

**CORPUS CHRISTI REGIONAL TRANSPORTATION AUTHORITY
BOARD POLICY**

INVESTMENTS

POLICY STATEMENT

Section 1. Statement.

This Investment Policy is authorized by the Board of Directors of the Corpus Christi Regional Transportation Authority (the "RTA") in accordance with Chapter 2256 of the Texas Government Code: The Public Funds Investment Act (the "Act").

Section 2. Scope of Policy.

This Investment Policy applies to investment transactions of the RTA operating and capital funds, including sales tax revenues. This Policy does not apply to the investment of assets accrued for the purpose of funding employee retirement benefits or programs, nor does it apply to trustee or escrow funds which are invested in accordance with their respective contracts or escrow agreements.

These funds are defined in the RTA's Comprehensive Annual Financial Report and include all governmental, proprietary, and bond funds and any other new funds created unless specifically exempted by the Board.

Section 3. Policy Objectives.

The RTA investment program shall be managed and invested with four primary objectives listed below, in priority order. Investments are to be chosen in a manner which promotes diversity among market sectors and maturities. The use of high grade governmental securities and high credit quality money market securities is designed to assure the marketability of those securities should liquidity needs arise. Investment decisions shall not incur unreasonable investment risks in order to obtain investment results.

- (a) Preservation and Safety of Principal. Safety of principal is the foremost objective. Investments shall be undertaken in a manner that seeks to insure the preservation of capital in the overall portfolio. Each investment transaction shall seek first to ensure that capital losses are avoided, whether resulting from security default or erosion of market value.
- (b) Liquidity. The investment portfolio will retain sufficient liquidity to enable the RTA to meet all operating requirements which can be reasonably anticipated. Cash flow analysis will be utilized to continuously monitor cash flow changes and guide investment decisions.
- (c) Diversification. The RTA will diversify its investments in an effort to avoid incurring unreasonable or avoidable risks regarding specific security types or individual financial institutions. Diversification will include diversification by maturity and market sector and will include the use of a number of institutions and brokers for diversification, competition, and market coverage. Diversification serves to reduce market and interest rate risk. Asset allocation shall reflect an emphasis on high credit quality governmental investments.
- (d) Yield. The investment portfolio shall be designed with the objective of attaining a reasonable market yield, taking into account risk constraints and cash flow needs of the portfolio. RTA will not make investments for the purpose of trading or speculation as its dominant criteria.

However, RTA intends to pursue active portfolio management techniques while working within the guidelines of the Policy in order to enhance total returns.

In order to monitor portfolio performance and in keeping with the weighted average maturity limitation of twelve-months based on historical cash flow analysis, the comparable period, current twelve (12) month Treasury Bill will be used as a benchmark on the overall portfolio. The benchmark is designed to monitor risk as well as performance.

The RTA may commingle its funds into one pooled investment portfolio for purposes of efficiency and maximum investment opportunity.

PROCEDURES

Section 4. Investment Strategy.

The RTA may maintain one commingled portfolio for investment purposes which incorporates the specific investment strategy considerations based on the unique characteristics of the funds represented in the portfolio:

- (a) The investment strategy for operating funds has as its primary objective assurance that anticipated liabilities are matched and adequate investment liquidity provided. This may be accomplished by purchasing high quality, short- to medium-term maturity securities which will complement each other in a laddered maturity structure permitting some extension for yield enhancement.
- (b) The investment strategy for debt service funds shall have as its primary objective the assurance of available funds adequate to fund the debt service obligations on a timely basis. Successive debt service dates will be fully funded before extension.
- (c) The investment strategy for debt service reserve funds shall have as its primary objective the ability to generate a revenue stream to the debt service funds from high credit quality securities with a low degree of volatility. Securities should be high credit quality and, except as may be required by the bond ordinance specific to an individual issue, of short to intermediate-term maturities.
- (d) The investment strategy for capital projects or capital project funds will have as its primary objective assurance that anticipated cash flows are matched for adequate liquidity. The stated final maturity dates of securities held may not exceed the estimated project completion date.

The RTA shall pursue an active investment management strategy. The Investment Officer(s) will continuously monitor the contents of the portfolio, the available markets, and the relative value of competing instruments to adjust the portfolio in response to market conditions.

