

Investment Policy

Approved:
Barton Springs/Edwards Aquifer Conservation District
Board of Directors
May 26, 2005

(Re-approved 7-24-08)
(Amended 1/22/09)

PREFACE

It is the policy of the Barton Springs/Edwards Aquifer Conservation District (the “District”) that all available funds shall be invested in conformance with these legal and administrative guidelines.

Effective cash management is recognized as essential to good fiscal management. An aggressive cash management and investment policy will be pursued to take advantage of investment interest as viable and material revenue to all operating and capital funds. The District’s portfolio shall be designed and managed in a manner responsive to the public trust and consistent with State and Federal law.

Investments shall be made with the primary objectives of:

- Preservation of capital and protection of principal
- Maintenance of sufficient liquidity to meet operating needs
- Security of District funds and investments
- Diversification of investments to avoid unreasonable or avoidable risks
- Maximization of return on the portfolio

I. Purpose

A. Authorization

This Policy is to be authorized by the Board of Directors of the District (the “Board”) in accordance with Section 5 of the Public Funds Investment Act (Chapter 2256, Texas Government Code), as amended, which requires the adoption of a formal written Investment Policy.

B. Scope

This Policy shall govern the investment of all funds of the District as entrusted to the Board and other authorized representatives in accordance with Chapter 2256, Texas Government Code, as amended. In addition to this Policy, bond funds, including debt service and reserve funds, shall be managed by their governing resolution and Federal law, including the Tax Reform Act of 1986 and subsequent legislation.

C. Review and Amendment

This Policy shall be reviewed annually. Amendments must be authorized by the Board.

II. Investment Objectives

A. Safety of Principal

The District has as its foremost objective to ensure the safety of principal, considering the portfolio as a whole. The manner in which the District ensures safety of principal is presented in Section IV.B., “Ensuring Safety of Principal.”

B. Maintenance of Adequate Liquidity

The District’s investment portfolio must be structured in a manner which will provide the liquidity necessary to pay obligations as they become due. Maintenance of adequate liquidity is described in Section IV.C., “Ensuring Liquidity.”

C. Return on Investments

Consistent with State law, the District shall seek to optimize return on investments within the constraints of safety and liquidity. Investments (excluding assets managed under separate investment programs, such as in arbitrage restrictive programs) shall be made in permitted obligations at yields equal to or greater than the bond equivalent yield on United States Treasury obligations of comparable maturity. Other appropriate performance measures will be established by the Board. Specific policies regarding investment rate of return are presented in Section IV.D., “Achieving Investment Return Objectives.”

For bond issues to which Federal yield or arbitrage restrictions apply, the primary objectives shall be to obtain satisfactory market yields and to minimize the costs associated with investment of such funds.

D. Prudence and Ethical Standards

The standard of prudence used by the District shall be the “prudent person rule” and shall be applied in the context of managing the overall portfolio within the applicable legal constraints. The prudent person rule is restated below:

“Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence would exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.”

In determining whether the Investment Officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration the investment of all funds over which the Officer had responsibility rather than a consideration as to the prudence of a single investment, and whether the investment decision was consistent with the written Investment Policy of the District.

Specific policies describing the District's prudence and ethical standards are found in Section IV.E., "Responsibility and Controls."

III. Investment Strategy Statement

The District maintains portfolios of operating/operating reserve funds.

Operating/Operating Reserve Funds:

Investment strategies for operating and operating reserve funds have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. The secondary objective is to create a portfolio structure which will experience minimal volatility during economic cycles.

Other than its Operating/Operating Reserve Funds, the District has no other Funds to invest. All funds shall be maintained in the District's depository or invested in TexPool.

IV. Investment Policies

A. Eligible Investments

Investments described below are those authorized by the Public Funds Investment Act (Chapter 2256, Texas Government Code), as amended, which is included and made a part of this Policy as Appendix A. The following list may not contain all of those securities that are authorized by State statutes, but only those that the Board wishes to include in the District's portfolios. The purchase of specific issues may at times be further restricted or prohibited because of current market conditions. The District funds governed by this Policy may be invested in local government investment pools organized in accordance with the Interlocal Cooperation Act (Chapter 791, Texas Government Act) as amended, whose assets consist exclusively of the obligations that are allowed as a direct investment for funds subject to the Public Funds Investment Act (Chapter 2256, Texas Government Code), as amended. A public funds investment pool must be continuously rated no lower than AAA, AAA-m or at an equivalent rating by at least one nationally recognized rating service.

