

PFIA Investments



**North Central Texas
Council of Governments**



PFIA Authorized Investments

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Sec. 2256.009. OBLIGATIONS OF, OR GUARANTEED BY GOVERNMENTAL ENTITIES

- (a) Authorized Investments:
 - 1) Obligation including LOCs of the U.S., agencies and Instrumentalities, including FHLB.
 - 2) Direct obligations of this state, agencies, instrumentalities.
 - 3) CMOs issued by a federal agency and guaranteed.
 - 4) Obligations guaranteed or insured by the FDIC or by the “ff&c” of the U.S.
 - 5) Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated not less than A or its equivalent.
 - 6) Bonds issued, assumed, or guaranteed by the State of Israel.
 - 7) Interest bearing bank deposits insured by the FDIC or the NCUSIF.
 - 8) Interest bearing bank deposits (brokered).

Sec. 2256.009. OBLIGATIONS OF, OR GUARANTEED BY GOVERNMENTAL ENTITIES

- Treasury Issues:
 - Bills – (1 year or less)
 - Notes – (2-10 years)
 - Bonds – (Up to 30 years)
- In order to finance the U.S. national debt, the Treasury issues (sells) debt securities.
 - Most of the debt sold by the federal government is marketable, meaning that it can be resold on the secondary market. Currently, Treasury offers five types of marketable securities: **Treasury bills, notes, bonds, inflation protected securities (TIPS), and floating rate notes (FRNs), sold in about 300 auctions per year.** (<http://sgp.fas.org>)

Sec. 2256.009. OBLIGATIONS OF, OR GUARANTEED BY GOVERNMENTAL ENTITIES

- **T-Bills**

- Treasury bills are among the safest investments in the market. They're backed by the full faith and credit of the U.S. government.
- Auctioned on a regular schedule issued with 5 terms:
 - 4 weeks (one month)
 - 8 weeks (two months)
 - 13 weeks (three months)
 - 26 weeks (six months)
 - 52 weeks (one year)
- T-bills bear no interest. T-bills are issued at a discount from face value and redeemed by the Treasury at maturity for face value.
- The amount of the discount imply a yield that the bill will return if held to maturity. The term for this type of security is a discount security.

Sec. 2256.009. OBLIGATIONS OF, OR GUARANTEED BY GOVERNMENTAL ENTITIES

- T-Notes
 - A Treasury note is a U.S. government debt security with a fixed interest rate and maturity between 2 and 10 years.
 - Interest payments on the notes are made every six months until maturity.
 - Once treasury notes and bonds are issued, their prices fluctuate, so their yields remain linked to market prices.
 - Treasury notes are available either via:
 - Competitive bids, in which an investor specifies the yield, or
 - Non-competitive bids, in which the investor accepts whatever yield is determined.
 - A Treasury note is just like a Treasury bond, except that they have differing maturities—T-bond lifespans are 20 to 30 years.

Sec. 2256.009. OBLIGATIONS OF, OR GUARANTEED BY GOVERNMENTAL ENTITIES

- Letter of Credit (LOC)
 - FHLB Letter of Credit.
 - Used in lieu of collateral pledged to the entity.
 - Each letter of credit has a fixed and defined face value, not subject to market fluctuations or third party monitoring or valuations.
 - Easily and quickly liquidated.
 - Direct obligation of FHLB.
 - Limited monitoring by the depositing entity. Eliminates issues related to securities such as prepayments, fluctuating values, maturities, and calculations determining the excess of the required coverage.
 - LOCs are not assets of the depository institution, and therefore, would receive different consideration in a receivership scenario.
 - Courts recognize payments under LOC's as being from property of the issuer (FHLB) and not of the debtor (Your Bank).
 - Collecting on an LOC requires no Court Action.

