

**CERTIFICATE FOR RESOLUTION**

THE STATE OF TEXAS

COUNTY OF HARRIS

I, the undersigned officer of the Board of Directors of the Coastal Water Authority, hereby certify as follows:

1. The Board of Directors of the Coastal Water Authority (the "Authority") convened in regular session on the 9th day of November, 2022, at the regular meeting place thereof, inside the boundaries of the Authority, and the roll was called of the duly constituted officers and members of the board to-wit:

D. Wayne Klotz, P.E.	President
Tony L. Council, P.E.	1st Vice-President
Douglas E. Walker	2 <sup>nd</sup> Vice-President
Thomas A. Reiser	Secretary-Treasurer
Joseph G. Soliz	Assistant Secretary-Treasurer
Giti Zarinkelk, P.E.	Director
Jon M. Sjolander	Director

and all of said persons were present, except Director(s) REISER AND SJOLANDER, thus constituting a quorum. Whereupon, among other business, the following was transacted at the meeting: a written

**RESOLUTION ADOPTING A CONTINUANCE OF THE INVESTMENT POLICY,  
CASH AND INVESTMENT MANAGEMENT PROCEDURES AND THE LIST OF  
QUALIFIED BROKER/DEALERS OF THE COASTAL WATER AUTHORITY**

was introduced for the consideration of the board. It was then duly moved and seconded that the resolution be adopted, and, after due discussion, the motion, carrying with it the adoption of the resolution, prevailed and carried unanimously.

2. That a true, full and correct copy of the aforesaid resolution adopted at the meeting described in the above and foregoing paragraph is attached to and follows this certificate; that the resolution has been duly recorded in the board's minutes of the meeting; that the persons named in the above and foregoing paragraph are the duly chosen, qualified and acting officers and members of the board as indicated therein; that each of the officers and members of the board was duly and sufficiently notified officially and personally, in advance, of the time, place and purpose of the aforesaid meeting, and that the resolution would be introduced and considered for adoption at the meeting, and each of the officers and members consented, in advance, to the holding of the meeting for such purpose; that the meeting was open to the public as required by law; and that public notice of the time, place and subject of the meeting was given as required by Chapter 551, Texas Government Code, and Section 49.063, Texas Water Code.

SIGNED AND SEALED the 9th day of November, 2022.



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Assistant Secretary-Treasurer, Board of Directors



**RESOLUTION ADOPTING A CONTINUANCE OF THE INVESTMENT POLICY,  
CASH AND INVESTMENT MANAGEMENT PROCEDURES, AND THE LIST OF  
QUALIFIED BROKER/DEALERS OF THE COASTAL WATER AUTHORITY**

WHEREAS, Coastal Water Authority (the "Authority") is a governmental agency and a body politic and corporate created as a conservation and reclamation district pursuant to the Constitution and laws of the State of Texas, including Article XVI, Section 59, Texas Constitution, and Chapter 601, Acts of the 60th Texas Legislature 1967 (Regular Session), as amended (the "Act"); and

WHEREAS, the Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended, requires the Board of Directors of the Authority to, at least annually, review its investment policy; and

WHEREAS, the Board of Directors has convened on this date at a meeting open to the public to conduct the Authority's annual review of its Investment Policy; Now, Therefore,


BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE COASTAL WATER AUTHORITY THAT:

Section 1: The Board of Directors has conducted an annual review of the Authority's Investment Policy, and hereby adopts the Continuance of the Investment Policy, which is attached hereto as Exhibit A and includes a list of qualified broker/dealers and the Authority's Cash and Investment Management Procedures.

Section 2: The provisions of this resolution shall be effective as of the date of adoption and shall remain in effect until modified by action of the Board of Directors.

[Signature page follows]

PASSED AND APPROVED this 9th day of November, 2022.

  
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President, Board of Directors

ATTEST:

  
\_\_\_\_\_  
Assistant Secretary-Treasurer, Board of Directors

(SEAL)



**EXHIBIT A**  
INVESTMENT POLICY  
NOVEMBER 9, 2022

## INVESTMENT POLICY

This Investment Policy (the “Policy”) is adopted by the Board of Directors of the Coastal Water Authority (“CWA”) pursuant to Chapter 2256 of the Texas Government Code and Chapter 49 of the Texas Water Code, effective as of November 9, 2022.

### ARTICLE I PURPOSE AND OBJECTIVES

#### Section 1.01. Purpose.

This Policy with respect to CWA investments has been adopted to establish the principles and criteria by which the funds of CWA should be invested and secured and to comply with various provisions of Texas law relating to the investment and security of funds of CWA (the “Investment Laws”). As of the date of the adoption of this Policy, the following laws are applicable to the investment of CWA’s funds: Chapter 49, Texas Water Code; Chapter 404.101 et seq., Texas Government Code; Chapter 791, Texas Government Code; Chapter 2256, Texas Government Code; and Chapter 2257, Texas Government Code. The Investment Laws generally provide the minimum criteria for the authorized investment and security of CWA’s funds and require CWA to adopt rules to ensure the investment of CWA funds in accordance with such laws. This Policy will specify the scope of authority of Officials who are responsible for the investment of CWA funds.

#### Section 1.02. Objectives.

The objectives of this Policy in order of importance are: (1) understanding the suitability of the investment to the financial requirements of CWA; (2) preservation and safety of principal; (3) liquidity as needed to meet CWA’s operating requirements taking into consideration the operating and expense types and cycles described below; (4) assurance of the marketability of the investment if the need arises to liquidate the investment before maturity; (5) diversification of the CWA’s investment portfolio; and (6) maximum yield without compromising the first five objectives.

### ARTICLE II DEFINITIONS

#### Section 2.01. Definitions.

Unless the context requires otherwise, the following terms and phrases used in this Policy shall mean the following:

- A. “Assistant Investment Officer” means the Executive Director of CWA who is also authorized to invest or re-invest the funds of CWA held in its various accounts.
- B. “Authorized Collateral” means any means or method of securing the deposit of CWA funds authorized by Chapter 2257, Texas Government Code.
- C. “Authorized Investment” means any security which CWA is authorized to invest under Chapter 2256, Texas Government Code, as limited by Section 6.01 of this Policy.

- D. "Board" means the Board of Directors of CWA.
- E. "Chief Financial Officer" means the Financial Officer of CWA whose position was created by state law.
- F. "Chief Investment Officer" means the Chief Financial Officer of CWA who is authorized to invest or re-invest the funds of CWA held in its various accounts.
- G. "Collateral" means any means or method of securing the deposit of CWA funds under Article V hereof.
- H. "Collateral Act" means Chapter 2257, Texas Government Code, as amended from time to time.
- I. "Construction and Development Funds" means the funds of the Authority used primarily for Capital Infrastructure Improvements.
- J. "CWA Officials" means the CWA Directors, Officers, employees, and persons and business entities engaged in the handling of CWA funds.
- K. "Director" means a person elected or appointed to serve on the Board of Directors of CWA.
- L. "Employee" means any person employed by CWA, but does not include independent contractors or professionals hired by CWA as outside consultants, such as CWA's financial advisor.
- M. "Equity Fund" means the special project equity fund maintained by the Authority
- N. "FDIC" shall mean the Federal Deposit Insurance Corporation or its successor.
- O. "Funds" means, collectively, the Operating Funds, the Reserve and Contingency Funds, the Construction, Escrow and Development Funds, the Equity Fund and the Pension Fund.
- P. "Investment Act" means Chapter 2256, Texas Government Code, as amended from time to time,
- Q. "Investment Advisor" means a professional consultant or consulting firm engaged by CWA for the purpose of providing advice with respect to the investment of CWA funds.
- R. "Investment Officers" means the Chief Investment Officer and the Assistant Investment Officer.
- S. "Officer" means the Executive Director or Chief Financial Officer of CWA.
- T. "Operating Funds" means four funds used by the Authority to accomplish the day to day mission of the Authority of pumping, transporting, conveying and in certain circumstances treating surface water in CWA's area of responsibility. The Operating Funds, account for the personnel, supplies, materials, utilities,

administrative and general operating expenses to accomplish the individual funds respective objectives.

- U. “Pension Fund” means the fund maintained by the Authority for the pension plan for its employees.
- V. “Qualified Representative” means a person who holds a position with a business organization, who is authorized to act on behalf, of that organization, and who is one of the following: (1) for a business organization doing business that is regulated by or registered with a securities commission, a person who is registered under the rules of the National Association of Securities Dealers; (2) for a state or federal bank, a savings bank, or a state or federal credit union, a member of the loan committee for the bank or branch of the bank or a person authorized by corporate resolution to act on behalf of and bind the banking institution; or (3) for an investment pool, the person authorized by the elected official or board with authority to administer the activities of the investment pool to sign the written instrument on behalf of the investment pool.
- W. “Repurchase Agreement” means a simultaneous agreement to buy, hold for a specified time, and then sell back at a future date, obligations of the United States or its agencies and instrumentalities, the principal and interest of which are a direct obligation of or are guaranteed by the United States or any of its agencies, in market value of not less than the principal amount of the funds disbursed. The term “Repurchase Agreement” does not include reverse repurchase agreements.
- X. “Reserve and Contingency Funds” means the various funds maintained by the Authority to provide emergency access to additional funds in the event of unforeseen or emergency situations that may arise, that may not be able to be accommodated in the Authority’s various Operating Funds. Each of these Reserve and Contingency Funds are supported by the applicable service contract or previous bond ordinance that has been continued by actions of the Authority’s Board.