B. Ensuring Safety of Principal

Ensuring safety is accomplished through protection of principal and safekeeping.

1. Protection of Principal

The District shall seek to control the risk of loss due to the failure of a security issuer or guarantor. Such risk shall be controlled by investing only in the safest types of securities as defined in the Policy, by qualifying the broker/dealer and financial institution with whom the District will transact, by collateralization as required by law, by portfolio diversification and by limiting maturity.

a. Approved Broker/Dealers/Financial Institutions

Investments shall only be made with those firms and institutions who have acknowledged receipt and understanding of the District's Investment Policy. The "qualified representative" of the business as defined in Chapter 2256 of the Texas Government Code shall execute a written certification to acknowledge receipt of the District's Investment Policy and to acknowledge that the organization has implemented reasonable procedures and controls to preclude imprudent investment activities arising out of the investment transactions conducted between the entity and the District.

Authorized Investments shall only be purchased from those institutions included on the District's list of banks, savings banks and credit unions as approved by the Board. This list of approved investment providers must be reviewed at least annually by the Board.

b. Collateralization

Consistent with the requirements of State law, the District requires all banks, savings banks and credit union deposits to be federally insured or collateralized with eligible securities. Financial institutions serving as District Depositories will be required to sign an Agreement with the District and its safekeeping agent for the collateral, perfecting the District's rights to the collateral in case of default, bankruptcy or closure. The District shall not accept, as depository collateral, any security that is not specifically allowed to be held as a direct investment by the District portfolio (see 1V.A.).

(1) Allowable Collateral

(a) Certificates of Deposit/Share Certificates

Eligible securities for collateralization of deposits are defined by the “Public Funds Collateral Act” (Chapter 2257, Texas Government Code) which is included and made a part of the Policy as Appendix A. The eligibility of specific issues may at times be restricted or prohibited because of current market conditions.

(b) Repurchase Agreements

Collateral underlying repurchase agreements is limited to U. S. government and agency obligations, which are eligible for wire transfer (i.e. book entry) to the District’s designated safekeeping agent through the Federal Reserve System.

(2) Collateral Levels

Collateral is valued at current market plus interest accrued through the date of valuation.

(a) Certificates of Deposit/Share Certificates

The market value of collateral pledged for certificates of deposit/share certificates must at all times be equal to or greater than the par value of the certificate of deposit plus accrued interest, less the amount insured by the FDIC, FSLIC or the National Credit Union Share Insurance Fund or their successors.

(b) Repurchase Agreements

The market value of collateral required to be pledged for repurchase agreements shall be a percentage of the par value of the agreement plus accrued interest and shall be maintained at the following levels:

| <u>Collateral Maturity</u> | <u>U. S. Treasury Securities</u> | <u>U. S. Government Agency</u> |
|--------------------------------|--------------------------------------|------------------------------------|
| 1 year or less | 101% | 101 % |
| 1 year to 5 years | 102% | 102% |
| Over 5 years | 103% | 104% |

(3) Monitoring Collateral Adequacy

(a) Certificates of Deposit/Share Certificates

The District requires monthly reports with market values of pledged securities from all financial institutions with which the District has certificates of deposit/share certificates. The District's Investment Officer will at least weekly monitor the adequacy of collateral.

(b) Repurchase Agreements

Weekly monitoring by the District's Investment Officer of all collateral underlying repurchase agreements is required. More frequent monitoring may be necessary during periods of market volatility.

(4) Margin Calls

(a) Certificates of Deposit/Share Certificates

If the collateral pledged for a certificate of deposit or share certificate falls below the par value of the deposit, plus accrued interest less FDIC, FSLIC or National Credit Union Share Insurance, the institution will be notified by the District and will be required to pledge additional securities no later than the end of the next succeeding business day.

