



ALAMO RMA

Alamo Regional Mobility Authority

"Moving people faster"

2010 Investment Policy

January 14, 2010

Alamo Regional Mobility Authority

Table of Contents

Introduction	2
Investment Committee	2
Investment Officers	3
Scope	3
Investment Objectives:	
Satisfy Cash Flow	3
Preservation and Safety of Principal	3
Liquidity and Diversification	4
Return on Investments	4
Proactive Portfolio Management	4
Prudent Person Rule	4
Investment Strategy	4
Risk Environment:	
Interest Rate Risk	7
Credit Risk	7
Liquidity Risk	8
Extension Risk	8
Re-investment Risk	8
Collateral Risk	8
Event Risk	8
Authority to Execute Investment Transactions	8
Prudence	8
Investment Maturities	9
Training	9
Ethics	9
Internal Controls	10
Monitoring Market Activity and Investments	10
Authorized Investments:	
Obligations of, or Guaranteed by, Governmental Entities	11
Certificates of Deposit	11
Repurchase Agreements	12
Securities Lending	12
Bankers' Acceptance	13
Commercial Paper	13
Mutual Funds	14
Guaranteed Investment Contracts	14
Investment Pools	15
Broker/Dealer, Bank, and Mutual Fund Eligibility	17
Utilization of Eligible Firms and Periodic Review	17
Investment Management Firms	18
Safekeeping and Collateralization	18
Record Keeping and Reporting	18
Closing	19
Investment Glossary Exhibit I	20
Sample Broker/Dealer Questionnaire Exhibit II	31
Sample Mutual Fund and Investment Pool Questionnaire Exhibit III	34
Sample Securities Investment Advisor Questionnaire Exhibit IV	37
Sample Certification Exhibit V	40
Texas Public Funds Investment Act Exhibit VI	41

Alamo Regional Mobility Authority Investment Policy

Introduction

The Alamo Regional Mobility Authority (Alamo RMA) exercises its fiduciary responsibility to manage and safeguard its monetary assets in accordance with the requirements and guidelines of State law for investments, deposits and collateral. All investments shall be made in compliance with the Texas Public Funds Investment Act (the “Act”), as amended, Chapter 2256 of the Texas Government Code. Further, the Alamo RMA shall protect its monetary assets as prescribed in the Local Government Code Chapter 105 Depositories for Municipal Funds, and the Government Code Chapter 2257 Collateral for Public Funds.

The Investment Policy (the “Policy”) encompasses a dynamic framework which provides the Alamo RMA with the flexibility and control required to execute investment transactions and manage the investment portfolio. The Policy incorporates the investment guidelines and mandates promulgated in the Act, as amended. The Alamo RMA’s investment strategy for all investments is to ensure availability of funds to meet cash flow requirements, safeguard and preserve principal, maintain liquidity, practice security diversification, minimize risk, and maximize yield, all within the context of understanding the suitability of each investment and cash flow requirements of the Alamo RMA.

All funds shall be invested in accordance with the Prudent Person Rule (the “Rule”) in permitted investments, as defined herein, as soon as is practicable after receipt. The Prudent Person Rule means investments shall be made with judgment and care under circumstances then prevailing that persons of prudence, discretion and intelligence exercise in the management of their own affairs not for speculation but for investment considering probable safety as well as probable income. The Alamo RMA may utilize its Depository Bank to invest funds in Certificates of Deposit or sweep account, approved Investment Advisor, Asset Manager, Investment Management Firms, or list of broker/dealers. Investment transactions will be settled on a delivery versus payment basis with the exception of mutual fund or investment pool investments with the securities delivered to a Custodian Bank. Settlement of trades may be done on a same day or subsequent day basis as the Investment Committee and Investment Officers deem most appropriate and advantageous to the Alamo RMA. In addition, the Alamo RMA may utilize other investment vehicles such as mutual funds, investment pools, or specially designed investment options all of which are limited to invest solely in permitted investments as authorized and permitted by the Act and this Policy and collateralized as required for the preservation and safety of principal. An example of a specially designed investment option would be to utilize the services of an investment firm to invest into a flexible repurchase agreement, or guaranteed investment contract. This is an option that may be utilized to invest bond proceeds and other funds that are deposited into a construction fund or other specialized fund.

For the reader’s convenience, a glossary is attached as Exhibit I.

INVESTMENT COMMITTEE

During the year, the Investment Committee shall periodically review the strategic investment initiatives and management practices exercised by the Alamo RMA.

The Investment Committee is comprised of the Alamo RMA Board of Directors Finance Committee, the Executive Director, Chief Financial Officer, Investment Officers, Financial Advisor, and Investment Advisor. The Investment Committee shall meet at least quarterly to receive a report from the Chief Financial Officer on the most recent quarter's investment activity, cash position of the Alamo RMA, and proposed investment activity for the next succeeding quarter. The Investment Committee shall also review and suggest any changes or adjustments to investment practices.

In addition to the quarterly meetings, Investment Committee members may hold meetings as needed related to the daily investment activity. Any decisions made shall be within the parameters agreed to by the full committee and within the guidelines established in this Policy.

INVESTMENT OFFICERS

As prescribed by the Act, and as authorized by this Policy pursuant to Alamo RMA Board approval, the Alamo RMA's designated Investment Officers shall initially include the Chief Financial Officer and Comptroller. Subsequently, upon Board approval, additional staff members may be designated as Investment Officers including an investment advisor firm in the event that such a firm is approved by the Board and engaged to execute investment transactions for the Alamo RMA. Daily investment transactions and management of the Alamo RMA's invested funds are the responsibility of the designated Investment Officers.

SCOPE

The Policy applies to all funds invested by the Alamo RMA which include currently existing funds and funds to be created from time to time for the efficient operation of the Alamo RMA and compliance with bond documents, documents applicable to other forms of indebtedness, various agreements entered into to carry out the business of the Alamo RMA, and other funds that may be created.

Investments may be pooled into categories to promote investment efficiency and accounted for separately. Pooled funds consist of balances from the Alamo RMA's various funds invested in an aggregate or pooled amount, with principal and interest income distributed to each respective fund on a pro rata basis. Similarly, pooled debt service funds consist of balances applicable to the Alamo RMA's debt service funds invested in an aggregate or pooled amount with principal and interest income distributed to each respective debt service fund on a pro rata basis. In addition, the Alamo RMA may purchase certain investments with the available balance of a specific fund for the sole benefit of such fund. The strategy of pooling investments is subject to change as deemed appropriate by the Investment Committee, and subject to the provisions of this Policy.

Strategic investment practice is focused on meeting daily or short-term cash flow requirements. Long-term investments (investments having maturities in excess of one year) are applicable to balances in construction funds, which may be matched to mature with projected construction draws, and balances held in reserve funds and other such funds and accounts. Investments are typically held to maturity; however, the sale prior to maturity and acquisition of replacement securities may be exercised if financial analysis deems such transactions are beneficial to the Alamo RMA, and are consistent with the investment strategies and objectives established herein. Investment portfolio management practice includes control, flexibility and safety of investments, and may incorporate the utilization of Money Market Mutual Funds, Mutual Funds, Investment Pools, specialized repurchase agreements, and guaranteed investment contracts into the investment structure to enhance investment portfolio and cash management efficiencies while maintaining safety of principal as its primary objective.

INVESTMENT OBJECTIVES

Satisfy Cash Flow Requirements

The suitability of each investment and the cash flow requirements of the Alamo RMA are incorporated into the daily cash flow position analysis and investments are scheduled to mature on a timely basis to meet the Alamo RMA's on-going cash needs. Investments are scheduled to mature to match estimated daily routine cash needs, payroll dates, construction draw down schedules, debt service payment dates, and other projected cash requirement dates.

Preservation and Safety of Principal

An essential investment objective is to ensure safety of the corpus or principal amount of every investment, as well as the accrued interest thereon. The Alamo RMA's investment practice is to exercise diligence in the type of

securities purchased and the scheduled maturities of such investments to minimize loss of principal due to credit failure or other risk.

Liquidity and Diversification

The investment portfolio shall be structured with diversification and securities that have high credit ratings and are liquid in nature. Fund balances, revenues and expenditure trends shall be studied and monitored to facilitate investment planning in accordance with the cash flow timing, purpose, use, and strategies applicable to the Alamo RMA's various funds.

Return on Investments

The Alamo RMA will strive to maximize the return on its investments within the aforementioned safety parameters. While investments are made with scheduled maturities to coincide with estimated cash flow needs, opportunities to enhance the portfolio's return through the sale of securities prior to maturity may be exercised if deemed practical and prudent.

Proactive Portfolio Management

Proactive portfolio management involves review and analysis of the securities in the investment portfolio to take advantage of any sell and buy opportunities that may become available with changes in the market. The purpose of identifying a group of securities for possible sale and the utilization of moneys received from such sale to immediately acquire and replace said securities would be to take advantage of market changes to realize additional profits from such transactions. The sell and buy methodology would involve an analysis of first calculating the possible gain to be made by selling a group of securities and replacing the sold securities with the same or comparable securities.

Prudent Person Rule

The Prudent Person Rule (the "Rule") is based on common law, stemming from the 1830 Massachusetts court decision -- *Harvard College v. Armory*, 9 Pick. (26 Mass.)446, 461 (1830). The Rule directs how a person of prudence, discretion and intelligence manage their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income, as well as the probable safety of the capital to be invested.

Under the Rule, when the governing trust instrument or state law is silent concerning the types of investments permitted, the fiduciary is required to invest trust assets as a "prudent man" would invest his own property, keeping in mind: the needs of the beneficiaries, the need to preserve the estate (or corpus of the trust) and the amount and regularity of income. The application of these general principles depends on the type of account administered. The Rule requires that each investment be judged on its own merits. Thus, a fiduciary could be held liable for a loss in one investment, which when viewed in isolation may have been imprudent at the time it was acquired, but as a part of a total investment strategy, was a prudent investment in the context of the investment portfolio taken as a whole. Under the Rule, speculative or risky investments must be avoided. Certain types of investments, such as second mortgages or new business ventures, are viewed as intrinsically speculative, and, therefore, prohibited as fiduciary investments.

INVESTMENT STRATEGY

The Alamo RMA shall employ an investment strategy that adheres to the Act, this Policy and incorporates the following attributes into the investment design:

- (1) effectuate investment transactions that satisfy, on a timely basis, cash flow requirements;

- (2) exercise prudence in the selection and trade of securities that suitable investments for the financial requirements of the Alamo RMA;
- (3) preserve the safety of principal;
- (4) have marketability and liquidity;
- (5) create a portfolio of investments that is comprised of diversified securities; and
- (6) maximize yield after due consideration is given to the above requirements.

The weighted average maturity of each fund type investment shall be commensurate with the short-term and long-term nature of the fund requirements. Short-term funds requirements shall have a weighted average maturity that ranges from 30 to 180 days. Intermediate-term cash flow requirements shall relate to investments that approximate a weighted average life of 180 to 360 days. Long-term investments shall be laddered investments that may have weighted average life maturities of two to three years depending upon market interest rates at the time of investment.

The Alamo RMA shall either develop the resources required to manage and execute its investment transactions or utilize a qualified and approved Investment Advisor, Asset Manager, or Investment Management Firm ("Securities Investment Advisor"). Utilization of a Securities Investment Advisor shall be under the direction of the Chief Financial Officer and shall execute transactions on a daily basis as needed, provide trade documentation and confirmations to the Alamo RMA on a same day basis as the trade or trades are executed, advise the Alamo RMA on investment strategies and options, and provide quarterly written investment reports, which among other things, will detail the Alamo RMA's investment position, detail investment transactions, show security purchase cost, book value, market value and face value, state portfolio composition, and provide a comparison to benchmark indicators.

The Alamo RMA shall manage funds which are derived from bond proceeds, operating revenues, investment income, and other sources of revenue and funds as they become available. Short-term investments, that are investments with maturities of one year or less, shall be utilized to meet construction draw down requirements, operational, debt service and capital project funding needs. Long-term investments are applicable to balances that are not anticipated to be drawn on and are maintained in a reserve position to preserve the financial integrity of the Alamo RMA's financial resources and would be utilized if unexpected cash draws were required. These investments may have maturities between one and three years. Investments with maturities longer than three years would be applicable to debt service reserve balances and other fund balances that provide financial security and serve to enhance the Alamo RMA's creditworthiness. Investments maturing in excess of five years must have prior approval of the Chief Financial Officer.

Investments may be pooled or invested for the benefit of one or more funds. If pooled, principal and interest income is distributed to each respective fund on a pro rata basis. Whether investments are pooled or invested separately is decided by the Investment Committee, based upon which method is most beneficial to the Alamo RMA and on the investment strategies established herein. Individual investments, whether pooled or non-pooled, shall not have a stated maturity that exceeds five (5) years without the prior approval of the Chief Financial Officer. For all Alamo RMA investments, daily and other periodic cash flow analysis shall be performed to facilitate, the investing process.

The Alamo RMA currently maintains a general operating fund. Additional funds shall be created as is appropriate and may be held by a trustee bank for the benefit of bondholders and the Alamo RMA which include a revenue fund, debt service fund, debt service reserve fund, repair and replacement fund, investment rebate fund, and other funds and accounts as are identified. The investment strategy for each of these funds and accounts will be in accordance with the aforementioned strategy. The general investing strategies based on their various specific purposes are presented as follows:

General Operating Fund - Investments pertaining to the General Operating Fund shall be structured to meet the various operating expenses of the Alamo RMA including payroll and other costs of daily operations. Accordingly,

these instruments are structured to be safe, liquid, and short-term in nature, with maturities generally no greater than one year. In addition, investments pertaining to the General Operating Fund will consist of a diversified group of approved instruments intended to maximize and achieve competitive returns, and to possess adequate marketability so as not to result in materially adverse impacts should unexpected liquidity needs arise. Available funds deemed not to be required for short-term operational needs may be invested using a laddered structure between one and five years in callable and non-callable securities.

Revenue Funds - Investments pertaining to Revenue Funds shall be structured to meet the various operating, debt service, and capital project obligations related to the Alamo RMA's toll lane operations. Accordingly, liquidity and maturity terms of investments pertaining to Revenue Funds are based on projections and information related to their various expenditure outlooks and requirements. Investments pertaining to Revenue Funds will consist of a diversified group of safe and approved instruments intended to maximize and achieve competitive market rates of return, and to possess adequate marketability so as not to result in materially adverse impacts should liquidation become necessary:

Debt Service Funds - Investments pertaining to Debt Service Funds are structured to mature in conjunction with Alamo RMA debt requirements, and to ensure compliance with any pertinent covenants and legal requirements contained in related bond documents. In addition, investments pertaining to the Debt Service Funds will consist of a diversified group of safe and approved instruments intended to maximize and achieve competitive market rates of return, and to possess adequate marketability so as not to result in materially adverse impacts should liquidation become necessary. Due to definitive debt service schedules, the nature of these funds allows for precise forecasting of required cash flows.