ARTICLE III  
RESPONSIBILITIES OF KEY PERSONNEL

Section 3.01. Disclosure Requirements.

CWA Officials involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment function, or could impair their ability to make impartial decisions. CWA Officials shall disclose to the Board any material financial interest in financial institutions that conduct business with CWA.

Section 3.02. Disclosures of Relationships with Entities Offering to Enter into Investment Transactions with the Authority.

The Investment Officer(s) shall disclose in writing (a) any “personal business relationship” with a business organization offering to engage in an investment transaction with CWA and (b) any relationship within the second degree by affinity or consanguinity, as determined by Chapter 573, Texas Government Code, to any individual seeking to sell an



investment to CWA, as required by the Investment Act. For the purposes of this Investment Policy, an Investment Officer has a personal business relationship with a business organization if: (1) The Investment Officer owns ten percent or more of the voting stock or shares of the business organization or owns \$5,000 or more of the fair market value of the business organization; (2) funds received by the Investment Officer from the business organization exceed ten percent of the Investment Officer's gross income for the previous year; or (3) the Investment Officer has acquired from the business organization during the previous year investments with a book value of \$2,500 or more for the personal account of the Investment Officer.

Such disclosure statements regarding "personal business relationships" shall be filed with the Board and the Texas Ethics Commission.

### Section 3.03. Finance and Audit Committee.

To assist the Chief Financial Officer with his responsibility for investment of CWA funds, a Finance and Audit Committee has been established. The Committee shall consist of three members of the Board of Directors appointed by the President of the Board. The Committee shall meet at least on a quarterly basis and as called for by the Board of Directors or an Officer. The major responsibilities of the committee as they relate to the Investment Policy are:

- A. Establish investment and accounting controls and procedures in accordance with this Policy; including an annual compliance audit as required by the Investment Law.
- B. Recommend eligible security dealers and banks to the Board and prepare a list of authorized brokers for the Board's approval with which the Chief Financial Officer may transact business;
- C. Establish bid specifications and a bidding process to select banks to act as depositories for CWA funds when directed by the Board;
- D. Consider and recommend Investment Strategies to the Board;
- E. Annually review and recommend changes to the Investment Policy and Investment Strategies for Board action and approval; and
- F. Establish surety or fidelity bond requirements for all CWA Officials in such amount as may be recommended and approved by the Board.

### Section 3.04. Chief Financial Officer.

The responsibility for the investment of CWA funds resides with the Board and the Investment Officers. The Board has authorized the Chief Financial Officer of CWA to manage CWA's investments. The Chief Financial Officer is responsible for managing CWA's investment portfolio, consistent with the guidelines approved by the Board and set forth in this Investment Policy. The Chief Financial Officer shall be hired by the Board and report directly to the Board. The responsibilities of the Chief Financial Officer are to

- A. Implement the Investment Policy established by the Board;

- B. Recommend changes or additions to the existing Investment Policy to the Finance and Audit Committee;
- C. Prepare Investment Strategies for consideration by the Finance and Audit Committee and adoption by the Board;
- D. Furnish monthly financial reports on the investment portfolio to the Board. These reports shall contain information on securities held, market value, and maturity distribution;
- E. Prepare jointly with other Investment Officer(s) and submit to the Board of Directors a quarterly written report of investment transactions for all funds of CWA for the preceding quarter in accordance with Section 2256.023 of the Public Funds Investment Act, as amended (“Internal Management Report”). Such report shall (1) describe in detail the investment position of CWA on the date of the report, (2) be prepared jointly by all of the Investment Officers of CWA, (3) be signed by all Investment Officers, (4) contain a summary statement of each pooled fund group that shows the beginning and ending market values for the reporting period and the fully accrued interest for the reporting period, (5) state 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; (6) state the maturity date of each separately invested asset that has a maturity date, (7) state the account or CWA fund for which each individual investment was acquired, and (8) state the compliance of the investment portfolio as it relates to the Investment Policy and Investment Strategies of CWA and the Investment Law;
- F. Have the reports described by Subsection (E) above formally reviewed at least annually by an independent auditor, and the results of the review reported to the Board by the auditor;
- G. Invest CWA funds in accordance with these Policy guidelines, State law, and CWA Bond Resolutions;
- H. Consult with the Investment Advisor, if an Investment Advisor has been employed by CWA for such purpose, on any investment transactions for investments with a maturity of more than six months;
- I. Handle all dealer/broker inquiries, including (1) presenting this Investment Policy to any person or business organization offering to engage in an investment transaction with CWA, including investment pools if applicable, and (2) obtaining from the qualified representative of that business organization offering to engage in an investment transaction with CWA a written certification, signed by the qualified representative and acknowledging (A) such person’s receipt and review of this investment Policy and (B) the implementation by the business organization of reasonable procedures and controls in an effort to preclude investment transactions conducted between such organization and CWA that are not authorized by this Investment Policy, except to the extent that such authorization is dependent on an analysis of the makeup of CWA’s entire portfolio or requires

an interpretation of subjective investment standards (an acceptable form of this certification is attached as Appendix "A");

- J. Handle the transfers of securities, collateral, and monies on all transactions; and
- K. After consulting with CWA's attorneys, review this Investment Policy at the end of each session of the Texas Legislature for compliance with State law and make recommendations to the Board regarding any required changes.

Section 3.05. Standard of Care.

Investments shall be made with judgment and care under prevailing circumstances that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived. Such standard shall be applied in the context of managing the overall portfolio of investments of CWA. Investments of funds shall be governed by the following investment objectives in order of priority: (1) preservation and safety of principal, (2) liquidity and (3) yield. The Chief Financial Officer acting in accordance with this Investment Policy and exercising due diligence shall be relieved of personal responsibility for the credit risk of market price changes of securities, provided that deviations from expectation are reported in a timely fashion, and appropriate action is taken to control adverse developments. In determining whether an Investment Officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration: (1) the investment of all funds, or funds under CWA's control, over which the Investment Officer had responsibility rather than a consideration as to the prudence of a single investment; and (2) whether the investment decision was consistent with this Policy.

Section 3.06. Training.

The Investment Officers for CWA shall attend at least one training session relating to the Investment Officer's responsibilities under the Investment Act containing at least 6 (six) hours of instruction from an independent source approved by the Board or the Finance and Audit Committee, within twelve (12) months after assuming duties as Investment Officer, and attend at least four (4) hours of additional training from an independent source approved by the Board not less than once each two-year period that begins on the first day of the Authority's fiscal year and consists of the two consecutive fiscal years after that date.

ARTICLE IV  
PROCEDURES FOR INVESTMENT OF CWA MONIES

Section 4.01. Qualified Broker/Dealers.

The following are the qualified broker/dealers with whom CWA may engage in investment transactions:

- A. JPMorgan Securities, Inc.
- B. First Southwest Company/First Southwest Asset Management, Inc.
- C. Wells Fargo Bank

- D. J. P. Morgan Chase Bank, N.A.
- E. Frost Bank/Frost National Bank
- F. Bank of New York Mellon
- G. Stifel, Nicolaus and Co.
- H. FTN Financial Capital Markets
- I. Samuel A. Ramirez & Co., Inc.
- J. Cantor Fitzgerald
- L. Zions Bancorporation, N.A.

Section 4.02. Certifications from Sellers of Investments.

The Investment Officer(s) or CWA Officials shall present this Policy to any person or business organization offering to engage in an investment transaction with CWA and obtain the certificate that such potential seller has reviewed the Policy as provided in the Investment Act. This certificate shall be in a form acceptable to CWA and shall state that the potential seller has received and reviewed the Policy and has acknowledged receiving the Policy. A form of certificate acceptable to CWA is attached hereto as Exhibit A.

Section 4.03. Solicitation of Bids for Certificates of Deposit.

Bids for certificates of deposit may be solicited orally, in writing, electronically or in any combination of those methods, as determined by the Finance and Audit Committee.

Section 4.04. Settlement Basis.

All purchases of investments, except investment in investment pools or in mutual funds, shall be made on a delivery versus payment basis. The safekeeping entity for all CWA investments and for all Collateral pledged to secure CWA funds shall be one approved by the Investment Officer(s).

Section 4.05. Monitoring of the Market Value of Investments and Collateral.

The Investment Officer(s), with the help of such CWA Officials as needed, shall determine the market value of each investment and of all Collateral pledged to secure deposits of CWA funds at least quarterly and at a time as close as practicable to the closing of the reporting period for investments all in accordance with Section 3.03(E) of this Policy. Such values shall be included on the Investment Management Report. The following methods shall be used:

- A. Certificates of deposit shall be valued at their face value plus any accrued but unpaid interest.
- B. Shares in money market mutual funds and investment pools shall be valued at par plus any accrued but unpaid interest.

