

AGENDA ITEM 28

Consider approving Texas Local Government Investment Pool, TexPool Prime Participation Agreement.

Moved: Commissioner Heiligenstein

Seconded: Judge Doerfler

Motion: To approve Texas Local Government Investment Pool, TexPool Prime Participation Agreement.

Vote: 5 - 0

< Attachment >



TEXPOOL PRIME INVESTMENT POLICY

Texas Local Government Investment Pool

November, 2002

I. PURPOSE AND OBJECTIVE STATEMENT

The Interlocal Cooperation Act, TEX. GOV'T CODE ANN., chapter 791, and the Public Funds Investment Act, TEX. GOV'T CODE ANN., chapter 2256, provide for the creation of public funds investment pools to which any political subdivision may delegate, by contract, the authority to hold legal title as custodian and to invest local funds.

Pursuant to TEX. GOV'T CODE ANN., chapter 404, subchapter G, the Comptroller of Public Accounts (the "Comptroller") administers the Texas Treasury Safekeeping Trust Company (the "Trust Company"), a limited purpose trust company authorized to receive, transfer and disburse money and securities belonging to the state, agencies and local political subdivisions of the state. The Comptroller is the sole officer, director and shareholder of the Trust Company.

The Trust Company administers the Texas Local Government Investment Pools ("the TexPool Portfolios") as public funds investment pools. The Comptroller and the Trust Company have contracted with Lehman Brothers Inc. ("Lehman") and Federated Investors, Inc. ("Federated") to provide investment management and related services for the TexPool Portfolios. The TexPool Portfolios are comprised of two investment alternatives: TexPool Prime and TexPool. This Investment Policy relates only to TexPool Prime. TexPool Prime invests in commercial paper, and certificates of deposit, as well as U.S. Treasury and government agency securities.

The TexPool Advisory Board advises the Trust Company on the administration of TexPool Prime. The TexPool Advisory Board is composed equally of participants in the TexPool Portfolios and other persons who do not have a business relationship with the TexPool Portfolios but who are qualified to advise the TexPool Portfolios. The purpose of TexPool Prime is to offer a safe, efficient and liquid investment alternative to local governments in the State of Texas so that they may benefit from and realize a higher investment return due to the utilization of economies of scale and investment expertise provided by Federated. This purpose will be assured by providing sound, responsible investment management in accordance with investment policies and procedures established by the Trust Company and approved by the Comptroller (the "TexPool Prime Investment Policy"). The TexPool Prime Investment Policy will be reviewed annually and revised from time to time to ensure that it adequately reflects changes to TexPool Prime, its investment program, legal authority and the capital markets.

The TexPool Prime Investment Policy is intended to provide guidelines for Federated as investment manager for TexPool Prime to effectively supervise and manage the investment assets of TexPool Prime. It is the policy of the Trust Company to invest the assets of TexPool Prime in a manner which will provide for preservation and safety of principal, and competitive investment returns while meeting the daily liquidity needs of the participants. The investment policies described herein should be dynamic within the framework legally defined. The TexPool Prime Investment Policy reflects TexPool Prime's current status and philosophy regarding safety of principal, liquidity, yield, investments, and assets. The Investment Policy entails more conservative parameters than allowed within the Public Funds Investment Act and will be implemented in a prudent fashion in the context of portfolio diversification.

The Primary objectives of TexPool Prime are:

- preservation of capital and protection of principal,
- safety of funds and investments,
- maintenance of sufficient liquidity,
- diversification to avoid unreasonable or avoidable risks, and
- yield.

TexPool Prime's portfolio shall be designed and managed in accordance with the following prudent person standard of care.

Investments shall be made with judgment and care, under prevailing circumstances, that a person of prudence, discretion and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital as well as the probable income to be derived.

II. AUTHORIZED INVESTMENTS

TexPool Prime's investment authority is derived from the Public Funds Investment Act.

TexPool Prime may be invested in the following:

Government Securities

TexPool Prime may be invested in obligations of the United States, its agencies or instrumentalities **EXCEPT** the following:

1. Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal;
2. Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest;
3. Collateralized mortgage obligations that have a stated final maturity date of greater than 10 years; and
4. Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Repurchase Agreements and Reverse Repurchase Agreements

TexPool Prime may be invested in fully collateralized repurchase agreements and reverse repurchase agreements having a defined termination date and secured by any obligation of the United States, its agencies or its instrumentalities, to include certain mortgage-backed securities of the U.S. The repurchase and reverse repurchase agreement transactions are to be placed only with primary government securities dealers or state or national banks doing business in the State of Texas. All transactions are governed by a Bond Market Association (BMA) approved Master Repurchase Agreement and Master Reverse Repurchase Agreement.

