HOUSE RESEARCH ORGANIZATION bill analysis

5/5/97

HB 2799
Marchant
(CSHB 2799 by Telford)

SUBJECT: Investment of public funds revisions

COMMITTEE: Pensions and Investments — committee substitute recommended

VOTE: 6 ayes — Telford, Woolley, Goolsby, Rangel, Tillery, Williams

0 nays

3 absent — Berlanga, Sadler, Tillery

WITNESSES: For — Susan K. Anderson, Government Treasurers Organization; Cathy Hynsin, County Treasurers Association; Mary E. Mayes, Cheryall Adair; Susan Wendel, Texas Associations of Counties

Against — None

BACKGROUND: Last session, the Legislature amended the Public Funds Investment Act to require all governmental entities to have a written investment policy, prohibit funds from being invested in four types of "derivative" securities, establish reporting requirements and require investment pools to establish advisory boards and have at least a AAA rating. The act applies to public funds invested outside the treasury division of the Comptroller's Office by a state agency, local governments or investment pools acting on behalf of two or more governmental entities It does not apply to funds invested by the public retirement systems, the treasury division of the Comptroller's Office, the Veterans' Land Board and institutions of higher education with a book value endowment of at least $95 million on May 1, 1995.

DIGEST: CSHB 2799 would make various changes to the Public Funds Investment Act including:

- specifying that the "qualified representative" of a registered or regulated securities firm, a financial institution, or an investment pool, would be the individual authorized to act on behalf of the financial business entity regarding review of the governmental entities investment policy, instead of the "registered principal" of the financial firm or institution;

- requiring the governmental entity's governing body to adopt its investment policy and strategies, instead of just review it;

- outlining conflict-of-interest provisions for public entity's investment officers with regard to financial firms or institutions with whom they conduct business, such as requiring that the investment officer not own more than 9 percent or $5,000 of stock in the financial firm or institution;

- requiring investment officers of governmental entities to attend training sessions at least once every two years;

- specifying that investment officers be required to make investments based on the prudent person investment standard;

- requiring independent audits of the financial books of governmental entities investing in other financial instruments than money market mutual funds, investment pools, certificates of deposit, money market accounts invests, or similar accounts; and

- requiring that the governmental entity's governing body review, revise and adopt a list of qualified brokers each year.

The bill would take effect September 1, 1997, and would apply to transactions on or after that date.

SUPPORTERS SAY:

CSHB 2799 would fine tune the changes made to the Public Funds Investment Act in 1995. It would further tighten regulation of investment of public funds outside the treasury division of the Comptroller's Office, and would make it clear which individual in a financial firm or institution would be responsible for acknowledging and understanding the written investment policies of the governmental entity.

This bill is a result of interim meetings with government investing officers and financial firms and institutions to clarify the investment act and to make it easier to work with and administer.

OPPONENTS

No apparent opposition.

SAY:

NOTES: The committee substitute would make a number of technical changes to the original bill and require that investment officers make investments based on the prudent person standard of investing.