

**ORDER APPROVING CHANGES TO THE INVESTMENT POLICY OF  
TRAVIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 17**

THE STATE OF TEXAS           §  
  §  
COUNTY OF TRAVIS           §

**WHEREAS**, Travis County Water Control & Improvement District No. 17 (the “District”) is a conservation and reclamation district operating pursuant to Chapters 49 and 51 of the Texas Water Code;

**WHEREAS**, the District has adopted written Bylaws, Code of Ethics and Values/Ethics Policy, Personnel Policy, and Service Rules and Policies, (collectively, “Rules and Policies”) concerning the operation of the District;

**WHEREAS**, the Rules and Policies contain provisions relating to the investment of financial assets and investment strategies of the District (the “Investment Policy”); and

**WHEREAS**, the District’s Board of Directors has determined that certain amendments to the District’s Investment Policy are necessary at this time in compliance with the Texas Public Funds Investment Act.

**NOW THEREFORE**, it is ordered by the Board of Directors of Travis County Water Control and Improvement District No. 17 as follows:

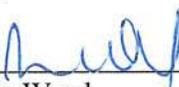
**Section 1:**     The above recitals are true and correct and are incorporated into this Order for all purposes.

**Section 2:**     The District’s Board of Directors hereby adopts the changes and amendments to the District’s Rules and Policies relating to the investment of all financial assets and investment strategies of the District, as shown in Attachment A.

**PASSED AND APPROVED** this 16th day of July 2020.

  
\_\_\_\_\_  
Jeff Roberts  
President, Board of Directors

ATTEST:

  
\_\_\_\_\_  
Jerri Lynn Ward  
Secretary, Board of Directors

**ATTACHMENT A**

## **7.5 Investment Management**

### **7.5.1 General**

It is the policy of the District that after allowing for the anticipated cash flow requirements of the District and giving due consideration to the safety and risk of investment, all available funds shall be invested in conformance with these legal and administrative guidelines and to the extent possible, at the optimum rates obtainable at the time of investment.

Effective cash management is recognized as essential to good fiscal management. Investment interest is a source of revenue for District funds. The District's investment portfolio shall be managed in a manner designed to optimize this very revenue source, to be responsive to public trust, and to be in compliance with legal requirements.

Texas Government Code, Chapter 2256, as amended, (the "Public Funds Investment Act", "PFIA", or the "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. The following policies and procedures will be used with respect to the District's investments.

### **7.5.2 Definitions**

- a. Bond Proceeds means the proceeds from the sale of bonds, notes, and other obligations issued by the District and reserves and funds maintained by the District for debt service purposes.
- b. Book value means the face or par value of an investment, adjusted for amortization or accretion.
- c. Funds mean public funds in the custody of the District that (i) are not required by law to be deposited in the State Treasury and (ii) the District has the authority to invest.
- d. Investment Pool means an entity created under the Texas 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.
- e. Market value means the face or par value of an investment multiplied by the market price quoted on the valuation date.
- f. Pooled Fund Group means an internally created fund of the District in which one or more institutional accounts of the District are invested.
- g. Separately Invested Asset means an account or fund of the District that is not invested in a Pooled Fund Group.

### **7.5.3 Investment Policy**

The Board of the District (the “Board”) in accordance with the Public Funds Investment Act hereby adopts an Investment Policy relating to the investment of District Funds.

Investment of District Funds shall be governed by the following investment objectives, in order of priority:

- a. Preservation of safety of principal;
- b. Liquidity; and
- c. Risk appropriate yield.

The Board shall review, not less than annually, this Investment Policy and shall make any changes, thereto, as determined by the Board to be necessary and prudent for the management of District Funds.

This Investment Policy shall govern the investment of all financial assets of the District. These funds are accounted for in the District’s Comprehensive Annual Financial Report (CAFR) and include:

- General Fund;
- Special Revenue Funds;
- Capital Projects Funds;
- Trust and Agency Funds, to the extent not required by law or existing contract to be kept segregated and managed separately;
- Debt Service Funds, including reserves and sinking funds, to the extent not required by law or existing contract to be kept segregated and managed separately; and
- Any new fund created by the District, unless specifically exempted from this Policy by the Board or by law.

This Investment Policy shall apply to all transactions involving the financial assets and related activity for all the foregoing funds. However, this policy does not apply to the assets administered for the benefit of the District by outside agencies under deferred compensation programs.

