

TEXAS STATE TECHNICAL COLLEGE SYSTEM
SYSTEM OPERATING STANDARD

No.FA.2.3	Page 1 of 8	Effective Date: 10/22/04
DIVISION:	Fiscal Affairs	
SUBJECT:	Policy for Investments	
AUTHORITY:	Minute Order #99-04	
PROPOSED BY:	<i>Original Signed by Susan Vonder Hoya</i>	
TITLE:	Chief Financial Officer	Date: 10/25/04
RECOMMENDED BY:	<i>Original Signed by Susan Vonder Hoya</i>	
TITLE:	Chief Financial Officer	Date: 10/25/04
APPROVED BY:	<i>Original Signed by Bill Segura</i>	
TITLE:	Chancellor	Date: 10/25/04

STATUS: Approved by BOR 10/22/04, MO#99-04

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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. Such 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.

SHORT-TERM VERSUS LONG-TERM PORTFOLIO

Limitations on instruments, diversification and maturity scheduling shall depend upon whether the funds being invested are considered short-term or long-term funds. All funds shall be considered short-term except endowment funds, plant funds for future capital projects and reserve funds.

SHORT-TERM PORTFOLIO DIVERSIFICATION

TSTC will diversify its investments to avoid incurring unreasonable risks inherent in over-investing in individual financial institutions or maturities.

Maturity Scheduling:

Investment maturities of operating funds shall be scheduled to coincide with projected cash flow needs, taking into account large routine expenditures (payroll, bond payments) as well as considering sizeable blocks of anticipated revenue.

Short-term funds shall be invested in instruments whose maturities do not exceed one year from the time of purchase.

LONG-TERM PORTFOLIO DIVERSIFICATION

Eligible investment instruments and diversification objectives for the long-term portfolio shall be the same as for the short-term portfolio.

Maturity scheduling shall be timed according to anticipated need. Weighted Average portfolio maturity shall not exceed twenty-four months. Long-term funds shall be invested in instruments whose maturities do not exceed three years from the time of purchase.

The remainder of this policy applies to both short-term portfolio and the long-term portfolio.

THE COMPETITIVE SELECTION OF INVESTMENT INSTRUMENTS AND OPERATING ACCOUNTS

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 which 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.

Written or oral bids will be requested from three approved depository banks for various options with regard to term and instrument. TSTC will accept the bid which provides the highest rate of return within the maturity required and within the parameters of these policies. TSTC will maintain a copy of bids obtained.

TSTC shall bid all operating bank accounts every two years. However, at the option of the Chancellor, if current banking operations are satisfactory, TSTC may extend a financial institution's depository agreement not to exceed thirty months beyond the initial termination date of the agreement.

QUALIFIED INSTITUTIONS

TSTC shall maintain a listing of depository financial institutions which are approved for investment purposes. In order to be qualified as an approved depository institution, a financial institution must meet the following tests:

1. The financial institution is selected by competitive bid process in accordance with Section 51.003 (a) of the Education Code.
2. The financial institution must provide their most recent Consolidated Report of Condition (commonly called a "Call Report") on an annual basis.
3. The financial institution must sign a "Certification by Registered Principal of Investment Firm/Bank" certifying that the registered principal reviewed *TSTC's Investment Policy* and acknowledges that their organization has implemented reasonable procedures and controls to comply.
4. The financial institution must maintain a consistent record of compliance with TSTC's collateral coverage and investment policy.

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

1. a primary government security dealer (as defined by the Federal Reserve),
2. a Federally insured financial institution doing business in Texas, or
3. Texas Local Government Investment Pool (TexPool), an authorized investment pool in accordance with Government Code 2256.016.

ETHICAL GUIDELINES FOR INVESTMENTS

1. Per Section 404.0211 of the Government Code, a state agency may not deposit funds in any financial institution in which an employee or officer of the state agency, who is charged with the duty of selecting a depository, is also an officer, director or stockholder of the financial institution.
2. Per Section 404.0211 of the Government Code, a state agency may deposit funds in any financial institution in which board members, who have been charged by law with the duty of selecting a depository for the state agency, are also officers, directors or

stockholder of said financial institution who individually or collectively own or have a beneficial interest in not more than ten percent (10%) of the financial institution's outstanding capital stock and the financial institution is selected as the depository by a majority vote of the other members of the board without the vote or participation of the board members who are officers, directors or stockholders of the financial institution. Any financial institution in which a board member owns more than ten percent (10%) of the financial institution's outstanding stock may not be a depository financial institution of the institution.

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.

INVESTMENTS AND 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 100 percent of the deposit amount. Securities are accepted at 100 percent of their market value.

TSTC's funds are to be fully collateralized at all times.

All investments and/or pledged collateral requiring a Moody's Investor Service or S&P rating of "A" or better per Chapter 2256 of the Government Code must be in compliance. An independent pricing and rating service organization ("Independent Investment Evaluator or IIE") will be contracted to certify to TSTC on a monthly basis that the securities pledged against its deposits are accurately rated and priced at market value.