Effective cash management is recognized as essential to good fiscal management. Cash management is defined as the process of managing monies in order to ensure maximum cash availability. RTA shall maintain a comprehensive cash management program which includes collection of accounts receivable, prudent investment of its available cash, disbursement of payments in accordance with invoice terms and the management of banking services.

Section 5. Standard of Prudence.

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

In determining whether the Investment Officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration:

- (a) the investment of all funds over which the Investment Officer had responsibility rather than a consideration as to the prudence of a single investment, and
- (b) whether the investment decision was consistent with the written Investment Policy of the RTA.

Employees of the RTA and any investment advisor designated by the Board who are involved in investment decisions, when acting in accordance with this Policy and exercising due diligence, shall not be held personally liable for a specific credit risk or market price change, provided deviation from expectations is reported in a timely manner and appropriate action is taken to control adverse developments.

Section 6. Delegation of Authority and Responsibilities.

All participants in the investment process shall seek to act responsibly as custodians of the public trust. The overall program shall be designed and managed with a degree of professionalism which is worthy of the public trust. Regardless of delegation of investment duties, the Board retains the overall fiduciary responsibility for RTA public funds.

(a) The Board of Directors

The Board's responsibilities include:

- Establishment and annual adoption of the Investment Policy and Strategy;
- Designation of a banking services depository for the funds of the RTA;
- Approval of the list of broker/dealers for the purpose of selling investment transactions to the RTA;
- Approval of the selection of, if the Board so desires, an investment advisor for the purpose of managing RTA funds;
- Quarterly review of investment reports and performance;
- Designation of an employee(s) of the RTA to serve as Investment Officer(s) to be responsible for the investment of its funds consistent with the adopted Investment Policy. (Authority granted to a person to invest the RTA's funds is effective until rescinded by the RTA or until termination of the person's employment with the RTA.)

(b) Investment Officer(s)

The Director of Finance and the Managing Director of Administration acting on behalf of RTA are designated as the Investment Officers and are responsible for investment management decisions and activities. The Investment Officers' responsibilities include the following.

- The Investment Officers are responsible for considering the quality and capability of staff, investment advisors, and consultants involved in investment management.
- The Investment Officers shall develop and maintain written administrative procedures for the operation of the investment program which are consistent with this Investment Policy.
- The Investment Officers shall be responsible for all transactions undertaken and shall establish a system of controls and documentation to regulate the activities of subordinate officials and staff.

- The Investment Officers shall designate a staff person as a liaison/deputy in the event circumstances require timely action and the Investment Officers are not available.
- No officer or designee may engage in an investment transaction except as provided under the terms of this Policy and established procedures.
- The Investment Officers shall be knowledgeable of laws concerning the investment of public funds, current investment practices and investment risks and opportunities as required by the Act (2256.008). The Investment Officer shall obtain ten (10) hours of training within twelve months of assuming the position and in each two year period that begins on the first day of the RTA's fiscal year and consists of the two consecutive fiscal years after that. The training may be obtained from:
 - Government Finance Officers Association
 - Government Finance Officers Association of Texas
 - Government Treasurers Organization of Texas
 - Association of Public Treasurers of the US & Canada
 - Texas Municipal League
 - University of North Texas Center for Public Management
 - Patterson & Associates

If the Investment Officers desire to attend an investment-training seminar presented by another organization for training credit, such seminar must be approved by the Chief Executive Officer and the Managing Director of Administration.

- The Investment Officers shall be bonded employees.
- This Policy and its adopting resolution authorize the Investment Officers to engage in investment transactions on behalf of RTA. The persons so authorized are authorized to approve electronic transfers used in the process of investing.
- If the Investment Officers have a personal business relationship with a business organization offering to engage in an investment transaction with the RTA, that individual shall file a statement disclosing that personal business interest in accordance with the Act
- The Investment Officers shall develop and maintain a cash flow analysis to determine available balances and project cash flow needs for the prudent investment of RTA funds and the creation of adequate liquidity buffers.
- The Investment Officers shall maintain current and accurate documentation on all investment transactions and holdings.
- The Investment Officers shall ensure adequate security and independent safekeeping for all securities owned by or pledged to RTA.
- The Investment Officers shall ensure that all certification and other requirements placed on financial counter-parties are observed.
- The Investment Officers shall monitor the credit ratings of all investments requiring ratings no less than monthly. Ratings may be obtained from the rating agencies, Bloomberg, the Wall Street Journal or other recognized financial reporting entities. Should the investments lose the required ratings, the Investment Officers shall inform the CEO of the loss of the ratings and options for the liquidation of the investments consistent with this policy.

