



CENTRAL TEXAS REGIONAL MOBILITY AUTHORITY
INVESTMENT POLICY

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I. OVERVIEW

This policy is created to comply with all current requirements of the Texas Public Funds Investment Act, Chapter 2256 of the Texas Government Code. It is the policy of the Central Texas Regional Mobility Authority (the “Authority”) to invest public funds in a manner which will provide the maximum security with the highest investment return while meeting the daily cash flow demands of the Authority conforming to all state and local statutes governing the investment of public funds. The Authority’s investment policy, as approved by the CTRMA Executive Committee, is adopted to provide investment policy guidelines for use by Authority Staff.

II. SCOPE

This policy applies to all investment activities of Authority funds except those subject to other investment covenants, or excluded by contract. All funds covered by this policy shall be invested in accordance with the Public Funds Investment Act as amended. These funds are accounted for in the Authority's annual financial report and include:

- A. Revenue Fund
- B. Rebate Fund
- C. Operating Fund
- D. Debt Service Fund
- E. Debt Service Reserve Fund
- F. Renewal and Replacement Fund
- G. Other Operating Fund
- H. General Fund
- I. Capital Projects Fund

III. OBJECTIVES

The primary objectives, in priority order, of investment activities shall be:

A. Safety

Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective shall be to mitigate credit risk and interest rate risk.

1. Credit Risk

Credit risk is the risk of loss due to the failure of the security issuer or backer. Credit risk may be mitigated by:

- a. Limiting investments to the safest types of securities; as listed in Section VII.
- b. Pre-qualifying the financial institutions, brokers/dealers,

intermediaries, and advisors with which the CTRMA will do business; and,

- c. Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

2. Interest Rate Risk

Interest rate risk is the risk that the market value of securities in the portfolio will fall due to changes in general interest rates. Interest rate risk may be mitigated by:

- a. Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing projects, thereby avoiding the need to sell securities on the open market prior to maturity; and,
- b. By investing operating funds primarily in shorter-term securities, money market mutual funds or similar investment pools and limiting the average maturity of the portfolio in accordance with this policy (Section V.B.)

B. Liquidity

The investment portfolio shall remain sufficiently liquid to meet all project and operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands.

C. Yield

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of least importance compared to the safety and liquidity objectives described above. The core investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall be held to maturity with the following exceptions:

1. A declining credit security could be sold early to minimize loss of principal;
2. A security swap would improve the quality, yield, or target duration in the portfolio; or,
3. Liquidity needs of the portfolio require that the security be sold.

IV. STANDARDS OF CARE

A. Prudence

The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio.

Investment officers acting in accordance with the investment policy and written procedures and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to

control adverse developments.

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.

B. Ethics and Conflicts

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict or be perceived to conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Investment officers shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Investment officers shall refrain from undertaking personal investment transactions with the same individual person with whom business is conducted on behalf of the Authority.

C. Designation of Investment Officer

The Chief Financial Officer shall act as the Investment Officer of the Authority and shall have responsibility for managing the Authority's investment program. Additional Authority personnel may also be designated as Investment Officers with approval of the CTRMA. Written operational and investment procedures consistent with this policy shall be established. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the established procedures.

D. Investment Advisor

The CTRMA Board may select an Investment Advisor to advise the Authority on investment of funds and other responsibilities as outlined in this policy including but not limited to broker compliance, security selection, competitive bidding, reporting and security documentation. The Investment Advisor must be registered with the Securities and Exchange Commission (SEC) under the Investment Advisor's Act of 1940 as well as with the Texas State Securities Board.

E. Required Training

The Chief Financial Officer and any other persons designated as Investment Officers shall attend at least one training session relating to the responsibilities of maintaining the investment portfolio within 12 months after taking office or assuming duties; and shall attend a training session not less than once every two years and receive not less than ten (10) hours of training. Such training, from an independent source as approved by the CTRMA Board, shall include education in investment controls, security risks, strategy risks, market risks, and compliance with the Public Funds Investment Act.

V. INVESTMENT STRATEGIES

The Authority's investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs.

A. Market Yield Benchmark

The Authority's investment strategy is conservative. Given this strategy, the basis used by the Chief Financial Officer to determine whether minimum market yields are being achieved shall be the six (6) month T-bill rate. Investment Officers and Investment Advisors shall strive to safely exceed minimum market yield within policy and market constraints.

B. Maximum Maturities

To the extent possible, the Authority will attempt to match its investments with anticipated project cash flow requirements. Unless matched to a specific cash flow, the Authority will not directly invest *operating or general funds* in securities maturing more than sixteen (16) months from the date of purchase, unless approved by the CTRMA Board. Investment of bond proceeds shall not exceed the projected expenditure schedule of the related project.

Reserve funds may be invested in securities exceeding twelve (12) months if the maturity of such investments are made to coincide as nearly as practicable with the expected use of the funds.