Sec. 2256.009. OBLIGATIONS OF, OR GUARANTEED BY GOVERNMENTAL ENTITIES

- U.S. Agency Securities
 - U.S. Government Agency
 - Like Treasury securities, U.S. government agencies are issued under the authority of an act of Congress and are backed by the U.S. govt's full faith and credit.
 - Government-Sponsored Enterprises (GSEs).
 - Unlike U.S. Government issues (Treasury bills, notes, and bonds), GSE securities do not have direct government backing. They are implicitly backed by a moral guarantee from the U.S. Treasury.
 - GSEs borrow in the open market by issuing notes and bonds known in the market as agencies through either auction or a dealer syndicate.
 - These securities bear interest, and can be issued at face value or at a discount.
- Agency and GSE notes and bonds usually trade at positive yield spreads over Treasuries.
- Agencies and GSEs have large trading volumes and secondary markets.

Sec. 2256.009. OBLIGATIONS OF, OR GUARANTEED BY GOVERNMENTAL ENTITIES

- U.S. Federal Government - Sponsored Agency Securities
 - Backed by the full faith and credit of the U.S. government (*explicit guarantee*).

Entity
U.S. Treasury Issues
Small Business Administration
Federal Housing Administration
Government National Mortgage Association
General Services Administration

Sec. 2256.009. OBLIGATIONS OF, OR GUARANTEED BY GOVERNMENTAL ENTITIES

- U.S. Agency Securities (GSEs)
 - Federally-chartered but privately owned.
 - Are not backed by the full faith and credit of the U.S. government (implicit guarantee).
 - GSEs borrow in the open market by issuing notes and bonds known in the market as agencies through either auction or a dealer syndicate.

Entity	Trading Name
Federal Agricultural Mortgage Corporation	Farmer Mac
Federal Farm Credit Banks Funding Corporation	Farm Credit
Federal Home Loan Banks	FHL Banks
Federal Home Loan Mortgage Corporation	Freddie Mac
Federal National Mortgage Association	Fannie Mae
Tennessee Valley Authority	TVA

Sec. 2256.009. OBLIGATIONS OF, OR GUARANTEED BY GOVERNMENTAL ENTITIES

- U.S. Agency Securities (GSEs)
 - Federal Agriculture Mortgage Corporation – (Farmer Mac)
 - Increases the availability and affordability of credit for agricultural and rural communities. As the nation’s premier provider of secondary market agricultural credit, we provide financial solutions to institutions that can benefit from access to flexible, low-cost financing and risk management tools. (DNs, Bullets, Callables, Floaters).
 - Farm Credit –
 - Supports rural communities and agriculture with reliable, consistent credit and financial services. We serve every part of agriculture from the smallest operations to the largest – and everything in between. (DNs, Bullets, Callables, Floaters, Designated).
 - Federal Home Loan Banks – (FHLB)
 - Provides their members with a reliable source of funding for housing finance, community lending and asset-liability management as well as liquidity for members’ short-term needs. The FHLBanks play an essential role by helping member institutions meet the credit needs of communities everywhere in all economic cycles. (DNs, Fixed-Rate Non-Callables, Callables and Structured Notes, Floaters, Mandated Globals).

Sec. 2256.009. OBLIGATIONS OF, OR GUARANTEED BY GOVERNMENTAL ENTITIES

- U.S. Agency Securities (GSEs)
 - Federal Home Loan Mortgage Corporation – (Freddie Mac)
 - Freddie Mac was chartered by Congress in 1970 to support the U.S. housing finance system and to help ensure a reliable and affordable supply of mortgage funds across the country. Rather than lending directly to borrowers, Freddie Mac operates in the U.S. secondary mortgage market, buying loans that meet our standards from approved lenders. Those lenders are then, in turn, able to provide more loans to qualified borrowers and keep capital flowing into the housing market. Freddie Mac then pools the mortgages it buys into securities, which they sell to investors around the world.