Rated investments include:

- Obligations of States (other than Texas) and their agencies and subdivisions; banker's acceptances, commercial paper, money market mutual funds and investment pools.
- The Investment Officers shall monitor the status and ownership of all banks issuing brokered CDs owned by the RTA based upon information from the FDIC. If any bank has been acquired or merged with another bank in which brokered CDs are owned, the Investment Officers shall immediately liquidate any brokered CD which places the RTA above the FDIC insurance level.

Section 7. Authorized Investments.

(a) List of Investments. The investment types listed below, and as further defined by the Act, are authorized for the RTA. If additional types of securities are approved for investment by public funds by state statute, they will not be eligible for investment by RTA until this Policy has been amended and the amended version adopted by the Board.

- Obligations of the United States, its agencies, and instrumentalities with a stated maturity not to exceed three years and excluding mortgage backed securities.
- Direct obligations of the State of Texas or its agencies and instrumentalities with a stated maturity not to exceed two years.
- Obligations, the principal and interest of which are unconditionally guaranteed, insured, or backed by, the full faith and credit of the State of Texas or the United States or their respective agencies and instrumentalities including the Federal Deposit Insurance Corporation and with a stated maturity not to exceed three years, and excluding mortgage backed securities.
- Obligations of states, agencies, counties, cities, and other political subdivisions of any US state rated not less than A or its equivalent by at least two nationally recognized investment rating agencies not to exceed three years to maturity.
- Fully insured or collateralized depository certificates of deposit from any bank doing business in the State of Texas and under the terms of a written depository agreement with that bank, not to exceed two years to stated maturity, to include certificates of deposit purchased through the CDARS program with a Texas bank;
- FDIC insured brokered certificates of deposit securities from a bank in any US state, delivered versus payment to the RTA's safekeeping agent, not to exceed two years to maturity..
- Fully collateralized repurchase agreements and reverse repurchase agreements as defined by the Act, with defined termination dates, and placed through a primary government securities dealer with a stated maturity not to exceed six months. Flex repurchase agreements used for capital projects may extend beyond three years as determined by the bond expenditure plan.
- Bankers' acceptances as defined by the Act with a stated maturity not to exceed three months.
- Commercial paper rated A1/P1 or equivalent by at least two nationally recognized rating agencies with a stated maturity not to exceed three months.
- AAA-rated, local government investment pools in Texas striving to maintain a \$1 net asset value per share.
- SEC registered money market mutual funds as defined by the Act.
- Interest bearing accounts of banks in Texas with FDIC coverage or collateralized in accordance with this Policy.

(b) Competitive Bidding Requirement. All securities, including certificates of deposit, will be purchased or sold only after three (3) competitive offers/bids are taken to verify that RTA is receiving a fair market price. In the case of coordinated programs for the purchase of certificates of deposit bids (CDARS) from multiple brokers will not be required.

All bids/offers for investments may be solicited orally, but confirmed in writing (or electronically) with internal trade ticket documentation, written confirmation from the broker/dealer, and original safekeeping receipt from the custodian.

(c) Delivery versus Payment. All security transactions, including collateral for repurchase agreements, shall be conducted on a delivery versus payment (DVP) basis. The RTA's custodian shall release funds only after it has received the purchased security into safekeeping. The custodian must be independent from the broker/dealer. The DVP basis shall be contractually established.

To ensure delivery versus payment settlement no securities will be purchased through a subsidiary of RTA's banking services bank.

(d) Diversification. The RTA recognizes that investment risks can result from issuer defaults, market price changes, or various technical complications leading to temporary illiquidity. Risk is

controlled through portfolio diversification. The maximum limits for diversification on the total portfolio are determined at the time of purchase and are established as:

	<u>Max. % of Portfolio</u>
US Treasury Obligations	80%
US Agencies/Instrumentalities	80%
State Government Obligations	45%
Local Government Obligations	45%
Certificates of Deposit (Depository)	50%
Brokered Certificates of Deposit	30%
Repurchase Agreements	50%
Flex in CIP Funds	100%
Local Government Investment Pools	80%
Money Market Funds	100%
Limited to 80% in any one fund (not to exceed 10% of the value of the fund)	
Commercial Paper	35%
Limited to 5% from any one issuer	
Bankers Acceptances	20%

Section 8. Financial Counter-Parties.