The District shall maintain a comprehensive cash management program, which includes the collection of accounts receivable, vendor payments in accordance with invoice terms, and prudent investment of available cash. Cash management is defined as the process of managing monies in order to enhance cash availability and optimize yield on short-term investment of idle cash.

#### **7.5.4 Risk Management**

Credit Risk – The District will minimize credit risk, the risk of loss due to the failure of the issuer or backer of the investment, by:

- Limiting investments to the safest types of investments;

- Pre-qualifying the financial institutions and broker/dealers with which the District will do business; and
- Diversifying the investment portfolio so that potential losses on individual investments will be minimized.

Interest Rate Risk – the District will minimize the risk that the market value of the portfolio will fall due to changes in general interest rates by:

- Structuring the investment portfolio so that investments mature to meet cash requirements for ongoing operations, thereby avoiding the need to liquidate investments prior to maturity;
- Investing Operating Funds primarily in certificates of deposit, shorter-term securities, money market mutual funds, or local government investment pools whose objective is to maintain a stable \$1.00 net asset value; and
- Monitoring rating changes and market value of investments using independent rating services or valuation sources.

#### **7.5.5 Liquidity**

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that investments mature concurrently with cash needs to meet anticipated demands. Because all possible cash demands cannot be anticipated, a portion of the portfolio should ~~consist of invest in demand or money market accounts, shares in~~ money market mutual funds or local government investment pools that offer same-day liquidity and whose objective is to maintain a stable \$1.00 net asset value.

#### **7.5.6 Investment Officer**

The person who holds the position of General Manager shall be and is hereby appointed Investment Officer of the District (the “Investment Officer”). The Board hereby also appoints the person or entity serving as the District’s Accountant to be the District’s authorized representative for the investment and reinvestment of the District’s Funds in accordance with Section 49.1571 of the Texas Water Code, as amended. The Investment Officer and the Accountant shall be responsible for the investment of District Funds.

#### **7.5.7 Internal Controls**

The General Manager is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the District are protected from loss, theft, or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management.

Accordingly, the General Manager shall establish a process for annual independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following points:

- Control of collusion;
- Separation of transactions authority from accounting and recordkeeping;
- Custodial safekeeping;
- Avoidance of physical delivery of securities;
- Clear delegation of authority to subordinate staff members; and
- Establishment of fraud prevention procedures with financial institutions and third-party custodians.

#### **7.5.8 Internal Management Reports**

The Investment Officer, with the assistance of the District's Accountant, shall prepare and submit quarterly to the Board written reports in compliance with the Public Funds Investment Act of investment transactions for all District Funds for the preceding reporting period. The quarterly reports shall be signed by the Investment Officer and the Accountant.

The quarterly reports shall describe in detail the investment position of the District on the date of the report and include the following:

- a. A summary statement for each Pooled Fund Group that contains (i) the beginning market value for the reporting period, (ii) additions and changes to the market value during the period, (iii) ending market value for the period, and (iv) fully accrued interest for the reporting period.
- b. The book value and market value of each separately invested asset at the beginning and end of the reporting period by the type of asset and type of fund invested.
- c. The maturity date of each separately invested asset that has a maturity date.
- d. The account or fund or Pooled Fund Group for which each individual investment was acquired.
- e. A statement to the effect that the investments for the reporting period are in compliance with the investment strategy expressed in the District's Investment Policy and the Public Funds Investment Act.

#### **7.5.9 Prudence**

The standard of prudence to be applied by the Investment Officer shall be the “prudent person” rule. This rule states that “Investments shall be made with 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 their capital, as well as, the probable income to be derived.” In determining whether an Investment Officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration:

- a. The investment of all District Funds, over which the Investment Officer had responsibility rather than a consideration as to the prudence of a single investment.
- b. Whether the investment decision was consistent with the written approved Investment Policy of the District.

#### **7.5.10 Training**

The Investment Officer shall attend at least one training session accumulating at least ten (10) hours of instruction relating to investment responsibilities under the Public Funds Investment Act within 12 months after taking office or assuming his or her duties.

The Investment Officer shall also attend an additional investment training session(s) no less often than once every two years concurrent with the District’s fiscal year and accumulate not less than ten (10) hours of instruction relating to investment responsibilities. The investment training session must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with the Public Funds Investment Act. The investment training session shall be provided by an independent source approved by the Board or a designated investment committee advising the Investment Officer. Approved sources include:

- Government Finance Officers Association (national and local)
- Government Treasurers’ Organization of Texas
- University of North Texas
- Texas State University

#### **7.5.11 Indemnification**

The Investment Officer, acting in accordance with written procedures and exercising due diligence, shall not be held personally responsible for a specific investment’s credit risk or market price changes, provided that deviations from expectations are reported immediately, and the appropriate action is taken to control additional adverse developments.

