

**BRUSHY CREEK MUNICIPAL UTILITY DISTRICT  
ORDER ADOPTING AMENDED AND RESTATED  
INVESTMENT POLICY, INVESTMENT STRATEGIES AND BROKER/DEALER LIST**

THE STATE OF TEXAS §

COUNTY OF WILLIAMSON §

WHEREAS, Brushy Creek Municipal Utility District (the "District") is a conservation and reclamation district, a body corporate and politic and governmental agency of the State of Texas, created under Article XVI, Sec. 59 of the Texas Constitution by order of the Texas Water Commission, now the Texas Commission on Environmental Quality ("TCEQ"), and the District operates under Chapters 49 and 54 of the Texas Water Code, as amended;

WHEREAS, V.T.C.A., Government Code, Chapter 2256, as amended (the "Public Funds Investment Act"), requires the governing body of political subdivisions to adopt a written investment policy concerning the investment of its funds and funds under its control;

WHEREAS, Section 49.157(a) of the Texas Water Code, as amended, provides that all District deposits and investments shall be governed by Subchapter A, Chapter 2256, Government Code (Public Funds Investment Act);

WHEREAS, Section 49.157(b) of the Texas Water Code, as amended, provides that an authorized representative of the District may invest and reinvest the funds of the District and provide for money to be withdrawn from the appropriate accounts of the District for the investment on such terms as the board considers advisable;

WHEREAS, the Board of Directors of the District has previously designated one or more investment officers and adopted a policy relating to the investment of District funds in accordance with the Public Funds Investment Act;

WHEREAS, the Public Funds Investment Act requires that the Board of Directors of the District review the Investment Policy, its investment strategies, and its authorized broker/dealer list not less than annually and make any changes thereto as determined by the Board of Directors to be necessary and prudent, and to adopt an order or resolution stating that it has reviewed the Investment Policy, investment strategies, and broker/dealer list and recording any changes made thereto.

NOW, THEREFORE BE IT ORDERED BY THE BOARD OF DIRECTORS OF BRUSHY CREEK MUNICIPAL UTILITY DISTRICT, THAT:

Section 1. The matters and facts recited in the preamble to this Order are found to be true and correct and the same are incorporated herein as a part of this Order.

Section 2. The Board has reviewed its Investment Policy and the investment strategies set forth therein in accordance with the requirements of Section 2256.005(e) of the Public Funds Investment Act. Based upon such review, the Board finds and declares that certain revisions to the District's Investment Policy are necessary and appropriate at this time including:

- The addition of the term "MBS" under authorized collateral to differentiate between MBS (mortgage backed securities) and CMO which are a distinct type of MBS.

- Elimination of the authorization on collateral pooling which, with changes in banking regulations and other collateral options has effectively been made inoperable for the banks.
- Clarification that certificates of deposit need a written agreement under the terms of FIRREA when the amount exceeds FDIC insurance limits.
- Name changes of brokerage firms have been updated on the broker/dealer list attached for adoption.
- Extension of maximum maturity on commercial paper from 180 to 270 days.
- The extension of maximum maturities for US Government treasuries and agencies as well as state and local debt from two to three years.

Section 3. The Board desires to approve and affirm the Investment Policy, Strategies and broker list in the form attached hereto.

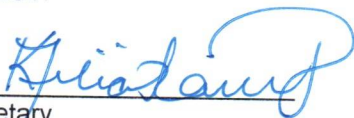
Section 4. The President or Vice President or the Secretary/Treasurer or Assistant Secretary/Treasurer is authorized to do all things necessary and proper to evidence the Board's adoption of this Order and to carry out the intent hereof. Upon execution, a copy of this Order shall be filed in the permanent records of the District.

PASSED AND APPROVED this 30<sup>th</sup> day of September, 2020.



Vice President

ATTEST:

  
Secretary

(SEAL)

**BRUSHY CREEK MUNICIPAL UTILITY DISTRICT  
INVESTMENT POLICY AND INVESTMENT STRATEGIES**

**STATUTORY AUTHORITY**

Chapter 2256 of the Texas Government Code, Public Funds Investment Act (the "Act").  
Chapter 2257 of the Texas Government Code, Public Funds Collateral Act.