Debt Service Reserve Funds - Investments pertaining to Debt Service Reserve Funds shall be structured in laddered short-term and long-term investments with scheduled maturities and investment liquidity to enable the Alamo RMA to draw on Debt Service Reserve Fund investments and balances, if needed, to provide for the timely payment of principal and interest on bonds and debt instruments as such payments become due and payable. Generally, the Debt Service Reserve Funds involve infrequent activity and can be invested with the weighted average maturities generally greater than one year. Investments pertaining to the Debt Service Reserve Funds will consist of a diversified group of safe and approved instruments intended to maximize and achieve competitive returns, and to possess adequate marketability so as not to result in materially adverse impacts should unexpected liquidity needs arise.

Capital Projects Funds - Investments pertaining to Capital Projects Funds shall be structured to meet the Alamo RMA's various capital projects obligations. Accordingly, maturity terms of investments pertaining to Capital Project Funds are based on projections and information related to capital project expenditures, with maturity terms timed to meet draw schedule requirements, and not to exceed the expected completion date of the related capital project. Investments pertaining to the Capital Projects Funds will consist of a diversified group of safe and approved instruments intended to maximize and achieve competitive market rates of return, and to possess adequate marketability so as not to result in materially adverse impacts should liquidation become necessary.

Repair, Replacement and Capital Improvement Funds - Investments pertaining to Repair, Replacement and Capital Improvement Funds shall be structured in laddered short-term and long-term investments with scheduled maturities and investment liquidity to enable the Alamo RMA to draw on Repair, Replacement and Capital Improvement Funds investments and balances to provide funds for repair, replacement and capital improvements to existing and new road structures. The Repair, Replacement and Capital Improvement Funds involve infrequent activity and can be invested with the weighted average maturities generally greater than one year. Investments pertaining to the Debt Service Reserve Funds will consist of a diversified group of safe and approved instruments intended to maximize and achieve competitive returns, and to possess adequate marketability so as not to result in materially adverse impacts should unexpected liquidity needs arise.

Arbitrage Rebate Fund or Account - Investments pertaining to Arbitrage Rebate Fund or Account shall be structured in short-term and long-term investments with scheduled maturities and investment liquidity to enable the Alamo RMA to draw on Arbitrage Rebate Fund or Account investments and balances, if needed, to provide

for the timely payment of rebate amounts payable to the United States Treasury, if any, as such payments become due and payable. Generally, the Arbitrage Rebate Fund or Account involve infrequent activity and can be invested with the weighted average maturities generally greater than one year. Investments pertaining to the Arbitrage Rebate Fund or Account will consist of a diversified group of safe and approved instruments intended to maximize and achieve competitive returns, and to possess adequate marketability so as not to result in materially adverse impacts should unexpected liquidity needs arise.

RISK ENVIRONMENT

The Investment Objectives described above are designed around the concept of preservation and safety of principal. Mitigation techniques are available for the specific risks inherent in securities utilized by the Alamo RMA. A discussion of the more common risks of investing is presented below.

Interest Rate Risk

This is the risk that exists due to changes in interest rates which can adversely affect the fair value of an investment. Changes in the level of interest rates can influence the market value of certain securities; the severity of that impact depends on the type of security held, and the length of term to maturity. As the general level of interest rates moves up and down, a security's price changes. Volatility is a term used to describe a security's price fluctuations. Securities with long terms to maturity are more volatile than securities with short terms. Securities with call options, or other potential changes to cash flow, are also more sensitive to changes in interest rates than simpler, more traditional structures. By diversifying across issuers and maturity dates, interest rate risk is mitigated, as fewer funds are subject to a risk occurrence at any given time. In addition, the Alamo RMA shall employ a laddered approach to investing when appropriate, whereby blocks of roughly the same increments are invested at similarly increased maturity lengths. This approach provides security that all funds will not fall due at one particularly advantageous or disadvantageous period in time, thereby spreading the interest rate risk.

Credit Risk

This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Alamo RMA's investment strategy is to purchase securities that are of the highest credit quality, based on current ratings provided by nationally recognized credit rating agencies. The Alamo RMA's funds shall be primarily invested in U.S. Treasury securities and federal agency securities. These issuers, if guaranteed, are deemed to be of the lowest credit risk. Some, but not all federal agency issuers are guaranteed, however they continue to carry high credit ratings. Investments in other debt securities will consist of securities rated "A" or better by at least two nationally recognized credit rating agencies. These requirements not only mitigate credit risk, but also mitigate liquidity risk, as the higher rated issues are generally the most liquid. Credit risk may also manifest in the following forms:

- (1) *Concentration of Credit Risk* - This risk of loss is attributed to the magnitude of investment in single issuer. Diversification is the primary tool utilized to mitigate this risk. As a matter of policy, investments in issuers other than the U.S. Treasury or federal agencies must have credit ratings of A or better from at least two nationally recognized credit rating agencies. U.S. Treasury and guaranteed federal agency securities are viewed as having the highest possible quality rating.
- (2) *Custodial Credit Risk* - This is the risk that, in the event of the failure of the counterparty to a transaction, the Alamo RMA would not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Assets pledged as collateral must generally be a type of security specifically authorized to be held as a direct investment; must be held by an independent third party; and must be pledged in the name of the Alamo RMA. In addition, collateral securities shall have a market value of not less than 102% of the amount of deposits.

Liquidity Risk

This is the risk that a security would not be adequately marketable, and that sale of said security would be unattainable, or attainable at a loss. Liquidity is affected, by many factors, including the amount of an issue outstanding and the term to maturity. Diversification of types and maturities of securities held can help alleviate the liquidity risk. The size of the issuer also has an impact. The larger the issuer, and the higher the credit rating, the more liquid the security. The Alamo RMA shall invest in securities with a relatively short weighted average maturity (WAM) and high credit worthiness, which keep liquidity risk low. Additionally, based on periodic cash flow forecasts, operating funds shall be held by the Depository Bank and properly collateralized, invested in short-term securities, or maintained in money market funds, which further helps alleviate liquidity risk.

Extension Risk

Extension Risk is a change in interest rates that will cause the anticipated availability of funds derived from an investment to be extended. An example would be a mortgage-backed security that has historically been redeemed prior to maturity. However, when interest rates increase the opportunity to refinance for interest cost savings is no longer available and the security may not be retired until its scheduled maturity which in turn could adversely impact the anticipated availability of funds to meet cash flow requirements. In this situation, the security may need to be sold prior to maturity at a loss in order to meet cash flow requirements. The Alamo RMA shall not participate in such type of investments.

Re-investment Risk

Investments in callable securities are exposed to the security being redeemed prior to maturity during a declining interest rate market. In the event that the security is redeemed prior to maturity, the possibility exists that the reinvestment will be made at a reduced yield for a similar type security and scheduled maturity and could adversely impact cash flows.

Collateral Risk

Collateral as used herein means a security or guarantee (usually an asset) pledged to pay the face value of currency or securities plus interest due that is held by a depository or custodial bank. Collateral risk exists when the market value of the collateral utilized to cover pecuniary assets is not adequate to cover the value of the pecuniary asset. Collateral risk also occurs if the collateral is held by a third party and is not in the name of the owner. Collateral shall be held by a third party in the name of and for the benefit of the Alamo RMA.

Event Risk

This risk results from an unforeseen event or accident that could negatively impact the value or availability of a security or monetary asset.

AUTHORITY TO EXECUTE INVESTMENT TRANSACTIONS

Investment transactions shall be executed by the Alamo RMA's designated Investment Officers, which include Chief Financial Officer, Comptroller, Financial Analyst, Finance Manager, and Securities Investment Advisor. Daily investment activity and portfolio management shall be performed by the designated Alamo RMA Investment Officers and at the option of the Alamo RMA Security Investment Advisors.

PRUDENCE

Alamo RMA investment transactions shall be executed in accordance with the Prudent Person Rule which states: "Investments shall be made with judgment and care under circumstances then prevailing which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the safety of their capital as well as the probable income to be derived." In addition,

investments shall be made in accordance with the Act and this Policy with the character of the investments given the priority of: (i) availability of funds to meet cash flow requirements; (ii) preservation and safety of principal, (iii) liquidity and diversification, and (iv) return on investments.

Investment Officers shall perform their duties in conformance with procedures and policies as set forth in this Policy. Determination as to whether an Investment Officer has exercised prudence in the execution of investment duties shall be made, in part, by taking into consideration the following:

- (1) the investment of all funds, or funds under the Alamo RMA's control, over which an Investment Officer had responsibility rather than a consideration as to the prudence of a single investment; and
- (2) whether the investment decision was consistent with the written Investment Policy of the Alamo RMA.

Limitation on Personal Liability

The Investment Officer and those 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 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.

INVESTMENT MATURITIES

Strategic portfolio investments focus on meeting short-term operational and debt service cash flow requirements during the course of a year, and long-term cash flow requirements pertaining to fund balances that are reserved for unexpected decreases in cash positions. Short-term investments to meet operational cash flow requirements shall typically mature in one year or sooner or within the year that it is projected that funds will be required, while balances in funds that are not anticipated to be utilized except in extraordinary circumstances may be invested with two and three year maturities, dependent in part on the yield curve and market conditions. Investments purchased with a maturity in excess of five (5) years must have the prior approval of the Chief Financial Officer. An exception to the five year maturity schedule would be applicable to the investment of debt service reserve fund balances under conditions whereby the funds could be drawn on prior to the scheduled maturity, if needed, to meet debt service payments without penalty.

TRAINING

In accordance with the Act, the Alamo RMA's Chief Financial Officer and Investment Officers shall attend at least one training session from an independent source approved by the Alamo RMA Board or the Investment Committee as provided for in this policy and containing at least ten (10) hours of instruction within twelve (12) months after taking office or assuming duties. This training must include education in investment controls, security risks, strategy risks, market risks, investment risks, portfolio diversification, and compliance with the Act. Thereafter, the Chief Financial Officer and Investment Officers shall attend an investment training session not less than once in a two-year period and receive not less than ten (10) hours of instruction relating to investment responsibilities under the Act from an independent source approved by the Alamo RMA Board or the Investment Committee as provided for in this policy.

ETHICS

An officer or employee of a commission created under Chapter 391 of the Local Government Code is ineligible to be designated as an Investment Officer under the Act for the Alamo RMA. An Investment Officer who has a personal business relationship with a business organization offering to engage in an investment transaction with the Alamo RMA 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 under Chapter 573 of the

Government Code, to an individual seeking to sell an investment to the Alamo RMA shall file a statement disclosing that relationship. A statement required under the Act must be filed with the Texas Ethics Commission and the Alamo RMA Board. For purposes of this section, an Investment Officer has a "personal business relationship" with a business organization if:

- (1) the Investment Officer owns ten percent (10%) 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 (10%) 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.

INTERNAL CONTROLS

The Alamo RMA shall exercise internal control by the separation of the act of trade execution, authorization to release funds for the payment of an investment, and recording of the transaction to the extent possible within the limitations of a staffing positions filled. Investment Officers shall be authorized to execute investment transactions. To the extent possible, The Investment Officer that effectuates an investment transaction shall not authorize the release of funds related to the transaction or trade.

It is intended for internal control to be exercised through the separation of functions and the reconciliation of investment transaction records created by different parties involved with each transaction. Investment Officers are authorized to execute investment trades. The first priority of personnel authorized to release, transfer or wire moneys related to investment transactions resides with the accounting personnel. In the absence or unavailability of the required accounting personnel the Executive Director, Chief Financial Officer or Investment Officer is authorized to release funds related to an executed transaction. At the time that the transaction is recorded, the accounting person recording the transaction shall note the reason that funds were released for payment of the transaction by a person other than accounting personnel.

Written records are separately prepared and maintained by the Investment Officers and the Accounting Division. Broker/Dealer trade confirmations and custodial reports are also kept on file.

MONITORING MARKET ACTIVITY AND INVESTMENTS

Market activity shall be monitored on a continuous basis via financial news wires made available over the Internet system, as well as live news reports and on-line systems with market quotes. Broker/Dealers and investment professionals provide market information and various financial databases provide historical statistical information. In addition, financial periodicals are perused as an additional information vehicle to broaden financial and market awareness and knowledge. End of month security prices may be obtained from various sources including the Alamo RMA's depository bank, on-line market databases, broker/dealers, and investment professionals doing business with the Alamo RMA. This broad-based knowledge shall be utilized in strategic investment decision making and proactive investment portfolio management.

AUTHORIZED INVESTMENTS

The Texas Public Funds Investment Act authorizes local governments to invest in a prescribed set of investment instruments that can be utilized to promote the goals of safety of principal, liquidity and diversification, and return on investments. All investments shall be made in compliance with the Texas Public Funds Investment Act as adopted by this Policy (in whole or in part) and any other applicable laws. Through this Policy, the Alamo RMA may elect not to participate in all of the instruments allowed by the Act. Listed below are permitted investment instruments as prescribed by this Policy in accordance with the Texas Public Funds Investment Act.

Obligations of, or Guaranteed by, Governmental Entities

Obligations of or Guaranteed by Governmental Entities include, and are limited to, the following:

- (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities;
- (2) direct obligations of the State of Texas 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, the State of Texas, or the United States, or their respective agencies and instrumentalities;
- (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; and
- (6) bonds issued, assumed, or guaranteed by the State of Israel.

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 this state and is:

- (1) guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor;
- (2) secured by authorized obligations described in "Obligations of, or Guaranteed by, 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 securities specifically prohibited by the Texas Public Funds Investment Act, as amended;
- (3) secured in any other manner and amount provided by law for deposits of the Alamo RMA.

In addition to the authority to invest funds in certificates of deposit as stated above, an investment in certificates of deposit made in accordance with the following conditions is an authorized investment:

- (1) the funds are invested by the Alamo RMA through a depository institution that (a) has its main office or a branch office in this state; (b) authorized to offer services through Certificate of Deposit Account Registry Service, "CDARS"; and (c) is selected by the Alamo RMA;
- (2) the depository institution selected by the Alamo RMA arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located including out of state. Each certificate of deposit will be issued for the account of the Alamo RMA as the beneficial owner of the certificates of deposit;
- (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. Each certificate of deposit will be issued in an amount within the FDIC insurance coverage limit, or alternatively covered by collateral equal to 102% of the face value of the certificate of deposit plus accrued interest;

- (4) the depository institution selected by the Alamo RMA acts as custodian for the Alamo RMA with respect to the certificates of deposit issued for the account of the Alamo RMA with respect to the certificates of deposit. Under this provision, when the certificates of deposit issued by other institutions to the Alamo RMA mature, the payment of the principal and accrued interest will be made by those institutions through the selected depository institution in Texas; and
- (5) at the same time that the funds are deposited and the certificates of deposit are issued for the account of the Alamo RMA, the depository institution selected by the Alamo RMA receives an amount of deposits from customers of other federally insured depository institutions, wherever located, that is equal to or greater than the amount of the funds invested by the Alamo RMA through the depository institution. The economic effect of investments by the Alamo RMA made in accordance with this procedure will be that the selected depository institution in Texas will have on deposit the amount of funds initially invested by Alamo RMA.
- (6) The amount of funds that may be invested by the Alamo RMA with any one depository institution that meets the requirements set out in (1) through (5) above may not exceed \$10,000,000. All such collateral must be fully documented, executed with authorizing documentation, and held at an approved third party institution. With respect to certificates of deposit in which the Alamo RMA has invested pursuant to the provisions of (1) through (6) above, the depository institution selected by the Alamo RMA is an approved third party institution.

