

MINUTES

**MEETING OF THE BOARD OF DIRECTORS'
FISCAL COMMITTEE**



SAN ANTONIO RIVER AUTHORITY

October 10, 2011, 12:00 noon

GENERAL AND CEREMONIAL ITEMS:

- 1. CALL TO ORDER WAS MADE BY THE CHAIR, MS. TERRY E. BAIAMONTE, AT 12:15 P.M.**
- 2. PLEDGE OF ALLEGIANCE WAS RECITED**
- 3. THE COMMITTEE SECRETARY, MR. MICHAEL W. LACKEY, P.E., CALLED THE ROLL AND REPORTED THE FOLLOWING COMMITTEE MEMBERS PRESENT:**

- Terry E. Baiamonte, Chair
- Hector R. Morales, Vice-chair
- Michael W. Lackey, P.E., Secretary
- Darrell T. Brownlow, Ph.D. (Absent)
- Gaylon J. Oehlke
- Thomas G. Weaver

- 4. CERTIFICATION OF A QUORUM WAS ANNOUNCED BY THE SECRETARY, MR. LACKEY**

- 5. INTRODUCTION OF VISITORS**

Ms. Sanchez announced the visitors who were present in the audience.

- 6. CITIZENS TO BE HEARD**

Ms. Sanchez announced that there were no citizens signed up to speak.

- 7. APPROVAL OF THE MINUTES OF THE BOARD OF DIRECTORS' FISCAL COMMITTEE MEETING HELD ON AUGUST 8, 2011**

Staff recommended a motion to approve the minutes of the Board of Directors' Fiscal Committee meeting held on August 8, 2011, as presented.

Motion made by Michael W. Lackey, P.E.

Seconded by Thomas G. Weaver

Vote: 5 - 0 Passed

Other: Darrell T. Brownlow, Ph.D.
(Absent)

8. PRESENTATION, DISCUSSION AND APPROPRIATE ACTION REGARDING THE FINAL AUDIT FOR THE FISCAL YEAR ENDING JUNE 30, 2011

Motion indicating Fiscal Committee support for the final audit for the Fiscal Year ending June 30, 2011, and presentation of the audit to the San Antonio River Authority Board of Directors at their regular meeting on October 19, 2011.

Motion made by Michael W. Lackey, P.E.

Seconded by Gaylon J. Oehlke

Vote: 5 - 0 Passed

Other: Darrell T. Brownlow, Ph.D.
(Absent)

9. PRESENTATION, DISCUSSION AND APPROPRIATE ACTION REGARDING THE ORDINANCE APPROVING BOARD POLICY FN 0003 CONCERNING INVESTMENT POLICIES AND STRATEGIES

Staff recommended a motion indicating Fiscal Committee support for presentation of the Investment Policy FN 0003 to the San Antonio River Authority Board of Directors for adoption at their regular meeting on October 19, 2011.

Motion made by Thomas G. Weaver

Seconded by Michael W. Lackey, P.E.

Vote: 5 - 0 Passed

Other: Darrell T. Brownlow, Ph.D.
(Absent)

Attachments:

Investment Policy FN 0003

Investment Policy Ordinance

10. PRESENTATION AND DISCUSSION REGARDING REVIEW AND DESIGNATION OF QUALIFIED BROKERS WHO ARE AUTHORIZED TO ENGAGE IN INVESTMENT TRANSACTIONS WITH THE SAN ANTONIO RIVER AUTHORITY

There being no action taken on this item, Ms. Baiamonte called for Agenda Item 11.

11. DISCUSSION AND APPROPRIATE ACTION REGARDING THE FUNDS MANAGEMENT POLICY, FN 0002

There being no action taken on this item, Ms. Baiamonte called for Agenda Item 12.

12. REPORT ON THE STATUS AND RESULTS OF KEY ACTIONS AND ACCOUNTABILITIES (KAAs) REGARDING THE SAN ANTONIO RIVER AUTHORITY'S KEY INITIATIVE 1 FOR FISCAL YEAR 2011

There being no action taken on this item, Ms. Baiamonte called for Agenda Item 13.

