

1-1 By: Capriglione, et al. (Senate Sponsor - West) H.B. No. 1003  
 1-2 (In the Senate - Received from the House May 1, 2017;  
 1-3 May 5, 2017, read first time and referred to Committee on Business  
 1-4 & Commerce; May 19, 2017, reported adversely, with favorable  
 1-5 Committee Substitute by the following vote: Yeas 9, Nays 0;  
 1-6 May 19, 2017, sent to printer.)

1-7 COMMITTEE VOTE

	Yea	Nay	Absent	PNV
1-8				
1-9	X			
1-10	X			
1-11	X			
1-12	X			
1-13	X			
1-14	X			
1-15	X			
1-16	X			
1-17	X			

1-18 COMMITTEE SUBSTITUTE FOR H.B. No. 1003 By: Creighton

1-19 A BILL TO BE ENTITLED  
 1-20 AN ACT

1-21 relating to investment of public funds.  
 1-22 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:  
 1-23 SECTION 1. Section 2256.004(a), Government Code, is amended  
 1-24 to read as follows:  
 1-25 (a) This subchapter does not apply to:  
 1-26 (1) a public retirement system as defined by Section  
 1-27 802.001;  
 1-28 (2) state funds invested as authorized by Section  
 1-29 404.024;  
 1-30 (3) an institution of higher education having total  
 1-31 endowments of at least \$150 [~~\$95~~] million in book value on September  
 1-32 1, 2017 [~~May 1, 1995~~];  
 1-33 (4) funds invested by the Veterans' Land Board as  
 1-34 authorized by Chapter 161, 162, or 164, Natural Resources Code;  
 1-35 (5) registry funds deposited with the county or  
 1-36 district clerk under Chapter 117, Local Government Code; or  
 1-37 (6) a deferred compensation plan that qualifies under  
 1-38 either Section 401(k) or 457 of the Internal Revenue Code of 1986  
 1-39 (26 U.S.C. Section 1 et seq.), as amended.  
 1-40 SECTION 2. Section 2256.009(a), Government Code, is amended  
 1-41 to read as follows:  
 1-42 (a) Except as provided by Subsection (b), the following are  
 1-43 authorized investments under this subchapter:  
 1-44 (1) obligations, including letters of credit, of the  
 1-45 United States or its agencies and instrumentalities;  
 1-46 (2) direct obligations of this state or its agencies  
 1-47 and instrumentalities;  
 1-48 (3) collateralized mortgage obligations directly  
 1-49 issued by a federal agency or instrumentality of the United States,  
 1-50 the underlying security for which is guaranteed by an agency or  
 1-51 instrumentality of the United States;  
 1-52 (4) other obligations, the principal and interest of  
 1-53 which are unconditionally guaranteed or insured by, or backed by  
 1-54 the full faith and credit of, this state or the United States or  
 1-55 their respective agencies and instrumentalities, including  
 1-56 obligations that are fully guaranteed or insured by the Federal  
 1-57 Deposit Insurance Corporation or by the explicit full faith and  
 1-58 credit of the United States;  
 1-59 (5) obligations of states, agencies, counties,  
 1-60 cities, and other political subdivisions of any state rated as to

2-1 investment quality by a nationally recognized investment rating  
2-2 firm not less than A or its equivalent; ~~and~~

2-3 (6) bonds issued, assumed, or guaranteed by the State  
2-4 of Israel; and

2-5 (7) interest-bearing banking deposits that are  
2-6 guaranteed or insured by:

2-7 (A) the Federal Deposit Insurance Corporation or  
2-8 its successor; or

2-9 (B) the National Credit Union Share Insurance  
2-10 Fund or its successor.

2-11 SECTION 3. Section 2256.011, Government Code, is amended by  
2-12 adding Subsection (e) to read as follows:

2-13 (e) Section 1371.059(c) applies to the execution of a  
2-14 repurchase agreement by an investing entity.

2-15 SECTION 4. Sections 2256.014(a) and (b), Government Code,  
2-16 are amended to read as follows:

2-17 (a) A no-load money market mutual fund is an authorized  
2-18 investment under this subchapter if the mutual fund:

2-19 (1) is registered with and regulated by the Securities  
2-20 and Exchange Commission;

2-21 (2) provides the investing entity with a prospectus  
2-22 and other information required by the Securities Exchange Act of  
2-23 1934 (15 U.S.C. Section 78a et seq.) or the Investment Company Act  
2-24 of 1940 (15 U.S.C. Section 80a-1 et seq.); and

2-25 (3) complies with federal Securities and Exchange  
2-26 Commission Rule 2a-7 (17 C.F.R. Section 270.2a-7), promulgated  
2-27 under the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et  
2-28 seq.) ~~[has a dollar-weighted average stated maturity of 90 days or~~  
2-29 ~~fewer; and~~

2-30 ~~[(4) includes in its investment objectives the~~  
2-31 ~~maintenance of a stable net asset value of \$1 for each share].~~

2-32 (b) In addition to a no-load money market mutual fund  
2-33 permitted as an authorized investment in Subsection (a), a no-load  
2-34 mutual fund is an authorized investment under this subchapter if  
2-35 the mutual fund:

2-36 (1) is registered with the Securities and Exchange  
2-37 Commission;

2-38 (2) has an average weighted maturity of less than two  
2-39 years; and

2-40 (3) either:

2-41 (A) has a duration of one year or more and is  
2-42 invested exclusively in obligations approved by this subchapter; or

2-43 (B) has a duration of less than one year and the  
2-44 investment portfolio is limited to investment grade securities,  
2-45 excluding asset-backed securities

2-46 ~~[(4) is continuously rated as to investment quality by~~  
2-47 ~~at least one nationally recognized investment rating firm of not~~  
2-48 ~~less than AAA or its equivalent; and~~

2-49 ~~[(5) conforms to the requirements set forth in~~  
2-50 ~~Sections 2256.016(b) and (c) relating to the eligibility of~~  
2-51 ~~investment pools to receive and invest funds of investing~~  
2-52 ~~entities].~~

2-53 SECTION 5. Section 2256.015, Government Code, is amended by  
2-54 adding Subsection (d) to read as follows:

2-55 (d) Section 1371.059(c) applies to the execution of a  
2-56 guaranteed investment contract by an investing entity.

2-57 SECTION 6. Sections 2256.016(b) and (f), Government Code,  
2-58 are amended to read as follows:

2-59 (b) To be eligible to receive funds from and invest funds on  
2-60 behalf of an entity under this chapter, an investment pool must  
2-61 furnish to the investment officer or other authorized  
2-62 representative of the entity an offering circular or other similar  
2-63 disclosure instrument that contains, at a minimum, the following  
2-64 information:

2-65 (1) the types of investments in which money is allowed  
2-66 to be invested;

2-67 (2) the maximum average dollar-weighted maturity  
2-68 allowed, based on the stated maturity date, of the pool;

2-69 (3) the maximum stated maturity date any investment

- 3-1 security within the portfolio has;
- 3-2 (4) the objectives of the pool;
- 3-3 (5) the size of the pool;
- 3-4 (6) the names of the members of the advisory board of
- 3-5 the pool and the dates their terms expire;
- 3-6 (7) the custodian bank that will safekeep the pool's
- 3-7 assets;
- 3-8 (8) whether the intent of the pool is to maintain a net
- 3-9 asset value of one dollar and the risk of market price fluctuation;
- 3-10 (9) whether the only source of payment is the assets of
- 3-11 the pool at market value or whether there is a secondary source of
- 3-12 payment, such as insurance or guarantees, and a description of the
- 3-13 secondary source of payment;
- 3-14 (10) the name and address of the independent auditor
- 3-15 of the pool;
- 3-16 (11) the requirements to be satisfied for an entity to
- 3-17 deposit funds in and withdraw funds from the pool and any deadlines
- 3-18 or other operating policies required for the entity to invest funds
- 3-19 in and withdraw funds from the pool; ~~and~~
- 3-20 (12) the performance history of the pool, including
- 3-21 yield, average dollar-weighted maturities, and expense ratios; and
- 3-22 (13) the pool's policy regarding holding deposits in
- 3-23 cash.

3-24 (f) To be eligible to receive funds from and invest funds on  
 3-25 behalf of an entity under this chapter, a public funds investment  
 3-26 pool that uses amortized cost or fair value accounting ~~[created to~~  
 3-27 ~~function as a money market mutual fund]~~ must mark its portfolio to  
 3-28 market daily, and, to the extent reasonably possible, stabilize at  
 3-29 a \$1.00 ~~[\$1]~~ net asset value, when rounded and expressed to two  
 3-30 decimal places. If the ratio of the market value of the portfolio  
 3-31 divided by the book value of the portfolio is less than 0.995 or  
 3-32 greater than 1.005, the governing body of the public funds  
 3-33 investment pool shall take action as the body determines necessary  
 3-34 to eliminate or reduce to the extent reasonably practicable any  
 3-35 dilution or unfair result to existing participants, including a  
 3-36 sale of portfolio holdings to attempt ~~[shall be sold as necessary]~~  
 3-37 to maintain the ratio between 0.995 and 1.005. In addition to the  
 3-38 requirements of its investment policy and any other forms of  
 3-39 reporting, a public funds investment pool that uses amortized cost  
 3-40 ~~[created to function as a money market mutual fund]~~ shall report  
 3-41 yield to its investors in accordance with regulations of the  
 3-42 federal Securities and Exchange Commission applicable to reporting  
 3-43 by money market funds.

3-44 SECTION 7. The changes in law made by this Act apply only to  
 3-45 authorized investments of public funds governed by Chapter 2256,  
 3-46 Government Code, as amended by this Act, that are made on or after  
 3-47 the effective date of this Act. An authorized investment of public  
 3-48 funds made before the effective date of this Act is governed by the  
 3-49 law in effect immediately before that date, and that law is  
 3-50 continued in effect for that purpose.

3-51 SECTION 8. This Act takes effect immediately if it receives  
 3-52 a vote of two-thirds of all the members elected to each house, as  
 3-53 provided by Section 39, Article III, Texas Constitution. If this  
 3-54 Act does not receive the vote necessary for immediate effect, this  
 3-55 Act takes effect September 1, 2017.

3-56 \* \* \* \* \*