#### **7.5.12 Ethics and Conflicts of Interest**

~~Employees and~~The Investment Officer ~~and employees~~ involved in the investment process shall refrain from personal business activity that would conflict with the proper execution

and management of the investment program, or that would impair their ability to make impartial decisions. ~~Employees and~~The Investment Officer ~~and employees involved in the investment process~~ shall disclose any personal financial/investment positions that could be related to the performance of the investment transactions with the same individual with which business is conducted on behalf of the District.

An Investment Officer who has a personal business relationship with an organization seeking to sell an investment to the District shall file a statement disclosing that personal business interest. An Investment Officer who is related within the second degree by affinity (marriage) or consanguinity (ancestry) to an individual seeking to sell an investment to the District shall file a statement disclosing that relationship. A statement required under this subsection must be filed with the Texas Ethics Commission and the Board.

#### **7.5.13 Portfolio Management**

The District currently has a “buy and hold” portfolio strategy. Maturity dates are matched with anticipated cash flow requirements and investments are purchased with the intent to be held until maturity. However, investments may be liquidated prior to maturity for the following reasons:

- a. An investment with declining credit may be liquidated early to minimize loss of principal.
- b. The cash flow needs of the District require that the investment be liquidated.

#### **7.5.14 Authorized Investments**

- a. Obligations of, or Guaranteed by, Governmental Entities
  1. Except as provided below, the following are authorized investments:
    - a. Obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks;
    - b. Direct obligations of the State of Texas or its agencies and instrumentalities;
    - c. Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States;
    - d. Other obligations, the principal and interest of which are unconditionally guaranteed or insured by or backed by the full faith and credit of the State of Texas or the United States or their respective agencies and instrumentalities; and
    - e. Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a

nationally recognized investment rating firm not less than A or its equivalent.

2. Interest-bearing banking deposits are authorized investments if such deposits are guaranteed or insured by:
  - a. The Federal Deposit Insurance Corporation or its successor; or
  - b. The National Credit Union Share Insurance Fund or its successor.
3. Interest-bearing banking deposits other than those described by Section 2 (above) are authorized investments if:
  - a. The funds invested in the banking deposits are invested through:
    - (i) A broker with a main office or branch office in this state that the investing entity selects from a list the governing body or designated investment committee of the entity adopts as required by Section 2256.025 of the Texas Government Code; or
    - (ii) A depository institution with a main office or branch office in this state that the investing entity selects;
  - b. The broker or depository institution selected as described by Paragraph (a), above, arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the investing entity's account;
  - c. The full amount of the principal and accrued interest of the banking deposits are insured by the United States or an instrumentality of the United States; and
  - d. The investing entity appoints as the entity's custodian of the banking deposits issued for the entity's account:
    - (i) The depository institution selected as described by Paragraph (a);
    - (ii) An entity described by Texas Government Code § 2257.041(d); or
    - (iii) A clearing broker-dealer registered with the SEC and operating under SEC Rule 15c3-3 (17 C.F.R. Section 240.15c3-3).
4. The following are prohibited investments:
  - a. Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal;
  - b. Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest;
  - c. Collateralized mortgage obligations that have a final stated maturity date of greater than ten (10) years; and

- d. Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

b. Certificates of Deposits, Share Certificates and other forms of Deposit

1. A certificate of deposit, share certificate or another form of deposit is an authorized investment if the deposit is issued by a depository institution that has its main office or a branch office in the State of Texas and is:
  - a. Guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, or the National Credit Union Share Insurance Fund or its successor;
  - b. Secured by obligations, including mortgage-backed securities directly issued by a federal agency or instruments that have a market value of not less than the principal amount of the certificates; and
  - c. Secured in any manner and amount provided by law for deposits of the District.
2. In addition, an investment in certificates of deposit made in accordance with the following conditions is an authorized investment:
  - a. The funds are invested by the District through a depository institution that has its main office or a branch office in the State of Texas and that is selected by the District;
  - b. The depository institution arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the District;
  - c. The full amount of the principal and accrued interest of each of the certificates of deposit are insured by the United States or an instrumentality of the United States; and
  - d. The depository institution acts as custodian for the District with respect to the certificates of deposit issued for the account of the District.