13. GENERAL MANAGER'S REPORT

- **UPCOMING EVENTS CALENDAR,**
- **FUTURE BOARD AND/OR COMMITTEE MEETINGS, AND**
- **MEETINGS INVOLVING THE ATTENDANCE OF ONE OR MORE BOARD MEMBERS**

There being no action taken on this item, Ms. Baiamonte called for Agenda Item 14.

14. ITEMS FOR FUTURE CONSIDERATION

There being no action taken on this item, Ms. Baiamonte called for Agenda Item 15.

15. NEXT MEETING DATE

Ms. Baiamonte announced that the next Fiscal Committee meeting will be Monday, November 7, 2011, at 12:00 p.m.

16. ADJOURN

There being nothing further to report, Ms. Baiamonte called the meeting adjourned at 2:00 p.m.

PREPARED AND RECOMMENDED FOR COMMITTEE APPROVAL BY THE MANAGER.


SUZANNE B. SCOTT, General Manager

**APPROVED BY THE BOARD OF DIRECTORS' FISCAL COMMITTEE AT THE MEETING
HELD ON NOVEMBER 7, 2011.**

TERRY E. BAIAMONTE, Committee Chair

ATTEST:

MICHAEL W. LACKEY, P.E., Committee Secretary

	SAN ANTONIO RIVER AUTHORITY	POLICY & PROCEDURE	POLICY NUMBER: FN 0003
SUBJECT: : Investment Policies & Strategies		FINANCE	REPLACING POLICY NUMBER: EO 0009
RESPONSIBLE MANAGER: Financial Services Manager		EFFECTIVE DATE: : 05/21/2003	
		REVISED DATE: 10/19/2010	PAGE(S): 1 of 18

Reference: Chapter 2256 Government Code, Public Funds Investment Act of the State of Texas.

1. POLICY

To invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the San Antonio River Authority (River Authority) and conforming to all state and local statutes governing the investment of funds.

2. SCOPE

Except for its employee retirement system fund and the Deferred Compensation Fund, organized and administered separately by a third party custodian and/or money manager, this investment policy applies to all financial assets of the River Authority. These funds are accounted for in the River Authority Comprehensive Annual Financial Report and include:

- General Fund
- Special Revenue Funds
- Capital Project Funds
- Enterprise Funds
- Agency Funds
- Debt Service Funds
- Any new fund created by the Board, unless specifically exempted.

These funds shall be administered in accordance with the provisions of this policy. A strategy will be developed which will address the varying needs and objectives of each fund.

3. OBJECTIVES

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

a. Safety

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

i. Credit Risk

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

- Limiting investments to the safest types of securities;
- Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the River Authority will do business; and
- Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

ii. Interest Rate Risk

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

- Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity, and
- By investing operating funds primarily in shorter-term securities.

b. Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands. Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets.

c. Yield

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of least importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall not be sold prior to maturity with the following exceptions:

- a declining credit security could be sold early to minimize loss of principal;
- a security swap would improve the quality, yield, or target duration in the portfolio; or
- liquidity needs of the portfolio require that the security be sold.

4. STANDARDS OF CARE

a. Ethics and Conflicts of Interest

Investment officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and investment officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the River Authority. The investment officers shall disclose to the Texas Ethics Commission and the River Authority Board any personal business relationship and/or material financial interests with anyone attempting to sell an investment to the River Authority.

b. Delegation of Authority

Under the direction of the General Manager, authority to manage the investment of funds is granted to the Financial Services Manager, Controller and the Director of Support Services, who are the investment officers. The General Manager, Assistant Manager or Treasurer of the Board shall review all purchases and sales of investments made by the investment officer. The Financial Services Manager and the Controller shall carry out established written procedures and internal controls for the operation of the investment of funds consistent with this investment policy. Unless otherwise authorized by law, a person may not deposit, withdraw, invest, transfer, or manage in any other manner, funds of the

investment pool without express written authority of the Board of Directors, General Manager, Director of Support Services or Financial Services Manager, consistent with the investment policy adopted by the Board.