Sec. 2256.009. OBLIGATIONS OF, OR GUARANTEED BY GOVERNMENTAL ENTITIES

- U.S. Agency Securities (GSEs)
 - Federal National Mortgage Association – (Fannie Mae)
 - Fannie Mae is a leading source of mortgage financing in the United States. We help make affordable housing accessible to homeowners, homebuyers, and renters across the country and achieve this with the help of our housing partners. They include mortgage lenders and servicers, housing counselors, real estate agents, and other industry professionals.
 - Tennessee Valley Authority – (TVA)
 - The Tennessee Valley Authority provides electricity for 153 local power companies serving 10 million people in Tennessee and parts of six surrounding states, as well as directly to 57 large industrial customers and federal installations. We don't get taxpayer funding; rather our revenues come from sales of electricity. TVA also provides flood control, navigation and land management for the Tennessee River system, and assists local power companies and regional governments with their economic development efforts.

Sec. 2256.009. OBLIGATIONS OF, OR GUARANTEED BY GOVERNMENTAL ENTITIES

- Agencies yield slightly more than Treasury securities of the same maturity for two primary reasons:
 - The agency issue market is smaller than Treasury issues and therefore less liquid; and
 - While all agency issues have an implicit guarantee from the federal government, only a few agencies' securities:
 - Federally related institutions such as Ginnie Mae and
 - Federal Housing Administration—are explicitly backed by the full faith and credit of the U.S. government.
- The market's risk assessment that it's nearly inconceivable that the government would allow a GSE to default on its obligations.

Sec. 2256.009. OBLIGATIONS OF, OR GUARANTEED BY GOVERNMENTAL ENTITIES (Summary)

- **Safety**
 - U.S. agency securities are backed by the U.S. govt's full faith and credit.
 - GSE issues are direct debt obligations of the issuing entity and enjoy the implied backing of the U.S. government.
- **Yield & Liquidity**
 - Agency and GSE notes and bonds usually trade at yields offering a positive spread over Treasuries.
 - Agencies and GSEs have large trading volumes, keeping liquidity risk low.
- **Diversification**
 - Active secondary market for both U.S. agencies and GSEs.
 - Both U.S. agencies and GSEs are issued on a regular basis.
 - U.S. agencies and GSEs offer a wide range of maturity terms.

Sec. 2256.010. CERTIFICATES OF DEPOSIT

- **PFIA Requirements:**
 - Issued by a depository institution that has its main office or a branch office in this state.
 - Guaranteed by FDIC or the NCUSIF (NCUA) - \$250,000
 - Secured by 2256.009(a)
 - Secured in accordance with Ch. 2257 PFCA
 - CDARS program through a broker that is selected from a list adopted by the investing entity as required by Section 2256.025, or a financial institution. Both are required to have a main or branch office in this state.

Sec. 2256.010. CERTIFICATES OF DEPOSIT

- Why do banks issue them?
 - Domestic banks issue CDs to grow their asset base for myriad of purposes.
 - Foreign banks issue YCDs to increase their dollar reserves and grow their asset base.
- Why do investors buy them?
 - Safety: Conventional CDs are very low-risk and have FDIC backing.
 - Yield: Modestly higher yield to low risk assets due to maturity and illiquidity premium.
 - Easy to Understand and familiarity with investors and municipal leadership.
 - Adds diversification.

Sec. 2256.011. REPURCHASE AGREEMENTS

- PFIA Requirements:
 - (a) A fully collateralized repurchase agreement with:
 - (1) Defined termination date
 - (2) Secured by obligations in Section 009(a)(1); and,
 - (3) Third-party safekeeping
 - (4) Primary dealer or financial institution doing business in this state
 - (b) Simultaneous agreement to buy, hold for a specified time, and sell back at a future date.
 - (c) Reverse security repurchase agreement may not exceed 90 days.
 - (d) Investments acquired must mature not later than the expiration in the reverse agreement.