c. Repurchase Agreements

1. A fully collateralized repurchase agreement is an authorized investment if the repurchase agreement:
  - a. Has a defined termination date;
  - b. Is secured by a combination of cash and obligations;
  - c. Requires the securities being purchased by the District to be pledged to the District, held in an account in the District's name, and deposited at the time the investment is made with the District or with a third-party selected and approved by the District; and

- d. It is placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State of Texas.
2. “Repurchase Agreement” means a simultaneous agreement to buy, hold for a specified time, and sell back at a future date, certain obligations at market value at the time the funds are disbursed of not less than the principal amount of the funds disbursed.

d. Money Market Mutual Funds

- 1. A no-load money market mutual fund is an authorized investment if the mutual fund:
  - a. Is registered with and regulated by the United States Securities and Exchange Commission (“SEC”);
  - b. Provides the investing entity with a prospectus and other information required by the Securities Exchange Act of 1934 (15 U.S.C. § 78a *et. seq.*) or the investment company act of 1940 (15 U.S.C. § 80a-1 *et. seq.*); ~~and~~
  - c. Comply with federal SEC Rule 2a-7 (17 C.F.R. § 270.2a-7), promulgated under the Investment Company Act of 1940 (15 U.S.C. § 80a-1 *et. seq.*); ~~and~~
  - d. Seek to maintain a \$1.0000 net share value.

- 2. The District is not authorized to invest its funds or funds under its control, including Bond Proceeds and reserves and other funds held for debt service, in any one mutual fund in an amount that exceeds ten percent (10%) of the total assets of the mutual fund:

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- ~~a. Invest in the aggregate more than fifteen percent (15%) of its monthly average Fund balance, excluding Bond Proceeds and reserves and other funds held for debt service in money market mutual funds or mutual funds, either separately or collectively;~~
- ~~b. Invest in the aggregate more than fifteen percent (15%) of its monthly average Fund balance, excluding Bond Proceeds and reserves and other funds held for debt service, in mutual funds;~~
- ~~c. Invest any portion of Bond Proceeds, reserves, and funds held for debt service, in mutual funds; or~~
- ~~d. Invest in funds or funds under its control, including Bond Proceeds and reserves and other funds held for debt service in any one mutual fund in an amount that exceeds ten percent (10%) of the total assets of the mutual fund.~~

e. Guaranteed Investment Contracts

1. A guaranteed investment contract is an authorized investment for bond proceeds under this subchapter if the guaranteed investment contract:
  - a. Has a defined termination date;
  - b. Is secured by obligations described by Section 7.54.14(a)(1), excluding those obligations described by Section 7.54.14(a)(42), in an amount at least equal to the number of bond proceeds invested under the contract; and
  - c. Is pledged to the District and deposited with the District or with a third-party selected and approved by the District.
2. Bond proceeds, other than bond proceeds representing reserves and funds maintained for debt service purposes, may not be invested under this subchapter in a guaranteed investment contract with a term of longer than five years from the date of issuance of the bonds.
3. To be eligible as an authorized investment:
  - a. The ~~governing body of the District~~Board must specifically authorize guaranteed investment contracts as an eligible investment in the order, ordinance, or resolution authorizing the issuance of bonds;
  - b. The District must receive bids from at least three separate providers with no material financial interest in the bonds from which proceeds were received;
  - c. The District must purchase the highest yielding guaranteed investment contract for which a qualifying bid is received;
  - d. The price of the guaranteed investment contract must take into account the reasonably expected drawdown schedule for the bond proceeds to be invested, and
  - e. The provider must certify the administrative costs reasonably expected to be paid to third parties in connection with the guaranteed investment contract.

f. Investment Pools

1. The District may invest its funds and funds under its control through an eligible Investment Pool if the Board by separate resolution authorizes investment in the particular pool. An eligible Investment Pool must comply with the requirements established in Sections 2256.0167 and -2256.019, Texas Government Code, and must invest the funds it receives in authorized investments permitted by the Government Code.
2. The Investment Officer or the District's Accountant must obtain from the Investment Pool an offering circular or another similar disclosure statement that contains, at a minimum, the following information:

- The types of investments in which money is allowed to be invested;
  - The maximum average dollar-weighted maturity allowed, based on the stated maturity date, of the pool;
  - The maximum stated maturity date of any investment security within the portfolio;
  - The objectives of the pool;
  - The size of the pool;
  - The names of the members of the advisory board of the pool and the dates their terms expire;
  - The custodian bank that is safekeeping the assets of the pool;
  - Whether the intent of the pool is to maintain a net asset value of one dollar and the risk of market price fluctuation;
  - Whether the only source of payment is the assets of the pool at market value or whether there is a secondary source of payment, such as insurance or guarantees, and a description of the secondary source of payment;
  - The name and address of the independent auditor of the pool;
  - The requirements to be satisfied for an entity to deposit funds in and withdraw funds from the pool and any deadlines or other operating policies required for the entity to invest funds in and withdraw funds from the pool;
  - The performance history of the pool, including yield, average dollar-weighted maturities, and expense ratios; and
  - The pool's policy regarding holding deposits in cash.
3. A public funds Investment Pool that uses amortized cost or fair value accounting must mark its portfolio to market daily and to the extent reasonably possible, stabilize at a \$1.00 net asset value when rounded and expressed to two decimal places. 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, the governing body of the public funds Investment Pool shall take action as the body determines necessary to eliminate or reduce to the extent reasonably practicable any dilution or unfair result to existing participants, including a sale of portfolio holdings to attempt to maintain the ratio between 0.995 and 1.005. In addition to the requirements of its Investment Policy and any other forms of reporting, a public funds Investment Pool that uses amortized cost shall report yield to its investors in accordance with regulations of the federal SEC applicable to reporting by money market funds.
4. To maintain eligibility to receive funds from and invest funds on behalf of the District, the Investment Pool must furnish to the Investment Officer or the District's Accountant:
- a. Investment transaction confirmations; and

- b. A monthly report that contains, at a minimum, the following information:
  - i. The types and percentage breakdown of securities in which the pool is invested;
  - ii. The current average dollar-weighted maturity based on the stated maturity date of the pool;
  - iii. The current percentage of the pool's portfolio investments that have stated maturities of more than one (1) year;
  - iv. The book value versus the market value of the pool's portfolio, using amortized cost valuation;
  - v. The size of the pool;
  - vi. The number of participants in the pool;
  - vii. The custodian bank that is safekeeping the assets of the pool;
  - viii. A listing of daily transaction activity of the District;
  - ix. The yield and expense ratio of the pool, including a statement regarding how the yield is calculated;
  - x. The portfolio managers of the pool; and
  - xi. Any changes or addenda to the offering circular.
- 5. The District, by contract, may delegate to an investment pool the authority to hold the legal title as custodian of investments purchased with its funds.
- 6. "Yield" shall be calculated in accordance with regulations governing the registration of open-end management investment companies under the Investment Company Act of 1940, as promulgated from time to time by the Federal Securities and Exchange Commission.

#### Effect of Loss of Required Rating

The Investment Officer shall periodically monitor rating changes of investments. An investment that requires a minimum rating under this Investment Policy does not qualify as an authorized investment during the period the investment does not have the minimum rating. The District shall take all prudent measures that are consistent with this Investment Policy to liquidate an investment that does not have the minimum rating.

#### Exemption for Existing Investments

Investments that were authorized at the time of purchase are not required to be liquidated if a change in authorized investments is made.

### 7.5.15 Investment Parameters

a. Maximum Maturities

The longer the maturity of investments, the greater their price volatility. Therefore, it is the District's policy to concentrate its investment portfolio in shorter-term securities in order to limit principal risk caused by changes in interest rates.

The District attempts to match its investments with anticipated cash flow requirements. Unless matched to specific cash flow, the District will not place investments maturing more than two (2) years from the date of purchase; however, the above-described obligations, certificates, or agreements may be collateralized using longer-dated investments.

No secondary market exists for repurchase agreements, therefore, the maximum maturity shall be 120 days except in the case of a flexible repurchase agreement for Bond Proceeds. The maximum maturity for such an investment shall be determined in accordance with project cash flow projections and the requirements of the governing bond ordinance.

The composite portfolio will have a weighted average maturity of 180 days or less. This dollar-weighted average maturity will be calculated using the stated final maturity dates of each investment.

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b. Diversification

The District recognizes that investment risks can result from issuer defaults, market price changes, or various technical complications leading to temporary illiquidity. Risk is controlled through portfolio diversification that shall be achieved by the following general guidelines:

- Limiting investments to avoid overconcentration in investments from a specific issuer or business sector (excluding U.S. Treasury securities and certificates of deposit that are fully insured and collateralized in accordance with state and federal law);
- Limiting investments with higher credit risks (for example, commercial paper);
- Utilizing investments with varying maturities; and
- Continuously investing a portion of the portfolio is readily available funds such as Local Government Investment Pools, money market funds, money market accounts, or overnight repurchase agreements.

