

SUBJECT: Investment of certain state funds

COMMITTEE: Pensions and Investments— favorable, with amendments

VOTE: 6 ayes — Telford, Woolley, Goolsby, Rangel, Serna, Williams
0 nays
3 absent — Berlanga, Sadler, Tillery

SENATE VOTE: On final passage, March 17 — 31-0

WITNESSES: For — None
Against — None
On — Ray Bonilla and Ken Welch, State Comptroller's Office; Cathy Iberg, University of Texas System

BACKGROUND : The Office of the State Treasurer was abolished on September 1, 1996, and its power and duties were transferred to the Comptroller's Office. The comptroller is responsible for providing management , safekeeping and investment opportunities, through the Texas Treasury Safekeeping Trust Company, to agencies and political subdivisions of the state.

DIGEST: SB 701, as amended, would make various changes to state investment laws, including allowing state agencies with investment authority to permit certain entities to hold transaction settlement funds for one day instead of wiring them to the state treasury and allowing the comptroller to invest in foreign currency in certain circumstances.

The bill would require that Available University Fund (AUF) income include net income derived from Permanent University Fund (PUF) surface lands, excluding administrative expenses. The bill would require that all income from the PUF to the AUF be deposited at least once a month in the AUF state treasury account. The University of Texas would be required to provide necessary information, in a format designed by the state comptroller, for the comptroller to accurately account for PUF income and

to protect state revenues.

With comptroller approval, the bill would allow the board of regents of the University of Texas System to appoint one or more banks, depository trust companies, or other entities to serve as custodians of PUF securities. These entities would be authorized to hold the money realized from PUF securities pending completion of settlement if the funds were reinvested within one day. Funds not reinvested within one day would have to be deposited in the state treasury no later than the fifth day after funds were received. The bill would also give the identical authority with the same stipulations to the board of regents of the Texas A&M University System with regard to special mineral investments fund.

The bill would authorize the comptroller to invest state funds in foreign currency for the sole purpose of facilitating investment by state agencies that have the authority to invest in foreign securities.

The bill would allow money received from securities transactions allowed under law to net the funds received against purchases of securities within one business day instead of depositing it in the state treasury. Proceeds from the transactions that were not reinvested within one day of receipt would have to be deposited in the treasury. State agencies permitted to net securities transactions would be subject to accounting and reporting procedures established by the comptroller.

The bill would allow the Texas Treasury Safekeeping Trust Company to enter into contracts and trust agreements with a depository trust company.

The bill would require the Texas Worker's Compensation Employers' Rejected Risk Fund and Texas Workers' Compensation Insurance Fund investment policies to be approved by the insurance commissioner, instead of the state treasurer. The bill also would give certain authority regarding investment of state funds to the comptroller instead of state treasurer.

The bill would take effect September 1, 1997

SUPPORTERS SAY: SB 701 would modernize and make more efficient investment settlement transactions made by those state agencies with investment authority. The financial markets have shortened the settlement period for securities transactions from five to one business day. This bill would allow state agency investment settlement authority to correspond with the changing market.

SB 701 would allow the comptroller to invest in foreign currency to aid state agencies that have the authority to invest in foreign securities. The large endowment funds, like the PUF and Permanent School Fund and the Employees Retirement System and the Teacher Retirement System, are permitted to invest in foreign securities, and the bill would allow the comptroller to hold foreign currency for these agencies. This provision would keep these agencies from having to exchange foreign currency if they intended to reinvest in the same currency or to exchange currency after a transaction settlement if the foreign currency market was unfavorable.

OPPONENTS SAY: No apparent opposition.

NOTES: The committee amendments would remove a stipulation that banks and depositories acting as custodians for the University of Texas and Texas A&M systems be "in or outside this state."