Sec. 2256.011. REPURCHASE AGREEMENTS

- A repo is a form of short-term borrowing for dealers. In the case of a repo, a dealer sells securities to investors, usually on an overnight basis, and buys them back the following day at a slightly higher price.
 - Allows financial institutions that own lots of securities to borrow cheaply; conversely, allows parties with lots of idle cash to earn a small return with little risk.
 - The Federal Reserve uses repos and reverse repos to conduct monetary policy. These open market operations (OMO) are designed to temporarily add or drain reserves available to the banking system in order to influence the federal funds target rate.
 - When the Fed buys securities from a seller who agrees to repurchase them, it is injecting reserves into the financial system in order to meet a lower FFR target.
 - Conversely, when the Fed sells securities with an agreement to repurchase, it is draining reserves from the system in order to meet a higher FFR target.

Sec. 2256.0115. SECURITIES LENDING PROGRAM

- PFIA Requirements
 - Authorized if it meets the following:
 - To qualify:
 - 100% collateralized, including accrued income.
 - Termination at any time.
 - Secured by:
 - Securities described in Section 009.
 - Letters of credit.
 - Cash
 - Collateral must be:
 - Pledged
 - Held in the entity's name.
 - Deposited with a third party.
 - Must be placed through:
 - Primary dealer.
 - Financial institution doing business in this state.
 - Term of 1 year or less

Sec. 2256.012. BANKER'S ACCEPTANCE

- PFIA Requirements
 - 270 days or fewer
 - Liquidated in full at maturity
 - Eligible Federal Reserve Bank collateral
 - U.S. Bank rated not less than A-1 or P-1

Sec. 2256.012. BANKER'S ACCEPTANCE

- Banker's acceptance or BAs are a negotiable piece of paper that function like a post-dated check where a bank, rather than an account holder, guarantees the payment.
- Banker's acceptances are used as a relatively safe form of payment for large transactions.
- They are short-term debt instruments that trade at a discount to face value in the money markets.
- Banks and institutional investors trade banker's acceptances on the secondary market before they reach maturity.
- The strategy is similar to that used in trading zero-coupon bonds. The BA is sold below face value, at a discount determined by the length of time before the maturity date.
- Banker's acceptances are considered to be relatively safe investments because the bank and the borrower are liable for the amount that is due when the instrument matures.

Sec. 2256.013. COMMERCIAL PAPER

- PFIA Requirements
 - 365 days or fewer
 - Liquidated in full at maturity
 - Eligible Federal Reserve Bank collateral
 - U.S. Bank rated not less than A-1 or P-1

Sec. 2256.013. COMMERCIAL PAPER

- Commercial Paper (CP) is essentially an unsecured promissory note issued for a specific dollar amount and maturity date.
- Like T-bills, CP rates are quoted on a *discount* basis.
- CP is generally classified in three broad categories:
 - Non-financial
 - Financial
 - Asset-backed
- The typical maximum maturity for CP 270 days.
 - Anything longer veers away from money markets and into capital markets.
 - Paper with a maturity >270 days must be registered with the SEC, a timely and expensive procedure.
 - The average maturity for CP is 45 days
 - Most CP is 3(a)(3) paper, which is the section of the Securities Act of 1933 that exempts from registration paper that is used to finance “current transactions” [alternative is 4(2), or privately placed].

Sec. 2256.014. MUTUAL FUNDS

- PFIA Requirements
 - A no-load money market mutual fund
 - Registered and regulated by the SEC.
 - Must provide a prospectus and other information required by federal law.
 - Investing entity may not own more than 10% of the fund's total assets.
 - Must comply with SEC Rule 2a-7
 - Currently, the rule requires that immediately after acquisition of an asset, a money market fund must hold at least 10% of its total assets in daily liquid assets and at least 30% of its total assets in weekly liquid assets.
 - A no-load mutual fund
 - Registered with the SEC.
 - Must have a WAM of less than 2 years.
 - Limited to PFIA-authorized investments, or
 - Has a duration of less than one year and are limited to investment grade securities, excluding asset-backed securities.