Repurchase Agreements

A fully, collateralized repurchase agreement is an authorized investment if the repurchase agreement:

- (1) has a defined termination date;
- (2) is secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities;
- (3) requires the securities being purchased by the Alamo RMA to be pledged to the Alamo RMA, held in the Alamo RMA's name, and deposited at the time the investment is made with the Alamo RMA or with a third party selected and approved by the Alamo RMA; and
- (4) is placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State of Texas. A "repurchase agreement" is a simultaneous agreement to buy, hold for a specified time, and sell back at a future date, obligations, including letters of credit, of the United States or its agencies and instrumentalities, at a market value at the time the funds are disbursed of not less than the principal amount of the funds disbursed. A "repurchase agreement" includes a direct security repurchase agreement and a reverse security repurchase agreement.

Notwithstanding any other law, 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 the Alamo RMA 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.

Securities Lending

Securities lending is an authorized investment if:

- (1) the value of securities loaned under the program is not less than 100 percent collateralized, including accrued income;
- (2) a loan made under the program allows for termination at any time;
- (3) a loan made under the program is secured by:
 - (A) pledged securities authorized by the Texas Public Funds Investment Act, Section 2256.009;
 - (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 the Texas Public Funds Investment Act;
- (4) the terms of a loan made under the program require that the securities being held as collateral be:
 - (A) pledged to the Alamo RMA;
 - (B) held in the Alamo RMA's name; and
 - (C) deposited at the time the investment is made with the entity or with a third party selected by or approved by the Alamo RMA;
- (5) a loan made under the program is placed through:
 - (A) 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
 - (B) a financial institution doing business in this state; and
- (6) an agreement to lend securities is executed under this section and has a term of one year or less.

Bankers' Acceptance

A bankers' acceptance is an authorized investment if the bankers' acceptance:

- (1) has stated maturity of 270 days or fewer from the date of its 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-I" or "P-I" or an equivalent rating by at least one nationally recognized credit rating agency.

Commercial Paper

Commercial paper is an authorized investment if the commercial paper:

- (1) has a stated maturity of 270 days or fewer from the date of its issuance; and

- (2) is rated not less than "A-I", "P-I" or an equivalent rating by at least two nationally recognized credit rating agencies, or by 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 or any state.

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 (SEC);
- (2) provides the Alamo RMA with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940;
- (3) has a dollar-weighted average stated maturity of 90 days or fewer; and
- (4) includes in its investment objectives the maintenance of a stable net asset value of \$1 for each share.

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

- (1) is registered with the Securities and Exchange Commission;
- (2) has an average weighted maturity of less than two years;
- (3) is invested exclusively in obligations approved by the Act and this policy;
- (4) is continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent; and
- (5) conforms to the requirements set forth in Sections 2256.016 (b) and (c) of the Texas Public Funds Investment Act, relating to the eligibility of investment pools to receive and invest funds of investing entities.

Mutual Fund Restrictions:

The Alamo RMA may not:

- (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 no-load mutual funds described above;
- (2) invest any portion of bond proceeds, reserves and funds held for debt service, in the authorized no-load mutual funds described above; 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 no-load money market mutual fund or no-load mutual fund described above in an amount that exceeds 10 percent of the total assets of such fund.

Guaranteed Investment Contracts

The Alamo RMA may invest in guaranteed investment contracts.

- (a) A guaranteed investment contract is an authorized investment for bond proceeds under the Act and this Policy if the guaranteed investment contract:

- (1) has a defined termination date;
 - (2) is secured by obligations described by the Act and this Policy in an amount at least equal to the amount of bond proceeds invested under the contract; and
 - (3) is pledged to the Alamo RMA and deposited with the Alamo RMA or with a third party selected and approved by the Alamo RMA.
- (b) Bond proceeds, other than bond proceeds representing reserves and funds maintained for debt service purposes, may not be invested under the Act and this Policy in a guaranteed investment contract with a term of longer than five years from the date of issuance of the bonds.
- (c) To be eligible as an authorized investment:
- (1) the Alamo RMA Board must specifically authorize guaranteed investment contracts as an eligible investment in the order, ordinance, or resolution authorizing the issuance of bonds;
 - (2) the Alamo RMA must receive bids from at least three separate providers with no material financial interest in the bonds from which proceeds were received;
 - (3) the Alamo RMA 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.

Investment Pools

The Alamo RMA may invest its funds and funds under its control through an eligible investment pool if the Alamo RMA Board, by rule, order, resolution or ordinance, authorizes investment in the particular pool. The investment pool must only invest in those instruments authorized by the Texas Public Funds Investment Act and this Policy.

To be eligible to receive funds from and invest funds on behalf of the Alamo RMA, an investment pool must furnish to the Alamo RMA through an Investment Officer or other authorized representative of the Alamo RMA an offering circular or other similar disclosure instrument that contains, at a minimum, the following information:

- (1) the types of instruments in which the money is allowed to be invested;
- (2) the maximum average dollar-weighted maturity allowed, based on the stated maturity date, of the pool;
- (3) the maximum stated maturity date any investment security within the pool;
- (4) the objectives of the pool;
- (5) the size of the pool;
- (6) the names of the members of the advisory board of the pool and the dates their terms expire;
- (7) the custodian bank that will safekeep the pool's assets;
- (8) whether the intent of the pool is to maintain a net asset value of one dollar and the risk of market price fluctuation;

- (9) whether the only source of payment is the assets of the pool at market value or whether there is a secondary source of payment, such as insurance or guarantees, and a description of the secondary source of payment;
- (10) the name and address of the independent auditor of the pool;
- (11) the requirements to be satisfied for an entity to deposit funds in and withdraw funds from the pool and any deadlines or other operating policies required for the entity to invest funds in and withdraw funds from the pool; and
- (12) the performance history of the pool, including yield, average dollar-weighted maturities, and expense ratios.

To maintain eligibility to receive funds from and invest funds on behalf of the Alamo RMA, an investment pool must furnish to the Alamo RMA, through an Investment Officer or other authorized representative of the Alamo RMA:

- (1) investment transaction confirmations; and
- (2) a monthly report that contains, at a minimum, the following information:
 - the types and percentage breakdown of securities in which the pool is invested;
 - the current average dollar-weighted maturity, based on the stated maturity date, of the pool;
 - the current percentage of the pool's portfolio in investments that have stated maturities of more than one year;
 - the book value versus the market value of the pool's portfolio, using amortized cost valuation;
 - the size of the pool;
 - the number of participants in the pool;
 - the custodian bank that is safekeeping the assets of the pool;
 - a listing of daily transaction activity relating to the Alamo RMA's participation in the pool;
 - the yield and expense ratio of the pool;
 - the portfolio managers of the pool; and
 - any changes or addenda to the offering circular.

The Alamo RMA, by contract, may delegate to an investment pool the authority to hold legal title as custodian of investments purchased with its local funds.

Yield shall be calculated in accordance with regulations governing the registration of open-end management investment companies under the Investment Company Act of 1940, as promulgated from time to time by the federal Securities and Exchange Commission.

To be eligible to receive funds from and invest funds on behalf of the Alamo RMA, a public funds investment pool created to function as a money market mutual fund must mark its portfolio to market daily, and, to the extent reasonably possible, stabilize at \$1.00 net asset value. If the ratio of the market value of the portfolio divided by the book value of the portfolio is less than 0.995 or greater than 1.005, portfolio holdings shall be sold as necessary to maintain the ratio between 0.995 and 1.005.

To be eligible to receive funds from and, invest funds on behalf of the Alamo RMA, a public funds investment pool must have an advisory board composed:

- (1) equally of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool, for a public funds investment pool created under Chapter 791 of the Texas Government Code and managed by a state agency; or
- (2) of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool, for other investment pools.

To maintain eligibility to receive funds from and invest funds on behalf of the Alamo RMA, an investment pool must be continuously rated no lower than "AAA" or "AAA-m" or at an equivalent rating by at least one nationally recognized rating service or no lower than investment grade by at least one nationally recognized rating service with a weighted average maturity no greater than 90 days.

BROKER/DEALER, BANK, AND MUTUAL FUND ELIGIBILITY

Broker/Dealer, Bank, and Mutual Fund firms interested in providing investment services to the Alamo RMA will be required to submit a Statement of Qualifications in response to the Alamo RMA's Request for Qualifications (RFQ) to provide Broker/Dealer Services. The RFQ may include but not be limited to, inquiries such as the name, address and brief history of the firm, identification of the individuals who will be working with the Alamo RMA, capital structure of the firm, description of major changes that have recently occurred in the firm, disclosure of investigations for alleged improper, fraudulent, disreputable or unfair investment activities, financial reports, and disclosure of any filing or claim the firm may have had or currently has against the Alamo RMA. Firms shall also be evaluated based on fixed income experience, volume, capitalization, integrity, local presence, Alamo RMA goals to include small business, women-owned, minority-owned, African-American owned, and historically underutilized business firms, professionalism, product knowledge, and history of alleged or convicted securities violations and/or settlements. In addition to the aforementioned inquiries, Mutual Fund firms will be required to provide a prospectus for each of the funds in which the Alamo RMA may invest. The Statement of Qualifications submitted will be periodically reviewed by the Alamo RMA's Investment Committee which will assess whether a Broker/Dealer, Bank, or Mutual Fund firm is approved to provide investment services to the Alamo RMA. In addition to submission of a Statement of Qualifications, prospective firms must execute a Broker/Dealer, Bank, Mutual Fund, or Investment Pool Certification, as well as complete and sign a Conflict of Interest Form. The Broker/Dealer, Bank, Mutual Fund, or Investment Pool Certification will serve as the written instrument whereby such firm acknowledges that, among other things: (1) such firm has received and reviewed the Alamo RMA's Investment Policy; and (2) it has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the Alamo RMA and the firm that are not authorized by the Alamo RMA's Investment Policy, except to the extent that this authorization is dependent on an analysis of the makeup of the Alamo RMA's entire portfolio or requires an interpretation of subjective investment standards. Nothing in the Act relieves the Alamo RMA of the responsibility for monitoring the investments made by the Alamo RMA to determine that they are in compliance with the Alamo RMA's Investment Policy.

Firms shall be advised that it is the policy of the Alamo RMA to involve qualified small business and local business enterprises to the extent feasible in the Alamo RMA's professional service and other discretionary contracts.

Utilization of approved Firms and Periodic Review

The Alamo RMA will maintain a list of approved Broker/Dealers based on the aforementioned criteria established in the Alamo RMA's RFQ. Investment Officers will administer investments with the goal of providing and distributing opportunities to the various eligible firms. In that regard, whenever possible, the Alamo RMA will obtain at least three quotes on open market investment purchases, and such quotes will be obtained from eligible firms on a rotating basis. The Investment Committee shall review, revise, and adopt, at least once per year, the list of approved Broker/Dealers, Banks, and Mutual Fund firms with whom the Alamo RMA does business. A firm may be removed from eligible status, without notice, at the Alamo RMA's sole discretion.

INVESTMENT MANAGEMENT FIRMS

The Alamo RMA 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. The Alamo RMA does not currently utilize an investment management firm for the investment or management of its funds. However, the Alamo RMA may utilize an investment management firm for the investment and management of certain funds if deemed beneficial by the Investment Committee and would be subject to the approval of Alamo RMA Board. A contract made with an investment management firm may not be for a term longer than two years and a renewal or extension of the contract must be approved by the Alamo RMA Board.

If the Alamo RMA has contracted with an investment management firm to invest its funds, the investment officer of the investment management firm is considered to be an Investment Officer of the Alamo RMA. Authority granted to a fiduciary to invest Alamo RMA funds is effective until rescinded by the Alamo RMA or until the expiration of the contract with the investment management firm. In the administration of the duties of an Investment Officer, the fiduciary designated as Investment Officer shall exercise the judgment and care, under prevailing circumstances, which a prudent person would exercise in the management of the person's own affairs, but the Alamo RMA Board will retain ultimate responsibility as fiduciaries of the assets of the Alamo RMA. A written copy of the Alamo RMA's Investment Policy shall be presented to an investment management firm that has a contract with the Alamo RMA to invest or manage the Alamo RMA's investment portfolio. A qualified representative of the investment management firm shall execute a written instrument in a form acceptable to the Alamo RMA that demonstrates that the firm has:

- (1) received and reviewed the Investment Policy of the Alamo RMA; and
- (2) acknowledged that the investment management firm has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the Alamo RMA and the organization that are not authorized by the Alamo RMA's Investment Policy, except to the extent that this authorization is dependent on an analysis of the makeup of the Alamo RMA's entire portfolio or requires an interpretation of subjective investment standards.

SAFEKEEPING AND COLLATERALIZATION

The Alamo RMA's collateral requirements, safekeeping arrangements, and payment for securities are accomplished in accordance with the Public Funds Collateral Act and Texas Public Funds Investment Act, as amended. The Alamo RMA's cash deposits shall be fully secured by a combination of FDIC Insurance coverage or other Federal Insurance and market value of eligible securities as provided for in the Public Funds Collateral Act. Collateral securities shall have a market value of not less than 102% of the amount of deposits. Collateral deposits must be pledged to the Alamo RMA and placed in the custody of a third-party institution that customarily provides such custodial services. Additionally, the Alamo RMA may participate in a pooled collateral program pursuant to Subchapter F, Chapter 2257, Texas Government Code and the rules established by the Texas Comptroller of Public Accounts.

Custodial services arranged through the Alamo RMA's depository bank provide for the safekeeping of securities in the Alamo RMA's investment portfolio. Payment of all securities transactions, except mutual funds and investment pools, shall occur on the settlement date on a delivery versus payment basis.