**SCOPE**

This Investment Policy and Strategies ("Policy") applies to the investment of all funds of the Brushy Creek Municipal Utility District (the "District"), including, without limitation, all funds held within the District's operating cash, debt service, customer deposits, and reserve funds. Investments shall be made in accordance with this Policy, the Act and all state statutes governing the investment of funds of municipal utility districts.

The Board of the District (the "Board") shall review and adopt this Policy, including the written investment strategies set forth herein, not less than annually and shall make any changes thereto as determined by the Board to be necessary and prudent.

**INVESTMENT OBJECTIVES**

The District's funds shall be managed and invested in accordance with this Policy and applicable covenants of District bond resolutions, including covenants with respect to the arbitrage regulations under the U.S. Internal Revenue Code, and shall utilize the following objectives, in order of priority, for investment activities:

- A. SAFETY**- Preservation and the safety of the District's principal is the foremost concern of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation and safety of principal. The objective is to mitigate credit and interest rate risk. Credit risk is the risk of loss due to failure of the security issuer or backer. Interest rate risk is the risk that the market value of securities in the portfolio will fall due to changes in general interest rates. To mitigate these risks, the District shall:
1. Limit investments to the highest credit quality securities.
  2. Pre-qualify and monitor the financial institutions in which the District deposits funds.
  3. Diversify the investment portfolio to minimize volatility and the impact of individual securities.
  4. Structure the portfolio so that securities meet cash requirements for ongoing operations, thereby avoiding the need to sell securities prior to maturity.
  5. Invest operating funds in accordance with anticipated cash-flow.
  6. Assure settlement of all securities on a delivery versus payment basis to assure that the District has total control of its assets and funds at all times.
  7. Adopt a pro-active but conservative buy-and-hold strategy.
- B. LIQUIDITY**-The District shall maintain a cash flow schedule addressing liquidity needs to ensure adequate and timely availability of funds for reasonably anticipated liabilities.
- C. DIVERSIFICATION**-The portfolio shall be diversified by market sector and maturity in order to spread market risk. General Policy guidelines are noted for investment diversification and Investment Officers shall monitor and diversify the portfolio in accordance with market conditions.
- D. YIELD**- District funds shall be invested to obtain the maximum yield taking into consideration the preservation and safety constraints set forth in this Policy.

## **STANDARD OF CARE (Prudent Person Rule)**

The District shall seek to ensure that all investments be made with the utmost judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of the capital as well as the probable income to be derived.

In determining whether the Investment Officers have exercised prudence with respect to an investment decision, the Board shall take into consideration (i) the investment of all funds over which the Investment Officers have responsibility rather than consideration as to the prudence of a single investment and (ii) whether the investment decision was consistent with the Investment Policy.

Investment Officers investing District funds in accordance with this Policy shall have no personal liability for any individual security's credit or market price changes provided that deviations from expectations for a specific security's credit risk or market price change or portfolio shifts are reported in a timely manner and that appropriate action is taken to control adverse market effects.

## **INVESTMENT STRATEGY**

The overall strategy for all District funds will include only high credit quality investments to preserve the safety of capital, maximize liquidity, promote diversification, and provide reasonable market yield (in that order of priority), based on the District's anticipated cash flows and the maintenance of a liquidity buffer for unanticipated liabilities. Detailed strategies by fund type are found in the Policy's Exhibit A.

Investments are to be chosen within relative values in a manner which promotes diversity by market sector, credit and maturity. The authorization of high credit quality investments and high-grade, money market instruments are designed to assure the marketability of those investments should liquidity needs arise. To match anticipated cash flow requirements the maximum weighted average maturity of the overall portfolio may not exceed one year and a benchmark of the six-month and one-year comparable period Treasury Bills shall be used to measure risk in the portfolio.