(b) Repurchase Agreements

If the value of the collateral underlying a repurchase agreement falls below the margin maintenance levels specified above, the District will make a margin call unless the repurchase agreement is scheduled to mature within five business days and the amount is deemed to be immaterial.

(5) Collateral Substitution

Collateralized investments, certificates of deposit and share certificates often require substitution of collateral. Any broker or financial institution requesting substitution must contact the Investment Officer for approval and settlement. The substituted collateral's value will be calculated and substitution approved if its value is equal to or greater than the required value (See IV.B.2.c.(2)(b)). The Investment Officer must give immediate notification of the decision to the bank or the safekeeping agent holding the collateral. Substitution is allowable for all transactions, but should be limited, if possible, to minimize potential administrative problems and transfer expense. The Investment Officer may limit substitution and assess appropriate fees if substitution becomes excessive or abusive.

(6) Collateral Reductions

Should the collateral's market value exceed the required amount, any broker or financial institution may request approval from the Investment Officer to reduce collateral. Collateral reductions may be permitted only if the District's records indicate that the collateral's market value exceeds the required amount.

c. Portfolio Diversification

Risk of principal loss in the portfolio as a whole shall be minimized by diversifying investment types according to the following limitations. Because of the need for liquidating, the District's investments outside its depository shall be limited to 100% in TexPool.

d. Limiting Maturity

In order to minimize risk of loss due to interest rate fluctuations, investment maturities will not exceed the anticipated cash flow requirements of the funds. Maturity guidelines by funds are as follows:

(i) General Funds

The dollar weighted average days to final stated maturity shall be 90 days or less, as provided for local government investment pools. The Investment Officer will monitor the maturity level and make changes as appropriate.

(ii) Reserved

2. Safekeeping

a. Safekeeping Agreement

The District shall contract with a bank or banks for the safekeeping of securities either owned by the District as a part of its investment portfolio or held as collateral to secure certificates of deposits, share certificates or repurchase agreements.

b. Safekeeping of Certificate of Deposit/Share Certificate Collateral

All collateral securing bank, savings banks and credit union deposits must be held by a third party banking institution approved by the District, or collateral may be held at the Federal Reserve Bank.

c. Safekeeping of Repurchase Agreement Collateral

The securities which serve as collateral for repurchase agreements with dealers must be delivered to a third-party custodian with which the District has established a third-party safekeeping agreement.

C. Ensuring Liquidity

Liquidity shall be achieved by investing in securities with active secondary markets and by investing in TexPool, a local government investment pool.

A security may be liquidated to meet unanticipated cash requirements, to redeploy cash into other investments expected to outperform current holdings, or to otherwise adjust the portfolio.

D. Achieving Investment Return Objectives

Investment selection for all funds shall be based on legality, appropriateness, liquidity, and risk/return considerations. The portfolios shall be actively managed

to enhance overall interest income. Active management will take place within the context of the “Prudent Person Rule.” (see Section II.D.).

Because of liquidity needs, the District has limited its investments to TexPool.

E. Responsibility and Controls

1. Authority to Invest

The authority to invest the District funds and the execution of any documentation necessary to evidence the investment of the District funds is granted to the District personnel (“Investment Officer”) authorized to invest on behalf of the District.

2. Establishment of Internal Controls

The Investment Officer will establish a system of internal controls over the investment activities of the District and document such controls in the Investment Procedures Manual.

3. Prudent Investment Management

The designated Investment Officer shall perform his/her duties in accordance with the adopted Investment. The Investment Officer acting in good faith and in accordance with these Policies and Procedures shall be relieved of personal liability.

4. Standard of Ethics

The designated Investment Officer shall adhere to the District’s ethics policies.

5. Training and Education

In accordance with the Texas Water Code, Sec. 36.1561 , the designated Investment Officer shall attend at least four hours of additional investment training within each two-year period after the first year. State law requires that training relating to investment responsibilities must be provided by an independent source.

F. Reporting

Investment performance is continually monitored and evaluated by the Investment Officer. The Investment Officer will provide detailed reports, as required by the Public Funds Investment Act (Chapter 2256, Texas Government Code), Section 2256.023, for the Board on a quarterly basis.