C. Diversification

The Authority will seek to diversify investments, by security types and maturity dates in order to avoid incurring unreasonable risks.

VI. SAFEKEEPING AND CUSTODY

A. Authorized Financial Dealer and Institutions

The Chief Financial Officer shall maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved security broker/dealers selected by credit worthiness who are authorized to provide investment services in the State of Texas. These may include "primary" dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule).

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Executive Director with the following:

1. Audited financial statements;
2. Proof of National Association of Securities Dealers (NASD) certification;
3. Proof of state registration;
4. Completed broker/dealer questionnaire; and,
5. Certification of having read the entity's investment policy, and acknowledged that they have implemented reasonable procedures and controls in an effort to preclude imprudent investment activities with the

Authority, except to the extent that this authorization is dependent on an analysis of the makeup of the entire Authority portfolio or requires an interpretation of subjective investment standards. The Authority will not enter into an investment transaction with a financial institution prior to receiving the written instrument described above.

A current audited financial statement is required to be on file for each financial institution and broker/dealer in which the Authority invests. An annual review of the financial condition and registrations of qualified bidders will be conducted by the Executive Director.

B. Collateralization

The Authority, in accordance with State Statutes, requires all funds held by financial institutions above the Federal Deposit Insurance Corporation (FDIC) insurance limit to be collateralized with securities whose market value is pledged at 102% of principal and accrued interest by that institution with the Authority's custodial bank. Private insurance coverage is not an acceptable collateralization form. Securities which are acceptable for collateralization purposes are as follows:

1. FDIC insurance coverage.
2. A bond bill, certificate of indebtedness, or Treasury note of the United States, or other evidence of indebtedness of the United States that is guaranteed as to principal and interest by the United States (i.e. Treasury Agency issues).
3. Obligations, the principal and interest on which, are unconditionally guaranteed or insured by the State of Texas.
4. A bond of the State of Texas or a country, city or other political subdivision of the State of Texas having been rated as investment grade by a nationally recognized rating agency with a remaining maturity of ten years or less.

C. Custody - Delivery vs. Payment

All security transactions entered into by the Authority shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by the Authority's custodial bank and evidenced by safekeeping receipts.

D. Safekeeping of Securities

Securities purchased for the Authority's portfolios will be delivered in book entry form and will be held in third party safekeeping by a Federal Reserve member financial institution designated as the Authority's safekeeping and custodian bank.

The Authority will execute Safekeeping Agreements prior to utilizing the custodian's safekeeping services. The safekeeping agreement must provide that the safekeeping agent will immediately record and promptly issue and deliver a safekeeping receipt showing the receipt and the identification of the security, as well as the Authority's interest. All securities owned by the Authority will be held in a Customer Account naming the Authority as the customer.

The safekeeping institution shall annually provide a copy of their most recent report on internal controls (Statement of Auditing Standards no. 70 or SAS 70).

VII. AUTHORIZED AND SUITABLE INVESTMENTS

The investment of Authority funds will be made using only those investment types approved by the CTRMA Board and which are in accordance with State of Texas Government Code, Chapter 2256. The approved investment types will be limited to the following:

A. Allowable Investments

1. U.S. Treasury and Federal Agency Issues;
2. Certificates of Deposit issued by a state or national bank domiciled in the State of Texas guaranteed or insured by the FDIC or its successor, collateralized with U.S. Treasury or Agency issues whose market value is 102% of the Authority's investment, pledged and held with the Authority's custodial bank; and,
3. Repurchase Agreements, *including flexible Repurchase Agreements*, collateralized by U.S. Treasury or Federal Agency Securities whose market value is 102% of the Authority's investment and are pledged and held with the Authority's custodial bank or a third-party safekeeping agent approved by the Authority. Repurchase agreements must also be secured in accordance with State law. Each counter party to a repurchase transaction is required to sign a copy of an Investment Repurchase Agreement under the guidelines of Chapter 2256, Section 2256.011 of the Texas Public Funds Investment Act, using the Bond Market Association Public Securities Association Master Repurchase Agreement as a general guide and with such changes thereto as are deemed in the best interest of the Authority. Such an Agreement must be executed prior to entering into any transaction with a repo counter-party.
4. Guaranteed Investment Contracts (GIC's) collateralized by U.S. Treasury or Federal Agency Securities whose market value is 102% of the Authority's investment and are pledged and held with the Authority's custodial bank or a third-party safekeeping agent approved by the Authority. Bond proceeds, other than bond proceeds representing reserves and funds maintained for debt service purposes, may not be invested for a term which exceeds five years from the date of bond issuance.
5. Obligations of states, agencies, counties, cities, and other political subdivisions of any State having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than "AA" or its equivalent, with fixed interest rates and fixed maturities.
6. SEC registered no-load money market mutual funds with a dollar weighted average portfolio maturity of 90 days or less; that fully invest dollar for dollar all Authority funds without sales commissions or loads; and whose investment objectives include the maintenance of a stable net asset value of \$1 per share
7. Local government investment pools, which are AAA- rated by a nationally recognized bond rating company, e.g., Moody's, S&P, Fitch, and which participation in any particular investment pool(s) has been authorized by resolution of the CTRMA Board, not to exceed 80% of the total investment

portfolio less bond funds. Bond funds may be invested at 100%.