- C. Other investment securities with a remaining maturity of one year or less may be valued in any of the following ways:
- (1) the lower of two bids obtained from securities broker/dealers for such security;
  - (2) the average of the bid and asked prices for such investment security as published in The Wall Street Journal or The New York Times;
  - (3) the bid price published by any nationally recognized security pricing service; or
  - (4) the market value quoted by the seller of the security or the owner of such Collateral.
- D. Other investment securities with a remaining maturity greater than one year shall be valued at the lower of two bids obtained from securities broker/dealers for such security, unless two bids are not available, in which case the securities may be valued in any manner provided in (c) hereof.

Section 4.06. Transaction Confirmations.

All transactions, including purchases, maturities, sale, and income received, shall be confirmed in writing over the signature of two CWA Officials designated by separate Board resolution and shall conform to the custody account agreement between CWA and the designated institution. One of the required signatures shall be either the Executive Director or the Chief Financial Officer.

Section 4.07. Compliance with Investment Policy.

All funds and accounts of CWA shall be invested in accordance with this Policy and shall comply with any additional requirements imposed by Bond Resolutions of CWA and applicable State law or Federal tax law.

Section 4.08. Internal Accounting Controls.

The Chief Financial Officer shall establish a system of internal accounting controls which shall be documented in writing and approved by the Investment Policy Committee. Assignment of duties shall be segregated so that no one individual is responsible for initiating, evaluating, approving and recording an investment transaction. The internal accounting controls shall be reviewed by the independent auditor in connection with the annual examination of the financial statements. The controls shall be designed to prevent losses of funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in the financial market, or imprudent actions by employees and CWA Officials.

In order to promulgate Control Self-Assessment, the Chief Financial Officer shall report quarterly to the Investment Policy Committee as to the monitoring of internal control activities.

Section 4.09. Monitoring the Rating Changes in Investments

Consistent with Section 2256.021, Texas Government Code, as amended, the Investment Officer shall monitor all investments that require a minimum rating under subchapter A of Chapter 2256, Texas Government Code, as amended, such that any such investment that does not have the minimum rating shall no longer constitute an authorized investment. Such investments that do not have the required minimum rating shall be liquidated within 30 days of the investment's failure to maintain its required minimum rating.

ARTICLE V  
AUTHORIZED INVESTMENTS

Section 5.01. Authorized Investments.

- A. CWA funds deposited with banks shall be fully collateralized as provided in Section 5.03 and shall be invested solely in the following Authorized Investments unless otherwise set out in CWA Bond Resolutions and Trust Indentures:
- (1) Obligations, including letters of credit, of the United States or its agencies and instrumentalities;
  - (2) direct obligations of the State of Texas or its agencies and instrumentalities;
  - (3) 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;
  - (4) other obligations the principal of and interest on which are unconditionally guaranteed or insured by the full faith and credit of the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the FDIC or by the explicit full faith and credit of the United States;
  - (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state which are rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than "A" or its equivalent;
  - (6) certificates of deposit issued by a depository institution that has its main office or a branch office in the State of Texas that are (a) guaranteed by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor, (b) secured by the obligations that are described in Sections 2256.009(a) of the Government Code, but excluding those mortgage backed securities described by Section 2756.009(b) of the Government Code, or (c) secured in any other manner and amount provided by law for deposits of the Authority;
  - (7) certificates of deposit made in accordance with the following conditions:
    - (a) the funds are invested by the Authority through (1) a broker that has its

main office or a branch office in this state and is selected from a list adopted by the Authority; or (2) the funds are invested by the Authority through a depository institution that has its main office or a branch office in the State of Texas and that is selected by the Authority; (b) the broker or the depository institution selected by the Authority under Subdivision (a) 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 Authority; (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States; and (d) the depository institution selected by the Authority under Subdivision (2), an entity described by Section 2257.041(d), or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Security and Exchange Commission Rule 15c3-3 (17C.F.R. Section 240.15c3-3) as custodian for the Authority with respect to the certificates of deposit issued for the account of the Authority;

- (8) fully collateralized Repurchase Agreements with an issuer that complies with the Investment Law and are rated at least "A/A" long term or "A1/PI" short term by a nationally recognized investment rating firm, due on demand, or have a defined termination date of less than one year, secured by cash or obligations described in (1) above which are free and clear of any third party liens, of a value equal to or greater than the amount of the repurchase agreement pledged with a third party selected or approved by CWA and placed through a primary government securities dealer, as defined by the Federal Reserve; and
- (9) an eligible investment pool as provided in Section 2256.016 of the Investment Act.

B. Notwithstanding anything to the contrary stated herein no funds of the Authority may be invested in the following or in any other type of investment prohibited by the Investment Act or other applicable law:

- (1) investments or obligations issued, secured, or guaranteed by the Student Loan Marketing Association;
- (2) Euro Dollars;
- (3) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal (IO's);
- (4) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest (PO's);
- (5) collateralized mortgage obligations that have a stated final maturity date of greater than 10 years; and

- (6) collateralized mortgage obligations the interest rate of which are determined by an index that adjusts opposite to the changes in the market index (inverse floaters).
- C. Any law passed by the Texas Legislature limiting the scope of legal investments available to CWA shall be considered as included as a part of this Investment Policy.

Section 5.02. Maximum Maturity.

The maximum maturity of any Authorized Investment shall not be greater than five (5) years with the exception of Repurchase Agreements, which shall have a defined termination date of less than one (1) year.

Section 5.03. Policy for Securing Deposits of CWA Funds

- A. CWA recognizes that FDIC (or its successor) insurance is available for CWA funds deposited at any one Texas financial institution (including branch banks) only up to a maximum of \$250,000 (including accrued interest) for each of the following: (i) demand deposits, (ii) time and savings deposits, and (iii) deposits made pursuant to an indenture or pursuant to law in order to pay bondholders or noteholders.<sup>1</sup> It is the policy of CWA that all deposited funds in each of CWA's accounts shall be insured by the FDIC, or its successor, and to the extent not insured, shall be secured by Collateral pledged to the extent of the fair market value of the principal amount deposited plus accrued interest as required by the Collateral Act.
- B. If it is necessary for CWA's depositories to pledge Collateral to secure CWA's deposits, (1) the Collateral pledge agreement must be in writing, (2) the Collateral pledge agreement must be approved by the depository's board of directors or loan committee, (3) the depository's approval of the Collateral pledge agreement must be reflected in the minutes of the meeting of the depository's board or loan committee approving same, and (4) the Collateral pledge agreement must be kept in the official records of the depository. The depository must provide to the Investment Officer or CWA Officials with written proof of the depository's approval of the pledge agreement as required herein in a form acceptable to CWA. A signed or certified copy of the minutes of the meeting of the depository's board or loan committee reflecting the approval of the Collateral pledge agreement or other written documentation of such approval acceptable to the Investment Officer will be accepted. It is the preference of the Board that all requirements of this section be met prior to the deposit of any CWA funds in such financial institution when a pledge of Collateral is required; however, the Board recognizes that compliance with this preference might not be practicable due to time constraints for making a deposit. In such event, the Board directs the Investment Officer and CWA Officials to proceed diligently to have such agreement approved and documented to assure protection of CWA's funds. If the decision is made to forego the protection of a Collateral pledge agreement with

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<sup>1</sup> The \$250,000 limit is temporary and may change from time to time under applicable law.



any depository, CWA's Chief Financial Officer shall be responsible for maintaining the balance of deposit(s) in such depository plus any accrued but unpaid interest at or below FDIC insurance levels.

- C. Collateral pledged by a depository shall be held in safekeeping at an independent third party institution, and CWA's Chief Financial Officer shall obtain safekeeping receipts from the Texas financial institution or the safekeeping institution that reflect that Collateral as allowed by this Investment Policy and in the amount required was pledged to CWA. Principal and accrued interest on deposits in a financial institution shall not exceed the FDIC's, or its successor's, insurance limits or the market value of the Collateral pledged as security for CWA's deposits. It shall be acceptable for the bookkeeper to periodically receive interest on deposits to be deposited to the credit of CWA if needed to keep the amount of the funds under the insurance or Collateral limits. It is the preference of this Board that there be no sharing, splitting or cotenancy of Collateral with other secured parties or entities; however, in the event that a depository cannot accommodate this preference due to the denominations of the securities to be pledged, the Board directs the Investment Officer and CWA Officials to obtain appropriate protections in the pledge agreement with the depository to assure that the Collateral is liquidated and the funds distributed appropriately to all parties with a security interest in such Collateral. CWA's Chief Financial Officer shall monitor the pledged Collateral to assure that it is pledged only to CWA, review the fair market value of the Collateral to ensure that CWA's funds are fully secured, and report periodically to the Investment Officer and the Board regarding the Collateral.
- D. All deposits in demand or time deposits or investments in Repurchase Agreements, including accrued interest, shall be either fully insured by the Federal Deposit Insurance Corporation, to the extent that they are not insured, continuously secured by a valid pledge to CWA of Authorized Investments having an aggregate market value, exclusive of accrued interest at all times equal to the cash balance in the fund to which such securities are pledged.
- E. CWA's Funds deposited in any Texas financial institution, to the extent that they are not insured, may be secured in any manner authorized by law for CWA as such law is currently written or as amended in the future.