Certificates of Deposit

TexPool Prime may be invested in certificates of deposit issued by national or state banks or credit unions, including savings banks, provided that such bank or credit union is domiciled in Texas. The certificates of deposit must be guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund. In addition, the certificates of deposit must be secured by obligations of the United States, its agencies or instrumentalities or as otherwise required by law.

Commercial Paper

TexPool Prime may be invested in commercial paper that matures in 270 days or less from the date of its issuance. The commercial paper must be rated at least A-1 or P-1 (or the equivalent thereof) by (1) two nationally recognized statistical rating organizations ("NRSROs") or (2) one NRSRO and fully secured by an irrevocable letter of credit by a national or state bank. TexPool Prime's investment in commercial paper will be diversified in accordance with NRSRO requirements imposed on AAAm (or the equivalent) rated pools.

Money Market Mutual Funds

TexPool Prime may be invested in no-load money market mutual funds which are regulated by the Securities and Exchange Commission. Each such money market fund must (1) be rated AAA or its equivalent by at least one NRSRO; (2) maintain a dollar-weighted average stated maturity of 60 days or fewer; and (3) include in its investment objectives the maintenance of a stable net asset value of \$1.00.

III. PROHIBITED INVESTMENTS

TexPool Prime will **not** invest in derivatives.

For the purposes of the TexPool Prime Investment Policy, the definition of derivatives includes instruments which have embedded features that alter their character or income stream or allow holders to hedge or speculate on a market or spreads between markets that are external to the issuer, or are not correlated on a one-to-one basis to the associated index or market.

Prohibited derivatives include the following:

1. Arrangements in which an investor has swapped the natural cash flows or some portion of the natural cash flows of an instrument for a different set of cash flows. (i.e. Interest Rate Swaps).
2. Over-the-Counter/Exchange traded options or futures. (i.e. Option Contracts, Futures Contracts).
3. Instruments explicitly specified as follows: Collateralized Mortgage Obligations, Inverse Floating Rate Notes, Range Index Notes, Non-Money Market Index

Based Notes, Dual Index Notes, Index Amortizing Notes, Inverse Multi-index Bonds, Stepped Inverse Index Bonds, Inverse Index Bonds.

Securities that are not considered derivatives by the preceding definition and are Authorized Investments include:

Treasury Bills, Treasury Notes, Treasury Bonds, Treasury Strips, Repurchase Agreements, Reverse Repurchase Agreements, Agency Notes with a defined maturity and fixed coupon rate, Money Market Index Variable Rate Notes (i.e. floating rate notes tied to money market indices such as three and six month Treasury Bills; one, three, and six month London Interbank Offering Rate [LIBOR]; Fed Funds; one year Constant Maturity Treasury; Prime Rate; and Commercial Paper Composite); Step-up Notes; and any Authorized Investment that is callable prior to its final maturity.

IV. POLICY GUIDELINES AND STRATEGY

PORTFOLIO STRUCTURE AND COMPOSITION

TexPool Prime will be designed and managed to ensure that it will meet all the requirements necessary to maintain its AAAm rating (or the equivalent) by an NRSRO. The weighted average maturity of TexPool Prime shall be limited to a maximum sixty (60) days when calculated using the reset date for Variable Rate Notes (VRN) and 90 days or fewer using the final maturity date for VRNs, with the maximum maturity for any individual security in the portfolio not exceeding 397 days for fixed rated securities and 24 months for VRNs. In accordance with the Master Repurchase Agreement of the Comptroller, repurchase agreements are fully collateralized. Specific portfolio composition and maturity limitation guidelines will be guided by the following general parameters.

Portfolio Composition:

US Government Securities, Agencies and Instrumentalities

TexPool Prime may be comprised of one hundred percent (100%) direct government obligations.

Repurchase Agreements

One hundred percent (100%) of TexPool Prime may be invested in direct repurchase agreements. The continuing need for liquidity and the short-term profile of the portfolio dictates a high use of repurchase agreements.