(a) Designation of Depository

At least every five years a banking services depository shall be selected through a competitive process. In selecting a depository the services, cost of services, credit worthiness, and collateralization by the institution shall be considered. Collateralization of time and demand deposits in the depository must be in accordance with this Policy.

Any banking institution in which RTA time and demand deposits are placed is a designated depository and funds must be insured or collateralized under a written depository agreement.

(b) Investment Management Firm

The RTA may contract with an SEC registered investment advisory firm for management of the portfolio.

Any new contracts with an investment advisory firm must be approved by resolution of the Board of Directors.

On-going contracts must be approved annually by resolution of the Board of Directors.

The investment advisor must be registered under the Investment Advisors Act of 1940.

The Investment Officer shall require that the investment advisor provide certain documents including:

- Audited financial statements or other acceptable evidence of financial stability
- SEC annual ADV certification and Central Depository Registration (CRD) number.

The investment advisor is responsible for making investments and carrying out its contractual duties in full compliance with this policy and the Public Funds Investment Act.

(c) Security Broker/Dealers

Investments may be made with or through the following institutions:

- Federally insured banks

- Brokers or security dealers reporting to the Market Reports Division of the Federal Reserve Bank of New York also known as “primary government securities dealers,” or
- Secondary institutional brokers/dealers registered with the SEC and registered with Financial Industry Regulatory Authority (FINRA).

The Investment Officer(s) shall maintain a list of not less than three authorized broker/dealers to assure competitive bidding. The Investment Officer(s) shall require that all financial institutions and broker/dealers desiring to transact business with the RTA must supply certain documents including:

- Current year audited financial statements or other acceptable evidence of financial stability
- Financial Industry Regulatory Authority (FINRA) certification and the FINRA Central Depository Registration (CRD) number.
- Proof of Texas State Securities registration.

A list of authorized broker/dealers will be prepared by the Investment Officer(s) and reviewed and adopted at least annually by the Board.

(d) Policy Review Certification

Each authorized bank, pool, and broker/dealer and investment management firm and advisor must be provided a copy of the then current RTA Investment Policy. The qualified representative of said business organization shall execute a written certification in a form acceptable to the RTA substantially to the effect that the business organization has:

- Received, and thoroughly reviewed this Policy and
- Acknowledged that the business organization has implemented reasonable procedures and controls in an effort to preclude investment transactions that are not authorized by this Policy, except to the extent that this authorization is dependent on an analysis of the makeup of the entire portfolio or requires subjective investment standards.

The Investment Officer(s) may not acquire or otherwise obtain any investment from a person or firm who has not delivered this written certification.

Section 9. Collateralization and Safekeeping.

All RTA repurchase agreements will be fully collateralized and all time and demand deposits will be fully insured or collateralized. Collateral of 102 percent is required and must be kept safe by an RTA-approved independent third party.

Authorized collateral for repurchase agreements which is owned by the RTA includes only:

- A combination of cash and securities of the United States or its agencies and instrumentalities. The RTA does not accept letters of credit as collateral.

Authorized collateral for time and demand deposits which is pledged to the RTA includes only:

- Federal Deposit Insurance Corporation (“FDIC”) insurance,
- Obligations of the United States or its agencies and instrumentalities, including mortgage backed securities which pass the bank test.
- Direct obligations of the State of Texas or its agencies, or
- Other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States or their respective agencies and instrumentalities.
- Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated not less than A or its equivalent by at least two nationally recognized investment rating agencies.

The RTA reserves the right to refuse any collateral it deems inappropriate.

(a) Pledged Depository (Pledged) Collateral

Financial institutions serving as RTA depositories will be required to sign a depository agreement with the RTA and the independent safekeeping agent and in compliance with FIRREA¹. The agreement shall define the collateral and RTA rights to the collateral in case of default, bankruptcy, or closing and shall establish a perfected security interest in compliance with Federal and State regulations, which includes:

- the Agreement shall be in writing;
- the Agreement shall be approved by the Board of Directors or the Loan Committee of the Depository and a copy of the meeting minutes or resolution reference must be delivered to the RTA; and
- no listing of pledged collateral shall be part of the agreement.