#### Section 5.04. Prohibited Actions.

The Chief Financial Officer and any other CWA Officials acting on behalf of CWA are prohibited from:

- A. shorting securities;
- B. selling calls on securities owned by CWA;
- C. entering into reverse repurchase agreements;
- D. trading in options or futures contracts;

- E. purchasing or selling securities from dealers or public depositories other than those approved by the Finance and Audit Committee; or
- F. making any other investment transaction on behalf of CWA that is prohibited by law or that has not been authorized by the Board.

Section 5.05. Cash and Investment Management Procedure.

Cash and investment management will be carried out with respect to the Authority's Funds as provided in the Cash and Investment Management Procedures adopted by the Board and amended from time to time. A copy of the current Cash and Investment Management Policy is attached as Appendix "B."

ARTICLE VI  
INVESTMENT STRATEGIES

Section 6.01. Strategy Applicable to All Funds.

The Authority's general investment strategy for all Funds shall be to invest such monies from such Funds so as to accomplish the following objectives, which are listed in the order of importance:

- A. Understanding of the suitability of the investment to the financial requirements of the District;
- B. Preservation and safety of principal;
- C. Liquidity;
- D. Marketability of the investment if the need arises to liquidate the investment before maturity;
- E. Diversification of the investment portfolio; and
- F. Yield.

Section 6.02. Investment Strategy for the Operating Funds.

Monies in the Operating Funds shall be invested to meet the operating and cash flow requirements of the Authority as determined by the annual operating budget adopted by the Board. Operating Funds shall not be invested for longer than three (3) months.

Section 6.03. Investment Strategy for the Construction and Development Funds and the Equity Funds.

Funds in this account shall be invested to meet the construction needs of the Authority as determined by the Authority, with the aid of the Authority's Executive Director and Chief Financial Officer. Construction Funds shall not be invested for longer than twelve (12) months.

Section 6.04. Investment Strategy for the Reserve and Contingency Fund.

Reserve and Contingency Funds shall be invested in accordance with CWA's contractual requirements, to the extent that such requirements are not inconsistent with the Investment Act, and to mature so as to be available for the potential needs that each fund is designated to support. It shall be the policy of the Authority that Reserve and Contingency Funds shall not be invested for longer than thirty-six (36) months.

Section 6.05. Investment Strategy for the Pension Fund.

The nature of the Pension Fund is to provide a financing and accounting structure to support the activities related to the Authority's Pension Plan. The Pension Plan Trustees as members of the Pension Committee are responsible for the day-to-day administration of the Plan under the supervision of the Board of Directors.

The investments of the Pension Fund monies shall be made in a manner that will allow the Authority to meet the cash flow requirements of eligible distribution requests made by the participants of the Plan.

Monies in the Pension Fund shall not be invested longer than five (5) years.

Section 6.06. Investment Pools.

Monies in the Authority's Funds may be invested in the following investment pools, provided that such pools comply with the Investment Act:

- A. Tex Pool; and
- B. TexSTAR; and
- C. Texas Class

ARTICLE VII  
MISCELLANEOUS

Section 7.01. Annual Review.

The Board shall review this Investment Policy at least annually and adopt a resolution confirming the continuance of the Investment Policy without amendment or adopt an Amended Investment Policy.

Section 7.02. Superseding Clause.

This Policy supersedes any prior policies adopted by the Board regarding investment or securitization of CWA Funds.

Section 7.03. Open Meeting.

The Board officially finds, determines and declares that this Investment Policy was reviewed, carefully considered, and adopted at a regular meeting of the Board, and that a sufficient written notice of the date, hour, place and subject of this meeting was posted at the places and for the time required by law preceding this meeting, as required by the Open Meetings Act, Chapter 551, Texas Government Code, and that this meeting had been open to the

public as required by law at all times during which this Policy was discussed, considered and acted upon. The Board further ratifies, approves and confirms such written notice and the contents and posting thereof.

**EXHIBIT A**

CERTIFICATE OF ACKNOWLEDGEMENT FROM SELLERS OF INVESTMENTS  
RELATED TO THE PUBLIC FUNDS INVESTMENT ACT

To: Coastal Water Authority ("CWA")

From: \_\_\_\_\_ [Office such person holds]  
From: [Name of the person offering or the "qualified representative of the business organization" offering to engage in an investment transaction with CWA]

[Name of the person offering or the "qualified representative of the business organization" offering to engage in an investment transaction with CWA]

of \_\_\_\_\_ (the "Business Organization")  
[name of financial institution, business organization or investment pool]

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

In accordance with the provisions of Chapter 2256 of the Texas Government Code, I hereby certify that:

1. I am an individual offering to enter into an investment transaction with CWA or a "qualified representative" of the Business Organization offering to enter an investment transaction with CWA, as applicable, as such terms are used in the Public Funds Investment Act, Chapter 2256, Texas Government Code, and that I meet all requirements under such act to sign this Certificate.
2. I or the Business Organization, as applicable, anticipate(s) selling to CWA investments that comply with CWA's Amended Investment Policy and the Investment Act (collectively referred to herein as the "Investments") dated \_\_\_\_\_ (the "Investment Policy").
3. I or a registered investment professional that services CWA's account, as applicable, have received and reviewed the Investment Policy, which CWA has represented is the complete Investment Policy of CWA now in fall force and effect. CWA has further acknowledged that I or the Business Organization, as applicable, may rely upon the Investment Policy until CWA provides me or the Business Organization, as applicable, with any amendments to or any newly adopted form of the Investment Policy.
4. I or the Business Organization, as applicable, have/has acknowledged receipt of the Policy.
5. The Business Organization makes no representations or guarantees regarding the prudence, reasonableness or adequacy of the Amended Investment Policy.

6. The Business Organization has attached hereto, for return to CWA, or will provide a prospectus or disclosure document for each of the Investments other than certificates of deposit and direct obligations of the United States.

By: \_\_\_\_\_

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

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

Investments other than certificates of deposit are not FDIC insured, are not deposits or other obligations of me, the Business Organization or any of its affiliates, and are subject to investment risks, including possible loss of the principal amount invested.

**EXHIBIT B**  
**CASH AND INVESTMENT MANAGEMENT POLICY**

**COASTAL WATER AUTHORITY**

**CASH AND INVESTMENT MANAGEMENT PROCEDURES**

**APPENDIX "B" TO**

**COASTAL WATER AUTHORITY**

**INVESTMENT POLICY**



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## **A. CASH MANAGEMENT**

### **1. DEFINITIONS**

For any terms not defined in the Cash and Investment Management Procedures (Appendix "B") to the Coastal Water Authority Investment Policy (the "Investment Policy") herein, such terms shall bear the same meaning as those terms defined in the Amended Investment Policy.

### **2. OBJECTIVES**

Cash is managed with the dual objectives of (1) "safeguarding the assets" and (2) utilizing minimum balances. Cash is safeguarded in the office through the implementation of sound internal control. Bank balances are safeguarded through the use of collateralization techniques. Minimum balances are achieved by constantly monitoring the status of cash.

Strong internal control for cash is achieved by the segregation of cash duties. At Coastal Water Authority (CWA), all incoming cash receipts are first listed by the executive secretary. The receipts are forwarded to the accountant in charge of the applicable funds, and the internal listing is forwarded to an accountant independent of the applicable funds. All checks and cash are deposited timely with CWA obtaining duplicate deposit slips or letters. At regular intervals not exceeding a month, the independent accountant compares the aforementioned initial listing with the duplicate deposit slips of letters.

All disbursements are made consistent with the Delegation of Authority and Signatory Authority discussed below. In addition, all disbursements are made within the guidelines described in the Investment Policy. Supervisory field personnel review field purchases.

Finally, petty cash funds and the supply of unused checks are maintained under "lock and key" for security purposes. Bank account reconciliations are prepared monthly by an accountant not responsible for maintaining the day-to-day receipts and disbursements of that account. The Chief Financial Officer reviews all bank account reconciliations. Both the preparer and Chief Financial Officer initial each account reconciliation.

The cash balances maintained at the bank are further supported by collateralization techniques for balances in excess of coverage by the Federal Deposit Insurance Corporation. At Chase Bank, bank management pledges certain governmental securities for the benefit of CWA and delivers the pledged securities to Federal Reserve Bank of New York for the benefit of CWA. At the time of large receipts and the maturity of large investments, CWA requests and receives appropriate increases in the collateralization level. Such excess collateral is released only by the written authority of a CWA Officer or Director.

CWA management monitors cash with the objective of maintaining minimum balances. However, CWA maintains a compensating balance total in the seven commercial accounts at Chase Bank in order to avoid service charges. Service charges are based upon the number of accounts, the number of transactions and the account balances. For service charge purposes, all seven commercial accounts are viewed collectively. This approach is economically beneficial to CWA since the service charge effective rate often exceeds the effective rate of investment income.

### **3. DESCRIPTION OF AUTHORIZED ACCOUNTS**

CWA currently maintains thirty-five bank accounts. Most of these accounts were originally authorized in the appropriate resolution addressing the issuance of various CWA bonds or financing transactions. Three accounts were authorized as a result of the Lake Houston Facilities Contract. The Pension Plan account was authorized by the approval of that plan and is under the control of the Pension Trustees.