Authority that is granted to the Financial Services Manager, Controller and the Director of Support Services to deposit, withdraw, invest, transfer, or manage the River Authority's funds is effective until rescinded by the Board or until termination of the person's employment. Procedures should include references to safekeeping, delivery vs. payment, investment collateral/depository agreements and banking services contracts. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Board of Directors. The investment officer(s) shall attend at least one training session relating to the Treasurer's or investment officer's responsibilities, as required, within 12 months after taking office or assuming responsibilities. The investment officer(s) shall attend an investment training session not less than once in a two-year period and receive not less than 10 hours of instruction relating to investment responsibilities, as required, from an independent source approved by the Board of Directors of the River Authority or Fiscal Committee.

c. Prudence

The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

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

If the investment officer of the River Authority has a personal business relationship with a business organization offering to engage in an investment transaction with the River Authority, the officer shall file a statement disclosing that personal business interest. If the investment officer is related within the second degree by affinity or consanguinity, as determined under Chapter 573, to an individual seeking to sell an investment to the River Authority, the officer shall file a statement disclosing that relationship. Any statements, as required, must be filed with the Texas Ethics Commission and the River Authority Board of

Directors. The investment officer has a personal business relationship with a business organization if:

- the investment officer(s) 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;
- funds received by the investment officer(s) from the business organization exceeds ten percent of the investment officer's gross income from the previous year; or
- the investment officer(s) 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(s).

5. SAFEKEEPING AND CUSTODY

a. Authorized Financial Dealer and Institution

A list will be maintained of financial institutions authorized to provide investment services. In addition, the Board shall adopt a list of qualified brokers that are authorized to engage in investment transactions annually. These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule).

All broker/dealers who desire to become qualified bidders for investment transactions must supply the following as appropriate:

- audited financial statements;
- proof of Financial Industry Regulatory Authority (FINRA) certification;
- proof of state registration;
- completed broker/dealer questionnaire; and
- certification of having received and thoroughly reviewed the River Authority's investment policy.

A current audited financial statement is required to be on file for each financial institution and broker/dealer in which the River Authority invests.

b. Internal Controls

The Financial Services Manager is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the River Authority are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of control should

not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Accordingly, an external auditor will perform an annual independent review to assure compliance with policies and procedures. The internal controls shall address the following points:

i. Control of collusion

Collusion is a situation where two or more employees are working in conjunction to defraud their employer.

ii. Separation of transaction authority from accounting and record keeping.

By separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction, a separation of duties is achieved.

iii. Custodial safekeeping

Securities purchased from any bank or dealer including appropriate collateral (as defined by State Law) shall be held in safekeeping by either a third party financial institution or in the River Authority's designated depository bank.

iv. Clear delegation of authority to subordinate staff members

Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.

v. Written confirmation or telephone transactions for investments and wire transfers

Due to the potential for error and improprieties arising from telephone transactions, all telephone transactions should be supported by written communications and approved by the appropriate person. Written communications may be via fax if on letterhead and the safekeeping institution has a list of authorized signatures.

c. Delivery vs. Payment

All trades where applicable will be executed by delivery vs. payment (DVP). This ensures that securities are deposited in the eligible financial institution prior

to the release of funds. The custodian will hold securities as evidenced by safekeeping receipts that the River Authority has on file.

5. SUITABLE AND AUTHORIZED INVESTMENTS

a. Investment Types

Authorized Investments allowed under the Public Funds Investment Act are:

i. Obligations of, or guaranteed by, governmental entities. (Section 2256.009).

A. Except as provided by subsection (b), the following are authorized investments under this subchapter:

- (1) obligations of the United States or its agencies and instrumentalities;
- (2) direct obligations of this state or its agencies and instrumentalities;
- (3) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, this state or the United States or their respective agencies and instrumentalities; and
- (4) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent.

