

By: Wentworth
(Larson)

S.B. No. 1543

A BILL TO BE ENTITLED

AN ACT

relating to the authority of an independent school district to invest in corporate bonds.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

SECTION 1. Subchapter A, Chapter 2256, Government Code, is amended by adding Section 2256.0204 to read as follows:

Sec. 2256.0204. AUTHORIZED INVESTMENTS: INDEPENDENT SCHOOL DISTRICTS. (a) In this section, "corporate bond" means a senior secured debt obligation issued by a domestic business entity and rated not lower than "AA-" or the equivalent by a nationally recognized investment rating firm. The term does not include a debt obligation that:

(1) on conversion, would result in the holder becoming a stockholder or shareholder in the entity, or any affiliate or subsidiary of the entity, that issued the debt obligation;

(2) is secured by or payable from a pool of assets, receivables, or other similar collateral;

(3) is a subordinate debt obligation and inferior in security to a senior secured debt obligation issued by a domestic business entity; or

(4) is an unsecured debt obligation.

(b) This section applies only to an independent school district that qualifies as an issuer as defined by Section 1371.001.

1 (c) In addition to authorized investments permitted by this
2 subchapter, an independent school district subject to this section
3 may purchase, sell, and invest its funds and funds under its control
4 in corporate bonds that, at the time of purchase, are rated by a
5 nationally recognized investment rating firm:

6 (1) "AAA" or the equivalent and have a stated final
7 maturity that is not later than the third anniversary of the date
8 the corporate bonds were purchased; or

9 (2) lower than "AAA" or the equivalent and have a
10 stated final maturity that is not later than the second anniversary
11 of the date the corporate bonds were purchased.

12 (d) An independent school district subject to this section
13 is not authorized by this section to:

14 (1) invest in the aggregate more than 20 percent of its
15 monthly average fund balance, excluding bond proceeds, reserves,
16 and other funds held for the payment of debt service, in corporate
17 bonds;

18 (2) invest more than 25 percent of the funds invested
19 in corporate bonds in any one domestic business entity, including
20 subsidiaries and affiliates of the entity; or

21 (3) invest any portion of bond proceeds, reserves, and
22 other funds held for the payment of debt service in corporate bonds.

23 (e) An independent school district subject to this section
24 may purchase, sell, and invest its funds and funds under its control
25 in corporate bonds if the governing body of the district:

26 (1) amends its investment policy to authorize
27 corporate bonds as an eligible investment;

1 (2) adopts procedures to provide for:

2 (A) monitoring rating changes in corporate bonds
3 acquired with public funds; and

4 (B) liquidating the investment in corporate
5 bonds; and

6 (3) identifies the funds, other than bond proceeds,
7 reserves, and other funds held for the payment of debt service,
8 eligible to be invested in corporate bonds.

9 (f) The investment officer of an independent school
10 district, acting on behalf of the district, shall sell corporate
11 bonds in which the district has invested its funds not later than
12 the seventh day after the date a nationally recognized investment
13 rating firm:

14 (1) issues a release that places the corporate bonds
15 or the domestic business entity that issued the corporate bonds on
16 negative credit watch or the equivalent, if the corporate bonds are
17 rated "AA" or the equivalent at the time the release is issued; or

18 (2) changes the rating on the corporate bonds to a
19 rating lower than "AA-" or the equivalent.

20 (g) Corporate bonds are not an eligible investment for a
21 public funds investment pool.

22 SECTION 2. This Act takes effect immediately if it receives
23 a vote of two-thirds of all the members elected to each house, as
24 provided by Section 39, Article III, Texas Constitution. If this
25 Act does not receive the vote necessary for immediate effect, this
26 Act takes effect September 1, 2011.