Fifteen of the thirty-five accounts are considered commercial in nature and are located at either Chase Bank or Bank of New York. Checks may be written by CWA on certain commercial accounts, with CWA maintaining control over unused checks. The other commercial accounts would utilize wire payments or transfers for expenditure of funds.

Most routine operating transactions are recorded in the commercial accounts. There is one account established for the Red Bluff Water Treatment Plant operations, three accounts for the Lake Houston Facilities operation, six commercial accounts for the Trinity River Project, four commercial accounts for the Bayport Water System and one account for the Luce Bayou Project operations.

There are five operating funds; they are the Trinity River Project Fund, Lake Houston Facilities Operating Fund, the Luce Bayou Project Operating Fund, the Bayport Water System Operating Fund and the Red Bluff Water Treatment Plant Project Operating Fund. Routine operating expenses are paid on a two-week cycle. Costs exclusively for one fund are recorded by that fund. Costs associated with multiple funds are usually paid by the Trinity River Project Fund and are subsequently billed inter-company between the funds.

The Lake Houston Construction Fund, the Conveyance System Development Fund, the Bayport Water System Capital Improvement Fund, the Special Projects Equity Fund, the Luce Bayou Construction Funds Series 2009, 2010, 2013, 2015, 2016 and 2017 and the Luce Bayou Escrow Accounts Series 2009, 2010, 2013, 2015, 2016 and 2017 are maintained to provide funding for construction and special projects. All disbursements from these funds are approved by the Board of Directors.

CWA maintains a Special Contingency Fund. This fund may be utilized in a Trinity River operating emergency. In addition, CWA maintains a Contingency Fund for the Lake Houston Facilities specifically for operating emergencies of those facilities.

CWA maintains a Special Project Equity Fund. This fund shall be used by CWA in any manner that is in furtherance of the governmental purposes of CWA.

The Payroll Account is a \$350,000 imprest account used to process all payroll disbursements. Payroll costs are funded and billed inter-company between the operating funds where applicable. CWA utilizes an outside payroll service.

Finally, CWA maintains one \$2,000 imprest petty cash bank account, one \$500 petty cash box in the field office and one \$300 petty cash box in the downtown office. These funds are used for the convenience of making small operating disbursements without waiting for the routine two-week disbursement cycle. In addition, payment for soft drinks by office personnel is collected in a locked cash box and deposited in the Project Fund.

Interest income is transferred from the investments of the Conveyance System Development Fund to the Project Fund. The Bayport Water System Capital Improvement Fund, the Lake Houston Construction Fund and Special Project Equity Fund retain their own investment earnings. Interest income is transferred from the Special Contingency Fund to the Special Project Equity Fund.

The Lake Houston Facilities Contingency Fund transfers its investment earnings to the Lake Houston Facilities Operating Fund. The Lake Houston Facilities Operating Fund retains its own investment earnings.

The fourteen funds related to the Luce Bayou Project retain their respective investment earnings.

There are nineteen accounts considered "trustee" in nature and eleven located at Bank of New York-Trust and eight at Zions Bancorporation, N.A. CWA checks are not written on any of the "trustee" accounts. However, the "trustee" has authority to process "drafts or wire transfers" when requested by CWA.

One of the "trustee" accounts at Bank of New York-Trust is styled Special Projects Emergency Reserve Fund. The ownership of this account is based upon the ratio of initial contributions, which was 73% Bayport Project and 27% Water Treatment Plant Project. This fund is an emergency fund and can be used for either Bayport or Water Treatment Plant operating emergencies.

The Second "Trustee" account at Bank of New York - Trust is the Luce Bayou Construction Fund – Series 2009. This fund resulted from a contract with the City of Houston supporting a loan from the Texas Water Development Board (TWDB) in 2009 for the preliminary engineering, permitting and design of the Luce Bayou Interbasin Transfer Project.

The Third “Trustee” account at Bank of New York – Trust is the Luce Bayou Escrow Account – Series 2009. These are funds received from the TWDB held in escrow until authorized to be utilized for the final design phase of the Luce Bayou Interbasin Transfer Project.

Two “Trustee” accounts were created in 2010 as the result of the Authority finalizing a second loan with the TWDB for the preliminary and design phase of the Luce Bayou Interbasin Transfer Project. The fourth “trustee” account is titled “Luce Bayou Construction Fund – Series 2010” and the fifth “trustee” account is titled “Luce Bayou Escrow Account – Series 2010”. Both of these accounts were created as a result of the Bond closing on July 15, 2010.

Two “Trustee” accounts were added in connection with the Coastal Water Authority Contract Revenue Refunding Bonds, Series 2010 (City of Houston Projects). The accounts are entitled the “Construction Revenue Bonds 2010 Reserve Fund” and the “Debt Service Fund – Series 2010 Refunding Bonds.”

Two “Trustee” accounts were added in 2013 in connection with the finalization of a third financing transaction with the TWDB. These two new funds are titled “Luce Bayou TWDB LN 1000087-2013 Escrow Fund” and the Luce Bayou Construction Fund-2013”.

Two new “Trustee” accounts were added in 2014 in connection with the finalization of the Coastal Water Authority Contract Revenue Refunding Bonds, Series 2014 (City of Houston Projects). The accounts are entitled the “Construction Revenue Refunding Bonds 2014 Reserve Fund” and the “Debt Service Fund – Series 2014 Revenue Refunding Bonds”.

Two new “Trustee” accounts were added in 2015 in connection with the finalization of the Coastal Water Authority’s fourth financing transaction with the TWDB. These two new funds are titled “Luce Bayou TWDB Escrow Fund-2015” and “Luce Bayou TWDB Construction Fund-2015”.

Two new “Trustee” accounts were added in 2016 in connection with the finalization of the Coastal Water Authority’s fifth financing transaction with the TWDB. These two new funds are titled “Luce Bayou TWDB Escrow Fund-2016” and “Luce Bayou TWDB Construction Fund-2016”.

Four new “Trustee” accounts were added in November 2017 in connection with the “final” installment of borrowing from the TWDB. These two separate financings generated an Escrow Fund and a Construction Fund each. The new funds are:

- Luce Bayou TWDB Contract Revenue Bonds – Escrow Fund – Series 2017
- Luce Bayou TWDB Contract Revenue Bonds – Construction Fund – Series 2017
- Luce Bayou TWDB Board Participation – Escrow Fund – 2017
- Luce Bayou TWDB Board Participation – Construction Fund – 2017

The twentieth Trust account is located at Frost National Bank and is solely for Pension Plan activity. This account is administered by the Pension Committee and Pension Trustees, except that the "custodian" bank prepares and issues the applicable bank drafts as authorized by the Pension Trustees.

The funds financed either prior to or subsequent to September 1, 1986, must be segregated for arbitrage calculation purposes. Therefore, when applicable, separate funds are maintained for the construction, contingency, reserve and bond functions.

#### **4. CASH STATUS REPORT**

Management has designed a standard internal report styled "Cash Status Report". The responsibility for preparing this report has been assigned among the CWA staff.

As cash management has been simplified and as the investment portfolio has become organized and streamlined, the daily urgency for this report has diminished. However, the report is still utilized on an "as needed" basis and functions as the beginning point for the management of investments.

The latest version of the "Cash Status Report" is included as Attachment 1.

#### **5. DELEGATION OF AUTHORITY**

All seven Directors and the two Officers are authorized signatories on the fifteen commercial accounts and the twenty "trustee" accounts. Unless noted below, each disbursement requires any two of the nine authorized signatures. One of the required signatures shall be either the Executive Director or the Chief Financial Officer.

In the event that either the Executive Director position or the Chief Financial Officer position becomes vacant, the CWA Operations Manager is hereby authorized to execute any documents contemplated in this section in the place of the vacant Executive Director position or Chief Financial Officer position until such position is filled. At the time that such vacancy occurs as described above, the Operations Manager shall be added as an authorized signatory on CWA commercial and trustee accounts.

CWA's routine operations utilize a two-week cycle for addressing routine payments from the four operating accounts. If a particular operating disbursement is for a non-utility type expenditure in excess of \$15,000, then one of the two signatures must be that of a Director. The Board has requested that the non-signing officer initial the check to note review and approval.

Construction payments from the, Luce Bayou Construction Fund – Series 2009, Series 2010, Series 2013, Series 2015, Series 2016, Series 2017 and the Conveyance System Development Fund are prepared like non-utility checks in excess of \$15,000, except that a third signature is required. This third signature is that of an authorized representative of the Public Works and Engineering Department of the City of Houston.

Funds on deposit in the Special Contingency Fund, the Bayport Water System Capital Improvement Fund, the Special Project Equity Fund and the Lake Houston Facilities Contingency Fund require the signature of two CWA Officials and/or Officers. One of the required signatures shall be either the Executive Director or the Chief Financial Officer.

Petty cash checks require only one of the nine authorized signatures. Payroll checks are prepared by an outside payroll service. Both Officers review each payroll check and initial each two-week time sheet every payroll period.