B. The following are not authorized investments under this section:

- (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.

ii. Certificates of Deposit (Section 2256.010)

A certificate of deposit is an authorized investment under this subchapter if the certificate of deposit is issued by a state or national bank domiciled in this state or a savings and loan association domiciled in this state and is:

- A. guaranteed or insured by the Federal Deposit Insurance Corporation or its successor;
- B. secured by obligations that are described by Section 2256.009(a), including mortgage backed securities directly issued by a federal agency or instrumentality that have a market value of not less than the principal amount of the certificates, but excluding those mortgage backed securities of the nature described by Section 2256.009(b); or
- C. secured in any other manner and amount provided by law for deposits of the River Authority.

iii. Repurchase Agreements (Section 2256.011)

- A. A fully collateralized repurchase agreement is an authorized investment under this subchapter if the repurchase agreement:
 - (1) has a defined termination date;
 - (2) is secured by obligations described by Section 2256.009(a) (1); and
 - (3) requires the securities being purchased by the River Authority to be pledged to the River Authority, held in the River Authority's name, and deposited at the time the investment is made with the River Authority or with a third party selected and approved by the River Authority; and
 - (4) is placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in this state.
- B. In this section, "repurchase agreement" means a simultaneous agreement to buy, hold for a specified time, and sell back at a future date obligations described by Section 2256.009(a) (1), at a

market value at the time that funds are disbursed of not less than the principal amount of the funds disbursed. The term includes a direct security repurchase agreement and a reverse security repurchase agreement.

- C. Notwithstanding any other law, the term of any reverse security repurchase agreement may not exceed 90 days after the date the reverse security repurchase agreement is delivered.
- D. Money received by the River Authority under the terms of a reverse security repurchase agreement shall be used to acquire additional authorized investments, but the term of the authorized investments acquired must mature not later than the expiration date stated in the reverse security repurchase agreement.

iv. Bankers' Acceptances (Section 2256.012)

A bankers' acceptance is an authorized investment under this subchapter if the banker's acceptance:

- A. has a stated maturity of 270 days or fewer from the date of its issuance;
- B. will be, in accordance with its terms, liquidated in full at maturity;
- C. is eligible for collateral for borrowing from a Federal Reserve Bank; and
- D. is accepted by a bank organized and existing under the laws of the United States or any state, if the short-term obligations of the bank, or of a bank holding company of which the bank is the largest subsidiary, are rated not less than A-1 or P-1 or an equivalent rating by at least one nationally recognized credit rating agency.

v. Commercial Paper (Section 2256.013)

Commercial paper is an authorized investment under this subchapter if the commercial paper:

- A. has a stated maturity of 270 days or fewer from the date of its issuance; and
- B. is rated not less than A-1 or P-1 or an equivalent rating by at least:
 - i. two nationally recognized credit rating agencies; or

- ii. one nationally recognized credit rating agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state.
- vi. Mutual Funds (Section 2256.014)
- A. A no-load money market mutual fund is an authorized investment under this subchapter if the mutual fund:
 - (1) is regulated by the Securities and Exchange Commission;
 - (2) has a dollar-weighted average stated maturity of 90 days or fewer; and
 - (3) includes in its investment objectives the maintenance of a stable net asset value of \$1 for each share
 - B. In addition to a no-load money market mutual fund permitted as an authorized investment in Subsection (a), a no-load mutual fund is an authorized investment under this subchapter if the mutual fund:
 - (1) is registered with the Securities and Exchange Commission;
 - (2) has an average weighted maturity of less than two years;
 - (3) is invested exclusively in obligations approved by this subchapter;
 - (4) is continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent; and
 - (5) conforms to the requirements set forth in Sections 2256.016 (b) and (c) relating to the eligibility of investment pools to receive and invest funds of investing entities.
 - C. The River Authority is not authorized by this section to:
 - (1) invest in the aggregate more than 80 percent of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, in money market mutual funds described in Subsection (a) or mutual funds described in subsection (b), either separately or collectively;

- (2) invest in the aggregate more than 15 percent of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, in mutual funds described in Subsection (b);
- (3) invest any portion of bond proceeds, reserves and funds held for debt service, in mutual funds described in Subsection (b); or
- (4) invest its funds or funds under its control, including bond proceeds and reserves and other funds held for debt service, in any one mutual fund described in Subsection (a) or (b) in an amount that exceeds 10 percent of the total assets of the mutual fund.

vii. Authorized Investments: Investment Pools (Section 2256.016)