Term Repurchase Agreements

Twenty-five percent (25%) of TexPool Prime may be invested in term repurchase agreements. Only five percent (5%) of TexPool Prime may be invested in term repurchase agreements with maturities exceeding ninety (90) days. Additionally, all term repurchase agreements with maturities exceeding ninety days must have a put option that allows TexPool Prime to liquidate the position at par (principal plus accrued interest) with seven days' notice to the counterparty. Term repurchase agreements will be used primarily to enhance portfolio return.

Reverse Repurchase Agreements

TexPool Prime is permitted to make reverse repurchase agreements up to one third (1/3) of the value of its total assets. Reverse repurchase agreements will be used primarily to enhance portfolio return.

Money Market Mutual Funds

A maximum of fifteen percent (15%) of TexPool Prime may be invested in approved money market funds.

Variable Rate Notes

A maximum of 60 percent (60%) of TexPool Prime may be invested in approved VRNs, at the time of purchase.

Certificates of Deposit

A maximum of 75 percent (75%) of TexPool Prime may be invested in certificates of deposits.

Commercial Paper

A maximum of 75 percent (75%) of TexPool Prime may be invested in commercial paper.

Maturity Limitations:*US Government Securities, Agencies and Instrumentalities*

The maximum stated maturity on any US obligation agency or instrumentality in TexPool Prime shall be limited to 397 days for fixed rate securities and 24 months for VRNs.

Repurchase Agreements

The maximum maturity on direct repurchase agreements shall not exceed ninety (90) days except to the extent that such repurchase agreements have a put option that allows TexPool to liquidate the position at par with seven (7) days' notice to the counterparty.

Reverse Repurchase Agreements

Money received under the terms of a reverse security repurchase agreement shall be used to acquire additional authorized investments. The term of the authorized investment acquired must have maturity no greater than the expiration of the reverse repurchase agreement.

Money Market Mutual Funds

Money market funds will have a weighted average maturity of sixty (60) days or less.

Commercial Paper

The maximum maturity on commercial paper shall not exceed 270 days from the date of its issuance.

COMPETITIVE BIDDING

All trades, purchases and sales transacted for TexPool Prime will be done on a best execution basis through a documented competitive bidding process. The broker/dealers used for TexPool Prime will be those approved by and in compliance with the rules of the Comptroller.

COLLATERALIZATION AND SAFEKEEPING

All repurchase agreements will be fully collateralized as required by law. Collateral will be equal to at least one hundred and two percent (102%) of the total market value of the repurchase agreement, including accrued interest.

All book entry securities, whether purchased outright or under repurchase agreements, are held in a separate custodial account at the Federal Reserve Bank in the name of the TexPool Portfolios, or in an independent third party institution designated by Federated on behalf of the TexPool Portfolios.

All securities not held in book entry form will be held at an independent third party institution designated by Federated on behalf of the TexPool Portfolios. Third party institutions must issue original safekeeping receipts to Federated.

AUTHORIZED PERSONNEL

All Federated personnel authorized to buy and sell investment instruments, send and receive securities, make fund transfers and other types of related investment transactions will be directly supervised by senior investment management personnel in Federated's Investment Management Group.

DOCUMENTATION

Complete documentation and a thorough audit trail will be maintained for all investment transactions.

DIVERSIFICATION AND SUITABILITY

TexPool Prime will be designed with the protection of principal and maintenance of sufficient liquidity to all participants as the highest priority of TexPool Prime. After consideration of safety and liquidity, TexPool Prime will be directed towards achieving a competitive rate of return for participants in a manner to meet or exceed the yield on money market mutual funds with similar investment authority. The risk return relationship will be maintained and controlled through these investment parameters, operating requirements and the guiding policies of the Comptroller. Actual risks shall be minimized by adequate collateralization and delivery versus payment procedures which shall be utilized at all times.

Market and credit risk shall be minimized by diversification. Diversification by market sector and security types, as well as maturity, will be used to protect TexPool Prime against market and credit risk as well as aiding in liquidity requirements. TexPool Prime will be structured to benefit from anticipated market conditions and to achieve a reasonable return.

Cash needs and cash expectations will take priority in designing and structuring TexPool Prime. Income and expenditure history will be developed and continuously updated to determine the liquidity needs of TexPool Prime. Reports of these cash flow needs will be used to develop the maturity structure of TexPool Prime to assure liquidity to all participants. In order to meet the anticipated liquidity needs, TexPool Prime will be designed to ensure sufficient distribution of investments in liquid, short-term instruments. The maturities of the

investments will be distributed such that there will be a continuing stream of securities maturing at frequent intervals.

