored and continually updated to determine monthly cash needs of TSTC;

4. Placement and duration of TSTC's investments are determined by the cash needs and expectations of TSTC;
5. The yield on investments is negotiated at the time of purchase and that it reflects market conditions and yields available; and
6. The investment portfolio consists of an appropriate mix of instruments that benefit from anticipated market conditions and achieve the best allowable yield.

QUALIFIED INSTITUTIONS

TSTC shall use a competitive bid process in accordance with Section 51.003 of the Education Code to deposit / invest through any one of the following entities:

1. "Primary" government security dealers (as defined by the New York Federal Reserve), or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule);
2. Texas local government investment pools, as permitted in accordance with Government Code 2256.016; or
3. A Federally-insured financial institution doing business in Texas, which
 - a) must provide their most recent Statement of Condition report on request;
 - b) must sign a 'Certification by Registered Principal of Investment Firm/Bank' certifying that the registered principal has reviewed TSTC's investment policy; and
 - c) must maintain a consistent record of compliance with TSTC's collateral coverage and investment policy.

The Chief Financial Officer shall discuss with the Board of Regents Fiscal Affairs Committee the existing status of depository agreements with existing operating accounts at each fall meeting of the Board of Regents, including the necessity of bidding such operating accounts.

AUTHORIZED BROKERS

The Board of Regents is required to review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with TSTC at least annually, as set forth in Section 2256.025 of the Public Funds Investment Act.

Please see list in attached addendum/schedule.

INVESTMENTS AND COLLATERAL

Before TSTC invests any funds, a competitive bid process shall be conducted. If a specific maturity date is required, either for cash flow purposes or for conformance to maturity guidelines, bids will be requested for instruments that meet the maturity requirements. If no specific maturity is required, a market trend (yield curve) analysis will be conducted to determine which maturities would be most advantageous. TSTC will accept the bid that provides the highest rate of return within the desired maturity and within the parameters of this policy. TSTC will maintain copies of bids obtained.

AUTHORIZED investments and collateral are:

1. Certificates of Deposit (in Federally-insured institutions)
 - a. Time Certificates of Deposit (CD) with a maturity not to exceed three (3) years from the date of purchase, insured by the Federal Deposit Insurance Corporation (FDIC) or its successor, and when possible and appropriate, in a financial institution or institutions located in the county or counties in which a TSTC campus operation is located, except for endowment accounts where the donor references a specific depository.
 - b. In addition, separate CDs issued by depositories wherever located, bundled together into a single investment with the full amount of principal and interest of each CD federally insured may be purchased through a selected depository institution with its main office or branch office in Texas. This depository shall act as the custodian for the various certificates on behalf of TSTC.

2. Obligations of, or Guaranteed by, Governmental Entities
 - a. Obligations, including letters of credit, of the United States or its agencies and instrumentalities;
 - b. Direct obligations of this state or its agencies and instrumentalities;
 - c. 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; and
 - d. 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.

3. Texas public funds investment pools investing in government securities and repurchase agreements as approved by the Board, rated no less than AAA or equivalent and seeking to maintain a constant dollar net asset value.

4. Repurchase agreements ("Repos") with a defined termination date, collateralized by Treasury and Federal Agency securities listed in items "a," "b" and "c" above, collateralized initially at a minimum market value of 102 percent of the dollar value of the transaction, with the accrued interest accumulated on the collateral included in the calculation.

UNAUTHORIZED investments and collateral are:

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 coupon payments on the outstanding 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;
4. Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index; and,
5. Securities of a company that is identified on a list of companies with scrutinized active business operations in Sudan or Iran or with business ties to Foreign Terrorist Organizations (collectively, "Listed Companies") as published on the State Comptroller's website.

An investment that requires a minimum credit rating does not qualify as an authorized investment during the period the investment does not have the minimum credit rating even if the investment had the appropriate rating at the time of purchase. The Investment Officer(s) shall take all prudent measures that are consistent with this Policy to liquidate an investment that does not have the minimum rating.

COLLATERAL

Statute requires that all state deposits above the level of federal insurance be fully collateralized. Statute further requires that all deposits that are collateralized by securities be protected at a minimum of 100 percent of the deposit amount. Securities are accepted at 100 percent of their market value. The value of surety bonds and FHLB Letters of Credit are their face value.