B. Prohibited Investments

The Authority is prohibited from purchasing any security that is not authorized by Texas State law, or any direct investment in asset-backed or mortgage-backed securities. The Authority expressly prohibits the purchase of inverse floaters, interest-only (IO) and principal-only (PO) collateralized mortgage obligations (CMO's).

C. Downgrade Provisions

An Investment that requires a minimum rating does not qualify as an authorized investment during the period the investment does not have the minimum rating. The Authority shall take all prudent measures that are consistent with its investment policy to liquidate an investment that does not have the minimum rating.

VIII. REPORTING AND REVIEW

A. Quarterly Report Requirements

The Chief Financial Officer shall prepare a quarterly investment report, including a summary that provides a clear picture of the status of the current investment portfolio and transactions made over the last quarter. The report should be provided to the Executive Committee. The report shall include the following:

1. The investment position of the Authority on the date of the report.
2. Signature of all Investment Officers.
3. Summary for each fund stating:
 - a. Beginning market value;
 - b. Additions and changes; and
 - c. Ending market value.
4. Beginning and ending book value and market value for each investment along with fully accrued interest for the reporting period.
5. Maturity date of each investment.
6. Description of the account or fund for which the investments were made.
7. Statement that the investment portfolio is in compliance with the Authority's investment policy and strategies.

B. Security Pricing

Current market value of securities may be obtained by independent market pricing sources including, but not limited to, the Wall Street Journal, broker dealers and banks other than those who originally sold the security to the Authority as well as the Authority's safekeeping agent.

C. Annual Audit

If the Authority places funds in any investment other than registered investment

pools or accounts offered by its depository bank, the above reports shall be formally reviewed at least annually by an independent auditor, and the result of the review shall be reported to the Executive Committee.

In addition, the Authority's external auditors shall conduct a compliance audit of management controls on investments and adherence to the Investment Policy.

IX. POLICY

A. Exemption

Any investment currently held that does not meet the guidelines of this policy or subsequent amended versions shall be exempted from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.

B. Annual Review

The Authority shall review the Investment Policy annually. This review shall be conducted by the Executive Committee with recommendations from the Executive Director. Any approved amendments shall be promptly incorporated into written policy.

**CENTRAL TEXAS REGIONAL MOBILITY AUTHORITY
SECURITY BROKER/DEALER QUESTIONNAIRE**

1. Name of Firm: _____
2. Primary Representative: _____
Acct Executive: _____ Title: _____
Phone Number: _____ Phone #: _____
3. Is your firm registered with the Texas Securities Commission?
() No () Yes [Include copy of registration]

Is your firm NASD certified? () No () Yes [Include copy of certificates.]
4. Does your firm come under SEC regulation and their Uniform
Net Capital Rule (Rule 152c3-1)? () No () Yes
5. What was your firm's total volume in US Treasuries/Agencies during you last fiscal year?
Firmwide \$ _____ # of Transactions _____
Local Office \$ _____ # of Transactions _____
6. Which instruments are traded regularly by the local desk?
() Treasuries () Agencies
() Other
7. Please provide comparable public sector references.

Name of Entity	Contact Name	Phone Number
_____	_____	_____
_____	_____	_____
_____	_____	_____
8. Please submit a copy of your annual financial report.
9. Please submit your trading authorization form.
10. Please submit a copy of all necessary paperwork to establish an account with your firm.
11. Please describe a typical transaction between the Authority and your firm.
Note deadlines or cut off times involved.
12. Do you clear through another firm? If so, what firm?
13. Has your firm ever been subject to a regulatory or state or federal agency investigation for alleged improper, fraudulent, disreputable or unfair activities related to the sale of government securities or money market instruments? Have any of your employees ever been so investigated? Explain.

CERTIFICATION

I hereby certify that I have personally read the Investment Policy and objectives of the Central Texas Regional Mobility Authority (CTRMA) and have implemented reasonable procedures and a system of controls designed to preclude imprudent investment activities arising out of transactions conducted between our firm and CTRMA. I agree that our firm will not deliver or propose any investments that are not allowed under the CTRMA Investment Policy. All sales personnel will be routinely informed of your investment objectives, strategies and risk constraints whenever we are so advised. We will notify you immediately by telephone and in writing in the event of a material adverse change in our financial condition. We pledge to exercise due diligence in informing you of all foreseeable risks associated with financial transactions conducted with our firm. I attest to the accuracy of our responses to your questionnaire.

Signature

Firm Representative

Title

Date