DISTRIBUTION OF GAINS AND LOSSES

All gains or losses from the sale of securities will be distributed among TexPool Prime participants, and may be amortized over a period of up to thirty (30) days from the date of which the gain or loss is realized.

CONSTANT DOLLAR OBJECTIVE

The objective of TexPool Prime is to maintain a stable \$1.00 price. All TexPool Prime securities will be marked to market daily and if the ratio of the market value of the portfolio divided by the book value of the portfolio is less than 0.995 or greater than 1.005, TexPool Prime will sell portfolio holdings as required to maintain the ratio between 0.995 and 1.005. However, the \$1.00 price is not guaranteed or insured by the State of Texas.

MONITORING MARKET PRICE

State Street Bank provides fund accounting services for TexPool Prime and is responsible for marking-to-market the portfolio holdings of TexPool Prime on a daily basis. State Street Bank receives electronic transmissions from various pricing vendors in order to determine the individual market price of each security held in TexPool Prime. These electronic transmissions are checked daily for current data and validity of information. In addition, State Street Bank also performs a reasonability test in order to determine if the prices received are within a set tolerance range. In the event that any of the prices fall outside of the set tolerance range, then these prices are investigated against secondary pricing sources. As a further check, the TexPool Prime Portfolio Manager also monitors the prices of securities held in TexPool Prime, in order to independently determine reasonableness and validity.

V. ADMINISTRATIVE CONSIDERATIONS

PARTICIPATION AGREEMENTS

Each participant must have a fully executed participation agreement on file with the Trust Company before participating in TexPool Prime.

DEPOSIT AND WITHDRAWAL DEADLINES

See separate TexPool Operating Procedures for detailed deposit and withdrawal deadlines.

REPORTING AND DISCLOSURE

The Public Funds Investment Act requires that public fund investment pools provide basic information regarding the pool's investments and operations. The pool is to provide the investment officer, or other authorized representative of a participating entity, disclosure information in an Information Statement. The required disclosure points are listed in the Act.

Further, to maintain eligibility to receive funds from and invest funds on behalf of the pool's participants, TexPool Prime must furnish investment confirmations and a monthly report disclosing certain information.

In addition, TexPool Prime shall be audited annually by an independent auditor.

This information will be provided to all participants.

AUTHORIZED DEALER

The Comptroller will maintain a list of primary dealers and brokers authorized to provide investment services. All dealers and brokers who desire to become qualified bidders for investment transactions must supply the following:

- completed broker/dealer questionnaire,
- proof of registration with the Texas State Securities Board,
- proof of National Association of Securities Dealers (NASD) certification,
- audited financial statements, and
- written acknowledgment that the entity has read the TexPool Prime Investment Policy and has reasonable procedures and controls to preclude imprudent investment activities arising out of investment transactions conducted between the entity and TexPool.

The Comptroller will annually review the financial condition and registration of qualified dealers and brokers.

ETHICS AND CONFLICT OF INTEREST

The Investment Manager and its staff shall file statements with the Comptroller disclosing any personal or business relationship with a broker/dealer seeking to sell investments to TexPool Prime.

In addition, these employees shall refrain from personal business activity that could conflict with the proper execution and management of the investment program or that could impair their ability to make impartial decisions. They shall also disclose any personal financial or investment positions in financial institutions and broker/dealers with which they conduct business. Further, these employees shall refrain from undertaking personal investment transactions with the firms with whom TexPool Prime conducts business.

Agents, advisors and contractors providing services in connection with the custody, management and investment of public funds under a contract with the Comptroller must at all times avoid any actual or apparent conflict of interest with respect to the custody, management and investment of public funds. For purposes of this investment policy, a conflict of interest refers to any situations in which an agent, advisor or contractor who in the context of its duties under its contract with the Comptroller have interests which are or may become inconsistent with the interests of the agents, advisor or contractor with respect to other of its duties, contractual or otherwise.



Texas Local Government Investment Pool

TexPool *Prime* Participation Agreement

PREAMBLE

This participation agreement (the "Agreement") is made and entered into by and between the Comptroller of Public Accounts (the "Comptroller"), acting through the Texas Treasury Safekeeping Trust Company (the "Trust Company"), Trustee of *TexPool Prime*, a Texas Local Government Investment Pool, and Williamson County (the "Participant").