Sec. 2256.014. MUTUAL FUNDS

- PFIA Requirements
 - Not authorized
 - An entity may not invest more than 15% of its monthly average fund balance, excluding bond proceeds, reserves, and debt service funds.
 - Ineligible for investment of bond proceeds, reserves, and debt service funds.
 - Investing entity may not own more than 10% of the fund's total assets.

Sec. 2256.014. MUTUAL FUNDS

- No Load Money Market Mutual Fund - a short-term investment that offers investors liquidity in addition to the safety that comes with investing in high-quality, short-term securities such as U.S. Treasuries and agencies.
 - Weighted Average Maturity less than 60 days, Weighted Average Life 120 days
- Mutual Funds – an investment through which investors pool funds to invest in a diversified portfolio of securities

Sec. 2256.015. GUARANTEED INVESTMENT CONTRACTS

- A guaranteed investment contract is an authorized investment for bond proceeds under this subchapter if the guaranteed investment contract:
 - has a defined termination date;
 - 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
 - is pledged to the entity and deposited with the entity or with a third party selected and approved by the entity.
- 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.
- To be eligible as an authorized investment:
 - 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;
 - the entity must receive bids from at least three separate providers with no material financial interest in the bonds from which proceeds were received;
 - the entity must purchase the highest yielding guaranteed investment contract for which a qualifying bid is received;
 - the price of the guaranteed investment contract must take into account the reasonably expected drawdown schedule for the bond proceeds to be invested; and
 - the provider must certify the administrative costs reasonably expected to be paid to third parties in connection with the guaranteed investment contract.

Sec. 2256.016. INVESTMENT POOLS

	Cash Pools	Enhanced Cash/Term Products
Net Asset Value (NAV) per share	\$1.00 (stable NAV)	\$0.50 or \$2.00 or \$10.00
Weighted Average Maturity (WAM)	<= 60 days	> 60 days
Weighted Average Life (WAL)	<= 120 days	> 120 days
Maximum Maturity per Investment	<= 1 year	> 1 year
Redemption Restrictions	None	3 to 5 times per month
Accounting Treatment	Generally classified as cash or cash equivalent	Subject to interpretation as to classification as an 'investment' or 'cash equivalent'
Pool Rating	<u>AAAm/AAAmf/AAAmf*</u>	<u>AAAf/AAAbf**</u>

Public Trust Advisors

Sec. 2256.016. INVESTMENT POOLS

- Limited to PFIA investments.
- Lots of disclosure requirements.
- Required to certify the local investment policy.
- Requires a resolution to be passed by the participant.
- Required to maintain a AAA rating.
- Key focus by portfolio administrator:
 - Monitoring/maintaining the NAV
 - Monitoring the WAM.
 - Maneuvering the portfolio holdings relative to the market conditions.

Sec. 2256.016. INVESTMENT POOLS

- Texas Local Government Investment Pools

	Texas CLASS	Texas CLASS Gov't	TexPool Prime	TexPool	Texas Range – Texas DAILY	Texas Range – Texas DAILY Select	Texas Range – Texas TERM*	LOGIC	TexSTAR	TX-FIT Cash Pool**	TX-FIT Gov't Pool	Lone Star Gov't Overnight	Lone Start Corporate Overnight	Lone Star Corporate Overnight Plus
NAV Objective	Stable \$1.00 per share	Stable \$1.00 per share	Stable \$1.00 per share	Stable \$1.00 per share	Stable \$1.00 per share	Stable \$1.00 per share	\$1.00 Return of Principal at Maturity	Stable \$1.00 per share	Stable \$1.00 per share	Floating \$1.00 per share	Stable \$1.00 per share	Stable \$1.00 per share	Stable \$1.00 per share	Stable \$1.00 per share
Portfolio Type	PRIME	GOV'T	PRIME	GOV'T	GOV'T	PRIME	PRIME	PRIME	GOV'T	PRIME	GOV'T	GOV'T	PRIME	PRIME
Liquidity Offered	Daily	Daily	Daily	Daily	Daily	Daily	At Maturity	Daily	Daily	Daily	Daily	Daily	Daily	Daily
Rating	AAAm	AAAm	AAAm	AAAm	AAAmmf	AAAmmf	AAAf	AAAm	AAAm	AAAf/SI	AAAmmf	AAAm	AAAm	AAAf/SI+