## **6. SIGNATORY AUTHORITY**

When there is a change in the composition of the Directors or Officers, CWA documents this change in writing and executes the appropriate signature letter applicable to all commercial and trustee accounts. Such correspondence is delivered timely to Chase Bank, Bank of New York-Trust, Frost National Bank and Zions Bancorporation, N.A.

## **B. INVESTMENT MANAGEMENT**

### **1. OBJECTIVES**

CWA hereby adopts the following Investment Strategy as a separate Investment Strategy for each one of its Funds, which Funds are included as Attachment II and incorporated herein for all purposes (“Investment Strategies”). Funds in each CWA Fund shall be invested to accomplish the following objectives, which are listed in order of importance: (1) understanding the suitability of the investment to the financial requirements of CWA; (2) preservation and safety of principal; (3) liquidity as needed to meet CWA’s operating requirements taking into consideration the operating and expense types and cycles described below; (4) assurance of the marketability of the investment if the need arises to liquidate the investment before maturity; (5) diversification of the CWA’s investment portfolio; and (6) maximum yield without compromising the first five objectives.

Investments are safeguarded through the implementation of sound internal control. All investment purchases, investment maturities, interest receipts and interest transfers are authorized by the initiation of dually signed, facsimile transmitted authorization letters. All such activity is subsequently supported by original dually signed authorization letters. CWA maintains investment authorization letter files for these documents.

As a further control mechanism, both the CWA Bond resolutions and the Investment Policy specifically define which negotiable instruments are permitted for CWA investment. When making investments, management can utilize only certain brokers and banks. A series of safekeeping accounts has been established for the control of purchased securities. Safekeeping is initiated by dually signed, facsimile transmitted, authorization letters. Such activity is subsequently supported by original dually signed authorization letters. CWA maintains investment authorization letter files for these documents. In certain situations, investments require pledged collateral. The authorized negotiable instruments, authorized brokers and banks, safekeeping techniques and pledged collateral techniques are all further discussed below.

The culmination of the internal control process is evident in the financial reporting of CWA. The staff reconciles all investment balances to the general ledgers on a monthly basis. Included in the monthly financial statement package is the detail of the month-end investment portfolio. The portfolio total cross-references to the investment total per the month-end asset schedule.

For the information of the Board, the current Chief Financial Officer has maintained the practice of not initiating an investment purchase unless there is at least one other staff member present.

Investments are managed such that funds are matured to coincide with disbursement requirements. CWA expenditures can be grouped into four types, which are (1) the two-week operating expense cycle, (2) the monthly construction activity, (3) the semi-annual contingency and reserve review cycle and (4) the quarterly disbursements for pension purposes. Investments applicable to the operating cycle and the contingency and reserve review cycle are tailored to the characteristics of those cycles. Construction funds are invested on a monthly basis, unless there are obviously funds in excess of the requirements of the following month. In these situations, the excess construction funds are invested with maturities up to twelve months. Pension funds are invested to ensure their maturity will provide adequate cash flow near the middle of January, April, July and October, which are the scheduled months of pension disbursement. Management attempts to balance the pension funds to accommodate disbursement requirements.

With the "safeguarding of assets" properly established, and after the liquidity requirements have been assessed, management attempts to attain the highest possible rate of return on CWA investments. This objective is pursued while adhering to the guidelines outlined in the Investment Policy. Management attempts to utilize a minimum three-party bidding procedure in normal situations when the funds are in excess of four million dollars and the maturity is at least one month in length. During difficult market environments, management uses a "best efforts" attempt to place investments contingent upon the active participation of brokers. For non-bidding situations, management will utilize brokers who have been both active and successful in the bidding process. In



addition, the "Trust" accounts have a "sweep" agreement whereby cash balances are invested overnight at money market yield.

Additional practices of management to increase yields include (1) consolidating monies within a fund, (2) investing groups of monies from several funds at the same time, (3) investing for long time periods when possible, (4) maturing funds at the same date when possible and (5) avoiding the early liquidation of investments.

## **2. DESCRIPTION OF AUTHORIZED INVESTMENTS**

The description and definition of an authorized investment is precisely and technically defined in the definition section of the various CWA Bond Resolutions as well as in the Investment Policy. As a practical matter, that narrative can be summarized, but is not limited to, the following list, to the extent they comply with the Investment Law and the Investment Policy (as defined in the Investment Policy):

- Central Banks for Cooperatives
- Federal Farm Credit
- Federal Farmer MAC
- Federal Home Loan
- Federal Home Loan Mortgage Corporation
- Federal Intermediate Credit Bank
- Federal Land Bank
- Federal National Mortgage Association
- Government National Mortgage Association
- Qualified Commercial Paper
- Tex Pool Investment Pool
- Tex Star Investment Pool
- U.S. Treasury Bills
- U.S. Treasury Bonds
- U.S. Treasury Notes
- Repurchase Agreements
- Certificates of Deposit

The investments set forth above are authorized for all Funds of CWA, which Funds are included as Attachment II. One hundred percent (100%) of the funds in any one Fund of CWA may be invested in any authorized investment at any one time. As set forth above, the maximum allowable stated maturity of any individual investment shall not exceed five (5) years.

The following are not authorized investments under the Investment Laws; and therefore, are not authorized investments for CWA:

- (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal;
- (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest;
- (3) collateralized mortgage obligations that have a stated final maturity date of greater than 10 years; and
- (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

In addition, the following are expressly not permitted as authorized investments (1) investments or obligations issued, secured or guaranteed by the Federal Home Loan Mortgage Corporation; (2) investments or obligations issued, secured, or guaranteed by the Student Loan Marketing Association; and (3) Euro Dollars.

The use of Repurchase Agreements is not currently a viable alternative since there is not an authorized bank that will send the applicable collateral for safekeeping to another bank.

Both Repurchase Agreements and Certificates of Deposit are further discussed under pledged collateral.

### **3. AUTHORIZED BROKERS AND BANKS**

The CWA Board of Directors approves a list of brokers and banks for the purchase and liquidation of investments. Management has initiated investments utilizing only the approved list. See Attachment III. The Investment Officer(s) shall present CWA's Investment Policy and obtain a statement from qualified representatives as set forth in the Investment Policy.

### **4. PURCHASE SETTLEMENT TYPES**

For background purposes, there are three timing techniques used when settling the purchase of government investments. These three techniques are termed (1) "same day" or "cash" settlement, (2) "regular" settlement and (3) "skip day" settlement.

"Same day" settlement means that the transaction is agreed upon, funds are delivered and the security is delivered all on the same day. This technique is the most difficult to perform since it requires correct account balances, quick decisions, fast moving paperwork and excellent communications. However, the advantage of this technique is that funds immediately become income earning.

“Regular” settlement and “skip day” settlement are both delay techniques. In “regular” settlement, the transaction is agreed on day one. However, the funds are not delivered and the security is not delivered until day two. “Skip day” settlement represents an even further delay since funds are not delivered and the security is not delivered until day three.

In addition to the three timing techniques, CWA is aware of three security delivery practices associated with the settlement process. These three delivery practices are described as (1) “delivery versus pay,” (2) “free delivery” and (3) “broker safekeeping.” The Investment Law and the Investment Policy require all investment transactions to be settled in a “delivery versus payment” basis. In “delivery versus payment” the broker must deliver the security by wire transfer to the Federal Reserve Bank before the bank wire transfers the purchase proceeds to the broker. In “free delivery” the bank wire transfers the purchase proceeds before the broker wire transfers the security. In “broker safekeeping”, the broker retains the security. CWA MUST UTILIZE “DELIVERY VERSUS PAYMENT”.

MOST BROKERS AND BANKS REQUIRE RECEIPT OF FACSIMILE TRANSMITTED WRITTEN AUTHORIZATION BEFORE SETTLEMENT.

## **5. SAFEKEEPING**

When an entity such as CWA makes an authorized investment, CWA does not receive a classical textbook, finely designed document. Instead, CWA receives a confirmation noting that a certain investment has been purchased and deposited in a particular account at the Federal Reserve Bank.

Prior to the investment, certain bond resolutions and bank depository agreements have authorized a “trustee” function on the part of the bank. Therefore, the investment is held at the Federal Reserve Bank in the account of the “trustee” bank for the benefit of CWA

Currently, CWA utilizes two “safekeeping” locations. First, all investments made from the commercial and trust bank accounts are delivered by wire transfer to the Federal Reserve Bank in New York in the name of the applicable Bank for further credit to CWA.

Next, all collateral pledged by Chase Bank to cover cash balances is delivered by wire transfer to the Federal Reserve Bank in the name of Chase Bank for further credit to CWA.

Prior to the investment, certain bond resolutions and bank depository agreements have authorized a “trustee” function on the part of the bank. Therefore, the investment is held at the Federal Reserve Bank in the account of the “trustee” bank for the benefit of CWA

## **6. PLEDGED COLLATERAL**

There are two CWA investment types that necessitate the utilization of the pledging of collateral.

First, CWA can initiate a Repurchase Agreement. Very simply, this means that CWA is purchasing for a short period of time a government security already owned by a broker or bank. CWA purchases the instrument for less than its stated yield, and the broker/bank agrees to repurchase the security at the end of the specified time period. All Repurchase Agreements must meet the requirements of the Investment Law and the Investment Policy.