WHEREAS, the Interlocal Cooperation Act, TEX GOV'T CODE ANN, ch. 791 authorizes a local government to contract with a state agency to perform governmental functions, including investment of public funds;

WHEREAS, the Public Funds Investment Act, TEX. GOV'T CODE ANN. ch. 2256 (the "Investment Acts") provides for the creation of a public funds investment pool in which a governmental investing entity may invest its funds and to which the entity may delegate, by contract, the authority to hold legal title as custodian of investments purchased with its local funds;

WHEREAS, the Trust Company is a special purpose trust company authorized pursuant to TEX. GOV'T CODE ANN. § 404.103 to receive, transfer and disburse money and securities belonging to state agencies and local political subdivisions of the state and for which the Comptroller is the sole officer, director and shareholder;

WHEREAS, *TexPool Prime* is a public funds investment pool, which funds are invested in certain eligible investments as more fully described hereafter;

WHEREAS, the Participant has determined that it is authorized to invest in a public funds investment pool created under the Investment Acts and to enter into this Agreement;

WHEREAS, the Participant acknowledges that the Trust Company is not responsible for independently verifying the Participant's authority to invest under the Investment Acts or to enter this Agreement;

WHEREAS, the Participant acknowledges that the performance of *TexPool Prime* is not guaranteed by the State of Texas, the Comptroller, or the Trust Company and that there is no secondary source of payment for the pool; and

WHEREAS, in an effort to ensure the continued availability of an investment pool as a vehicle for investment of local government funds and simultaneously provide for enhancement in services and potential decreases in management and administrative fees, Participant and Trust Company desire to provide in this Agreement that the Trust Company may obtain private professional investment management and related services.

NOW THEREFORE, for and in consideration of the mutual promises, covenants and agreements herein contained, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree with each other as follows:

**ARTICLE I.
DEFINITIONS**

"Account" shall mean any account or accounts, established by the Participant in *TexPool Prime* in accordance with this Agreement and the Operating Procedures (as defined herein), which Account represents an undivided beneficial ownership in *TexPool Prime*.

"Authorized Investments" shall mean those investments which are authorized by the Investment Act (as herein defined) for investment of public funds.

"Authorized Representative(s) of the Participant" shall mean any individual who is authorized to execute documents and take such other necessary actions under this Agreement as evidenced by the duly enacted Resolution of the Participant.

"Authorized Representative(s) of the Trust Company" shall mean any employee of the Comptroller or Trust Company who is designated in writing by the Comptroller or the Trust Company's Chief Executive Officer to act as the authorized Trust Company representative for purposes of this Agreement and shall include employees of any private entity performing the obligations of the Comptroller under this Agreement.

"Board" shall mean the advisory board provided for in the Investment Act (as defined below).

"Fund" shall mean the TexPool Prime Fund created and established pursuant to Section 4.01 hereof.

"Investment Act" shall mean the Public Funds Investment Act, TEX. GOV'T CODE ANN. ch. 2256, as amended from time to time.

"Investment Policy" shall mean the written *TexPool Prime* Investment Policy, as amended from time to time, relating to the investment and management of funds in *TexPool* as established by the Trust Company consistent with the Investment Act.

"Letter of Instruction" shall mean a written authorization and direction to the Trust Company signed by an Authorized Representative of the Participant.

"Operating Procedures" shall mean the written procedures established by the Trust Company describing the management and operation of *TexPool Prime*, and providing for the establishment of, deposits to and withdrawals from the Accounts, as amended from time to time.

"Participant" shall mean any entity authorized by the Acts to participate in a public funds investment pool that has executed this Agreement pursuant to a Resolution.

"Resolution" shall mean the resolution adopted by the governing body of a local governmental entity authorizing the entity's participation in *TexPool Prime* and designating persons to serve as Authorized Representatives of the Participant.

**ARTICLE II.
GENERAL ADMINISTRATION**

Section 2.01. TexPool *Prime* Defined.

- (a) **TexPool *Prime*** is a public funds investment pool created pursuant to the Investment Acts.
- (b) Subject to Section 6.10, the Trust Company agrees to manage the Participant's Account in accordance with the Investment Act and the Investment Policy.

Section 2.02. Board.

- (a) The Board is composed of members appointed pursuant to the requirements of the Investment Act.
- (b) The Board shall advise the Trust Company on the Investment Policy and on various other matters affecting **TexPool *Prime***, and shall approve fee increases.

Section 2.03. General Administration.