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There shall be no defined level of investment diversification as long as all District Funds are invested in accordance with this Investment Policy. ~~All the authorized investments described herein are eligible investments for District Funds; provided, however, all funds shall be secured by guarantee, insurance, or collateral.~~

### 7.5.16 Yield

District Funds shall be invested to obtain the maximum yield taking into consideration the preservation and safety of the principal and the liquidity of the investment.

### 7.5.17 Investment Strategy

The Board hereby adopts the Investment Strategy for each fund of the District described in Exhibits “A-1”, “A-2”, and “A-3”, attached hereto. The Investment Strategy describes the investment objectives for each fund and takes into consideration the following priorities in order of importance:

1. Understanding of the suitability of the investment to the financial requirements of the District;
2. Preservation and safety of capital;
3. Liquidity;
4. Marketability of the investment if the need arises to liquidate the investment before maturity;
5. Diversification of the investment portfolio; and
6. Yield.

### 7.5.18 Selection of Banks and Broker/Dealers

a. Primary Depository

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At least every five (5) years a Primary Depository shall be selected through the District’s banking services procurement process, which shall include a formal request for proposal (“RFP”). The selection of a depository will be determined by competitive ~~process~~bid and evaluation of ~~proposals~~bids will be based on the following selection criteria:

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- The ability to qualify as a depository for public funds in accordance with state law;
- The ability to provide requested information or financial statements for the periods specified;
- The ability to meet all requirements in the banking RFP;  
~~A complete response to all required items on the bid form;~~
- Lowest net banking service cost, consistent with the ability to provide an appropriate level of service; and
- The creditworthiness and financial stability of the bank.

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b. Authorized Brokers/Dealers

If the District should require the services of a broker/-dealer, the District shall, at least annually, review, revise, and adopt a list of qualified broker/dealers authorized

to engage in securities transactions with the District. Authorized firms may include primary dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (Uniform Net Capital Rule), and qualified depositories.

c. Competitive Environment

It is the District's policy to require a competitive environment for individual investment transactions, and financial institutions, money market mutual funds, and local government investment pool selections.

d. Delivery vs. Payment

Securities shall be purchased using the **delivery versus payment** (DVP) method. Funds will be released after notification that the purchased security has been received.

**7.5.19 Safekeeping of Securities and Collateral**

a. Safekeeping and Custodian Agreements ~~(Best Practice)~~

The District shall contract with a bank or banks for the safekeeping of securities either owned by the District as part of its investment portfolio or custodial services for securities held as collateral to secure demand or time deposits.

Securities owned by the District shall be held in an account in the District's name as evidenced by safekeeping receipts of the institution holding the securities.

Collateral for deposits will be held by a third-party custodian designated by the District and pledged to the District as evidenced by safekeeping-pledge receipts of the institution with which the collateral is deposited. Original safekeeping-pledge receipts shall be obtained. Collateral may be held by the depository bank's trust department, a Federal Reserve bank or branch of a Federal Reserve bank, a Federal Home Loan Bank, or a third-party bank approved by the District.

b. Collateral Policy

Consistent with the requirements of the Public Funds Collateral Act, it is the policy of the District to require full collateralization of all District investments, and funds including uninsured collected balances plus accrued interest on deposit with a depository bank, ~~other than investments which are obligations of the U.S. government and its agencies and instrumentalities.~~ In order to anticipate market changes and provide a level of security for all funds collateralized by securities, the collateralization level will be 102% of principal and accrued interest on the deposits ~~or investments~~ less an amount insured by the FDIC. At its discretion, the District may require a higher level of collateralization for certain pledged investment

securities. ~~Securities pledged as collateral shall be held by an independent third-party with whom the District has a current custodial agreement.~~

For all funds collateralized by a Federal Home Loan Bank Letter of Credit, the collateralization level will be 100% of the principal and accrued interest of the deposit less an amount insured by the FDIC.