Pledged securities may be held in safekeeping at a commercial bank in the State of Texas, or at the Federal Reserve Bank.

The first \$100,000 of TSTC's demand deposits may be collateralized by the \$100,000 FDIC or SPIC coverage.

The first \$100,000 of TSTC's time deposits may be collateralized by the \$100,000 FDIC or SPIC coverage.

The collateral-to-deposit ratio for pledged deposits will be evaluated monthly. The market value of the collateral will be evaluated monthly.

In both ratio and market value processes, the financial institutions will be notified immediately if the value of securities pledged decreases to the point where the value is less than the amount on deposit and invested. Financial institutions must correct deficit collateral positions immediately. Collateral transactions must be processed within one day. If financial institutions fail to comply with collateral adjustments, TSTC's deposits will be withdrawn to a fully collateralized level. Financial institutions who repeatedly fail to maintain sufficient collateral levels will be removed from TSTC's approved financial institution list.

The Comptroller's Office keeps an updated record of bonds or securities pledged as collateral for deposits. The report contains the following by depository financial institution: security description, CUSIP number, par value, maturity, rate, market value, safekeeping receipt, and financial institution code.

Each month the Comptroller's Office receives from each depository financial institution a listing of all pledged collateral. The Comptroller's Office will compare the financial institution report to TSTC's report to determine any changes. The Comptroller's Office will send all changes to IIE. IIE will update their records and review the market value. IIE will furnish an updated Pledged Collateral Report to TSTC.

The Comptroller's Office will report to the Board of Regents at each meeting an investment report that describes:

1. Current investment position on the date of the report.
2. Summary statement of each fund group with the beginning market value for the reporting period and additions and changes to the market value during the reporting period and ending market value for the period.
3. Book value and market value of each invested asset that has a maturity date.
4. Market value of pledged collateral.
5. Signed statement of compliance of the investment portfolio with the entity's investment policy and strategy under the provisions of the Public Funds Investment Act.
6. Collateral value and any over or under collateralization.
7. Accrued interest for the reporting period.

Investments and collateral as pledged security acceptable to TSTC are:

1. Certificates of Deposit (in Federally insured institutions)

All of TSTC's investment transactions will be handled through institutions located in the county or counties for which a TSTC campus or extension center is located, except for endowment accounts where the donor references a depository.

2. Obligations of or Guaranteed by Governmental Entities
 - a. obligations of the United States or its agencies and instrumentalities;
 - b. direct obligations of this state or its agencies and instrumentalities;
 - c. collateralized mortgage obligations that have a stated final maturity date of ten years or less 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;
 - d. 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; and

- e. 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. TexPool, an authorized AAA rated local government investment pool

Investments and collateral not authorized are:

- a. Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal;
- b. Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest;
- c. Collateralized Mortgage Obligations except as provided in 2c above.

LIQUIDITY

The TSTC Investment Officer shall insure that:

1. Income and expenditure patterns will be monitored and continually updated to determine monthly cash needs of TSTC.
2. Placement of TSTC's investments and maturity schedules is determined by the cash needs and cash expectations of TSTC.
3. The TSTC portfolio will contain liquid interest-earning instruments.

YIELD

The TSTC Investment Officer shall insure that:

1. The yield on investments is negotiated at the time of purchase and that it reflects market conditions and yields available.
2. The investment portfolio consists of an appropriate mix of short-term interest-earning instruments that benefit from anticipated market conditions and that achieve the best allowable yield.

GIFTS AND BEQUESTS

The terms of cash gifts or bequests 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.

All other securities received by gift or bequest shall be converted to cash as promptly as possible unless prohibited by the terms of the gift or bequest.

PERTINENT INFORMATION

The Board of Regents is required to approve the Policy on Investments annually in compliance with the Public Funds Investment Act, Chapter 2256 of the Government Code. Investment strategies included in the operating requirements are included by reference as part of this policy, FA.2.3.

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 probably safety of the capital and the probably 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."

Bond proceed investments must comply with the Public Funds Investment Act, Chapter 2256 of the Government Code, and any amendments made thereto.

OPERATING REQUIREMENTS

The operating requirements are a part of the policy statement.

DELEGATION OF AUTHORITY

The System 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 granted by law. The System Chief Financial Officer, acting in accordance with the System Operating Standard for Investments 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 System 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.

PERFORMANCE STANDARDS

1. All applicable public funds investment laws are complied with.
2. Sufficient collateralization for state deposits is maintained.
3. Proper records of all investments are maintained.
4. An investment transaction report by each fund type is provided at each quarterly Board of Regents meeting.
5. The Policy on Investments is reviewed and approved annually by the Board of Regents.



COLLEGE OPERATING PROCEDURE

COLLEGE		Page 1 of
OFFICE OF RESPONSIBILITY:		
APPROVED BY:		
TITLE:	Date	
FORWARDED TO SYSTEM OFFICE ON		