- (a) The Trust Company shall establish and maintain the Investment Policy specifically identifying the Authorized Investments consistent with the Investment Act and the general policy and investment goals for **TexPool *Prime***.
- (b) The Trust Company shall establish and maintain the Operating Procedures, describing the management and operation of **TexPool *Prime*** and providing for procedures to be followed for the establishment of, deposits to, and withdrawals from the Accounts and such other matters as are necessary to carry out the intent of this Agreement.
- (c) The Trust Company shall have the power to take any action necessary to carry out the purposes of this Agreement, subject to applicable law and the terms of this Agreement.

Section 2.04. Ownership Interest. Each Participant shall own an undivided beneficial interest in the assets of **TexPool *Prime*** in an amount proportional to the total amount of such Participant's Accounts relative to the total amount of all Participant's Accounts in **TexPool *Prime***, computed on a daily basis.

Section 2.05. Independent Audit. **TexPool *Prime*** is subject to annual review by an independent auditor consistent with Ch. 2256, TEX GOV'T CODE ANN. In addition, reviews of **TexPool *Prime*** may be conducted by the State Auditor's office and the Comptroller's office. The Trust Company may obtain such legal, accounting, financial or other professional services as it deems necessary or appropriate to assist **TexPool *Prime*** in meeting its goals and objectives.

Section 2.06. Liability. Any liability of the Comptroller, the Comptroller's office, the Trust Company, representatives or agents of the Trust Company, any Comptroller employee, Trust Company or any member of the Board for any loss, damage or claim, including losses from investments and transfers, to the Participant shall be limited to the full extent allowed by applicable laws. The Trust Company's responsibilities hereunder are limited to the management and investment of **TexPool *Prime*** and the providing of reports and information herein required.

Section 2.07. Disclosure Statement.

- (a) **TexPool *Prime*** is created to function like a money market mutual fund and seeks to maintain a 1.00 net asset value. Performance fluctuates on a daily basis, largely because net earnings fluctuate daily. The performance of **TexPool *Prime*** depends on such variables as portfolio quality, average portfolio maturity, type and value of portfolio securities, and changes in interest rates. Primary risk factors include:

- Interest Rate Risk. Prices of fixed income securities generally fall when interest rates rise.

- **Credit Risks.** A decline in the credit quality of an issuer can cause the price of a security held by the pool to decrease.

- (b) Both net earnings and offering price per share are factors in the computation of yield and total return.
- (c) The assets of *TexPool Prime* are the only source of payment to Participants. There is no secondary source of payment for the pool, and investment in *TexPool Prime* is not a deposit or an obligation of any bank, is not endorsed or guaranteed by any bank and is not insured or guaranteed by the U.S. government, The Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency, including the State of Texas.

ARTICLE III. PARTICIPATION REQUIREMENTS

Section 3.01. The Participation Agreement. The Participant must execute this Agreement and provide a Resolution authorizing participation in *TexPool Prime* and designating persons to serve as Authorized Representatives of the Participant and any other documents as are required under, and substantially in the form prescribed by, the Operating Procedures before depositing any funds into *TexPool Prime*.

Section 3.02. Operating Procedures

- (a) The Participant acknowledges receipt of a copy of the Operating Procedures. The Operating Procedures describe in detail the procedures required for the establishment of accounts, deposits to and withdrawals from *TexPool Prime*, and related information.
- (b) The Operating Procedures may be modified by the Trust Company as appropriate to remain consistent with established banking practices and capabilities and when such modification is deemed necessary to improve the operation of *TexPool Prime*.
- (c) The Participant hereby concurs with and agrees to abide by the Operating Procedures.

ARTICLE IV. INVESTMENTS

Section 4.01. Investments. All monies held in *TexPool Prime* shall be invested and reinvested by the Trust Company or Authorized Representatives of the Trust Company only in Authorized Investments in accordance with the Agreement, the Investment Policy and the Investment Act. Participant hereby concurs with any such investment so made by the Trust Company. Available funds of *TexPool Prime* that are uninvested may be held at the Trust Company's account at the Federal Reserve Bank of Dallas, or any designated custodian account, or with a custodian selected by the Trust Company. All investment assets and collateral will be in the possession of the Trust Company and held in its book-entry safekeeping account at the Federal Reserve Bank, any designated custodian account, or with a custodian selected by the Trust Company.