The Investment Officer is responsible for ~~entering into~~approving collateralization agreements with third-party custodians in compliance with this Policy. The agreements are to specify the acceptable investment securities for collateral, including provisions relating to possession of the collateral, the substitution or release of investment securities, ownership of securities, and the method of valuation of securities. ~~—A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the District and retained.~~ Collateral shall be reviewed at least monthly to assure that the market value of the pledged securities is adequate.

c. Collateral Defined

The District shall accept only the following types of collateral:

- Obligations of the United States or its agencies and instrumentalities;
- Direct obligations of the state of Texas or its agencies and instrumentalities;
- Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States;
- Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized rating firm not less than A or its equivalent with a remaining maturity of ten (10) years or less;
- A surety bond issued by an insurance company rated as to investment quality by a nationally recognized rating firm not less than A; and
- A letter of credit issued to the District by the Federal Home Loan Bank.

d. Subject to Audit

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

7.5.20 ~~Performance~~ Additional Requirements

a. Performance Standards

The District's investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio shall be designed with the objective of obtaining a rate of return through budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow requirements of the District.

b. Miscellaneous

The written policy shall be presented to ~~the Accountant~~, Investment Pools and discretionary investment management firms (the "business organizations").

1. These business organizations shall be presented with a copy of this Investment Policy and shall execute a written instrument in compliance with the PFIA and substantially in the form attached hereto as Exhibit "B."
2. The District may not transact with any business organization that has not delivered to the District the prescribed written instrument.
3. At any time that the District materially amends this Investment Policy, the District shall present the amended Investment Policy to all persons and/or business organizations at which funds of the District are invested and shall obtain a new written instrument of acknowledgment.

c. Annual Financial Audit

The District, in conjunction with its annual financial audit, shall perform a compliance audit of management controls on investment and adherence to the District's established investment policies. Quarterly reports shall be reviewed by the independent auditor at this time.

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**7.5.21 Investment Policy Adoption**

The District's Investment Policy shall be adopted by the order of the Board. It is the District's intent to comply with state laws and regulations. The District's investment policies shall be subject to revisions consistent with changing laws, regulations, and needs of the District. The Board shall review the policy annually and approve any changes or modifications.

**EXHIBIT A-1**

**INVESTMENT STRATEGY  
DEBT SERVICE FUNDS**

**Investment Objectives:**

To purchase investments that will preserve the safety of capital, ~~maximize~~ maintain adequate liquidity, and ~~optimize~~ maximize yield (in that order of priority), taking into account the timing of the District's debt service payments.

**Investment Strategy:**

To invest in any of the authorized investments listed in the District's Investment Policy with the following objectives:

1. Suitability – Any investment eligible in the Investment Policy is suitable for Debt Service Funds.
2. Safety of Principal – All investments shall be of high quality with no perceived default risk. Market price fluctuations will occur. However, by managing Debt Service Funds to not exceed the debt service payment schedule the market risk of the overall portfolio will be minimized.
3. Liquidity – Debt Service Funds have predictable payment schedules. Therefore, investment maturities should not exceed the anticipated cash flow requirements. Demand deposit accounts, money market accounts, short term investment pools, and money market mutual funds may provide a competitive yield alternative for short-term fixed maturity investments. A singular repurchase agreement may be utilized if disbursements are allowed in the amount necessary to satisfy any debt service payment. This investment structure is commonly referred to as a flexible repurchase agreement.
4. Marketability – Securities with active and efficient secondary markets are not necessary as the event of an unanticipated cash flow requirement is not probable.
5. Diversification – Market conditions influence the attractiveness of fully extending the maturity to the next “unfunded” payment date. Generally, if investment rates are anticipated to decrease over time, the District is best served by locking in most investments. If the interest rates are potentially rising, then investing in shorter and larger amounts may provide an advantage. At no time shall the debt service schedule be exceeded in an attempt to bolster yield.
6. Yield – Attaining a competitive market yield for comparable security-types and portfolio restrictions are the desired objective. The yield of an equally weighted, rolling three-month Treasury-Bill portfolio shall be the minimum yield objective.

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**EXHIBIT A-2**

**INVESTMENT STRATEGY  
CAPITAL PROJECTS FUNDS**

**Investment Objective:**

To purchase investments that will preserve the safety of capital, ~~maximize~~ maintain adequate liquidity, and ~~maximize~~ optimize yield (in that order of priority), taking into account the timing of planned or potential capital projects that may require the expenditure of the funds in the account.