The report will outline conformance to the restrictions of the Policy in the area of diversification and term of maturity. The report will also compare the performance of the District's portfolio to appropriate benchmarks as determined by the Board. The report will include an economic summary discussing interest rate trends, investment strategy and any other information deemed appropriate by the Investment Officer.

G. Compliance Audit

In conjunction with its annual financial audit, the District shall perform a compliance audit of management controls on investments and adherence to the District's established Investment Policies. The results of the audit shall be reported to the Board.

H. Certification

A copy of this Investment Policy will be provided to the senior management of any bank, dealer, broker or investment advisor wishing to transact investment business directly with the District in order that it is apprised of the investment goals of the District. Before business is transacted with the firm, a certification (Appendix A) must be signed by a senior member of a firm. Should the District contract with an external investment advisor to execute the District's investment strategy, including the negotiation and execution of investment transactions, a managing officer of the investment advisory firm may sign the written certification in lieu of the broker/dealer firms. This certification must be included as part of the investment advisory contract.

V. Investment Officer

Dana Christine Wilson, the District's Administration Manager, is the Investment Officer of the District.

APPENDIX A
BROKER/DEALER CERTIFICATION

**TEXAS PUBLIC FUNDS INVESTMENT ACT
ACKNOWLEDGMENTS**

These Acknowledgments are executed on behalf of Barton Springs/Edwards Aquifer Conservation District, Texas (“Investor”) and _____ (“Business Organization”) pursuant to the Public Funds Investment Act, Chapter 2256, Government Code, Texas Codes Annotated (the “Act”), in connection with investment transactions conducted between the Investor and the Business Organization.

Acknowledgment by Investor

The undersigned investment officer of the Investor (“Investment Officer”) hereby acknowledges, represents and agrees on behalf of the Investor that:

- (i) The Investment Officer (a) has been duly designated by official action of the governing body of the Investor to act as its Investment Officer pursuant to the Act, (b) is vested with full power and authority under the Act and other applicable law to engage in investment activities on behalf of the Investor, and (c) is duly authorized to execute this Acknowledgment on behalf of the Investor.
- (ii) Pursuant to the Act, the governing body of the Investor has duly adopted a written investment policy which complies with the Act, including an investment strategy (as the same may be amended, the “Investment Policy”), and the Investment Officer (a) has furnished a true and correct copy of the Investment Policy to the Business Organization and (b) will notify the Business Organization of any revision of, or amendment to, the Investment Policy. The Business Organization shall be entitled to rely upon the most recent version of the Investment Policy furnished by the Investment Officer until provided with an amended version;
- (iii) Attached hereto is a list of investments that are authorized pursuant to the Investment Policy and that the Investment Officer understands may be available from the Business Organization. The attached list may be amended from time to time by mutual agreement of the Investor and the Business Organization; and
- (iv) In connection with any investment transaction between the Business Organization and the Investor, the Business Organization is not responsible for assuring compliance with those aspects of the Investment Policy over which the Business Organization has no control or knowledge, such as restrictions as to diversity and average maturity, or which require an interpretation of subjective investment standards.

INVESTMENT OFFICER

Name: _____
Title: _____
Date: _____

Acknowledgment by Business Organization

In reliance upon the foregoing “Acknowledgment by Investor,” the undersigned qualified representative of the Business Organization (“Qualified Representative”) acknowledges, represents, and agrees on behalf of the Business Organization that:

- (i) The Qualified Representative (a) is registered under the rules of the National Association of Securities Dealers, (b) is the duly appointed and acting officer of the Business Organization, holding the office set forth underneath its name below, and (c) is duly authorized to execute this Certification on behalf of the Business Organization,
- (ii) The Qualified Representative has received and reviewed the Investment Policy furnished by the Investment Officer,
- (iii) The Business Organization will provide the Investment Officer with a periodic account and other reasonably requested information that will assist the Investment Officer in carrying out his or her responsibility to make investment decisions consistent with the Investment Policy; and
- (iv) The Business Organization will not sell to the Investor investments other than those on the attached list, which may be amended from time to time by mutual agreement of the Investor and the Business Organization.

QUALIFIED REPRESENTATIVE

Name: _____
Title: _____
Date: _____