Section 4.02. Failed Investment Transaction. In the extraordinary event that a purchase of securities results in a failed settlement, any resulting uninvested funds shall remain in the Trust Company's Federal Bank of Dallas account, any designated custodian account or with a custodian selected by the Trust Company. If an alternative investment can be secured after the failure of the trade to settle, *TexPool Prime* will receive all the income earnings, including but not limited to, any compensation from the purchaser failing in the trade and the interest income from the alternative investment.

Section 4.03. Investment Earnings and Losses Allocation. All interest earnings in *TexPool Prime* will be valued daily and credited to the Participant's Accounts monthly, on a pro rata allocation basis. All losses, if any, resulting from the investment of monies in *TexPool Prime* shall also be allocated on a pro rata allocation basis. All earnings and losses will be allocated to the Participant's Accounts in accordance with generally accepted accounting procedures.

Section 4.04. Commingling of Accounts. Participant agrees that monies deposited in *TexPool Prime* may be commingled with all other monies held in *TexPool Prime* for purposes of common investment and operational efficiency. However, each Participant will have separate Accounts on the books and records of *TexPool Prime*, as further provided for in the Operating Procedures.

**ARTICLE V.
FEES, EXPENSES AND REPORTS**

Section 5.01. Fees and Expenses. The Participant agrees to pay the amount set forth in the fee schedule. Participant agrees that all fees shall be directly and automatically assessed and charged against the Participant's Accounts. The basic service fee shall be calculated as a reduction in the daily income earned, thus only the net income shall be credited to the Participant's Account. Fees for special services shall be charged to each Participant's account as they are incurred or performed. A schedule of fees shall be provided to the Participant annually. Each Participant will be notified thirty (30) days prior to the effective date of any change in the fee schedule.

Section 5.02. Reports. A monthly statement will be mailed to the Participant within the first five (5) business days of the succeeding month. The monthly statement shall include a detailed listing of the balance in the Participant's Accounts as of the date of the statement; all account activity, including deposits and withdrawals; the daily and monthly yield information; and any special fees and expenses charged. Additionally, copies of the Participant's reports in physical or computer form will be maintained for a minimum of three prior fiscal years. All records shall be available for inspection at all reasonable hours of the business day and under reasonable conditions.

Section 5.03. Confidentiality. The Trust Company and any private entity acting on behalf of the Trust Company for purposes of this Agreement will maintain the confidentiality of the Participant's Accounts, subject to the Public Information Act, TEX GOV'T CODE ANN. ch. 552, as amended.

**ARTICLE VI.
MISCELLANEOUS**

Section 6.01. Notices. Any notices, Letters of Instructions or other information required or permitted to be given hereunder shall be submitted in writing and shall be deemed duly given when deposited in the U.S. mail postage prepaid or successfully transmitted via facsimile addressed to the parties as follows:

To the *Participant*:

Participant Name	Williamson County		
Address	710 Main Street, Suite 302		
City, State, Zip	Georgetown, TX 78626		
Telephone	512-943-1540	Fax	512-943-1590

To *Trust Company* with respect to contractual matters or disputes under this Agreement:

Texas Treasury Safekeeping Trust Company
Attn: TexPool Prime
Rusk State Office Building
208 East 10th Street, Suite 441
Austin, TX 78701
Telephone: (512) 463-5303
FAX No.: (512) 463-0823

To **TexPool Prime** with respect to operational matters, including enrollment documents; changes to Authorized Representatives; Bank Information Sheets; initiation of deposits or withdrawals of funds; changes to addresses; audit confirmation requests; and account inquiry:

TexPool Participant Services
Lehman Brothers
Attn: Office Manager
1111 Bagby Street, Suite 2350
Houston, TX 77002
Telephone: 1-866-839-7665 (1-866-TEX-POOL)
FAX No.: 1-866-839-3291 (1-866-TEX-FAX1)

The Participant and the Trust Company agree to notify the other of any change affecting this information and agree that unless and until so notified, the other party shall be entitled to rely on the last information provided.

Section 6.02. Taxpayer Identification Number. The Participant's taxpayer identification number assigned by the Internal Revenue Service is: 74-6000978. The Participant hereby agrees to notify the Trust Company of any change affecting this Taxpayer Identification number and agrees that unless and until so notified, the Trust Company shall be entitled to rely on same in providing any and all reports or other information necessary or required by the Federal tax laws as amended from time to time.

Section 6.03. Severability. If any provision of this Agreement shall be held or deemed to be in fact illegal, inoperative or unenforceable, the same shall not affect any other provision or provisions herein contained or render the same invalid, inoperative or unenforceable to any extent whatsoever.