During the time of CWA ownership of repurchased securities, those securities should be delivered to the applicable CWA safekeeping account. At this time, none of the CWA approved brokers or banks will deliver repurchased securities to safekeeping as pledged collateral.

Finally, CWA can invest in Certificates of Deposit in accordance with the Investment Law and the Investment Policy with approved banks to the extent such Certificates of Deposit are insured by the Federal Deposit Insurance Company or are guaranteed or secured by authorized investments. Since coverage from the Federal Deposit Insurance Corporation no longer applies to branch banking, amounts in excess of this coverage require the pledging of collateral. At this time, none of the approved banks will deliver authorized securities to safekeeping as pledged collateral.

## **7. INVESTMENT BIDDING PROCEDURE**

The investment process begins with the preparation of a Cash Status Report. Depending upon the situation, some of these reports are prepared on a historical basis while others are prepared on a projected basis. Investment income is enhanced by projecting cash balances since the funds can be invested timely.

The Chief Financial Officer reviews the status report to determine the investment objectives. The appropriate time cycles and the dollar amounts are identified. Also, the settlement timing type is established.

With the amounts and objectives identified, the collateral status is evaluated. If additional collateral is required at Chase Bank, this request is made by telephone call to the responsible official at that bank. This request is documented by a dual signature letter from CWA.

If the decision is made to competitively bid the available funds, at least three brokers are selected from the approved list. Telephone calls and/or email notifications are made to these brokers the day before the desired competitive bidding for the purpose of establishing the parameters of that specific bidding. Communications in advance of this time are counterproductive.

CWA has developed two methods of applying the bidding process for those times when bidding is advantageous. For purposes of this report, these two methods will be described as Method A and Method B.

When using Method A, CWA selects the specific authorized instrument for investment which automatically selects the specific maturity date. Also, CWA selects the specific type of settlement timing. The amount of funds available to spend is quoted to the brokers, and monies are grouped to create broker interest. As a preventive for commingling funds, CWA will also quote the funds available on an account-by-account basis. Finally, the time for receiving bid offerings is established.

When using Method B, CWA will select an inventory of qualifying instruments for investment and the timing of settlement. Next, CWA will provide a limited range of dates for maturity. Finally, the amounts available for investment and the time for receiving bid offerings is communicated as previously described in Method A.

CWA has used both methods effectively. Method A is effective for extremely specific situations and timing. Method B has the advantage of allowing the brokers to access their own secondary markets. Each brokerage entity has access to different secondary markets. CWA has concluded that Method B will usually result in higher yields.

Regardless of which method is used, the information communications to brokers are made only in the presence of one or more CWA staff members. This practice aids in preventing misunderstandings and miscommunication.

CWA has determined that bid offerings are best received by telephone calls followed by email, or a stand alone email. Based upon experience, CWA generally uses a time window of 8:00 A.M. – 8:30 A.M. for this process.

The Brokers provide CWA with the name of the issue, the maturity date, the stated investment rate, and the investment yield. If all other conditions are met, the winner will be selected on the basis of yield and maturity date. The apparent winner will be called as soon as possible and will be requested to purchase the security. Since the financial markets are fast moving, it is not unusual for a broker to be unable to purchase and deliver the quoted security.

When the apparent winner cannot purchase and deliver, CWA will proceed to the next highest offering until the funds are invested. Throughout the time period between the receipt of the offerings and the actual purchase of the security, there is a premium on speed.

Occasionally there is an exact tie between brokers for the most advantageous yield and maturity date. When a tie occurs, CWA either divides the investment evenly between the winners or places the bidders in a rotation on the next tie situation.

Throughout this bidding process, the Chief Financial Officer does not receive bids, request the purchase of securities, or communicate with brokers unless such communications are made in the presence of one or more CWA staff members. This practice enhances communications and prevents misunderstandings.

After the broker confirms the purchase of the targeted security, there is an exchange of other vital information. By way of review, the negotiable instrument, the settlement date, the maturity date, the stated investment rate and the investment yield have already been established.

CWA receives from the broker the par or stated amount for each account, the purchase cost for each account, issue date unit cost, and the CUSIP number of the purchased investment. A CUSIP number is a coded alpha-numeric sequence which specifically identifies an investment instrument and its maturity date. A transaction cannot be consummated without this identifying number.

CWA provides to the broker the applicable bank name, the account descriptions, the account numbers and the "address" of the safekeeping location. The "address" is very critical since it is an alpha-numeric code specifically identifying the safekeeping location to the Federal Reserve Bank.

With the exchange of information completed, a CWA staff member begins the preparation of the authorization letters. After the dual signatures are obtained, these letters are facsimile transmitted to the broker and safekeeping locations. These letters contain the transaction type, the bank name, the account numbers, the issue date, the unit cost, the effective date, the security description, the maturity date, the stated interest rate, the investment yield, the cost of purchase, the safekeeping "address," and the CUSIP number.

After the investment and safekeeping letters have been prepared and proofread, the letters are dually signed by the Executive Director and the Chief Financial Officer. If one of the officers is not available, a previous arrangement should have already been made to obtain the signature of a Director.

The original letters with copies are sent to the banks and brokers as applicable. Copies of the above described letters are placed in the applicable investment authorization letter files. The banks and brokers acknowledge the consummation of the transaction by telephone, facsimile or email. After the transaction, the banks will provide CWA with confirmation of the transaction. These confirmations are placed in the investment register files.

From the information available in the investment authorization letter files, the investment transaction is recorded timely in the general ledger system by the appropriate accountant.

If additional collateral was in place at Chase Bank/Federal Reserve Bank during the investment process, the responsible bank official will prepare a release of

collateral for the signature of a CWA Officer or Director. However, CWA will not release collateral below the three million dollar base level.

The Chief Financial Officer always informs the losing bidders and reports the investment issue and investment yield from the winning bid. This follow-up call has produced a competitive bidding environment for CWA and enhances CWA's credibility.

The Chief Financial Officer maintains informal notes on the results of each competitive bidding. Such informal notes are maintained for a two year period.

## **8. INVESTMENT NON-BIDDING PROCEDURE**

When the funds are available and the time periods desired are not attractive for the competitive bidding procedure, CWA is forced to utilize a non-bidding technique. For non-bidding situations, management will utilize brokers who have been both active and successful in the bidding process.

There are two main differences between the bidding and non-bidding procedures. First, in the non-bidding technique, CWA will contact only one broker. Second, it is not necessary to establish an exact time to receive offers. Except for these two items, the standards described in the bidding procedure are duplicated for non-bidding situations. Please note that in all situations, CWA personnel are the decision makers.

The investment yields from the non-bidding investments can be more or less than the yield of competitive bidding. This is direct result of the difference in dollar amounts and the difference in time periods. Generally, higher yields are available for larger dollar amounts and time frames approaching several months dependent upon the investment market.

Current management reads and studies the market conditions. Financial judgment is a factor in producing a well managed portfolio. CWA's investment yield has benefited from timely financial judgment.

## **9. SIGNATORY AUTHORITY**

Pursuant to a depository agreement between CWA and Chase Bank/Bank of New York, a comprehensive signature letter to Chase Bank, Bank of New York, Zions Bancorporation, N.A. and Frost National Bank authorizes signatories on checks and investment authorization letters for CWA's funds in the accounts subject to the applicable agreements.

In September, 2011, the CWA Board of Directors adopted a resolution designating signatory authority for CWA trust investment purposes. In addition, an applicable signature letter was executed. A copy of the Board approved resolution is included as Attachment IV.

## COASTAL WATER AUTHORITY CASH STATUS REPORT

ACCOUNT NAME	BANK ACCOUNT JP MORGAN CHASE	SAFEKEEPING ACCOUNT BANK OF NY	TEXSTAR INVESTMENT POOL	ZIONS BANCORP.	BALANCES AT CLOSE OF BUSINESS / /	\$ AMOUNT TO INVEST
<b>COMMERCIAL ACCOUNTS</b>						
PROJECT FUND PAYROLL	0010-004-8009					
PETTY CASH FUND	0010-004-8058					
PROJECT FUND	0010-004-8355		0909-000			
CONVEYANCE SYSTEM DEVELOPMENT FUND		424923				
CONSTRUCTION FUND-BAYPORT CAP. IMPROV.		424920				
SPECIAL CONTINGENCY FUND		424926				
SPECIAL PROJECT EQUITY FUND		424928				
BAYPORT WATER SYSTEM OPERATING FUND	0010-004-8454		1111-000			
WATER TREATMENT PLANT OPERATING FUND	0010-004-8504		1113-000			
LAKE HOUSTON OPERATING FUND	0010-004-8405		1112-000			
LAKE HOUSTON CONTINGENCY FUND		424924				
BAYPORT WATER SYSTEM OPERATING RES. FUND		424919				
BAYPORT WATER SYSTEM REVENUE FUND	0010-337-5862					
LUCE BAYOU PROJECT OPERATING FUND	0787-587-7851					
LAKE HOUSTON CONSTRUCTION FUND		441764				
<b>TRUST ACCOUNTS</b>						
SPECIAL PROJECTS EMERGENCY RESERVE FUND		424914				
LUCE BAYOU CONSTRUCTION FUND - SERIES 2009		439471				
LUCE BAYOU ESCROW ACCOUNT - SERIES 2009		439395				
LUCE BAYOU CONSTRUCTION FUND - SERIES 2010		152630				
LUCE BAYOU ESCROW ACCOUNT - SERIES 2010		152450				
CONTRACT REVENUE REFUNDING BONDS CASH 2010 RESERVE FUND		152775				
DEBT SERVICE FUND-SERIES 2010 RFDG BONDS		155608				
LUCE BAYOU TWDB LN 1000087 ESCROW FUND 2013		327583				
LUCE BAYOU CONSTRUCTION FUND 2013		327584				