**Investment Strategy:**

To invest in any of the authorized investments listed in the District's Investment Policy with the following objectives:

1. Suitability – Any investment eligible in the Investment Policy is suitable for Capital Projects Funds.
2. Safety of Principal – All investments will be of high quality with no perceived default risk. Market price fluctuations will occur. However, by managing Capital Projects Funds to not exceed the anticipated expenditure schedule, the market risk of the overall portfolio will be minimized. No stated final investment maturity shall exceed the shorter of the anticipated expenditure schedule or three years.
3. Liquidity – Most capital projects programs have reasonably predictable drawdown schedules. Therefore, investment maturities should generally follow the anticipated cash flow requirements. Demand deposit accounts, money market accounts, short term Investment Pools, and money market mutual funds will provide readily available funds generally equal to one month's anticipated cash flow needs, or a competitive yield alternative for short-term fixed maturity investments. A singular repurchase agreement may be utilized if disbursements are allowed in the amount necessary to satisfy any expenditure request. This investment structure is commonly referred to as a flexible repurchase agreement.
4. Marketability – Securities with active and efficient secondary markets are necessary for the event of an unanticipated cash flow requirement. The historical market "spreads" between the bid and offer prices of a particular security-type of less than ~~a quarter of a percentage point~~ ten basis points will define an efficient secondary market.
5. Diversification – Market conditions and arbitrage regulations influence the attractiveness of staggering the maturity of fixed-rate investments for bond proceeds. Generally, if investment rates exceed the applicable cost of borrowing, the District is best served by locking in most investments. If the cost of borrowing cannot be exceeded, then-current market conditions will determine the attractiveness of diversifying maturities or investing

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in shorter and larger amounts. At no time shall the anticipated expenditure schedule be exceeded in an attempt to bolster yield.

6. Yield – Achieving a positive spread to the cost of borrowing is the desired objective, within the limits of the Investment Policy’s risk constraints. The yield of an equally weighted, rolling six-month Treasury-Bill portfolio will be the minimum yield objective for non-borrowed funds.

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**EXHIBIT A-3**  
**INVESTMENT STRATEGY**  
**GENERAL FUND**

**Investment Objective:**

To purchase investments that will preserve the safety of capital, ~~maximize-maintain adequate~~ liquidity, and ~~maximize-optimize~~ yield (in that order of priority), taking into account the District's monthly operating expenses, the timing of such expenses and the maintenance of any operating reserve that may be designated by the District's Board of Directors.

**Investment Strategy:**

To invest in any of the authorized investments listed in the District's Investment Policy with the following objectives:

1. Suitability – Any investment eligible in the Investment Policy is suitable for General or Operating-type funds.
2. Safety of Principal – All investments shall be of high quality with no perceived default risk. Market price fluctuations will occur. However, managing the weighted average days to maturity of each fund's portfolio to less than 270 days and restricting the maximum allowable maturity to two years will minimize the price volatility of the portfolio.
3. Liquidity – General or Operating-type Funds require the greatest short-term liquidity of any of the fund-types. Demand deposit accounts, money market accounts, short-term Investment Pools, and money market mutual funds will provide daily liquidity and may be utilized as a competitive yield alternative to fixed maturity investments.
4. Marketability – Securities with active and efficient secondary markets are necessary for the event of an unanticipated cash flow requirement. The historical market "spreads" between the bid and offer prices of a particular security-type of less than ~~a-quarter-of-a~~ percentage point ~~ten basis points~~ will define an efficient secondary market.
5. Diversification – Investment maturities should be staggered throughout the budget cycle to provide cash flow based on the anticipated operating needs of the District. Diversifying the appropriate maturity structure up to the two-year maximum will reduce interest rate risk.
6. Yield - Attaining a competitive market yield for comparable security-types and portfolio restrictions are the desired objective. The yield of an equally weighted, rolling three-month Treasury-Bill portfolio will be the minimum yield objective.

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**EXHIBIT B**

**CERTIFICATE OF RECEIPT  
AND REVIEW OF INVESTMENT POLICY**

Example

THE STATE OF TEXAS \_\_\_\_\_

COUNTY OF TRAVIS \_\_\_\_\_

I, \_\_\_\_\_ of \_\_\_\_\_, do hereby certify that I have been presented a copy of the Investment Policy for Travis County Water Control and Improvement District No. 17. I have thoroughly reviewed the Investment Policy and acknowledge that \_\_\_\_\_ has implemented procedures and controls to comply with the Investment Policy, except to the extent that this authorization is dependent on an analysis of the makeup of the entity's entire portfolio, ~~or~~ requires an interpretation of subjective investment standards or relates to investment transactions that are not made through accounts or other contractual arrangements over which the business organization has accepted discretionary investment authority.

\_\_\_\_\_ WITNESS MY HAND THIS \_\_\_\_\_ DAY OF \_\_\_\_\_, \_\_\_\_\_.

\_\_\_\_\_  
Printed Name: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