## **DESIGNATION OF AUTHORITY AND RESPONSIBILITY**

### **INVESTMENT OFFICERS**

District funds shall be invested only by persons with training or experience in the investment of public funds. The persons serving as Treasurer of the Board, the General Manager and the Chief Financial Officer are hereby designated as Investment Officers of the District. In addition, the President of the Board and the Assistant Treasurer of the Board are also designated as Investment Officers, but such delegation shall be effective only upon prior completion of the required Public Funds Investment Act training by such individuals. If either such individual elects to not complete the required training, then such individuals shall not be Investment Officers of the District for purposes of this Policy, compliance with the Public Funds Investment Act requirements applicable to investment officers, or for any other reason.

The Board may contract with an investment management firm registered and regulated by the SEC under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) to provide for the investment and management of District funds as an additional Investment Officer (the "Investment Advisor"). The Adviser shall certify in writing to a review of this Policy. For so long as the District contracts with an Investment Advisor, the Investment Advisor shall be responsible for compliance with the monitoring and reporting obligations set forth in this Policy on behalf of the other individual Investment Officers.

The authority hereby granted to the Investment Officers to invest the District's funds is effective until rescinded by the Board, until the expiration of the Officer's term or the termination of the person's employment with the District, or if an investment management firm, until the expiration or termination of

the contract with the District.

The Investment Officers shall manage all funds in strict accordance with this Policy.

Investment Officer(s) shall disclose any personal or business relationships with any entity seeking to sell an investment to or transact financial activities with the District in accordance with the Act. Investment Officers shall file a statement disclosing the personal business interest ("Disclosure Statement") with the Board and, if threshold limits are reached pursuant to Chapter 176 of the Local Government Code, with the Texas Ethics Commission.

Notwithstanding that Section 49.1571 of the Texas Water Code requires less investment training, in recognition of the fiduciary obligation of the District's Investment Officers with respect to the investment and management of District funds, the Board of Directors of the District hereby adopts the training requirements set forth in Section 2256.008 of the Texas Government Code, to wit: Investment Officers shall attend at least ten hours of investment training, from an independent source approved by the Board, relating to investment responsibilities, within twelve (12) months after taking office or assuming duties. Investment Officers shall also attend ten hours of investment training in each two-year period that begins on the first day of the District's fiscal year and consists of the two consecutive fiscal years after that date relating to investment responsibilities from a Board approved independent source. Training must include education on investment controls, security risks, strategy risks, market risks, diversification of investment portfolio and compliance with the Public Funds Investment Act. In the event that the investment training requirements set forth in Section 49.1571 of the Texas Water Code are amended to exceed those set forth herein, then the investment training requirements applicable to the District's Investment Officers shall be modified accordingly.

An "independent source" from which investment training shall be obtained shall include a professional organization, an institution of higher education or any other sponsor other than a business organization with whom the District may engage in an investment transaction. Such training sources shall be approved by the Board in accordance with the Act.

The Investment Officers shall develop a cash flow analysis for all funds recognizing anticipated liabilities and revenues. This cash flow shall be reviewed and updated on no less than a quarterly basis. The cash flows shall form the basis for investment strategy. The cash flow will be used to determine the appropriate level of liquidity.

Electronic Wire Transfer. Except as otherwise approved by the Board, the District may use electronic means to transfer or invest funds only in accordance with the written policies adopted by the Board relating thereto, which policies specify controls and limitation on such approval and release on the transfers. Electronic transfers shall only be made between District accounts and in the name of the District, unless otherwise authorized in writing by the Board.

## **BOARD OF DIRECTORS**

The Board retains ultimate responsibility for investments as fiduciaries of the assets of the District.

The Board's specific responsibilities shall include:

- designating Investment Officers,
- providing for the training of Investment Officers,
- reviewing and adopting the Investment Policy of the District on no less than an annual basis,
- reviewing and adopting the investment strategies of the District on no less than an annual basis,
- accepting and reviewing quarterly investment reports from the Investment Officers, and
- reviewing and adopting the list of broker/dealers not less than annually.

## **INVESTMENT REPORTS**

The Investment Officers shall prepare a monthly investment report for the Board and on a quarterly basis prepare, sign and submit a written report of investments in accordance with the Act to the Board and the General Manager. The reports shall address all funds of the District. The quarterly reports shall be signed by each Investment Officer and shall include certification that, to the best knowledge of each Investment Officer, all funds have been invested in accordance with, and all investment transactions have taken place in accordance with, this Policy and the Act. For so long as the District contracts with an Investment Advisor, the Investment Advisor shall be responsible for preparation of the quarterly investment reports on behalf of the District and the other Investment Officers. The quarterly reports prepared by the Investment Advisor shall also contain general market information and strategy guidelines.