RECORDKEEPING AND REPORTING

Not less than quarterly, the Investment Officers and Securities Investment Advisor, if such firm is under contract with the Alamo RMA, shall prepare and submit to the Alamo RMA Board, the Alamo RMA Executive Director and Chief Financial Officer, a written report of investment transactions of all funds covered by this Policy and the

Texas Public Funds Investment Act, for the preceding reporting period within a reasonable time after the end of the period. The report must:

- (1) describe in detail the investment position of the Alamo RMA on the date of the report;
- (2) be prepared and signed jointly by each Investment Officer and authorized representative of the Securities Investment Firm;
- (3) contain a summary statement, prepared in compliance with generally accepted accounting principles, of each pooled fund group that states the purchase cost, beginning market value for the reporting period, additions and changes to the market value during the period, ending market value for the period, and fully accrued interest for the reporting period;
- (4) state the book value and market value of each separately invested asset at the beginning and 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 of the Alamo RMA for which each individual investment was acquired; and
- (7) state the compliance of the investment portfolio of the Alamo RMA as it relates to the investment strategy expressed in the Alamo RMA's Investment Policy and relevant provisions of the Texas Public Funds Investment Act. Reports prepared by the Investment Officers for investments transacted other than money market mutual funds, investment pools or accounts offered by the depository bank in the form of certificates of deposit, shall be formally reviewed at least annually by the Alamo RMA's independent auditors, and the result of the review shall be reported to the Alamo RMA Board.

CLOSING

The investment policy dated January 9, 2008 had been developed by the Alamo RMA's staff, reviewed by the Alamo RMA's legal counsel, Executive Director, Chief Financial Officer, and approved by the Alamo RMA Board of Directors on January 9, 2008 through Resolution 08-01. The 2009 Investment Policy was formally adopted by the Alamo RMA Board through Resolution 08-30 on December 3, 2008. Other than making update changes to reflect amendments enacted by the 80th Regular Session of the Texas Legislature, no changes have been made to this investment policy for 2010. The 2010 Investment Policy is formally adopted by the Alamo RMA Board through Resolution 10-04. The Alamo RMA's Investment Officers will review this policy periodically in accordance with the Act, to evaluate its effectiveness in meeting the Alamo RMA's public funds investment objectives as stated herein, and in the course of their review revise and update the list of qualified Securities Investment Firms, Broker/Dealers, Banks, and Mutual Funds with whom the Alamo RMA executes or may engage in investment transactions. The Alamo RMA Board shall review the Investment Policy and investment strategies annually and shall approve and adopt a resolution, which states that the Alamo RMA Board has reviewed the Investment Policy and investment strategies. Such resolution so adopted shall record any changes made to either the Investment Policy or investment strategies.

Exhibit I

Investment Glossary

ACCRETION: the increase in value of an asset toward its redemption price over time as it approaches maturity. The discount amount is accreted to par over the life of the security on a daily basis.

ACCRUED INTEREST: the accumulated interest due on a bond as of the last interest payment made by the issuer of the bond. The security is always sold with the accrued interest included.

AGENCY SECURITY: a U.S. government-issued security that was not issued by the Treasury Department but that may be backed by the full faith and credit of the United States depending upon the issuing agency. A debt security issued by a federal or federally sponsored agency, for example the Federal National Mortgage Association (FNMA).

AMORTIZATION: the decrease in value of an asset to its redemption price over time as it approaches maturity. On a mortgage backed security, the reduction through periodic repayments of both interest and principal. The premium amount is amortized to par over the life of the security on a daily basis.

ARBITRAGE: profiting from the differences in price when the same security, currency, or commodity is traded on two or more markets.

ARBITRAGE BONDS: bonds issued by a municipality in the tax exempt markets and reinvested in the taxable markets in order to gain interest rate advantage or the advantage earned by refunding higher rate bonds in advance of their call date. Proceeds from the lower-rate refunding issue are invested in treasuries until the first call date of the higher-rate issue being refunded.

ASK PRICE: the price at which securities are offered by the broker/dealer. The price at which a governmental entity buys a security.

ASSET ALLOCATION: the way that investments are distributed and weighted among different types of investment vehicles. The objective of asset allocation is to diversify market and credit risk while obtaining the greatest possible return consistent with the investor's risk tolerance.

BASIS POINT: a unit of measurement used in the valuation of fixed-income securities equal to 1/100 of 1 percent of yield; e.g., 1/4 of 1 percent is equal to 25 basis points.

BANKERS ACCEPTANCE (BA): a draft, bill, or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill as well as the issuer. Used primarily in international trade.

BEAR MARKET: a prolonged period of falling security prices, usually caused by declining economic conditions and/or rising interest rates.

BENCHMARK: the performance of a predetermined group of securities or an individual security for comparative risk and performance purposes. Benchmarks may be based on available indexes such as the Standard and Poor's Index or selected for specific investment strategies.

BID PRICE: the price offered by the seller of a security. The price at which a governmental entity will sell a security.

BOOK VALUE: the value at which a security is carried on an inventory list or other financial records of an investor. Book value reflects the price at which the security was originally bought plus net amortization/accretion to that point in time. The book value may differ significantly from the security's current market value.

BOND: a long-term debt obligation issued by a government, corporation, or municipality that generally pays a stated rate of interest at regular intervals and returns the face value upon maturity.

BROKER: a broker brings buyers and sellers together in return for a commission (fee). The broker takes no position in a trade and does not act as a principal or own securities.

BULL MARKET: a period of prolonged rises in the price of stocks, bonds, and/or commodities due to favorable market conditions producing lower interest rates.

CALL FEATURE: part of the agreement a bond issuer makes with a buyer, called the indenture, describing the schedule and price of redemption before maturity. A call is an embedded option in the security allowing the seller to "call" (buy) it back at specific times.

CALL PRICE: price at which a bond or preferred stock with a call provision or call feature can be redeemed (repurchased) by the issuer.

CALL PROVISION: a bond provision that allows the bond issuer to redeem the bond prior to the bond's maturity date. If the bond states that this provision can be exercised after a given number of years, or at a price greater than the par value, or the bond is not callable, the bond is said to have call protection.

CALL RISK: a form of investment risk when a bond may be called or redeemed prior to maturity and the investor will be unable to reinvest the principle for the same or a higher rate of return. This risk increases when interest rates are falling and it becomes more attractive for the bond issuers to call their bonds with the higher interest rates and issue new bonds with a lower interest rate. Most bonds that do have a call provision have some call protection for a specified number of years.

CALLABLE BOND: a bond that has an option which can be exercised by the issuer of the bond to redeem the bond prior to its maturity date. The provision will state the times and price that the bond may be called at.

CAPITAL GAIN: the profitable result of the sale of a security or asset whereby the net sales price exceeds the book value of the security at the date of purchase.

CAPITAL LOSS: the resulting loss on the sale of a security or asset whereby the net sale proceeds is less than the book value of the security at the date of sale.

CASH FLOW ANALYSIS: an analysis of changes in revenues and expenditures that affect the cash balance.

CERTIFICATE OF DEPOSIT (CD): a time deposit issued by a bank that pays interest periodically or at maturity, a time deposit with a specific maturity evidenced by a certificate. Large denominations CDs are typically negotiable. There is a penalty for early withdrawal of the CD (time deposit).

COLLATERAL: securities, evidences of deposit, or other property that a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COLLATERALIZED MORTGAGE OBLIGATION (CMO): a mortgage-backed bond created from a pool of mortgages which creates different classes of securities (tranches) from one pool with different risk profiles.

COMMERCIAL PAPER (CP): short-term obligations with maturities ranging from 1 to 270 days issued by banks, corporations and other borrowers to investors with large temporary cash positions. Such instruments are unsecured and usually discounted, but are generally interest bearing.

COMPOUND INTEREST: the method of computing interest on a principal sum where the interest rate is applied to the original principal and any accumulated interest.

CONSTANT DOLLAR FUND: a short term money market fund whose objective is to offer safety, liquidity and always strives to maintain a \$1 dollar share value for all participants. SEC registered funds maintain a limited 90-day WAM. AAA-rated funds usually require a 60-day WAM (weighted average maturity).

CONTINUOUS CALL OPTION: a call option on a security under which the issuer maintains the right to repurchase the bond from the investor, on any date; from the time that the bond is first callable until its maturity date.

COUPON RATE: the fixed annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. A certificate attached to a bond evidencing interest due on a payment date.

CREDIT RISK: the risk that the issuer of the bond will default or fail or its credit rating being reduced. This could involve the loss of all or part of the invested principal.

DEALER: a dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his or her own account. A dealer maintains a portfolio and can trade from that portfolio.

DEBENTURE: a bond secured only by the general credit of the issuer. US government agency notes are debentures.

DEFLATION: an economic condition that is characterized by the decline in the prices of goods and services (the reverse of inflation). Also see inflation.

DELIVERY VERSUS PAYMENT (DVP): There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment requires the delivery of securities before payment is made securing the assets for the entity. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities and is less secure.

DEPOSITORY TRUST COMPANY (DTC): a firm through which members can use a computer to arrange for securities to be delivered to other members without physical delivery of the certificates. The DTC uses computerized debit and credit entries. A member of the Federal Reserve System the system mirrors the FedWire system and was designed to reduce the load on the FedWire system.

DEPRECIATION: the decline in the value of an asset or investment.

DERIVATIVE SECURITY: a financial instrument whose value is based on, and determined by, another security or benchmark. Examples include mortgage backed securities as well as Treasury strips, callable securities and floaters.

DISCOUNT: the difference between the cost price of a security and its PAR or face value at maturity when quoted at lower than face value. A security selling below the original offering price shortly after sale also is considered to be "at a discount".

DISCOUNT SECURITIES: non-interest bearing money market instruments that are issued at discount and redeemed at maturity for full face value; e.g., U.S. Treasury Bills and US agency discount notes.

DISCOUNT ON SECURITIES: the difference between a security's par value and its price when trading less than par price (100).

DISCOUNT RATE: the interest rate member banks pay the Federal Reserve when the banks use securities as collateral. Banks usually set their loan rates one point above the discount rate.

DISCRETE CALL OPTION: an option whereby the bondholder has sold the issuer the right to repurchase the bonds back from the investor, only on interest payment dates or dates of the schedule, from the time that the bond is first callable until its maturity date.

DIVERSIFICATION: the spreading of an investment over a large number of securities in order to reduce financial risk or the process of using different securities and maturities in a portfolio to reduce market and credit risk. (i.e. not putting all your eggs in one basket.)

DURATION: a measure of the price volatility of a bond equal to the weighted average term to maturity of the bond's cash flows. The weights are the present values of each cash flow as a percentage of the present value of all cash flows. The greater the duration of a bond, the greater its percentage price volatility. The duration of a portfolio will vary from the weighted average maturity because of the cash flows.

EQUITY: ownership possessed by shareholders in a corporation.

FAIR MARKET VALUE: the price at which a buyer and seller agree. In investment accounting and GASB, the market value at one point in time usually the end of the fiscal year.

FEDERAL CREDIT AGENCIES: agencies of the federal government that supply credit to various classes of institutions and individuals, e.g., savings and loans, small business firms, students, farmers, farm cooperatives, and exporters.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): the federal agency that insures bank deposits, as identified by taxpayer identification code.

FEDERAL FUNDS: funds deposited by commercial banks at Federal Reserve Banks, including funds in excess of bank reserve requirements.

FEDERAL FUNDS RATE: the rate of interest at which banks with excess reserves charge banks lacking reserves for overnight loans to meet reserve requirements. This rate is currently set by the market to be consistent with the daily reserve requirements and monitored by the Fed.

FEDERAL HOME LOAN BANKS (FHLB): the institutions that regulate and lend money to savings and loan associations, cooperative banks, and other mortgage lenders in a manner similar the Federal Reserve's role with commercial banks. The Federal Home Loan Bank System is made up of 12 regional FHLB's. It raises money by issuing notes and bonds and lends money to savings and loans and other mortgage lenders based on the amount of collateral the institution can provide.

FEDERAL HOME LOAN MORTGAGE CORPORATION (FHLMC) "FREDDIE MAC": publicly chartered agency that buys qualifying residential mortgages from lenders, packages them into new securities backed by those pooled mortgages, provides certain guarantees, and then resells the securities on the open market.

FEDERAL HOUSING ADMINISTRATION (FHA): federally sponsored agency that insures lenders against loss on residential mortgages.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA) "FANNIE MAE": FNMA is a federal corporation working under the auspices of the U.S. Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. FNMA is a private stockholder-owned corporation, which includes purchases of a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted.

FEDERAL OPEN MARKET COMMITTEE (FOMC): consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other presidents serve on a rotating basis. The Committee meets eight times per year to set U.S. monetary policy.

FINAL MATURITY: the date on which a security is due and payable. The maturity date stated on the face of a security.

FIXED INCOME MARKET: the market defined by securities with set (fixed) coupon rates.

FLEXIBLE REPURCHASE AGREEMENT (FLEX REPO): A type of repurchase agreement used primarily for investment of bond proceeds that has a maturity corresponding with the last expected construction draw for the bond project. Flex repos pay a fixed rate of interest and allow for cash withdrawals at the buyer's discretion during the life of the agreement.

FLOATER: a security whose value or coupon is determined from (floats on) an index or other security such as Libor or T-Bills.

GINNIE MAE (GNMA): Government National Mortgage Association. GNMA buys Veterans Administration, Farmers Home Administration and Federal Housing Administration Mortgages, then issues bonds on pools of the mortgages. Investor in this bond receives monthly dividends through the mortgagee's payments of principal and interest. GNMA's are full faith and credit of the US Government unlike other mortgage based agencies.

GOVERNMENT BONDS: a security issued by the U.S. government and backed by its full faith and credit.

INFLATION: the effect of generally rising prices of goods and services.

INFLATIONARY RISK: a form of investment risk that measures the effect of inflation on an investment. If the after-tax return on an investment is lower than the rate of inflation, the investor will have less purchasing power at the maturity of the investment. The greatest risk to fixed income securities where the fixed rate will be devalued by the rise in inflation.

INSTRUMENTALITY: a federal agency whose obligations, while not direct obligations of the U.S. Government, are sponsored or guaranteed by the government and backed by the government.

INTEREST RATE: the fixed annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value.

INTEREST-RATE RISK: a form of investment risk whereby changes in interest rates adversely affect the value of a security portfolio. For example the value of bond holdings will decline should interest rates increase.

INVERTED YIELD CURVE: the economic condition where the yield on short-term issues is greater than the yield on long-term securities. In theory, this scenario could lead to further declines in interest rates and possible recession.

ISSUE DATE: the date from which the bond begins to accrue interest. Also known as effective date.

LIQUID ASSET: assets that can be converted easily into cash, some examples are money market fund shares, treasury bills, and bank deposits.

LIQUIDITY: an asset that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if a buyer can be found easily. The spread between the bid and asked price is narrow because the securities are liquid and usually reflect high credit quality such as T-Bills.

LIQUIDITY DIVERSIFICATION: act of investing in bonds, which have different maturities.

