

# **BRUSHY CREEK MUNICIPAL UTILITY DISTRICT INVESTMENT POLICY**

## **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 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, debt service, construction, customer reserve, and operating reserve accounts. Investments shall be made in accordance with this Policy 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 Investment Policy and Strategies 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 and investment vehicles 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.
- 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. There shall be no Policy defined level of required investment diversification but 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 be to purchase high credit quality investments that 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 in a manner which promotes diversity by market sector, credit and maturity. The choice 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 180 days and a benchmark of the six-month and one-year 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 President of the Board, Treasurer of the Board, the Assistant Treasurer of the Board, the General Manager and the Chief Administrative Officer

upon completion and maintenance of the required Public Funds Investment Act training shall be designated by resolution of the Board as Investment Officers.

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 Adviser shall certify in writing to a review of the Policy.

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 Officer shall file a statement disclosing the personal business interest ("Disclosure Statement") with the Board and 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 session, 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 a 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.

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 collected or controlled by the District only in accordance with the written policies adopted by the Board relating thereto, which policies specify controls and limitation on such 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,
- adopting the Investment Policy of the District on no less than an annual basis,
- adopting the Investment Strategy of the District on no less than an annual basis,
- accepting and reviewing quarterly investment reports from the Investment Officers, and
- reviewing the list of financial counter-parties (broker/dealers) 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. The quarterly report shall also contain general market information and strategy guidelines by the Officers.

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 pooled fund group containing (i) the beginning market value for the reporting period; (ii) ending market value for the period; and (iv) fully accrued interest 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 that has a maturity date.
4. The account or fund or pooled group fund for which each individual investment was acquired.

## **INTERNAL CONTROLS**

The Investment Officers are responsible for ensuring that all investment transactions of 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 Officer or Adviser 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 Officer shall notify the Board of the loss of rating, conditions affecting the rating and possible loss of principal with liquidation options available, within two weeks after the loss of the required rating.

The Investment Officer or Investment Adviser 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 Adviser shall immediately liquidate any brokered CD which places the District above the FDIC insurance level.

## **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 deposits (certificates of deposit).

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. The depositories' past experience and history should indicate a priority for the safety of public funds.

### **Security Broker/Dealers**

The Board will review the list of authorized broker/dealers annually. The Investment Officers shall maintain a list of broker/dealers and financial institutions authorized to provide investment services. 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 or adviser.

- Financial Industry Regulatory Authority (FINRA) certification,
- FINRA Central Registration Depository (CRD) number
- proof of Texas State Securities registration
- policy review certification
- other information as requested

Any financial institution, broker/dealer or pool must be provided a copy of the current Investment Policy before any transactions take place. The certification form shall be substantially in the form of Exhibit B. The counter-party must certify in writing to:

- receipt and review the Investment Policy
- acknowledgment that the organization 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 a interpretation of subjective investment standards.

Whenever material changes are made to the Policy by the Board, the new Policy will be provided to all counter-parties requiring renewed certification. The Investment Officers may not execute any transaction with a person or firm who 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 two (2) years.
- B. Obligations of the State of Texas or 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 two (2) 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. 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. 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 90 days to stated maturity.
- F. AAA-rated, SEC registered money market mutual funds with a dollar-weighted average stated maturity of ninety (90) days or fewer; and with an investment objective of a stable net asset value of \$1.00 for each share.
- G. AAA-rated, constant-dollar local government investment pool in accordance with the Act, and approved by the Board, 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.

### **Competitive Bidding Requirement**

All securities, including certificates of deposit, will be purchased or sold after three (3) offers/bids are taken to verify 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 District shall not be required to liquidate any security which loses its minimum rating or was authorized at the date of purchase but the Investment Officers shall take all prudent measures consistent with this Policy to determine the status of the security and the best alternative for the District.

### **Safekeeping Agreement**

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

### **UNAUTHORIZED INVESTMENTS**

The District is prohibited from investing any mortgage backed security including those specifically unauthorized 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.

The maximum limits for diversification will be:

	<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 %
Percent of total portfolio	10 %
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 %

## **COLLATERAL, SAFEKEEPING AND CUSTODY**

### **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.

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, the Depository, and the custodian (with the exception of the Federal Reserve as Custodian). The Custodian 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 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**

The District shall accept only the following securities as collateral for repurchase agreements:

- A. Obligations of the United States, its agencies or instrumentalities, including CMO which pass the *bank test*.