TSTC's funds in excess of FDIC insurance, are to be fully collateralized at all times by government securities which include U.S. Treasury obligations and/or direct obligations of Federal agencies or instrumentalities including certain mortgage-backed securities, FHLB Letters of Credit or surety bonds.

Pledged securities may be held in safekeeping at a commercial bank in the State of Texas, the Texas Independent Bankers-Bank (TIB), the Federal Home Loan Bank (FHLB), or at the Federal Reserve Bank.

The first portion of TSTC's demand and time deposits may be collateralized by the applicable FDIC coverage.

DEPOSITS, OPERATING FUNDS, AND SHORT-TERM WORKING CAPITAL

Deposits and short-term funds needed for operations and daily liquidity requirements shall be held with the following constraints:

1. All deposits or investments must either provide daily liquidity, offer diversification, or reduce interest rate risk. All investments must have maturities of two (2) years or less at the time of investment.
2. These funds must maintain a weighted-average maturity of no more than 270 days.
3. No individual security may have a credit quality of less than A- or A3 at the time of investment unless it is insured by the FDIC or otherwise guaranteed by the US Government or an agency or instrumentality of the US Government.
4. No investment vehicles may have an average credit quality of less than AA- / Aa3 at the time of investment unless it is insured by the FDIC or otherwise guaranteed by the US Government or an agency or instrumentality of the US Government.

LONG-TERM RESERVE FUNDS

Long-term reserves are funds identified by TSTC that are not anticipated to be expended for operational or capital needs for at least two (2) years, or longer. The investment objective for long term funds is to preserve the purchasing power of the assets over time, subject to the overall guidelines of this policy, and shall be held with the following constraints:

1. All investments must have maturities of three (3) years or less at the time of investment.

2. These funds must maintain a weighted-average maturity of no more than 24 months.
3. No individual security may have a credit quality of less than A- or A3 at the time of investment unless it is insured by the FDIC or otherwise guaranteed by the US Government or an agency or instrumentality of the US Government.
4. No investment vehicles may have an average credit quality of less than AA- / Aa3 at the time of investment unless it is insured by the FDIC or otherwise guaranteed by the US Government or an agency or instrumentality of the US Government.

BOND / DEBT PROCEEDS

As funds borrowed for the purpose of covering anticipated capital spending needs, these funds should be available for scheduled capital project liquidity and invested in a manner consistent with applicable Bond Covenants. Emphasis should be placed on safety of principal and liquidity. All bond / debt proceeds investments must comply with the Texas Public Funds Investment Act, Chapter 2256 of the Government Code, and amendments made thereto.

GIFTS AND ENDOWMENT FUNDS

Endowment funds originate from gifts to TSTC in which the corpus of the fund must be perpetually preserved, and investment earnings are spent in accordance with the donor's intent. The investment duration of the funds is perpetual, with an objective to maintain purchasing power over time and to provide on-going, dependable earnings distributions.

The terms of cash gifts or bequests made to TSTC shall be honored with respect to the donor's preference of depository, type of investment and use of the earnings, provided that the donor's preference is not contrary to applicable law.

ETHICAL GUIDELINES FOR INVESTMENTS

1. Section 51.923 of the Education Code permits an institution of higher
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education to contract with a non-profit corporation even though one or more members of the governing board of the institution of higher education also serves as a member, director, officer or employee of such a non-profit corporation. This section further permits an institution of higher education to contract with a business entity even though one or more members of the governing board of the institution of higher education have an interest in the business entity if the interest is not a substantial interest. An interest is a substantial interest if: (1) the board member owns one percent or more of the voting stock or shares of the business entity or owns either one percent or more or \$15,000 or more of the fair market value of the business entity; (2) funds received by the member from the business entity exceed one percent of the member's gross income for the previous year; (3) the member is an officer of the business entity or a member of the governing board of the business entity; or (4) an individual related to the member in the first degree by consanguinity or affinity, as determined under Chapter 573, Government Code, has an interest in the business entity as described above. If a board member has a substantial interest in a business entity as described in this paragraph, the institution of higher education can still contract with that business entity provided that the board member discloses such interest to the board and refrains from voting on the contract or transaction requiring board approval.