LIQUIDITY RISK: a type of investment risk whereby an investment may not be able to be sold quickly at a fair market price when cash is needed. Long-term Treasury Bonds for example are publicly traded and have excellent liquidity. Limited partnerships on the other hand are often not publicly traded and typically have poor liquidity.

LOCAL GOVERNMENT INVESTMENT POOL (LGIP): professionally managed pool of funds composed of cash deposits from a large group of cities, counties, school districts and local governments. In Texas created under the Local Government Cooperation Act. A portfolio of securities is purchased and each pool participant owns a pro rata share in the pool of investments.

MARGIN: the amount of additional collateral pledged to an entity in order to accommodate changes in market prices. Normally set at 102% for treasuries and agencies.

MARKET RISK: risk that the price of a typical security can decrease leading to possible principal loss if a sale of the security is required before maturity.

MARKET VALUE: the price at which a security is trading in the marketplace and could presumably be purchased or sold.

MASTER REPURCHASE (REPO) AGREEMENT: a written contract covering all repo transactions between two parties to the repurchase or reverse repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

MATURITY: the date upon which the principal or stated value of an investment becomes due and payable.

MONEY MARKET ACCOUNT: a savings account which normally earns interest at a higher interest rate than a regular savings account, but with a minimum required balance and other restrictions.

MONEY MARKET MUTUAL FUNDS (MMMMF): a specific type of mutual fund that invest solely in money market instruments (short-term debt instruments, such as treasury bills, commercial paper, bankers' acceptances, repos and federal funds) as defined and registered with the SEC ,and regulated by the Investment Company Act of 1940 as 2a-7 funds. They strive to maintain a \$1 net share value for participants. Three types of MMMFs are Treasury, Governmental and Prime. MMMFs are designed for safety and liquidity.

MUTUAL FUND: The fund pools the resources of investors who buy shares and invests the proceeds in a portfolio of securities designed to achieve the fund's investment objective. All of the owners in the fund shares participate in the gains or losses of the fund. The value of the share is calculated off the market value of the portfolio. These products can only be sold by registered representatives. Mutual funds are also known as an open-end diversified management investment company. Long-term investment funds that pool money and can invest in a variety of securities, including fixed-income securities and money market instruments. Mutual funds are designed for yield and involve more risk than money market mutual funds. Mutual funds are regulated by the Investment Company Act of 1940 and must abide by the following Securities and Exchange Commission (SEC) disclosure guidelines:

1. Report standardized performance calculations.
2. Disseminate timely and accurate information regarding the fund's holdings, performance, management and general investment policy.
3. Have the fund's investment policies and activities supervised by a board of trustees, which are independent of the adviser, administrator or other vendor of the fund.
4. Maintain the daily liquidity of the fund's shares.
5. Value their portfolios on a daily basis.
6. Have all individuals who sell SEC-registered products licensed with a self-regulating organization (SRO) such as the National Association of Securities Dealers (NASD).
7. Have an investment policy governed by a prospectus which is updated and filed by the SEC annually.

MORTGAGE-BACKED SECURITY: a security backed by pools of home loan mortgages. Investors in mortgage-backed certificates receive monthly payments derived from the income stream of interest and principal of the underlying mortgages.

MUNICIPAL BONDS: a bond or debt obligation issued by state or local governments to fund general municipal needs or special projects (See also revenue bonds).

NATIONAL ASSOCIATION OF SECURITIES DEALERS (NASD): a self-regulating industry organization of brokers and dealers who trade securities in the United States. Designated by the Maloney Act of 1933 to establish rules of fair market practice.

NEGATIVE YIELD CURVE: see inverse yield curve.

NET ASSET VALUE (NAV): the value of a mutual fund share as determined at the close of each business day. NAV is determined by summing the market value of all securities in the portfolio, deducts expenses and divides this total by the number of shares outstanding. All shares redeemed on that day are done so at the NAV for that specific day.

NET ASSET VALUE FUNDS: a mutual fund seeking to *offer* a higher yield than the constant dollar funds (money market funds). These funds purchase longer maturing securities, which translate into a higher market and volatility risk as well as longer WAM. These funds experience market fluctuation due to the risk of the longer securities and will subject the investor to a higher level of market price and volatility risk than a constant dollar fund.

NORMAL YIELD CURVE: a yield curve where short-term yields are lower than long-term yields. The slope of the curve rises gradually in the early years and becomes almost flat in latter years. Generally reflects a market in expectation of higher rates.

OBLIGATION: Any legal debt.

OFFER PRICE: the price asked by a seller of securities. The price at which a security will be sold to a governmental entity.

OPEN MARKET OPERATIONS: purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the Federal Open Market Committee (FOMC) in order to influence the volume of money and credit in the economy.

OPPORTUNITY COST: the maximum profit an alternative plan of action would provide.

PAR VALUE: for bonds, the par value is the face amount and equals the amount of principal due at maturity. The principal amount on which interest is calculated.

PLEDGED ASSETS: bank-owned securities used as collateral for government deposits. Authorized collateral is defined by the Public Funds Collateral Act in Texas.

POSITIVE YIELD CURVE (NORMAL YIELD CURVE): a yield curve where short-term yields are lower than long-term yields. The slope of the curve rises gradually in the early years and becomes almost flat in latter years. The relationship of time and rates. Generally reflects a market in expectation of higher rates.

PREMIUM: 1) the difference in price between the security's price and par (face amount) if a security is selling above its par value. 2) An amount that must be paid above par in order to call or refund an issue. 3) The price of an option.

PREPAYMENT: the risk that changes in interest rates will cause the anticipated maturity of a mortgaged backed security to be shortened. Homeowners prepay all or part of a mortgage when interest rates decline to refinance at lower costs causing money to be returned to the owner of the mortgaged backed security who must reinvest at a lower rate.

PRICE/BOOK RATIO: a financial ratio, which relates a company's stock (share price) to its total assets less any intangible assets (goodwill, patents) minus current and long-term liabilities.

PRICE/EARNING RATIO: a financial ratio, which is commonly referred to as the P/E ratio or multiple. This is the relationship of a company's stock price divided by earnings per share. It provides stock investors with an indication of how much is being paid (share price) for a company's earnings potential.

PRIMARY DEALER: a group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its formal oversight. Primary dealers can include Securities and Exchange Commission (SEC) registered securities broker-dealers and banks. These dealers must make the market (buy Treasuries if offered therefore providing the liquidity) in US Treasuries.

PRIME RATE: rate of interest at which a commercial bank offers to lend money to its most creditworthy customers.

PRIVATE ACTIVITY BOND: a taxable municipal bond.

PROCEEDS: money received from the sale of a security or from the issuance of a security.

PRODUCER PRICE INDEX (PPI): a measure of wholesale prices.

PROMISSORY NOTE: an unconditional signed promise in writing to pay a specified sum in demand at a fixed time. A promise to pay.

PRUDENT PERSON RULE: an investment safety standard used by most governmental investors. The Rule states that investments will be made under circumstances then prevailing which persons of discretion and intelligence will purchase not for speculation but for investment recognizing the probable return of principal as well as the return on that investment.

PUT: an option that gives the holder of a security the right to sell a portion of the security back to the issuer (or put holder) at a specified time at a specified price.

RATE OF RETURN: the yield obtainable on a security based on its purchase price or its current market price. Coupon rate divided by the purchase price.

REALIZED GAIN/LOSS: the true gain (profit) or loss of principal resulting from a sale of a security based on the difference between the security's book value and its market value. See unrealized gain/loss.

REDEMPTION PRICE: see Call Price.

REGULAR SETTLEMENT: paying for a security one day after the trade date.

REINVESTMENT RISK: the risk that funds will have to be reinvested in a lower interest rate security if the original security is called away.

REPURCHASE AGREEMENTS (RP or REPO): an investment agreement involving the purchase of a security and a simultaneous agreement to repurchase that security at a specified price and date. Repurchase agreements are used as a way to earn income on idle cash at or near the fed funds market rate. A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security buyer

in effect lends the seller money for the period of the agreement and the terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money that is, increasing bank reserves.

RESET DATE: the date on which a floating security's rate or value is reset based on an established index and schedule.

REVENUE BONDS: securities issued by governmental entities and secured by the revenue stream from the project being built or supported such as water treatment facilities or sewage plants.

RISK: a measure of the probability of financial loss.

SAFE HARBOR: the shifting of financial assets to less volatile areas to reduce risk.

SAFEKEEPING LOCATION: a service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

SALLIE MAE (SLMA): securities issued by the Student Loan Marketing Association an agency of the US Government.

SECONDARY MARKET: a market made for the purchase and sale of outstanding issues following the initial distribution.

SECURITIES AND EXCHANGE COMMISSION (SEC): a governmental organization established to regulate the U.S. financial markets.

SELF-REFULATORY ORGANIZATION (SRO): a stock exchange, securities, or commodities organization that is registered with Securities and Exchange Commission and that is responsible for making sure that its members obey rules and regulations.

SETTLEMENT DATE: the purchase or sale date of a security on which the money changes hand (see also Trade Date).

SHORT: to have sold a security without owning the security in anticipation of subsequently purchasing it at a lower price and making a profit. Not permitted by governmental entities.

SIMPLE INTEREST: the method of computing interest on a principal sum where the interest rate is applied only to the original principal amount.

SKIP DAY SETTLEMENT: settlement one day after normal settlement i.e. two day settlement.

SPREAD: Difference between any two prices or measures. The difference between the current bid and the current ask of a given security or between yields on similar securities. Refers to the additional yield that may be earned on a security over and above a U.S. Treasury obligation with a comparable maturity.

STRIP: a security issued by the US Treasury in which the coupons have been removed and only the principal remains leaving a deeply discounted security which pays no interest but returns the principal at maturity. Other agencies and dealers "strip" securities but only the Treasury or an agency can create a "strip". The others carry unique names such as TIGRS (Receipts) and are structured on a trust receipt.

TERM REPURCHASE AGREEMENT: a repurchase agreement that lasts a longer than normal period of time, i.e. more than overnight.

TRADE DATE: the date on which the agreement to buy or sell a security is made (see also Settlement Date).

TREASURY BILL (TB or T-BILL): a marketable, short-term US Government debt security issued at a discount from par value auctioned by the US Treasury with maturities of 91 days, 180 days or 365 days.

TREASURY BOND: the bellwether Treasury security. A thirty year US Government debt security issued at a fixed interest rate with a maturity. The Bond is often used to set mortgage rates.

TREASURY NOTE (TN OR T-NOTE): a marketable, medium-term US Government debt security issued at a fixed interest rate with a maturity of one to ten years.

TRUST INDENTURE: a trust deed between a borrower and trust holder on the terms of the trust.

UNDERWRITER: the firm that agrees to buy an issue of securities on a given date and at a given price who will then usually resell them through a distribution network.

UNREALIZED GAIN/LOSS: the amount of gain (profit) or loss that would be reflected on the sale of a security if that security had to be sold in the market at that time calculated on the difference between book value and market value of the security.

VARIABLE RATE CD: short term CD with an interest rate that is reset at set intervals on an agreed upon index.

VOLATILITY: characteristic of a security, commodity, or market to rise or fall sharply in price within a short-term period.

WEIGHTED AVERAGE MATURITY (WAM): the dollar weighted average remaining term to maturity of all assets in a pool or securities portfolio. The maximum WAM is usually based on an entity's cash flow analysis.

WINDOW: a term for the electronic bulletin board on which US agencies sell their issues. The Agencies "open their window" for the initial offering of a security.

YIELD: a financial ratio that measures the earnings on a capital investment. The ratio is generally expressed as a percentage of the current price.

YIELD BURNING: a situation in which securities firms artificially raise the prices on the Treasury bonds used when municipalities refinance outstanding debt especially advance escrows. Municipalities are prohibited from making money on their tax-exempt transactions, so underwriters raise the price and "burn down" the yield on the securities to the level that municipalities are allowed to earn. Illegal under IRS regulations.

YIELD CURVE: a chart equating time and rates and consisting of the yields of bonds of the same quality but different maturities. This can be used as a gauge to evaluate the future of the interest rates.

YIELD TO CALL (YTC): a financial ratio that measures the rate of return on a callable bond. The yield on a bond that assumes redemption of that bond by the issuer at the first possible call date as stated in the indenture agreement.

YIELD TO MATURITY (YTM): a financial ratio that measures the rate of return on a bond's acquisition cost and the value at maturity. The ratio accounts for any interest income from the bond and assumes that the bond is held and redeemed at maturity.

ZERO COUPON BONDS: a bond that does not make interest payments but is sold at a deep discount. At the maturity of the bond, the full face amount of the bond is payable. The bond does result in a taxable income each year.

* * * * *

ACRONYMS

CP	commercial paper
CPI	consumer price index
DTC	Depository Trust Corporation
DVP	delivery versus payment
FNMA	Federal National Mortgage Association
FHLMC	Federal Home Loan Mortgage Corporation
FDIC	Federal Deposit Insurance Corporation
FFCB	Federal Farm Credit Bank
FHA	Federal Housing Administration
FHLB	Federal Home Loan Bank
FOMC	Federal Open Markets Committee
FRB	Federal Reserve Bank
MBS	mortgage backed securities
MMMF	money market mutual fund
NASD	National Association of Securities Dealers
PPI	producer price index
PTC	Participatory Trust Corporation
REPO	repurchase agreement
SLMA	Student Loan Marketing Association
TVA	Tennessee Valley Authority
T-BILL	US Treasury Bill
TSY	US Treasury

Exhibit II Sample Broker/Dealer Questionnaire

This is a sample questionnaire to be completed by prospective broker/dealers that are interested in executing investment transactions for the Alamo Regional Mobility Authority. The questions listed below are subject to change without notice.