# COASTAL WATER AUTHORITY CASH STATUS REPORT

ACCOUNT NAME	BANK ACCOUNT JP MORGAN CHASE	SAFEKEEPING ACCOUNT BANK OF NY	TEXSTAR INVESTMENT POOL	ZIONS BANCORP.	BALANCES AT CLOSE OF BUSINESS / /	\$ AMOUNT TO INVEST
<b>TRUST ACCOUNTS – Cont.</b>						
DEBT SERVICE FUND – SERIES 2014 REVENUE REFUNDING BONDS					_____	_____
CONTRACT REVENUE REFUNDING BONDS – 2014 RESERVE FUND					_____	_____
LUCE BAYOU TWDB ESCROW FUND - 2015				1406356	_____	_____
LUCE BAYOU CONSTRUCTION FUND - 2015				1406356A	_____	_____
LUCE BAYOU TWDB ESCROW FUND - 2016				1406357	_____	_____
LUCE BAYOU CONSTRUCTION FUND - 2016				1406357A	_____	_____
LUCE BAYOU TWDB REVENUE BONDS ESCROW FUND – SERIES 2017				1406359	_____	_____
LUCE BAYOU TWDB REVENUE BONDS CONSTRUCTION FUND – SERIES 2017				1406359A	_____	_____
LUCE BAYOU TWDB – BOARD PARTICIPATION ESCROW FUND - 2017				1406360	_____	_____
LUCE BAYOU TWDB – BOARD PARTICIPATION CONSTRUCTION FUND - 2017				1406360A	_____	_____
<b>PENSION PLAN</b>						
CWA PENSION PLAN					_____	_____
		<b>FROST NATIONAL BANK</b>				
		HA746				

## **CWA INVESTMENT ACCOUNTS**

### **CWA COMMERCIAL ACCOUNTS**

1. Special Contingency Fund
2. Special Project Equity Fund
3. Bayport Capital Improvement Fund
4. Conveyance System Development Fund
5. Project fund
6. Bayport Water System Operating Fund
7. Water Treatment Plant Operating Fund
8. Lake Houston Operating Fund
9. Lake Houston Contingency Fund
10. Project fund – Payroll
11. Bayport Water System Revenue Fund
12. Bayport Water System Operating Reserve Fund
13. Petty Cash Fund
14. Luce Bayou Project – Operating Fund
15. Lake Houston Construction Fund

### **CWA TRUST ACCOUNTS**

1. Special Projects Emergency Reserve Fund
2. Luce Bayou Construction Fund – Series 2009
3. Luce Bayou Escrow Account – Series 2009
4. Luce Bayou Construction Fund – Series 2010
5. Luce Bayou Escrow Account – Series 2010
6. Contract Revenue Refunding Bonds – Series 2010 Reserve Fund
7. Debt Service Fund – Series 2010 Revenue Refunding Bonds
8. Luce Bayou TWDB LN 1000087-2013 Escrow Fund
9. Luce Bayou Construction Fund – 2013
10. Debt Service Fund – Series 2014 Revenue Refunding Bonds
11. Contract Revenue Refunding Bonds – 2014 Reserve Fund
12. Luce Bayou TWDB Escrow Fund – 2015
13. Luce Bayou TWDB Construction Fund – 2015
14. Luce Bayou TWDB Escrow Fund – 2016
15. Luce Bayou TWDB Construction Fund – 2016
16. Luce Bayou TWDB Contract Revenue Bonds – Escrow Fund – Series 2017
17. Luce Bayou TWDB Contract Revenue Bonds – Construction Fund – Series 2017
18. Luce Bayou TWDB Board Participation Escrow Fund – 2017
19. Luce Bayou TWDB Board Participation Construction Fund - 2017

### **PENSION TRUST ACCOUNT**

1. CWA Pension Plan

**AUTHORIZED BROKERS AND BANKERS**

Zions Bancorporation, N.A.  
Bank of New York – Mellon  
Cantor Fitzgerald  
First Southwest Asset Management, Inc.  
Frost National Bank – Trust  
FTN Financial Capital Markets  
J.P. Morgan Chase Bank  
J.P. Morgan Securities, Inc.  
Multi-Bank Securities, Inc. (MBS)  
Samuel A. Ramirez & Co., Inc.  
Stifel, Nicolaus and Co.

[Attach 2011 Resolution]

**CERTIFICATE FOR RESOLUTION**

THE STATE OF TEXAS     §  
  §  
COUNTY OF HARRIS                     §

I, the undersigned Officer of the Board of Directors of the Coastal Water Authority, hereby certify as follows:

1. The Board of Directors of the Coastal Water Authority (the "Authority") convened in regular session on the 14<sup>th</sup> day of September 2011, at the regular meeting place thereof, inside the boundaries of the Authority, and the roll was called of the duly constituted officers and members of the board to wit:

- |                       |                     |
|-----------------------|---------------------|
| D. Wayne Klotz, P.E.  | President           |
| Tony L. Council, P.E. | 1st Vice-President  |
| Alan D. Conner        | 2nd Vice President  |
| Zebulun Nash          | Secretary-Treasurer |
| Giti Zarinkelk, P.E.  | Director            |
| John Odis Cobb, P.E.  | Director            |
| Douglas E. Walker     | Director            |


and all of said persons were present except for the following: Klotz, Cobb \_\_\_\_\_ thus constituting a quorum. Whereupon, among other business, the following was transacted at said meeting: a written

**RESOLUTION DESIGNATING AUTHORIZED SIGNATURES FOR  
COASTAL WATER AUTHORITY INVESTMENT TRANSACTIONS**

was introduced for the consideration of the board. It was then duly moved and seconded that the resolution be adopted, and, after due discussion, the motion, carrying with it the adoption of the resolution, prevailed and carried unanimously.

2. That a true, full and correct copy of the aforesaid resolution adopted at the meeting described in the above and foregoing paragraph is attached to and follows this certificate; that the resolution has been duly recorded in the board's minutes of the meeting; that the persons named in the above and foregoing paragraph are the duly chosen, qualified and acting officers and members of the board as indicated therein; that each of the officers and members of the board was duly and sufficiently notified officially and personally, in advance, of the time, place and purpose of the aforesaid meeting, and that the resolution would be introduced and considered for adoption at the meeting, and each of the officers and members consented, in advance, to the holding of the meeting for such purpose; that the meeting was open to the public as required by law; and that public notice of the time, place and subject of the meeting was given as required by Chapter 551, Texas Government Code, and Section 49.063, Texas Water Code.

SIGNED AND SEALED on this 14<sup>th</sup> day of September 2011.

  
Secretary, Board of Directors

(SEAL)

RESOLUTION DESIGNATING AUTHORIZED SIGNATURES FOR  
COASTAL WATER AUTHORITY INVESTMENT TRANSACTIONS

WHEREAS, Coastal Water Authority (the "Authority") is a governmental agency and a body politic and corporate created as a conservation and reclamation district pursuant to the Constitution and laws of the State of Texas, including Article XVI, Section 59, Texas Constitution, and Chapter 601, Acts of the 60th Texas Legislature 1967 (Regular Session), as amended (the "Act"); and

WHEREAS, the Board of Directors of the Authority wishes to reaffirm its prior resolution designating authorized signatures for Authority transactions; Now, Therefore,

BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE COASTAL WATER AUTHORITY THAT:

Section 1. All Authority investment transactions, including purchases, maturities, sale and income received, shall be confirmed in writing over the signature of two Authority officials and shall conform to the custody account agreement between the Authority and the designated institution. One of the required signatures shall be either the Executive Director or the Chief Financial Officer of the Authority.

Section 2: The findings and determinations set forth in the recitals to this Resolution are hereby found and determined to be true and correct and are hereby incorporated in this Resolution.

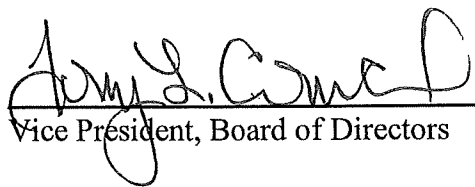
Section 3: The terms defined in the recitals to this Resolution are hereby adopted and incorporated in this Resolution.

Section 4: This Resolution shall be effective immediately, and supersede any previous resolutions concerning the topics covered herein.


Section 5: It is hereby officially found and determined that the meeting at which this Resolution was adopted was open to the public and that public notice of the time, place and purpose of said meeting was given, all as required by the Texas Open Meetings Act.

[Execution Page Follows]

PASSED AND APPROVED this 14<sup>th</sup> day of September 2011.

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

ATTEST:

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