### **Collateral Safekeeping**

All collateral will be held by an independent safekeeping agent, outside the holding company of the bank or counter-party, and approved by the District.

### **Safekeeping of Time and Demand Account Collateral**

All collateral securing bank deposits must be held by an independent third-party banking institution outside the holding company of the bank approved by and under contract with the District, or by the Federal Reserve Bank.

### **Collateral Pooling**

If any of the District's depositories offer collateral pooling as an alternative to the Authorized Collateral designated by Policy, the Investment Officers will fully evaluate the cost efficiencies and safety of the pooling option. Pooling will require approval by the Board.



**Safekeeping of Repurchase Agreement Securities**

The securities purchased under repurchase agreements must be delivered to an independent third-party custodian as defined by the executed Master Repurchase Agreement.

**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.

**ANNUAL POLICY ADOPTION**

The Board shall review and adopt by resolution the Investment Policy not less than annually. Any changes made to the Policy as a result of this review and adoption shall be recorded in the approval resolution.

Any and all prior orders or resolutions relating to the investment of District funds are hereby repealed and this Order shall supersede any such prior orders or resolutions. The President, Vice President, Secretary, and Treasurer are authorized to do all things necessary and proper to evidence the Board's adoption of this Order and to carry out the intent hereof.

PASSED AND ADOPTED THIS 25th day of June, 2015.

\_\_\_\_\_  
President, Board of Directors

ATTEST:

\_\_\_\_\_  
Secretary, Board of Directors

- ADOPTED: July 8, 1996
- REVISED: March 20, 1997
- REVISED: August 21, 1997
- REAFFIRMED: January 8, 1998
- REAFFIRMED: November 11, 1999
- REVISED: September 14, 2000
- REAFFIRMED: April 12, 2001
- REAFFIRMED: April 25, 2002
- REAFFIRMED: April 24, 2003
- REAFFIRMED: March 11, 2004
- REAFFIRMED: March 24, 2005
- REAFFIRMED: 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  
REAFFIRMED: August 8, 2013  
REAFFIRMED: February 13, 2014  
REVISED: June 25, 2015

## EXHIBIT A

### **INVESTMENT STRATEGY BY FUND TYPE**

#### **DEBT SERVICE FUNDS**

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. Investments shall be chosen to preserve the safety of capital and maximize yield (in that order of priority).

#### **CONSTRUCTION FUNDS**

Bond proceeds used for construction programs have reasonably predictable draw down schedules with input from the District's consulting engineers. Therefore investment maturities shall 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 can not 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.

#### **OPERATING 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 for the operating fund portfolio shall be no more than 180 days and the maximum allowable maturity shall be two years. The Investment Officers will monitor the average days to maturity on an on-going basis and make changes as appropriate.

#### **RESERVE FUNDS.**

Operating 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 a maximum maturity of two years. The dollar-weighted average maturity of the funds shall be no more than one year.

### **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.

**EXHIBIT B**

**INVESTMENT POLICY CERTIFICATION**  
Brushy Creek Municipal Utility District

Firm Name: \_\_\_\_\_

I, as a registered principal or authorized representative for the Firm named above, hereby certify that I, and the broker covering this account have received and reviewed the Investment Policy of the Brushy Creek Municipal Utility District.

We acknowledge that this firm has implemented reasonable internal procedures and controls in an effort to preclude investment transactions conducted between this firm and the District that are not authorized by the District's Investment Policy, except to the extent that this authorization is dependent on an analysis of the makeup of the entire portfolio or requires an interpretation of subjective investment standards.

Firm: \_\_\_\_\_

Signature \_\_\_\_\_

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

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

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

EXHIBIT C

**APPROVED BROKER/DEALER LIST**

Baird Securities  
Barclay's  
Merrill Lynch/Bank of America  
Mizuho Securities  
Morgan Stanley  
Mutual Securities  
Piper Jaffray  
Raymond James  
Stifel Nicolaus  
Wells Fargo

Texpool  
TexStar  
Logic

## GLOSSARY

**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.

**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.

**Funds** means 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 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; i.e. portfolio.

**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.

**Separately Invested Asset** means an account or fund of the District that is not invested in a Pooled Fund Group.

**SIFMA** Security Industry and Financial Markets Association is the organization for all market institutions, formerly the Bond Market Association.