1. Name of Firm: _____
 Address: _____
 Telephone: _____
 E-Mail: _____
 FAX: _____

2. Is the firm registered with the NASD? Yes No
 If not registered with the NASD please describe the regulatory entity that enables the firm to trade in securities. _____

3. Is the firm registered with the Texas State Securities Board? Yes No

4. Primary Representative/Manager/Partner-In-Charge:
Primary Account Representative(s)

Name: _____	Name: _____
Title: _____	Title: _____
Telephone: _____	Telephone: _____
FAX No.: _____	FAX No.: _____
E-Mail: _____	E-Mail: _____
CRD No.: _____	CRD No.: _____

Manager
 Name: _____
 Title: _____
 Telephone: _____
 FAX: _____
 E-Mail: _____
 CRD No.: _____

5. Is the firm a primary dealer in U.S. Government Securities?: Yes No

6. What was your firm's total volume in U.S. Government and Agency Securities last year?
 Firm-wide \$ _____ # Transactions _____
 Local Office \$ _____ # Transactions _____

7. Which instruments are offered regularly by your local desk?
 T-Bills Treasury Notes/Bonds Agencies (Specify)
 S & L CDs BAs (Domestic) Bankers Acceptance
 Bank CDs Commercial Paper Repurchase Agreements
 Other (Specify) _____

8. Have any of your public clients ever sustained a loss on a securities transaction arising from a misunderstanding or misrepresentation of the risk characteristics of the instrument. (If yes, explain.) _____

-
-
-
9. Has your firm or any of your employees ever been subjected to a regulatory, federal or state investigation for alleged improper, fraudulent, disreputable or unfair activities related to the sale of government securities, money market instruments, repurchase agreements, or other securities or instruments traded with municipal clients? If yes, please provide full explanation. _____
-
-
-
10. Please explain your normal custody and delivery process. Who audits these fiduciary systems? _____
-
-
-
11. Describe the reports, confirmations, and paper trail the Alamo RMA will receive for transactions executed with your firm. The following minimum information is required:
- Security Type and CUSIP Number
 - Issue Date, Maturity Date, Settlement Date, Trade Date, Call Date, Pay Date
 - Yield
 - Coupon Rate
 - Price
 - Rating
 - Par or Face Value
12. Provide samples of research reports or other market information material your firm regularly provides to governmental clients.
13. Has your firm consistently complied with the Federal Reserve Bank's capital adequacy guidelines? By what factor does your firm presently exceed the capital adequacy guidelines? Include certified documentation of your capital adequacy as measured by the Federal Reserve standards.
14. Please provide audited financial statements and Focus Report for the most current year and other indicators regarding your firm's capitalization.
15. Please provide the following: (Note: Do not answer with "see financial report" as that will be construed as an unanswered question.)
- | | | | |
|------------------|-------|-------------------|-------|
| a. Total Capital | _____ | b. Equity | _____ |
| c. Net Capital | _____ | d. Excess Capital | _____ |
16. Describe the practice exercised by your firm to assist and protect governmental entities that execute investment transactions with your firm.
19. Explain changes that have occurred within your firm over the last six months regarding staffing, capital, organizational structure, as well as changes you expect may occur over the next six months.
20. Attach a copy of your National Association of Securities Dealers Registration.
21. Attach a copy of your State of Texas Securities Commission Registration.

22. Has your firm been involved in litigation with, or filed a claim against the Alamo RMA within the past three (3) years? If so, what was, or is the status, resolution or outcome? _____

23. Please list three references for cities in Texas for whom your firm currently provides Broker/Dealer services _____

Exhibit III

Sample Mutual Fund and Investment Pool Questionnaire

This is a sample questionnaire to be completed by prospective mutual fund and investment pool entities that are interested in executing investment transactions for the Alamo Regional Mobility Authority. The questions listed below are subject to change without notice.

1. Name of Firm: _____
 Address: _____
 Telephone: _____
 E-Mail: _____
 FAX: _____

2. Is the firm registered with the Securities and Exchange Commission (SEC)? Yes No
 If not registered with the SEC please describe the regulatory entity that enables the firm to trade in securities. _____

3. Is the firm registered with the Texas State Securities Board? Yes No

4. Primary Representative/Manager/Partner-In-Charge:

Primary Account Representative(s)

Name: _____	Name: _____
Title: _____	Title: _____
Telephone: _____	Telephone: _____
FAX No.: _____	FAX No.: _____
E-Mail: _____	E-Mail: _____
CRD No.: _____	CRD No.: _____

Manager

Name: _____
 Title: _____
 Telephone: _____
 FAX: _____
 E-Mail: _____
 CRD No.: _____

5. Provide a prospectus for each of the funds that comply with the Alamo RMA Investment Policy and State of Texas Public Funds Investment Act guidelines. Whether included in the prospectus for each fund or as additional information to the prospectus the following information is required.
- a. Name and type of fund.
 - b. Name and address of fund's investment advisor, transfer agent, distributor and custodian.
 - c. Fund's investment objective.
 - d. Fund's rating.
 - e. Fund size.
 - f. Date fund was created.
 - g. Average dollar-weighted maturity
 - h. Stated maturity of longest fund investment.
 - i. If mutual fund, is said fund registered with the Securities and Exchange Commission?
 - j. List of fund's portfolio holdings.
 - k. The names of the members of the advisory board.

1. Historical and short-term fund performance.
 - m. Fees and expenses.
 - n. Latest time that a trade can be executed.
8. Have any of your public clients ever sustained a loss on a securities transaction arising from a misunderstanding or misrepresentation of the risk characteristics of the instrument. (If yes, explain.) _____
- _____
- _____
9. Has your firm or any of your employees ever been subjected to a regulatory, federal or state investigation for alleged improper, fraudulent, disreputable or unfair activities related to the sale of government securities, money market instruments, repurchase agreements, or other securities or instruments traded with municipal clients? If yes, please provide full explanation. _____
- _____
- _____
- _____
10. Please explain your normal custody and delivery process. Who audits these fiduciary systems? _____
- _____
- _____
- _____
11. Describe the reports, confirmations, and paper trail the Alamo RMA will receive for transactions executed with your firm. The following minimum information is required:
- a. Security Type and CUSIP Number
 - b. Issue Date, Maturity Date, Settlement Date, Trade Date, Call Date, Pay Date
 - c. Yield
 - d. Coupon Rate
 - e. Price
 - f. Rating
 - g. Par or Face Value
12. Provide samples of research reports or other market information material your firm regularly provides to governmental clients.
13. Has your firm consistently complied with the Federal Reserve Bank's capital adequacy guidelines? By what factor does your firm presently exceed the capital adequacy guidelines? Include certified documentation of your capital adequacy as measured by the Federal Reserve standards.
14. Please provide audited financial statements for the most current year.
15. Please provide the following information for each prospective fund:
- a. Fund Size _____
 - b. Date created _____
 - c. Yield for 1 Yr. _____
 - d. Yield for 5 Yr. _____
 - e. Fund Rating _____

16. Describe the practice exercised by your firm to assist and protect governmental entities that execute investment transactions with your firm.

19. Explain fund and fund manager changes that have occurred within your firm over the last six months regarding staffing, capital, organizational structure, as well as changes you expect may occur over the next six months.

20. Attach a copy of your SEC Registration.

21. Attach a copy of your State of Texas Securities Commission Registration.

22. Has your firm been involved in litigation with, or filed a claim against the Alamo RMA within the past three (3) years? If so, what was, or is the status, resolution or outcome? _____

23. Please list three references for cities in Texas for whom your firm currently provides investment services _____

Exhibit IV Sample Securities Investment Advisor Questionnaire

This is a sample questionnaire to be completed by prospective Securities Investment Advisor firms that are interested in advising and assisting the Alamo Regional Mobility Authority with investment of its funds. The questions listed below are subject to change without notice.

1. Name of Firm: _____
Address: _____
Telephone: _____
E-Mail: _____
FAX: _____

2. Is the firm registered with the NASD and/or Securities and Exchange Commission (SEC)? Yes
 No
If not registered with the NASD or SEC please describe the regulatory entity that enables the firm to trade in securities. _____

3. Is the firm registered with the Texas State Securities Board? Yes No

4. Primary Representative/Manager/Partner-In-Charge:

Primary Account Representative(s)

Name: _____	Name: _____
Title: _____	Title: _____
Telephone: _____	Telephone: _____
FAX No.: _____	FAX No.: _____
E-Mail: _____	E-Mail: _____
CRD No.: _____	CRD No.: _____

Manager

Name: _____
Title: _____
Telephone: _____
FAX: _____
E-Mail: _____
CRD No.: _____

5. Please provide information about your firm to include the information shown below.
- Year founded and in what state.
 - Please describe your business and organizational structure.
 - Please list principal owners, distribution of ownership, and Board members.
 - Please describe any major business affiliations and/or joint ventures in which your organization participates.
 - Please indicate the face amount of insurance that the firm carries with respect to errors and omissions, fiduciary liability and fidelity bonding.
 - Is the firm related by ownership or formal business agreement to any provider of brokerage, consulting and/or research services? If yes, please explain.
 - Are there any potential conflicts of interest that may be created by awarding a Securities Investment Advisor contract to your firm? If yes, please explain.

6. Please describe your firm's investment advisory practice and what service or services your firm can provide to the Alamo RMA.

7. Have any of your public clients ever sustained a loss on a securities transaction arising from a misunderstanding or misrepresentation of the risk characteristics of the instrument. (If yes, explain.) _____

8. Has your firm or any of your employees ever been subjected to a regulatory, federal or state investigation for alleged improper, fraudulent, disreputable or unfair activities related to the sale of government securities, money market instruments, repurchase agreements, or other securities or instruments traded with municipal clients? If yes, please provide full explanation. _____

9. Please explain your normal custody and delivery process. Who audits these fiduciary systems? _____

10. Describe the reports, confirmations, and paper trail the Alamo RMA will receive for transactions executed through your firm. The following minimum information is required:
 - a. Security Type and CUSIP Number
 - b. Issue Date, Maturity Date, Settlement Date, Trade Date, Call Date, Pay Date
 - c. Yield
 - d. Coupon Rate
 - e. Price
 - f. Rating
 - g. Par or Face Value

11. Provide samples of research reports or other market information material your firm regularly provide to governmental clients.

12. Please provide audited financial statements for the most current year.

13. Describe the practice exercised by your firm to assist and protect governmental entities that execute investment transactions with your firm.

14. Explain changes that have occurred within your firm over the last six months regarding staffing, capital, organizational structure, as well as changes you expect may occur over the next six months.

20. Attach a copy of your NASD or SEC Registration.

21. Attach a copy of your State of Texas Securities Commission Registration.

22. Has your firm been involved in litigation with, or filed a claim against the Alamo RMA within the past three (3) years? If so, what was, or is the status, resolution or outcome? _____

23. Please list three references for cities in Texas for whom your firm currently provides security investment advisor services _____

Exhibit V
Sample Security Investment Firm,
Mutual Fund and Broker/Dealer Certification

I hereby certify that I have personally read the Alamo RMA Investment Policy and the State of Public Funds Investment Act and agree to comply with both. We have implemented or have in place reasonable procedures and a system of controls designed to preclude imprudent investment activities arising out of transactions conducted between our firm and municipal clients. Account Executives and personnel assigned to the Alamo RMA account will be routinely informed of the Alamo RMA investment strategy and investment objectives to:

- (1) effectuate investment transactions that satisfy, on a timely basis, cash flow requirements;
- (2) exercise prudence in the selection and trade of securities that suitable investments for the financial requirements of the Alamo RMA;
- (3) preserve the safety of principal;
- (4) have marketability and liquidity;
- (5) create a portfolio of investments that is comprised of diversified securities; and maximizes yield after due consideration is given to the above requirements

We pledge to exercise due diligence in informing you of all foreseeable risks associated with financial transactions conducted with our firm. I attest to the accuracy of our responses to your questionnaire.

Business Organization

Signature of Registered Principal

Printed Name and Title

Date

Exhibit VI

Texas Public Funds Investment Act

GOVERNMENT CODE

CHAPTER 2256. PUBLIC FUNDS INVESTMENT

SUBCHAPTER A. AUTHORIZED INVESTMENTS FOR GOVERNMENTAL ENTITIES

Sec. 2256.001. SHORT TITLE. This chapter may be cited as the Public Funds Investment Act.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.002. DEFINITIONS. In this chapter:

(1) "Bond proceeds" means the proceeds from the sale of bonds, notes, and other obligations issued by an entity, and reserves and funds maintained by an entity for debt service purposes.

(2) "Book value" means the original acquisition cost of an investment plus or minus the accrued amortization or accretion.

(3) "Funds" 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.

(4) "Institution of higher education" has the meaning assigned by Section 61.003, Education Code.

(5) "Investing entity" and "entity" mean an entity subject to this chapter and described by Section 2256.003.

(6) "Investment pool" means an entity created under this 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:

(A) preservation and safety of principal;

(B) liquidity; and

(C) yield.

(7) "Local government" means a municipality, a county, a school district, a district or authority created under Section 52(b)(1) or (2), Article III, or Section 59, Article XVI, Texas Constitution, a fresh water supply district, a hospital district, and any political subdivision, authority, public corporation, body politic, or instrumentality of the State of Texas, and any nonprofit corporation acting on behalf of any of those entities.

(8) "Market value" means the current face or par value of an investment multiplied by the net selling price of the security as quoted by a recognized market pricing source quoted on the valuation date.

(9) "Pooled fund group" means an internally created fund of an investing entity in which one or more institutional accounts of the investing entity are invested.

(10) "Qualified representative" means a person who holds a position with a business organization, who is authorized to act on behalf of the business organization, and who is one of the following:

(A) for a business organization doing business that is regulated by or registered with a securities commission, a person who is registered under the rules of the National Association of Securities Dealers;

(B) for a state or federal bank, a savings bank, or a state or federal credit union, a member of the loan committee for the bank or branch of the bank or a person authorized by corporate resolution to act on behalf of and bind the banking institution;

(C) for an investment pool, the person authorized by the elected official or board with authority to administer the activities of the investment pool to sign the written instrument on behalf of the investment pool; or

(D) for an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or, if not subject to registration under that Act, registered with the State Securities Board, a person who is an officer or principal of the investment management firm.

(11) "School district" means a public school district.

(12) "Separately invested asset" means an account or fund of a state agency or local government that is not invested in a pooled fund group.

(13) "State agency" means an office, department, commission, board, or other agency that is part of any branch of state government, an institution of higher education, and any nonprofit corporation acting on behalf of any of those entities.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1421, Sec. 1, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 1454, Sec. 1, eff. Sept. 1, 1999.

Sec. 2256.003. AUTHORITY TO INVEST FUNDS; ENTITIES SUBJECT TO THIS CHAPTER. (a) Each governing body of the following entities may purchase, sell, and invest its funds and funds under its control in investments authorized under this subchapter in compliance with investment policies approved by the governing body and according to the standard of care prescribed by Section 2256.006:

(1) a local government;

(2) a state agency;

(3) a nonprofit corporation acting on behalf of a local government or a state agency; or

(4) an investment pool acting on behalf of two or more local governments, state agencies, or a combination of those entities.

(b) In the exercise of its powers under Subsection (a), the governing body of an investing entity 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 authority of this subsection may not be for a term longer than two years. A renewal or extension of the contract must be made by the governing body of the investing entity by order, ordinance, or resolution.

(c) This chapter does not prohibit an investing entity or investment officer from using the entity's employees or the services of a contractor of the entity to aid the investment officer in the execution of the officer's duties under this chapter.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1999, 76th Leg., ch. 1454, Sec. 2, eff. Sept. 1, 1999.

Sec. 2256.004. APPLICABILITY. (a) This subchapter does not apply to:

(1) a public retirement system as defined by Section 802.001;

(2) state funds invested as authorized by Section 404.024;

(3) an institution of higher education having total endowments of at least \$95 million in book value on May 1, 1995;

(4) funds invested by the Veterans' Land Board as authorized by Chapter 161, 162, or 164, Natural Resources Code;

(5) registry funds deposited with the county or district clerk under Chapter 117, Local Government Code;
or

(6) a deferred compensation plan that qualifies under either Section 401(k) or 457 of the Internal Revenue Code of 1986 (26 U.S.C. Section 1 et seq.), as amended.

