

TEXAS STATE TECHNICAL COLLEGE
STATEWIDE OPERATING STANDARD

No. FA 2.3	Page 1 of 13	Effective Date: 11//05/15
DIVISION:	Fiscal Affairs	
SUBJECT:	Policy for Investments	
AUTHORITY:	Minute Order #61-15	
PROPOSED BY:	<i>Original Signed by Jonathan Hoekstra</i>	
TITLE:	Vice Chancellor & Chief Financial Officer	Date: 11/05/15
RECOMMENDED BY:	<i>Original Signed by Jonathan Hoekstra</i>	
TITLE:	Vice Chancellor & Chief Financial Officer	Date: 11/05/15
APPROVED BY:	<i>Original Signed by Mike Reeser</i>	
TITLE:	Chancellor	Date: 11/05/15

STATUS: Approved by BOR 11/05/15, MO 61-15

HISTORICAL STATUS:

Approved by BOR 11/6/14, MO 61-14
 Approved by BOR 11/6/13, MO 62-13
 Approved by BOR 10/25/12, MO 70-12
 Approved by BOR 11/3/11, MO 95-11
 Revisions Proposed 09/29/11
 Approved by BOR 11/7/08
 Approved by BOR 11/2/07
 Revised 10/8/07
 Approved by BOR 11/3/06
 Revised 08/10/06
 Approved by BOR 10/21/05
 Approved by MC 09/09/05
 Revised 08/2005
 Approved by BOR 10/22/04, MO#99-04
 Approved by MC 9/10/04
 Revised 8/11/04
 Approved by BOR 10/24/03, MO #82-03

Approved by BOR 10/18/02, MO #144-02
 Approved by MC 09/27/02
 Revised 09/27/02
 Approved by BOR 10/19/01, MO 88-01
 Approved 04/28/2000; MO-50-00
 Approved MC 04/27/00
 Revised 04/10/2000
 Approved by BOR 01/30/98, MO 11-98
 Revised 01/20/98
 Approved by MC 11/21/96
 Revised 11/09/96
 Approved by BOR MO# 51-96, 05/11/96
 Approved MC 05/10/96
 Revised 04/10/96
 Approved 01/25/92 by BOR MO# 6-92
 Approved 03/21/88 by BOR MO# 22-88
 Approved 09/20/87 by BOR MO# 84-87

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.

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.

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 Statement of Condition report on request;
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; and,
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. Section 51.923 of the Education Code permits an institution of higher 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 10 percent or more of the voting stock or shares of the business entity or owns either 10 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 10 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. These employees must complete and sign an Employee Independence – Deposits and Investments form, TSTC-0-FA-012 (09-11), at the beginning of each fiscal year. These forms are due to the System Vice Chancellor for Finance by October 1 of each year. This form seeks information needed to determine if a board vote would be needed for selection of a depository institution.
 4. Board members will be requested to complete form TSTC-0-FA-043 (09-11) before the Fall meeting of the Board of Regents. This form seeks information needed to determine if a board vote would be needed for selection of a depository 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. The value of a surety bond is its face 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, 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 or SIPC (Securities Investor Protection Corporations) 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 System Finance 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 System Finance Office receives from each depository financial institution a listing of all pledged collateral. The System Finance Office will compare the financial institution report to TSTC's report to determine any changes. The System Finance Office will send all changes to the IIE (Independent Investment Evaluator). The IIE will update their records, review market values and will furnish an updated Pledged Collateral Report to TSTC.

The System Finance Office will report to the Board of Regents at each regular quarterly 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; and,
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)

When possible and appropriate, TSTC's investment transactions will be handled through a financial institution or institutions located in the county or counties in which a TSTC college operation is located, except for endowment accounts where the donor references a specific depository.

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. 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 (for collateral purposes only);
- 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, 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;
- 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; and,
- f. Surety bonds (for collateral purposes only).

3. TexPool, an authorized AAA rated local government investment pool. TexPool has a procedure in place to notify all TexPool participants in the unlikely event of a credit ratings change by a major credit ratings provider. TSTC will rely on this procedure to monitor the credit ratings of TexPool.

Investments and collateral not authorized 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; 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.

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; and,
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; and,
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.

The Texas Education Code, Chapter 135.2, authorizes the Board of Regents to accept certain land and facilities in the name of the State of Texas. The Board of Regents has delegated to the Chancellor authority to receive all other gifts and bequests.

The Chancellor has delegated to the Presidents the authority to accept cash, checks, money orders, bank drafts, payments made with certain credit cards, supplies, and equipment.

The Chancellor retains sole authority to accept all other gifts or bequests, such as marketable securities, real estate, tangible personal property, beneficial interests in insurance policies, beneficial and/or assignable interests in retirement plans, bequests, etc. After review and due consideration, the Chancellor may delegate this authority to a President on a case-by-case basis; such delegation must be in writing before being acted upon by the Chancellor's designee. In general, these types of gifts and bequests will be converted into cash as promptly as possible, unless prohibited by the terms of the gift or bequest; exceptions may be made with the

Chancellor's approval.

INVESTMENT OFFICER

The System Vice Chancellor for Finance 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 System Comptroller 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 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 Vice Chancellor for Finance 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.

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

INVESTMENT TRAINING

The University of North Texas Center for Public Management is recognized as an approved provider of training regarding the Texas Public Funds Investment Act and its use for investment training is authorized.

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.

OPERATING REQUIREMENTS

1. The Vice Chancellor for Finance or his designees are required and authorized to monitor TSTC investments and obtain bids for new or renewal investments. Funds invested in Certificates of Deposit will not remain with the issuer beyond the ten-day grace period without withdrawal for use, renewal or reinvestment with another investment institution.