2. Section 404.0211 of the Government Code, does not disqualify a bank from serving as a depository for funds of a state agency if one or more officers or employees of the state agency, who have the duty of selecting a depository, is also an officer or director of the bank if a majority of the members of the board vote to select the bank as a depository; and the interested officer or employee does not vote or take part in the proceedings. This section also does not disqualify a bank from serving as a depository for funds of a state agency if one or more officers or employees of the state agency, who have the duty of selecting a depository, own or have a beneficial interest, individually or collectively in 10 percent or less of the outstanding capital stock of the bank, if a majority of the members of the board vote to select the bank as a depository; and the interested officer or employee does not vote or take part in the proceedings.

3. Employees of TSTC who are involved in the selection of depository financial institutions shall not attempt to gain any personal benefit from the financial institutions in turn for depositing the funds in said financial institution. At the beginning of each fiscal year these employees must disclose personal conflicts they may have with individual firms where the College holds investments. These disclosures are due to the Chief Financial Officer by October 1 of each year. Investment Officers of TSTC, as defined by this policy, shall annually disclose any conflicts to the Board Secretary.

4. Board members are required to declare potential personal conflicts with business entities that they may have interests.

INVESTMENT OFFICER

The Chief Financial Officer is designated as Investment Officer of TSTC and is responsible for managing the purchase, sale and the investing of all financial resources under TSTC control or as granted by law. The Controller is designated as an alternate investment officer of TSTC who may act on investment decisions in the absence of the designated investment officer. The designated investment officers, acting in accordance with this policy and exercising due diligence, shall not be held personally responsible for a specific security's credit risk or market price changes, provided that these deviations are reported immediately and that appropriate action is taken to control adverse developments. Should the Chief Financial Officer be unable to serve in the capacity of Investment Officer of TSTC, the Chancellor may designate a successor that shall be ratified by the TSTC Board of Regents at its next regularly scheduled meeting.

The standard of care to be applied by the Investment Officer shall be the 'prudent investor' rule, which states:

"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 the capital and the probable income to be derived. Investment of funds shall be governed by the following investment

objectives, in order of priority: preservation and safety of principal, liquidity and yield.”

The prudent investor rule shall be applied in the context of managing the overall portfolio, rather than an individual investment.

INVESTMENT TRAINING

Investment officers shall receive five hours of investment training relating to an investment officer’s responsibilities within six months after assuming duties; and attend additional training sessions not less than once every two years, and receive not less than five hours of training. Such training from an independent source shall be sponsored or instructed through the University of North Texas Center for Public Management, the Government Finance Officers Association, Government Finance Officers Association of Texas, Government Treasurers Organization of Texas, Texas Municipal League, Texas Association of School Board Officials, Texas Association of School Boards, the North Central Texas Council of Governments or other independent industry organizations to include education in investment controls, security risks, strategy risks, market risks, and compliance with the Public Funds Investment Act. The Investment Officer shall report compliance with these training requirements to the Board of Regents not later than the 180th day after the last day of each regular session of the legislature.

INVESTMENT REPORTING

Investment reports are to be prepared by TSTC staff, posted to the TSTC website and submitted to the Board of Regents quarterly. Reports will consist of the beginning and ending market value for the reporting period, the fully accrued interest for the reporting period, and will be signed by each investment officer of TSTC, including a statement of compliance with this policy and the Act.

When adopted each legislative session, TSTC is to carry out reporting requirements imposed by the Texas General Appropriations Act, Article III, Section 6, Rider 5 - Investment Reports, as a higher education institution.

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Authorized Broker List:

Community Bank & Trust
First Financial Bank
Extraco Banks
Frost Bank
Coastal Securities, Inc.
Hilltop Securities
Investors Brokerage of Texas
Robert W. Baird & Co.
Vining Sparks
Wells Fargo Advisors
Cantor Fitzgerald
Citibank
Daiwa Capital Markets
Dinosaur Financial Group
Deutsche Bank
Odeon Capital
Oppenheimer & Co.
PNC Capital Market
Trust Securities
Wells Fargo Securities