(b) This subchapter does not apply to an investment donated to an investing entity for a particular purpose or under terms of use specified by the donor.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 505, Sec. 24, eff. Sept. 1, 1997; Acts 1997, 75th Leg., ch. 1421, Sec. 2, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 62, Sec. 8.21, eff. Sept. 1, 1999; Acts 1999, 76th Leg., ch. 1454, Sec. 3, eff. Sept. 1, 1999.

Sec. 2256.005. INVESTMENT POLICIES; INVESTMENT STRATEGIES; INVESTMENT OFFICER. (a) The governing body of an investing entity shall adopt by rule, order, ordinance, or resolution, as appropriate, a written investment policy regarding the investment of its funds and funds under its control.

(b) The investment policies must:

(1) be written;

(2) primarily emphasize safety of principal and liquidity;

(3) address investment diversification, yield, and maturity and the quality and capability of investment management; and

(4) include:

(A) a list of the types of authorized investments in which the investing entity's funds may be invested;

(B) the maximum allowable stated maturity of any individual investment owned by the entity;

(C) for pooled fund groups, the maximum dollar-weighted average maturity allowed based on the stated maturity date for the portfolio;

(D) methods to monitor the market price of investments acquired with public funds; and

(E) a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis.

(c) The investment policies may provide that bids for certificates of deposit be solicited:

(1) orally;

(2) in writing;

(3) electronically; or

(4) in any combination of those methods.

(d) As an integral part of an investment policy, the governing body shall adopt a separate written investment strategy for each of the funds or group of funds under its control. Each investment strategy must describe the investment objectives for the particular fund using the following priorities in order of importance:

(1) understanding of the suitability of the investment to the financial requirements of the entity;

- (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; and
- (6) yield.

(e) The governing body of an investing entity shall review its investment policy and investment strategies not less than annually. The governing body shall adopt a written instrument by rule, order, ordinance, or 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.

(f) Each investing entity shall designate, by rule, order, ordinance, or resolution, as appropriate, one or more officers or employees of the state agency, local government, or investment pool as investment officer to be responsible for the investment of its funds consistent with the investment policy adopted by the entity. If the governing body of an investing entity 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 first investing entity for purposes of this chapter. Authority granted to a person to invest an entity's funds is effective until rescinded by the investing entity, until the expiration of the officer's term or the termination of the person's employment by the investing entity, or if an investment management firm, until the expiration of the contract with the investing entity. 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 governing body of the investing entity retains ultimate responsibility as fiduciaries of the assets of the entity. Unless authorized by law, a person may not deposit, withdraw, transfer, or manage in any other manner the funds of the investing entity.

(g) Subsection (f) does not apply to a state agency, local government, or investment pool for which an officer of the entity is assigned by law the function of investing its funds.

Text of subsec. (h) as amended by Acts 1997, 75th Leg., ch. 685, Sec. 1

(h) An officer or employee of a commission created under Chapter 391, Local Government Code, is ineligible to be an investment officer for the commission under Subsection (f) if the officer or employee is an investment officer designated under Subsection (f) for another local government

.Text of subsec. (h) as amended by Acts 1997, 75th Leg., ch. 1421, Sec. 3

(h) An officer or employee of a commission created under Chapter 391, Local Government Code, is ineligible to be designated as an investment officer under Subsection (f) for any investing entity other than for that commission.

(i) An investment officer of an entity who has a personal business relationship with a business organization offering to engage in an investment transaction with the entity 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 under Chapter 573, to an individual seeking to sell an investment to the investment officer's entity shall file a statement disclosing that relationship. A statement required under this subsection must be filed with the Texas Ethics Commission and the governing body of the entity. For purposes of this subsection, an investment officer has a personal business relationship with a business organization if:

(1) the investment officer owns 10 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 10 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.

(j) The governing body of an investing entity may specify in its investment policy that any investment authorized by this chapter is not suitable.

(k) A written copy of the investment policy shall be presented to any person offering to engage in an investment transaction with an investing entity or to an investment management firm under contract with an investing entity to invest or manage the entity's investment portfolio. For purposes of this subsection, a business organization includes investment pools and an investment management firm under contract with an investing entity to invest or manage the entity's investment portfolio. Nothing in this subsection relieves the investing entity of the responsibility for monitoring the investments made by the investing entity to determine that they are in compliance with the investment policy. The qualified representative of the business organization offering to engage in an investment transaction with an investing entity shall execute a written instrument in a form acceptable to the investing entity and the business organization substantially to the effect that the business organization has:

(1) received and reviewed the investment policy of the entity; and

(2) acknowledged that the business organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the entity and the organization that are not authorized by the entity's investment policy, except to the extent that this authorization is dependent on an analysis of the makeup of the entity's entire portfolio or requires an interpretation of subjective investment standards.

(l) The investment officer of an entity may not acquire or otherwise obtain any authorized investment described in the investment policy of the investing entity from a person who has not delivered to the entity the instrument required by Subsection (k).

(m) An investing entity other than a state agency, in conjunction with its annual financial audit, shall perform a compliance audit of management controls on investments and adherence to the entity's established investment policies.

(n) Except as provided by Subsection (o), at least once every two years a state agency shall arrange for a compliance audit of management controls on investments and adherence to the agency's established investment policies. The compliance audit shall be performed by the agency's internal auditor or by a private auditor employed in the manner provided by Section 321.020. Not later than January 1 of each even-numbered year a state agency shall report the results of the most recent audit performed under this subsection to the state auditor. Subject to a risk assessment and to the legislative audit committee's approval of including a review by the state auditor in the audit plan under Section 321.013, the state auditor may review information provided under this section. If review by the state auditor is approved by the legislative audit committee, the state auditor may, based on its review, require a state agency to also report to the state auditor other information the state auditor determines necessary to assess compliance with laws and policies applicable to state agency investments. A report under this subsection shall be prepared in a manner the state auditor prescribes.

(o) The audit requirements of Subsection (n) do not apply to assets of a state agency that are invested by the comptroller under Section 404.024.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 685, Sec. 1, eff. Sept. 1, 1997; Acts 1997, 75th Leg., ch. 1421, Sec. 3, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 1454, Sec. 4, eff. Sept. 1, 1999; Acts 2003, 78th Leg., ch. 785, Sec. 41, eff. Sept. 1, 2003.

Sec. 2256.006. STANDARD OF CARE. (a) 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 investment objectives, in order of priority:

(1) preservation and safety of principal;

(2) liquidity; and

(3) yield.

(b) In determining whether an investment officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration:

(1) the investment of all funds, or funds under the entity's control, over which the officer had responsibility rather than a consideration as to the prudence of a single investment; and

(2) whether the investment decision was consistent with the written investment policy of the entity.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.007. INVESTMENT TRAINING; STATE AGENCY BOARD MEMBERS AND OFFICERS. (a) Each member of the governing board of a state agency and its investment officer shall attend at least one training session relating to the person's responsibilities under this chapter within six months after taking office or assuming duties.

(b) The Texas Higher Education Coordinating Board shall provide the training under this section.

(c) Training under this section must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with this chapter.

(d) An investment officer shall attend a training session not less than once in a two-year period and may receive training from any independent source approved by the governing body of the state agency. The investment officer shall prepare a report on this subchapter and deliver the report to the governing body of the state agency not later than the 180th day after the last day of each regular session of the legislature.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 73, Sec. 1, eff. May 9, 1997; Acts 1997, 75th Leg., ch. 1421, Sec. 4, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 1454, Sec. 5, eff. Sept. 1, 1999.

Sec. 2256.008. INVESTMENT TRAINING; LOCAL GOVERNMENTS. (a) Except as provided by Subsections (b) and (e), the treasurer, the chief financial officer if the treasurer is not the chief financial officer, and the investment officer of a local government shall:

(1) attend at least one training session from an independent source approved by the governing body of the local government or a designated investment committee advising the investment officer as provided for in the investment policy of the local government and containing at least 10 hours of instruction relating to the treasurer's or officer's responsibilities under this subchapter within 12 months after taking office or assuming duties; and

(2) except as provided by Subsections (b) and (e), attend an investment training session not less than once in a two-year period and receive not less than 10 hours of instruction relating to investment responsibilities under this subchapter from an independent source approved by the governing body of the local government or a designated investment committee advising the investment officer as provided for in the investment policy of the local government.

(b) An investing entity created under authority of Section 52(b), Article III, or Section 59, Article XVI, Texas Constitution, that has contracted with an investment management firm under Section 2256.003(b) and has fewer than five full-time employees or an investing entity that has contracted with another investing entity to invest the entity's funds may satisfy the training requirement provided by Subsection (a)(2) by having an officer of the governing body attend four hours of appropriate instruction in a two-year period. The treasurer or chief financial officer of an investing entity created under authority of Section 52(b), Article III, or Section 59, Article XVI, Texas Constitution, and that has fewer than five full-time employees is not required to attend training required by this section unless the person is also the investment officer of the entity.

(c) Training under this section must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with this chapter.

(d) Not later than December 31 each year, each individual, association, business, organization, governmental entity, or other person that provides training under this section shall report to the comptroller a list of the governmental entities for which the person provided required training under this section during that calendar year. An individual's reporting requirements under this subsection are satisfied by a report of the individual's employer or the sponsoring or organizing entity of a training program or seminar.

(e) This section does not apply to a district governed by Chapter 36 or 49, Water Code.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1421, Sec. 5, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 1454, Sec. 6, eff. Sept. 1, 1999; Acts 2001, 77th Leg., ch. 69, Sec. 4, eff. May 14, 2001.

Sec. 2256.009. AUTHORIZED INVESTMENTS: OBLIGATIONS OF, OR GUARANTEED BY GOVERNMENTAL ENTITIES.

(a) Except as provided by Subsection (b), the following are authorized investments under this subchapter:

- (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities;
- (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 or the United States or their respective agencies and instrumentalities;
- (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; and
- (6) bonds issued, assumed, or guaranteed by the State of Israel.

(b) The following are not authorized investments under this section:

- (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 10 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.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1999, 76th Leg., ch. 1454, Sec. 7, eff. Sept. 1, 1999; Acts 2001, 77th Leg., ch. 558, Sec. 1, eff. Sept. 1, 2001.

Sec. 2256.010. AUTHORIZED INVESTMENTS: CERTIFICATES OF DEPOSIT AND SHARE CERTIFICATES. (a) A certificate of deposit or share certificate is an authorized investment under this subchapter if the certificate is issued by a depository institution that has its main office or a branch office in this state and is:

- (1) guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor;
- (2) secured by obligations that are described by Section 2256.009(a), 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 of the nature described by Section 2256.009(b); or
- (3) secured in any other manner and amount provided by law for deposits of the investing entity.

(b) In addition to the authority to invest funds in certificates of deposit under Subsection (a), an investment in certificates of deposit made in accordance with the following conditions is an authorized investment under this subchapter:

- (1) the funds are invested by an investing entity through a depository institution that has its main office or a branch office in this state and that is selected by the investing entity;

(2) the depository institution selected by the investing entity under Subdivision (1) 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 investing entity;

(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;

(4) the depository institution selected by the investing entity under Subdivision (1) acts as custodian for the investing entity with respect to the certificates of deposit issued for the account of the investing entity; and

(5) at the same time that the funds are deposited and the certificates of deposit are issued for the account of the investing entity, the depository institution selected by the investing entity under Subdivision (1) receives an amount of deposits from customers of other federally insured depository institutions, wherever located, that is equal to or greater than the amount of the funds invested by the investing entity through the depository institution selected under Subdivision (1).

Amended by Acts 1995, 74th Leg., ch. 32, Sec. 1, eff. April 28, 1995; Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1421, Sec. 6, eff. Sept. 1, 1997. Amended by: Acts 2005, 79th Leg., Ch. 128, Sec. 1, eff. September 1, 2005.

Sec. 2256.011. AUTHORIZED INVESTMENTS: REPURCHASE AGREEMENTS. (a) A fully collateralized repurchase agreement is an authorized investment under this subchapter if the repurchase agreement:

(1) has a defined termination date;

(2) is secured by obligations described by Section 2256.009(a)(1); and

(3) requires the securities being purchased by the entity to be pledged to the entity, held in the entity's name, and deposited at the time the investment is made with the entity or with a third party selected and approved by the entity; and

(4) is placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in this state.

(b) In this section, "repurchase agreement" means a simultaneous agreement to buy, hold for a specified time, and sell back at a future date obligations described by Section 2256.009(a)(1), 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.

(c) Notwithstanding any other law, the term of any reverse security repurchase agreement may not exceed 90 days after the date the reverse security repurchase agreement is delivered.

(d) Money received by an entity 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.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.0115. AUTHORIZED INVESTMENTS: SECURITIES LENDING PROGRAM. (a) A securities lending program is an authorized investment under this subchapter if it meets the conditions provided by this section.

(b) To qualify as an authorized investment under this subchapter:

(1) the value of securities loaned under the program must be not less than 100 percent collateralized, including accrued income;

(2) a loan made under the program must allow for termination at any time;

(3) a loan made under the program must be secured by:

(A) pledged securities described by Section 2256.009;

(B) pledged irrevocable letters of credit issued by a bank that is:

(i) organized and existing under the laws of the United States or any other state; and

(ii) 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 Section:

(i) 2256.009;

(ii) 2256.013;

(iii) 2256.014; or

(iv) 2256.016;

(4) the terms of a loan made under the program must require that the securities being held as collateral be:

(A) pledged to the investing entity;

(B) held in the investing entity's name; and

(C) deposited at the time the investment is made with the entity or with a third party selected by or approved by the investing entity;

(5) a loan made under the program must be placed through:

(A) 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

(B) a financial institution doing business in this state; and

(6) an agreement to lend securities that is executed under this section must have a term of one year or less.

Added by Acts 2003, 78th Leg., ch. 1227, Sec. 1, eff. Sept. 1, 2003.

Sec. 2256.012. AUTHORIZED INVESTMENTS: BANKER'S ACCEPTANCES. A bankers' acceptance is an authorized investment under this subchapter if the bankers' acceptance:

(1) has a stated maturity of 270 days or fewer from the date of its 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 one nationally recognized credit rating agency.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.013. AUTHORIZED INVESTMENTS: COMMERCIAL PAPER. Commercial paper is an authorized investment under this subchapter if the commercial paper:

(1) has a stated maturity of 270 days or fewer from the date of its issuance; and

(2) is rated not less than A-1 or P-1 or an equivalent rating by at least:

(A) two nationally recognized credit rating agencies; or

(B) 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 or any state.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.014. AUTHORIZED INVESTMENTS: MUTUAL FUNDS. (a) A no-load money market mutual fund is an authorized investment under this subchapter if the mutual fund:

(1) is registered with and regulated by the Securities and Exchange Commission;

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

(3) has a dollar-weighted average stated maturity of 90 days or fewer; and

(4) includes in its investment objectives the maintenance of a stable net asset value of \$1 for each share.