The quarterly report shall (i) give a complete description of each investment, (ii) describe in detail the investment position on the date of the report, and (iii) include the following:

1. A summary statement for each fund containing (i) the beginning market value for the reporting period; (ii) ending market value for the period; and (iv) fully accrued and amortized earnings and yield for the reporting period.
2. The book value and market value of each separately invested asset at the end of the reporting period by the type of asset and fund type invested.
3. The final stated maturity of each separately invested asset.
4. The fund for which each individual investment was acquired.

## **INTERNAL CONTROLS.**

The Investment Officers are responsible for ensuring that all investment transactions of the District are performed in accordance with the adopted Board's Investment Policy and other Board policies relating to the settlement and safekeeping of District funds and assets, including the "Resolution Authorizing the General Manager and Controller to Approve Certain Expenditures, Providing for the Disbursement of District Funds, and Containing Other Matters Relating to the Safekeeping of District Funds", as amended from time to time.

The Investment Officers shall monitor, on no less than a weekly basis, the credit rating on all authorized investments in the portfolio based upon independent information from a nationally recognized rating agency. If any security falls below the minimum rating required by Policy, the Investment Officers shall notify the General Manager and Board of the loss of rating, conditions affecting the rating and possible loss of principal with liquidation options available, within one week after the loss of the required rating. For so long as the District contracts with an Investment Advisor to serve as Investment Officer, the Investment Advisor shall provide such monitoring on behalf of the other individual Investment Officers.

The Investment Officers shall monitor, on no less than a weekly basis, the status and ownership of all banks issuing brokered CDs owned by the District based upon information from the FDIC. If any bank has been acquired or merged with another bank in which brokered CDs are owned, the Investment Officers shall immediately liquidate any brokered CD which places the District above the FDIC insurance level. For so long as the District contracts with an Investment Advisor to serve as Investment Officer, the Investment Advisor shall provide such monitoring and liquidation on behalf of the other individual Investment Officers.

## **AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS**

### **District Depository**

At least every five years a banking services depository shall be selected through a formal request for

proposal (RFP) process. In selecting the depository for banking services, the services, cost of services, credit worthiness, earnings potential, and collateralization by the institutions shall be considered. Other depositories may be designated for the purchase of time or demand deposits .

Each financial institution should be economically viable and provide collateral above FDIC insurance levels. Ongoing credit conditions at depositories shall be monitored by the Investment Officers. For so long as the District contracts with an Investment Advisor to serve as Investment Officer, the Investment Advisor shall provide such monitoring on behalf of the other individual Investment Officers. The depositories 'past experience and history should indicate a priority for the safety of public funds.

### **Security Broker/Dealers**

Exhibit B to this Policy provides a list of broker/dealers authorized to sell investment securities and transactions to the District. The Investment Officers will obtain and maintain basic information on each. All financial institutions and broker/dealers who desire to transact business with the District must supply the following documents to the Investment Officers. For so long as the District contracts with an Investment Advisor to serve as Investment Officer, the Investment Advisor shall obtain and maintain such information on behalf of the other individual Investment Officers.

- Financial Industry Regulatory Authority (FINRA) certification,
- FINRA Central Registration Depository (CRD) number
- Proof of Texas State Securities registration (broker/dealers only)
- Other information as requested

Any pool must be provided a copy of the current Investment Policy before any transactions take place for certification. The pool must certify in writing to:

- receipt and review the Investment Policy
- Acknowledgment that the pool has implemented reasonable procedures and controls in an effort to preclude investment transactions that are not authorized by the District's Policy, except to the extent that this authorization is dependent on an analysis of the makeup of the entire portfolio and requires an interpretation of subjective investment standards.

All financial institutions and broker/dealers must be provided a copy of the current investment Policy before any transactions take place.