- A. The River Authority may invest its funds and funds under its control through an eligible investment pool if the governing body of the River Authority by rule, order, ordinance, or resolution, as appropriate, authorizes investment in the particular pool. An investment pool shall invest the funds it receives from entities in authorized investments permitted by this subchapter.
- B. To be eligible to receive funds from and invest funds on behalf of an entity under this chapter, an investment pool must furnish to the investment officer or other authorized representative of the River Authority, an offering circular or other similar disclosure instrument that contains, at a minimum, the following information:
 - (1) the types of investments in which money is allowed to be invested;
 - (2) the maximum average dollar-weighted maturity allowed, based on the stated maturity date, of the pool;
 - (3) the maximum stated maturity date any investment security within the portfolio has;
 - (4) the objectives of the pool;
 - (5) the size of the pool;
 - (6) the names of the members of the advisory board of the pool and the dates their terms expire;

- (7) the custodian bank that will safekeep the pool's assets;
- (8) whether the intent of the pool is to maintain a net asset value of one dollar and the risk of market price fluctuation;
- (9) whether the only source of payment is the assets of the pool at market value or whether there is a secondary source of payment, such as insurance or guarantees, and a description of the secondary source of payment;
- (10) the name and address of the independent auditor of the pool;
- (11) the requirements to be satisfied for the River Authority to deposit funds in and withdraw funds from the pool and any deadlines or other operating policies required for the River Authority to invest funds in and withdraw funds from the pool; and
- (12) the performance history of the pool, including yields, average dollar-weighted maturities, and expense ratios.

C. To maintain eligibility to receive funds from and invest funds on behalf of an entity under this chapter, an investment pool must furnish to the investment officer or other authorized representative of the River Authority:

- (1) investment transaction confirmations; and
- (2) a monthly report that contains, at a minimum, the following information:
 - (a) the types and percentage breakdown of securities in which the pool is invested;
 - (b) the current average dollar-weighted maturity, based on the stated maturity date, of the pool;
 - (c) the current percentage of the pool's portfolio in investments that have stated maturities of more than one year;
 - (d) the book value versus the market value of the pool's portfolio, using amortized cost valuation;

- (e) the size of the pool;
- (f) the number of participants in the pool;
- (g) the custodian bank that is safekeeping the assets of the pool;
- (h) a listing of daily transaction activity;
- (i) the yield and expense ratio of the pool;
- (j) the portfolio managers of the pool; and
- (k) any changes or addenda to the offering circular.

D. The River Authority by contract may delegate to an investment pool the authority to hold legal title as custodian of investments purchased with its local funds.

E. In this section, “yield” shall be calculated in accordance with regulations governing the registration of open-end management investment companies under the Investment Company Act of 1940, as promulgated from time to time by the federal Securities and Exchange Commission.

viii. Portfolio of Certain Investment Pools (Section 2256.017)

A public funds investment pool created to function, as a money market mutual fund must mark its portfolio to market daily and, to the extent reasonably possible, stabilize at a \$1 net asset value. If the ratio of the market value of the portfolio divided by the book value of the portfolio is less than 0.995 or greater than 1.005, portfolio holdings shall be sold as necessary to maintain the ratio between 0.995 and 1.005.

ix. Advisory Board of Investment Pools (Section 2256.018)

A. An investment pool other than a pool described by Subsection (b) shall establish an advisory board composed of participants in the pool and other persons.

B. A public funds investment pool created under Chapter 791 and managed by a state agency shall establish an advisory board composed equally of participants in the pool and other persons who do not have a business relationship with the pool. A board member must be qualified to advise the pool.

Sec. 2256.019. Rating of Certain Investment Pools. A public funds investment pool must be continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service.

b. Collateralization

In accordance with state law on the Collateralization of Public deposits, and the River Authority depository contract, full collateralization will be required on all certificates of deposits and repurchase agreements.

A third party custodian designated by the River Authority will hold securities. The third party custodian shall provide a monthly listing of the collateral pledged to the River Authority marked to current market prices. The listing will include total pledged securities itemized by name, type and description of the security; safekeeping receipt number; par value; current market value; maturity date, if available; and Moody's or Standard & Poor's rating if available.

c. Compliance with State Law

All authorized investments outlined above must meet the requirements of the Public Funds Investment Act, Section 2256 of the Texas Government Code. No investment may be made in any instrument except as provided above

7. INVESTMENT PARAMETERS

a. Diversification

The investments will be diversified by security type and institution.

b. Maximum Maturity

The River Authority shall limit their maximum final stated maturity to five (5) years. To the extent possible, investments will be made to match anticipated cash flow requirements. Unless matched to a specific cash flow and authority is given to exceed, the River Authority will not directly invest in securities maturing more than 5 years from the date of purchase.