Source: Public Trust Advisors

Sec. 2256.020. + SPECIFIC INVESTMENT CRITERIA

- **Sec. 2256.020. AUTHORIZED INVESTMENTS: INSTITUTIONS OF HIGHER EDUCATION**
 - Cash management and fixed income funds.
 - Negotiable certificates of deposit.
 - Corporate bonds rated in two highest long-term rating categories.
- **Sec. 2256.0201. AUTHORIZED INVESTMENTS; MUNICIPAL UTILITY**
 - Municipal electric and/or natural gas utility may hedge.
 - Payment is fuel expense, and receipts credit against fuel expenses.
 - Governing body sets policy.
 - “Hedging” futures or options contracts.

Sec. 2256.020. + SPECIFIC INVESTMENT CRITERIA

- **Sec. 2256.0202. AUTHORIZED INVESTMENTS: MUNICIPAL FUNDS FROM MANAGEMENT AND DEVELOPMENT OF MINERAL RIGHTS.**
 - Municipality may invest funds from oil, gas, or mineral development in any investment authorized by Subtitle B, Title 9, Property Code (“Trusts”).
 - Must segregate and account for separately.
- **Sec. 2256.0203. AUTHORIZED INVESTMENTS: PORTS AND NAVIGATION DISTRICTS**
 - Port or navigation district may purchase, sell, and invest its funds and funds under its control in 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.

Sec. 2256.020. + SPECIFIC INVESTMENT CRITERIA

- **Sec. 2256.0204. AUTHORIZED INVESTMENTS: INDEPENDENT SCHOOL DISTRICTS**
 - ADA of 50,000 - 1371(4)(L) or issuer of \$100 million in outstanding debt 1201.002 may invest in corporate bonds
 - Senior secured debt obligation with a minimum rating of at least AA- or the equivalent.
 - Stated final maturity less than or equal to 3 years from the purchase date.
 - Limited to invest up to 15% of its monthly average fund balance, excluding bond proceeds, reserves and debt service funds.
 - Restricts investment of less than or equal to 25% of the corporate bond portion of the investment portfolio in any one issuer.
 - Requires timely liquidation if issuer is placed on negative credit watch or loses the minimum credit rating.

Sec. 2256.020. + SPECIFIC INVESTMENT CRITERIA

- **Sec. 2256.0205. AUTHORIZED INVESTMENTS; DECOMMISSIONING TRUST**
 - (a) Definitions of “decommissioning trust” and “funds”
 - (b) May invest funds held in a decommissioning trust in any investment authorized by Subtitle B, Title 9, Property Code (“Trusts”)
- **Sec. 2256.0206. AUTHORIZED INVESTMENTS: HEDGING TRANSACTIONS**
 - Requires at least \$250 million in outstanding debt

Sec. 2256.020. + SPECIFIC INVESTMENT CRITERIA

- **Sec. 2256.0207. AUTHORIZED INVESTMENTS: PUBLIC JUNIOR COLLEGE DISTRICT FUNDS FROM MANAGEMENT AND DEVELOPMENT OF MINERAL RIGHTS**
 - the governing board of a public junior college district may invest funds received by the district from a lease or contract for the management and development of land owned by the district and leased for oil, gas, or other mineral development in any investment authorized to be made by a trustee under Subtitle B, Title 9, Property Code (Texas Trust Code).
 - Funds invested by the governing board of a public junior college district under this section shall be segregated and accounted for separately from other funds of the district.