Whenever material changes are made to the Policy by the Board, the new Policy will be provided to all counter-parties. The Investment Officers or Investment Advisor may not execute any transaction with an investment pool which has not provided the required certification. The District or Adviser shall maintain a copy of each of the executed certifications.

A list of qualified broker/dealers will be reviewed at least annually by the Board or a Board appointed committee.

### **AUTHORIZED INVESTMENTS**

Authorized investments shall be limited to the instruments below, as further described by the Act. No additional type of securities is authorized or eligible for investment by the District until this Policy has been amended and the amended version approved by the Board.

- A. Obligations of the United States, its agencies and instrumentalities, excluding mortgage backed securities, with a final stated maturity not to exceed three (3) years.
- B. Obligations of any state of the United States or their respective agencies and instrumentalities, agencies, counties, cities, and other political subdivisions rated as to investment quality by one nationally recognized investment rating firm not less than A or its equivalent, not to exceed three

(3) years to final stated maturity.

- C. Fully insured or collateralized certificates of deposit from banks doing business in Texas, collateralized in accordance with this Policy, not to exceed one (1) year to maturity under a depository agreement executed under the terms of FIRREA, as applicable with collateral. Certificates of deposit may be invested through the CDARS program through a bank doing business in Texas.
- D. Fully collateralized repurchase agreements with a defined termination date executed with a primary dealer as defined by the Federal Reserve or a financial institution doing business in this state with a maximum maturity of one year. A flex repurchase agreement may be used for bond proceeds but may not extend beyond the planned expenditure plan.
- E. Commercial paper rated A1/P1 or its equivalent by two nationally recognized rating agencies, not to exceed 270 days to stated maturity.
- F. AAA-rated, SEC registered money market mutual funds with a dollar-weighted average stated maturity of sixty (60) days or fewer; and with an investment objective of a stable net asset value of \$1.00 for each share.
- G. AAA-rated, local government investment pool in accordance with the Act, and approved by the Board, which strive to maintain a \$1 net asset value per share and restricted to District authorized investments.
- H. FDIC insured *brokered certificates of deposit* securities from a bank in any US state, delivered versus payment to the District's safekeeping agent, not to exceed one year to maturity. Before purchase, the Investment Officer or Adviser must verify the FDIC status of the bank on [www.fdic.gov](http://www.fdic.gov) to assure that the bank is FDIC insured.
- I. Fully insured or collateralized interest bearing accounts of any FDIC bank in Texas.

#### **Competitive Bidding Requirement**

All securities, including certificates of deposit, will be purchased or sold after a minimum of three (3) offers/bids are taken to assure that the District is receiving fair market value/price for the investment.

#### **Delivery versus Payment**

All security transactions entered into by the District shall be conducted on a delivery versus payment (DVP) basis.

#### **Rating Declines or Loss of Rating**

The Act requires that any security which loses its required rating must be liquidated. Investment Officers shall take prudent measures consistent with this Policy to determine the status of the security and the best liquidation alternative for the District.

#### **Unauthorized Securities**

Securities in the portfolio which become unauthorized through either State or Board action need not be liquidated. Reinvestment of proceeds must be in authorized investments.

#### **UNAUTHORIZED INVESTMENTS**

The District is prohibited from investing in any mortgage backed security including those specifically not authorized by the Act. (2256.009(b)).



## **DIVERSIFICATION**

The District recognizes that investment risks can result from issuer defaults, market price changes, or various technical complications leading to temporary illiquidity. Market risks are controlled through portfolio diversification.

To promote diversification, the following general guidelines for diversification are set for the District's total investment portfolio. Percent allocation are based at purchase date.

	<u>% of Portfolio</u>
US Obligations	90%
US Agencies/Instrumentalities	80%
Municipal and State Obligations	50 %
Certificates of Deposit	50 %
Limit by bank holding company	10 %
Brokered Certificates of Deposit	20 %
Commercial Paper	20 %
Repurchase Agreements	40%
Flex in one CIP Fund	100%
Local Government Investment Pools	100%
Ownership of pool	10 %
Money Market Funds	100%
Ownership of fund	10 %
Bank deposits	70 %

## **COLLATERAL**

### **Time and Demand Pledged Collateral**

All District time and demand deposits shall be secured above FDIC coverage by pledged collateral. In order to anticipate market changes and provide a level of security for all funds, collateral will be maintained and monitored by the depository at 102% of market value of principal and accrued interest on the deposits. The Investment Officers will review collateral reports at least monthly. For so long as the District contracts with an Investment Advisor, the Investment Advisor shall be responsible for monthly review of the collateral reports on behalf of the other individual Investment Officers.