Section 6.04. Execution of Counterparts. This Agreement may be simultaneously executed in several separate counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 6.05. Applicable Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Texas. Venue for any dispute under this Agreement shall be in Travis County, Texas.

Section 6.06. Captions. The captions or headings in this Agreement are for convenience only and in no way defined, limit or describe the scope or intent of any provisions, articles or sections of this Agreement.

Section 6.07. Amendments.

- (a) The Trust Company shall advise the Participant in writing of any amendments to this Agreement no less than 45 days prior to the effective date of such amendment. The Participant may ratify the proposed amendment of this Agreement by letter to the Trust Company. If the Participant elects not to ratify the amendment, the Participant may terminate this Agreement in accordance with Section 6.08. In the event the Participant fails to respond in writing to a notice of amendment prior to the effective date of such amendment, this Agreement shall be deemed amended.
- (b) The Trust Company may revise the Operating Procedures from time to time as it deems necessary for the efficient operation of **TexPool Prime**. The Participant will be bound by any amendment to the Operating Procedures with respect to any transaction occurring subsequent to the time such amendment takes effect, provided, however, that no such amendment shall affect the Participant's right to cease to be a Participant.

Section 6.08. Termination. This Agreement may be terminated by either party hereto, with or without cause, by tendering 30 days prior written notice in the manner set forth in Section 6.01 hereof.

Section 6.09. Term. Unless terminated in accordance with Section 6.08, this Agreement shall be automatically renewed on each anniversary date hereof.

Section 6.10. Limitation of Rights. With the exception of the rights herein expressly conferred nothing in or to be implied from this Agreement is intended or shall be construed to give any person other than the parties hereto any legal or equitable right, remedy or claim under or in respect to this Agreement or in any of the covenants, conditions and provisions herein contained. Neither the Comptroller nor the Trust Company shall be liable for any losses from investments made and transfers made in accordance with the procedures set forth in this Agreement.

Section 6.11. Assignment. The Trust Company may enter into an agreement with a third party investment manager to perform its obligations and service under this Agreement, provided that such third party investment manager shall manage **TexPool Prime** according to the Investment Act, Investment Policy and in a manner consistent with that directed by the Trust Company. The Trust Company also shall have the right to assign its rights and obligations under the Agreement to a third party investment manager if the Trust Company determines that such assignment is in the best interest of the State and Participants. If a successor pool to **TexPool Prime** is deemed by the Trust Company to be in the best interest of the State and the Participant, the Trust Company may take any action it deems necessary to assign its rights and benefits under any third party agreements and transfer the assets from **TexPool Prime** to any successor pool.

In Witness Whereof, the parties hereto have caused this Agreement to be executed as of the dates set forth below, and the Agreement shall be effective as of the latest such date.

PARTICIPANT

TEXAS TREASURY SAFEKEEPING TRUST COMPANY

Signature John C. Doerfler
Printed Name John C. Doerfler
Title County Judge
Date 12-17-02

Comptroller of Public Accounts
Signature _____
Printed Name _____
Title _____
Date _____

CERTIFICATE OF INCUMBENCY

The preceding signatory is a duly appointed, acting, and qualified officer of the Participant, who, in the capacity set forth above is authorized to execute this Agreement.

IN WITNESS WHEREOF, I have duly executed this certificate as of the 17th day of December, 2002.



Signature Nancy E. Rister
Printed Name Nancy E. Rister
Title County Clerk

AGENDA ITEM 29

Consider approving recommendation of committee for appointments to RMA Board.

This agenda item was considered during Executive Session, along with Agenda Item 37.

Moved: Commissioner Limmer

Seconded: Commissioner Boatright

Motion: To appoint Jim Mills of Georgetown, Bob Bennett of Round Rock, and Bob Tesch of Cedar Park to the RMA Board.

Vote: 5 - 0

< Attachment >

RMA APPLICANTS

(in alphabetical order only)

1. Randall Barfield
2. Robert Bennett Round Rock
3. Jim Boles
4. Norm Chafetz
5. Frank H. Del Castillo, Jr.
6. Jody Giddens
7. Lee Jensen
8. Scott LaGrone
9. Dustin Little
10. Jim Mills Georgetown
11. Omar Pena
12. Brian Rice
13. Mike Robinson
14. Reid Ryan
15. Barbara Shaffer
16. Bob Tesch Cedar Park
17. Wade Todd