(b) In addition to a no-load money market mutual fund permitted as an authorized investment in Subsection (a), a no-load mutual fund is an authorized investment under this subchapter if the mutual fund:

(1) is registered with the Securities and Exchange Commission;

(2) has an average weighted maturity of less than two years;

(3) is invested exclusively in obligations approved by this subchapter;

(4) is continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent; and

(5) conforms to the requirements set forth in Sections 2256.016(b) and (c) relating to the eligibility of investment pools to receive and invest funds of investing entities.

(c) An entity is not authorized by this section 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 Subsection (b);

(2) invest any portion of bond proceeds, reserves and funds held for debt service, in mutual funds described in Subsection (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 Subsection (a) or (b) in an amount that exceeds 10 percent of the total assets of the mutual fund.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1421, Sec. 7, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 1454, Sec. 8, eff. Sept. 1, 1999.

Sec. 2256.015. AUTHORIZED INVESTMENTS: GUARANTEED INVESTMENT CONTRACTS. (a) A guaranteed investment contract is an authorized investment for bond proceeds under this subchapter if the guaranteed investment contract:

(1) has a defined termination date;

(2) is secured by obligations described by Section 2256.009(a)(1), excluding those obligations described by Section 2256.009(b), in an amount at least equal to the amount of bond proceeds invested under the contract; and

(3) is pledged to the entity and deposited with the entity or with a third party selected and approved by the entity.

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

(c) To be eligible as an authorized investment:

(1) the governing body of the entity must specifically authorize guaranteed investment contracts as an eligible investment in the order, ordinance, or resolution authorizing the issuance of bonds;

(2) the entity must receive bids from at least three separate providers with no material financial interest in the bonds from which proceeds were received;

(3) the entity 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.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1421, Sec. 8, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 1454, Sec. 9, 10, eff. Sept. 1, 1999.

Sec. 2256.016. AUTHORIZED INVESTMENTS: INVESTMENT POOLS. (a) An entity may invest its funds and funds under its control through an eligible investment pool if the governing body of the entity by rule, order, ordinance, or resolution, as appropriate, authorizes investment in the particular pool. An investment pool shall invest the funds it receives from entities in authorized investments permitted by this subchapter.

(b) To be eligible to receive funds from and invest funds on behalf of an entity under this chapter, an investment pool must furnish to the investment officer or other authorized representative of the entity an offering circular or other similar disclosure instrument that contains, at a minimum, the following information:

(1) the types of investments in which money is allowed to be invested;

(2) the maximum average dollar-weighted maturity allowed, based on the stated maturity date, of the pool;

(3) the maximum stated maturity date any investment security within the portfolio has;

(4) the objectives of the pool;

(5) the size of the pool;

(6) the names of the members of the advisory board of the pool and the dates their terms expire;

(7) the custodian bank that will safekeep the pool's assets;

(8) whether the intent of the pool is to maintain a net asset value of one dollar and the risk of market price fluctuation;

(9) whether the only source of payment is the assets of the pool at market value or whether there is a secondary source of payment, such as insurance or guarantees, and a description of the secondary source of payment;

(10) the name and address of the independent auditor of the pool;

(11) the requirements to be satisfied for an entity to deposit funds in and withdraw funds from the pool and any deadlines or other operating policies required for the entity to invest funds in and withdraw funds from the pool; and

(12) the performance history of the pool, including yield, average dollar-weighted maturities, and expense ratios.

(c) To maintain eligibility to receive funds from and invest funds on behalf of an entity under this chapter, an investment pool must furnish to the investment officer or other authorized representative of the entity:

(1) investment transaction confirmations; and

(2) a monthly report that contains, at a minimum, the following information:

(A) the types and percentage breakdown of securities in which the pool is invested;

(B) the current average dollar-weighted maturity, based on the stated maturity date, of the pool;

(C) the current percentage of the pool's portfolio in investments that have stated maturities of more than one year;

(D) the book value versus the market value of the pool's portfolio, using amortized cost valuation;

(E) the size of the pool;

(F) the number of participants in the pool;

(G) the custodian bank that is safekeeping the assets of the pool;

(H) a listing of daily transaction activity of the entity participating in the pool;

(I) the yield and expense ratio of the pool;

(J) the portfolio managers of the pool; and

(K) any changes or addenda to the offering circular.

(d) An entity by contract may delegate to an investment pool the authority to hold legal title as custodian of investments purchased with its local funds.

(e) In this section, "yield" shall be calculated in accordance with regulations governing the registration of open-end management investment companies under the Investment Company Act of 1940, as promulgated from time to time by the federal Securities and Exchange Commission.

(f) To be eligible to receive funds from and invest funds on behalf of an entity under this chapter, a public funds investment pool created to function as a money market mutual fund must mark its portfolio to market daily, and, to the extent reasonably possible, stabilize at a \$1 net asset value. If the ratio of the market value of the portfolio divided by the book value of the portfolio is less than 0.995 or greater than 1.005, portfolio holdings shall be sold as necessary to maintain the ratio between 0.995 and 1.005.

(g) To be eligible to receive funds from and invest funds on behalf of an entity under this chapter, a public funds investment pool must have an advisory board composed:

(1) equally of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool, for a public funds investment pool created under Chapter 791 and managed by a state agency; or

(2) of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool, for other investment pools.

(h) To maintain eligibility to receive funds from and invest funds on behalf of an entity under this chapter, an investment pool must be continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1421, Sec. 9, eff. Sept. 1, 1997.

Sec. 2256.017. EXISTING INVESTMENTS. An entity is not required to liquidate investments that were authorized investments at the time of purchase.

Added by Acts 1995, 74th Leg., ch. 76, Sec. 5.46(a), eff. Sept. 1, 1995; Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995. Amended by Acts 1997, 75th Leg., ch. 1421, Sec. 10, eff. Sept. 1, 1997.

Sec. 2256.019. RATING OF CERTAIN INVESTMENT POOLS. A public funds investment pool must be continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service or no lower than investment grade by at least one nationally recognized rating service with a weighted average maturity no greater than 90 days.

Added by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995. Amended by Acts 1997, 75th Leg., ch. 1421, Sec. 11, eff. Sept. 1, 1997.

Sec. 2256.020. AUTHORIZED INVESTMENTS: INSTITUTIONS OF HIGHER EDUCATION. In addition to the authorized investments permitted by this subchapter, an institution of higher education may purchase, sell, and invest its funds and funds under its control in the following:

(1) cash management and fixed income funds sponsored by organizations exempt from federal income taxation under Section 501(f), Internal Revenue Code of 1986 (26 U.S.C. Section 501(f));

(2) negotiable certificates of deposit issued by a bank that has a certificate of deposit rating of at least 1 or the equivalent by a nationally recognized credit rating agency or that is associated with a holding company having a commercial paper rating of at least A-1, P-1, or the equivalent by a nationally recognized credit rating agency; and

(3) corporate bonds, debentures, or similar debt obligations rated by a nationally recognized investment rating firm in one of the two highest long-term rating categories, without regard to gradations within those categories.

Added by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.0201. AUTHORIZED INVESTMENTS; MUNICIPAL UTILITY. (a) A municipality that owns a municipal electric utility that is engaged in the distribution and sale of electric energy or natural gas to the public may enter into a hedging contract and related security and insurance agreements in relation to fuel oil, natural gas, coal, nuclear fuel, and electric energy to protect against loss due to price fluctuations. A hedging transaction must comply with the regulations of the Commodity Futures Trading Commission and the Securities and Exchange Commission. If there is a conflict between the municipal charter of the municipality and this chapter, this chapter prevails.

(b) A payment by a municipally owned electric or gas utility under a hedging contract or related agreement in relation to fuel supplies or fuel reserves is a fuel expense, and the utility may credit any amounts it receives under the contract or agreement against fuel expenses.

(c) The governing body of a municipally owned electric or gas utility or the body vested with power to manage and operate the municipally owned electric or gas utility may set policy regarding hedging transactions.

(d) In this section, "hedging" means the buying and selling of fuel oil, natural gas, coal, nuclear fuel, and electric energy futures or options or similar contracts on those commodities and related transportation costs as a protection against loss due to price fluctuation.

Added by Acts 1999, 76th Leg., ch. 405, Sec. 48, eff. Sept. 1, 1999. Amended by: Acts 2007, 80th Leg., R.S., Ch. 7, Sec. 1, eff. April 13, 2007.

Sec. 2256.0205. AUTHORIZED INVESTMENTS; DECOMMISSIONING TRUST. (a) In this section:

(1) "Decommissioning trust" means a trust created to provide the Nuclear Regulatory Commission assurance that funds will be available for decommissioning purposes as required under 10 C.F.R. Part 50 or other similar regulation.

(2) "Funds" includes any money held in a decommissioning trust regardless of whether the money is considered to be public funds under this subchapter.

(b) In addition to other investments authorized under this subchapter, a municipality that owns a municipal electric utility that is engaged in the distribution and sale of electric energy or natural gas to the public may invest funds held in a decommissioning trust in any investment authorized by Subtitle B, Title 9, Property Code.

Added by Acts 2005, 79th Leg., Ch. 121, Sec. 1, eff. September 1, 2005.

Sec. 2256.021. EFFECT OF LOSS OF REQUIRED RATING. An investment that requires a minimum rating under this subchapter does not qualify as an authorized investment during the period the investment does not have the minimum rating. An entity shall take all prudent measures that are consistent with its investment policy to liquidate an investment that does not have the minimum rating.

Added by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.022. EXPANSION OF INVESTMENT AUTHORITY. Expansion of investment authority granted by this chapter shall require a risk assessment by the state auditor or performed at the direction of the state auditor, subject to the legislative audit committee's approval of including the review in the audit plan under Section 321.013.

Added by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995. Amended by Acts 2003, 78th Leg., ch. 785, Sec. 42, eff. Sept. 1, 2003.

Sec. 2256.023. INTERNAL MANAGEMENT REPORTS. (a) Not less than quarterly, the investment officer shall prepare and submit to the governing body of the entity a written report of investment transactions for all funds covered by this chapter for the preceding reporting period.

(b) The report must:

(1) describe in detail the investment position of the entity on the date of the report;

(2) be prepared jointly by all investment officers of the entity;

(3) be signed by each investment officer of the entity;

(4) contain a summary statement, prepared in compliance with generally accepted accounting principles, of each pooled fund group that states the:

(A) beginning market value for the reporting period;

(B) additions and changes to the market value during the period;

(C) ending market value for the period; and

(D) fully accrued interest for the reporting period;

(5) state the book value and market value of each separately invested asset at the beginning and end of the reporting period by the type of asset and fund type invested;

(6) state the maturity date of each separately invested asset that has a maturity date;

(7) state the account or fund or pooled group fund in the state agency or local government for which each individual investment was acquired; and

(8) state the compliance of the investment portfolio of the state agency or local government as it relates to:

(A) the investment strategy expressed in the agency's or local government's investment policy;
and

(B) relevant provisions of this chapter.

(c) The report shall be presented not less than quarterly to the governing body and the chief executive officer of the entity within a reasonable time after the end of the period.

(d) If an entity 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 under this section shall be formally reviewed at least annually by an independent auditor, and the result of the review shall be reported to the governing body by that auditor.

Added by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995. Amended by Acts 1997, 75th Leg., ch. 1421, Sec. 12, eff. Sept. 1, 1997.

Sec. 2256.024. SUBCHAPTER CUMULATIVE. (a) The authority granted by this subchapter is in addition to that granted by other law. Except as provided by Subsection (b), this subchapter does not:

- (1) prohibit an investment specifically authorized by other law; or
- (2) authorize an investment specifically prohibited by other law.

(b) Except with respect to those investing entities described in Subsection (c), a security described in Section 2256.009(b) is not an authorized investment for a state agency, a local government, or another investing entity, notwithstanding any other provision of this chapter or other law to the contrary.

(c) Mortgage pass-through certificates and individual mortgage loans that may constitute an investment described in Section 2256.009(b) are authorized investments with respect to the housing bond programs operated by:

- (1) the Texas Department of Housing and Community Affairs or a nonprofit corporation created to act on its behalf;
- (2) an entity created under Chapter 392, Local Government Code; or
- (3) an entity created under Chapter 394, Local Government Code.

Added by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.025. SELECTION OF AUTHORIZED BROKERS. The governing body of an entity subject to this subchapter or the designated investment committee of the entity shall, at least annually, review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the entity.

Added by Acts 1997, 75th Leg., ch. 1421, Sec. 13, eff. Sept. 1, 1997.

Sec. 2256.026. STATUTORY COMPLIANCE. All investments made by entities must comply with this subchapter and all federal, state, and local statutes, rules, or regulations.

Added by Acts 1997, 75th Leg., ch. 1421, Sec. 13, eff. Sept. 1, 1997.

SUBCHAPTER B. MISCELLANEOUS PROVISIONS

Sec. 2256.051. ELECTRONIC FUNDS TRANSFER. Any local government may use electronic means to transfer or invest all funds collected or controlled by the local government.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.052. PRIVATE AUDITOR. Notwithstanding any other law, a state agency shall employ a private auditor if authorized by the legislative audit committee either on the committee's initiative or on request of the governing body of the agency.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.053. PAYMENT FOR SECURITIES PURCHASED BY STATE. The comptroller or the disbursing officer of an agency that has the power to invest assets directly may pay for authorized securities purchased from or through a member in good standing of the National Association of Securities Dealers or from or through a national or state bank on receiving an invoice from the seller of the securities showing that the securities have been purchased by the board or agency and that the amount to be paid for the securities is just, due, and unpaid. A purchase of securities may not be made at a price that exceeds the existing market value of the securities.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1423, Sec. 8.67, eff. Sept. 1, 1997.

Sec. 2256.054. DELIVERY OF SECURITIES PURCHASED BY STATE. A security purchased under this chapter may be delivered to the comptroller, a bank, or the board or agency investing its funds. The delivery shall be made under normal and recognized practices in the securities and banking industries, including the book entry procedure of the Federal Reserve Bank.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1423, Sec. 8.68, eff. Sept. 1, 1997.

Sec. 2256.055. DEPOSIT OF SECURITIES PURCHASED BY STATE. At the direction of the comptroller or the agency, a security purchased under this chapter may be deposited in trust with a bank or federal reserve bank or branch designated by the comptroller, whether in or outside the state. The deposit shall be held in the entity's name as evidenced by a trust receipt of the bank with which the securities are deposited.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1423, Sec. 8.69, eff. Sept. 1, 1997.