Collateral pledged to secure deposits shall be held by an independent financial institution outside the holding company of the depository in accordance with a safekeeping agreement signed by authorized representatives of the District and the Depository. The Custodian or bank will provide monthly reports of the collateral fully describing the collateral and its current market value.

All collateral shall be subject to inspection and audit by the District or the District's independent auditors.

### **Authorized Collateral for Time and Demand Deposits**

The District shall accept only the following securities as collateral for time and demand deposits:

- A. FDIC insurance coverage.
- B. Obligations of the United States, its agencies or instrumentalities, or other evidence of indebtedness of the United States guaranteed as to principal and interest including MBS and CMO which pass the *bank test*.
- C. Obligations of Texas or other states or of a county, city or other political subdivision of a state having been rated as not less than "A" or its equivalent by two nationally recognized rating agencies.

### **Authorized Collateral for Repurchase Agreements**

Repurchase collateral is owned by the District. Collateral is held by an independent party. The District shall accept the following securities as collateral for repurchase agreements:

- A. Cash
- B. Obligations of the United States, its agencies or instrumentalities, including MBS and CMO which pass the *bank test*.
- C. State and local debt rated A or better, or equivalent.

**SAFEKEEPING OF DISTRICT OWNED SECURITIES**

The District shall safe-keep securities owned by the District in the banking services depository. All settlements shall be by delivery versus payment. Securities shall not be purchased through the depository's brokerage subsidiary in order to perfect ownership through the delivery versus payment process.

**ANNUAL FINANCIAL AUDIT.**

The District, in conjunction with its annual financial audit, shall perform a compliance audit of management controls on investments and adherence to the Act and the District's established investment policies.

**SUMMARY OF INVESTMENT POLICY ADOPTION, AND PRIOR ANNUAL AFFIRMATIONS AND REVISIONS:**

ADOPTED:	July 8, 1996
REVISED:	March 20, 1997
REVISED:	August 21, 1997
AFFIRMED:	January 8, 1998
AFFIRMED:	November 11, 1999
REVISED:	September 14, 2000
AFFIRMED:	April 12, 2001
AFFIRMED:	April 25, 2002
AFFIRMED:	April 24, 2003
AFFIRMED:	March 11, 2004
AFFIRMED:	March 24, 2005
AFFIRMED:	September 28, 2006
REVISED:	November 8, 2007
REVISED:	December 11, 2008
REVISED:	August 13, 2009
REVISED:	May 13, 2010
REVISED:	June 23, 2011
REVISED:	October 27, 2011
REVISED:	August 9, 2012
AFFIRMED:	August 8, 2013
AFFIRMED:	February 13, 2014
REVISED:	June 25, 2015
REVISED:	April 14, 2016
REVISED:	August 10, 2017
REVISED:	June 28, 2018
AFFIRMED:	June 27, 2019
AFFIRMED:	August 27, 2020

## EXHIBIT A

### INVESTMENT STRATEGY BY FUND TYPE

Investments are to be chosen for their relative value in a manner which promotes diversity by market sector, credit and maturity. The authorization of high credit quality investments and high-grade, money market instruments are designed to assure the marketability of those investments should liquidity needs arise. To match anticipated cash flow requirements the maximum weighted average maturity of the overall portfolio may not exceed one year.

#### OPERATING CASH FUND

Operating funds require the greatest short term liquidity of any of the fund types. Therefore, diversified investment maturities shall provide monthly cash flow based for anticipated operating needs. Short term investment pools, bank sweeps and money market mutual funds shall provide daily liquidity and may be utilized as a competitive yield alternative to fixed maturity investments. Securities with active and efficient secondary markets will be used to add liquidity for unanticipated cash requirements and match anticipated cash flow needs.