The following conditions must be met before time or demand deposits are made:

- Collateral must be held in an independent third party bank outside the bank's holding company.
- Collateral will be maintained at 102% of principal plus accrued interest at all times, excluding amounts covered by FDIC insurance.
- The bank will be contractually liable for the continuous monitoring and maintaining of collateral and the required margin requirements.
- Pledged collateral will be evidenced by original safekeeping receipts and a monthly report sent directly to the RTA by the custodian including security description, par value, market value and CUSIP number.
- Substitution rights will be granted if the bank obtains prior approval from RTA and if substituting securities are received before previously pledged securities are removed from safekeeping.
- Collateral shall be reviewed on at least a monthly basis by the RTA's Investment Officer and may be audited by the RTA at any time during normal business hours of the safekeeping bank. A monthly listing of collateral from the pledgor shall include pledged securities itemized by: name, type and description of the security, safekeeping receipt number, par value, coupon, cusip number, market value, and maturity date.
- Collateral shall be audited at least annually by the RTA's independent external auditors.
- Substitution of collateral is authorized; however, the pledging institution must contact the Investment Officer for prior approval.

(b) Repurchase Agreements (Owned) Collateral

The RTA and any counter party to a repurchase transaction are required to execute the Bond Market Master Repurchase Agreement. An executed copy of this Agreement must be on file before any transaction is initiated. Collateral will be evidenced by safekeeping receipts clearly denoting ownership by the RTA. Collateral will be maintained at 102% and held by an independent third party approved by RTA and delivered on a delivered-versus-payment (DVP) basis.

¹Financial Institutions Resource and Recovery Enforcement Act which governs the actions of the FDIC on default.

Section 10. Reporting.

The Investment Officer(s) shall prepare and submit at least quarterly, signed quarterly investment reports in compliance with the Act and Policy. The reports shall summarize investment strategies employed in the most recent quarter and fully describe investment, maturities, risk characteristics, and investment return for the quarter.

The reports shall include a succinct management summary of the current investment portfolio and changes made during the last quarter. This summary will be prepared in a manner to allow the reader to ascertain whether investment activities during the reporting period have conformed to the Investment policy and adequately maintained diversification and liquidity. The report will include the following:

- A detailed description of the investment position of the entity on the date of the report;
- A summary statement, for each pooled fund group that states the:
 - Beginning market value for the reporting period;
 - Ending market value for the period; and
 - Fully accrued interest for the reporting period;
- For each individual invested asset:
 - State the book value and market value at the end of the reporting period by the type of asset and fund type invested;
 - State the maturity date of each separately invested asset that has a maturity date;
 - State the account or fund or pooled group fund for which each individual investment was acquired (if more than one such account or fund exists).
- Dollar weighted average yield of the portfolio and its benchmarks,
- Earnings for the period (accrued plus net amortization),
- Analysis of the total portfolio by market sector and maturity, and
- Statement of compliance of the investment portfolio with the Act and the Investment Policy.

Market prices for the calculation of market value will be obtained from independent sources.

If the RTA invests in other than money market mutual funds or accounts offered by its depository bank in the form of certificates of deposits or money market accounts or similar accounts, the reports prepared by the Investment Officer(s) shall be formally reviewed at least annually by the independent auditor, and the results of the review shall be reported to the Board by the auditor.

Section 11. Annual Policy Adoption.

The RTA legal counsel shall review this policy annually to ensure it complies with the applicable laws. The Board shall review and adopt the Policy no less than annually and the adopting resolution shall reference any changes made.

Last Approved by Resolution February 3, 2016

**Corpus Christi Regional Transportation Authority Investment Policy
ATTACHMENT A**

Authorized Investment Advisor

Patterson & Associates
Austin, Texas

**Corpus Christi Regional Transportation Authority Investment Policy
ATTACHMENT B**

Authorized List of Brokers/Dealers

- Bank of America/Merrill Lynch
- Frost Bank Capital Markets
- International FC Stone (name change)
- Mizuho Securities
- Morgan Stanley Securities
- Mutual Securities
- Piper Jaffray
- RBC Capital Markets
- SAMCO Capital Markets
- Stifel Nicolaus
- Wells Fargo Securities (money market funds only)
- Garcia Hamilton & Associates