2. The Vice Chancellor for Finance or the System Operations Controller will approve each investment prior to funds being placed.
3. The Vice Chancellor for Finance may delegate authority to place funds and draw funds down as needed from the college local TexPool account or established Money Market accounts without prior approval of the Investment Officer, provided such transactions are in the best interest of the college and meet all of the requirements of the Texas Public Funds Investment Act.

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 Report is provided at each quarterly Board of Regents meeting.
5. The Policy on Investments is reviewed and approved annually by the Board of Regents.

Texas State Technical College System Employee Independence – Deposits and Investments

	Yes	No
1. Are you or a family member an officer or director of any bank or financial institution in which TSTC has deposits? If so, list the name and relationship of the family member(s) and the applicable bank(s) or financial institution(s) below.		
2. Do you or a family member individually or collectively own any of the outstanding capital stock of any bank(s) or financial institution(s) in which TSTC has deposits? If so, list the name and relationship of the family member(s) and the applicable bank(s) or financial institution(s) below. Please indicate if the percentage individually or collectively owned is less than 10 percent of the outstanding capital stock or not.		
3. Have you or a family member gained any personal benefit from having TSTC deposit its funds in any bank(s) or financial institution(s)? If so, list the name and relationship of the family member, the applicable bank(s) or financial institution(s), and the personal benefit derived.		

Employee Signature

Title

Date

Due to the System Vice Chancellor for Financial & Administrative Services by October 1 of each year

CERTIFICATION BY REGISTERED PRINCIPAL OF INVESTMENT FIRM/BANK

Attached please find a copy of the Texas State Technical College Investment Policy. By your signature below, you certify that you are a registered principal of the business organization seeking to sell an authorized investment and that you have:

- (1) received and thoroughly reviewed the investment policy of Texas State Technical College; and
- (2) acknowledged that your organization has implemented reasonable procedures and controls in an effort to preclude imprudent investment activities arising out of investment transactions conducted between Texas State Technical College and your organization.

Please understand that Texas State Technical College is legally unable to purchase securities from an organization which has not delivered this instrument, fully executed by an appropriate person.

(Bank)

REGISTERED PRINCIPAL

DATE

Texas State Technical College System Board Member Independence – Deposits and Investments

Note: The following information is solicited to insure compliance with Government Code, Section 404.0211 and Texas Education Code, Section 51.923.

Please list all banks or financial institutions for which any of the following circumstances is true for you:

- (a) The board member owns 10 percent or more of the voting stock or shares of the business entity or owns either more than 10 percent or more or \$15,000 or more of the fair market value of the business entity;
- (b) Funds received by the board member from the business entity exceed 10 percent of the member's gross income for the previous year;
- (c) The board member is an officer of the business entity or a member of the governing board of the business entity;
- (d) An individual related to the board member in the first degree by consanguinity or affinity, as determined under Chapter 573, Government Code (see next page for relevant portions of Chapter 573), has an interest in the business entity as described above; or,
- (e) The board member owns 10 percent or less of the outstanding capital stock of the bank.

After the bank/financial institution name, **please record the circumstance letter(s)** that apply from the list above.

If none, please write "none" as the first bank name, sign and date the form and return to the Vice Chancellor of Finance by November 1.

<u>Bank/Financial Institution Name</u>	<u>Cir Letters</u>	<u>Location of Bank/Financial Institution</u>
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Board Member Signature

Date

Due to the System Vice Chancellor for Finance by November 1 of each year-

Texas Government Code

Sec. 573.023. COMPUTATION OF DEGREE OF CONSANGUINITY. (a) The degree of relationship by consanguinity between an individual and the individual's descendant is determined by the number of generations that separate them. A parent and child are related in the first degree, a grandparent and grandchild in the second degree, a great-grandparent and great-grandchild in the third degree and so on.

(b) If an individual and the individual's relative are related by consanguinity, but neither is descended from the other, the degree of relationship is determined by adding:

(1) the number of generations between the individual and the nearest common ancestor of the individual and the individual's relative; and

(2) the number of generations between the relative and the nearest common ancestor.

(c) An individual's relatives within the third degree by consanguinity are the individual's:

parent or child (relatives in the first degree);

(2) brother, sister, grandparent, or grandchild (relatives in the second degree);

and

(1) (3) great-grandparent, great-grandchild, aunt who is a sister of a parent of the individual, uncle who is a brother of a parent of the individual, nephew who is a child of a brother or sister of the individual, or niece who is a child of a brother or sister of the individual (relatives in the third degree).

Sec. 573.024. DETERMINATION OF AFFINITY. (a) Two individuals are related to each other by affinity if:

(1) they are married to each other; or

(2) the spouse of one of the individuals is related by consanguinity to the other individual.

(b) The ending of a marriage by divorce or the death of a spouse ends relationships by affinity created by that marriage unless a child of that marriage is living, in which case the marriage is considered to continue as long as a child of that marriage lives.

(c) Subsection (b) applies to a member of the board of trustees or an officer of a school district only until the youngest child of the marriage reaches the age of 21 years.

Sec. 573.025. COMPUTATION OF DEGREE OF AFFINITY. (a) A husband and wife are related to each other in the first degree by affinity. For other relationships by affinity, the degree of relationship is the same as the degree of the underlying relationship by consanguinity. For example: if two individuals are related to each other in the second degree by consanguinity, the spouse of one of the individuals is related to the other individual in the second degree by affinity.

(b) An individual's relatives within the third degree by affinity are:

(1) anyone related by consanguinity to the individual's spouse in one of the ways named in Section 573.023(c); and

(2) the spouse of anyone related to the individual by consanguinity in one of the ways named in Section 573.023(c).