The dollar-weighted average maturity (WAM) for the operating cash fund portfolio shall be no more than one year. The Investment Officers will monitor the WAM on an on-going basis and make changes as appropriate.

#### DEBT SERVICE

Debt service funds shall be invested to ensure adequate funding for each successive debt service payment. The Investment Officers shall invest in such a manner as not to exceed an "unfunded" debt service date with the maturity of any investment security. The predictability of each payment reduces the need for liquidity. Therefore, market conditions shall determine the relative appropriateness of eligible investments and cash availability shall determine the maturity of investments. Investments shall be chosen to preserve the safety of capital and maximize yield (in that order of priority).

#### CUSTOMER DEPOSITS ACCOUNT

Customer deposit funds are held in escrow or reserve for the District's customers. Sufficient liquidity must be provided for known and scheduled repayments along with a liquidity buffer for unanticipated reimbursements. Investments shall be chosen to preserve capital, recognize a reasonable market yield, and liquidity taking into account the escrow or reserve payments that may have to be made from each account.

#### RESERVE FUNDS

Reserve funds are essentially District savings. Reductions are generally not anticipated. Therefore, the predictability of the cash availability in other funds will govern the appropriate maturity mix. The strategy utilizes diversified maturities with an emphasis on providing reasonable yield. The dollar-weighted average maturity of the funds shall be no more than one year.

#### CONSTRUCTION FUNDS

When bond proceeds are available, those proceeds are used for construction programs and have reasonably predictable draw down schedules based on input from the District's consulting engineers. Therefore, investment maturities will generally follow the anticipated cash flow requirements. Because of the potential

for variance from the anticipated draw down schedule investment pools and money market mutual funds may be used to provide readily available funds generally equal to at least one month's anticipated cash flow needs, or a competitive yield alternative for short term fixed maturity investments. A single flex repurchase agreement may be utilized to address variable cash needs.

Market conditions and arbitrage regulations shall be considered. An attempt shall be made to avoid negative arbitrage. Generally, if investment rates exceed the applicable arbitrage yield (producing positive arbitrage) for a specific issue, the District is best served by locking in those yields. If the arbitrage yield cannot be exceeded, then existing market conditions will determine the timing and maturity of investments. At no time shall the anticipated expenditure schedule be exceeded in an attempt to bolster yield.

**EXHIBIT B**

**APPROVED BROKER/DEALER LIST**

Baird Securities  
Bank of America/ Merrill Lynch  
BOK Financial  
Cantor Fitzgerald  
FHN  
InCapital  
StoneX Group, Inc.  
Mizuho Securities  
Morgan Stanley  
Mutual Securities  
Oppenheimer  
Piper Sandler  
Raymond James  
RBC Securities  
Stifel Nicolaus  
UBS  
Wells Fargo

For Informational Purposes Only -The local government pools currently approved by the Board are:

Texpool  
TexStar  
Logic

## GLOSSARY

**Bond Proceeds** means the proceeds from the sale of bonds, notes, and other obligations issued by the District.

**Book Value** means the original acquisition cost of an investment net of amortization or accretion.

**FINRA** is the Financial Industry Regulatory Authority is the self-regulatory organization of the brokerage industry, formerly NASD (National Association of Securities Dealers).

**FIRREA** the Financial Institutions Resource and Recovery Enforcement Act is the Act which controls FDIC actions in the closure of a bank. Specific requirements are stipulated: the depository/collateral agreement must be in writing, it must be approved by resolution of the bank board or bank loan committee to assure inclusion in the bank's official records, and no list of specific pledged securities are to be included as part of the agreement. This applies when collateral is pledged to a public entity for deposits over \$250,000 (FDIC insurance).

**Funds** means public funds in the custody of the District that the District has authority to invest.

**Investment Pool** means an entity created under the Government Code to invest public funds jointly on behalf of the entities that participate in the pool and whose investment objectives in order of priority are (i) preservation and safety of principal, (ii) liquidity, and (iii) yield.

**Market Value** means the current face or par value of an investment multiplied by the net selling price of the security as quoted by a recognized market pricing source quoted on the valuation date.