8. REPORTING

a. Methods

An investment report will be prepared quarterly, including a management summary that provides the status of the current investment portfolio and investment transactions made over the last quarter. This report will be provided

to the Board of Directors and will be signed by the Director of Support Services, Financial Services Manager, and the Controller. As part of the scope of the River Authority's Annual Audit, all internal controls on investments, safekeeping procedures and investment procedures performance will be presented to the Fiscal Committee by the Auditor.

b. Performance Standards

The investment portfolio will be managed in accordance with the parameters specified within this policy.

The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. (The 3-month U.S. Treasury Bill rate is an appropriate benchmark standard)

c. Marking to Market

A statement of the market value of the portfolio shall be done quarterly. This will ensure that the minimal amount of review has been performed on the investment portfolio in terms of value and subsequent price volatility.

d. Exemption

Should amendments be made to State Law or River Authority policy, the River Authority will not be required to liquidate currently held investments that were authorized investments at the time of purchase. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.

9. AMENDMENTS

This policy shall be reviewed annually by the Board of Directors. The Board shall adopt, by resolution or ordinance, the investment policy and strategies. The Board of Directors must approve any changes upon recommendation of the General Manager, Financial Services Manager or Director of Support Services charged with maintaining internal controls.

10. INVESTMENT STRATEGIES

The River Authority operates with a pooled investment strategy and the investment strategies for the individual funds of the River Authority are as follows:

a. Operating Funds:

The Operating Funds of the River Authority are:

- General Fund
- ~~Park Services Fund~~
- SARA Wastewater Fund
- SARA Water Fund
- Salatrillo Wholesale Fund

Investment strategies for the operating funds of the River Authority have as their objectives the following: To assure that the anticipated cash flows are matched with adequate liquidity. During economic cycles assuring that the investment portfolio will experience minimal volatility. Investment purchases will be of high quality, with short to medium term securities that complement each other in a ladder portfolio structure and will have a stated final maturity of five (5) years or less.

b. Debt Service Funds:

The Debt Service Funds of the River Authority are:

- SACIP Debt Service
- Martinez Construction & Improvement Debt Service
- ~~Salatrillo Construction & Improvement Debt Service~~
- Salatrillo Reuse Debt Service
- Utility O&M Debt Service
- Public Facilities Corporation Debt Service

Investment strategies for the Debt Service Funds have as their primary objective the assurance of investment liquidity adequate to cover obligations on required payment dates. Securities purchased shall not have a stated maturity date, which exceeds the unfunded required payment date.

c. Reserve Funds:

The Reserve Funds of the River Authority are:

- SACIP Debt Service Reserve
- SARA Wastewater Construction & Improvement Reserve
- ~~Salatrillo Construction & Improvement Reserve~~
- Salatrillo Reuse Debt Reserve
- Utility O&M Reserve

Investment strategies for the River Authority's Reserve Funds have as the primary objective the assurance of investment liquidity and a low degree of volatility. Except as may be otherwise required, (investments must first follow the bond ordinances) securities should be of high quality, with short to intermediate term

maturity. Purchased securities will have a stated final maturity of five (5) years or less.

d. Capital Project Funds:

The Capital Project Funds of the River Authority are:

- SACIP Projects
- City of San Antonio Projects
- San Antonio Water System Projects
- Medina Dam Improvement Projects
- Bexar County CIP Projects
- Bexar County Projects
- Down River County Projects
- Other Capital Projects
- SARA Wastewater Construction & Improvement Projects
- SARA Water Construction & Improvement Projects
- Salatriillo Construction & Improvement Projects
- Salatriillo Reuse Capital Projects
- ~~Park Services Projects~~
- Regional Water Resource Development Group Water Purchases
- Utility O&M Capital Projects

Investment strategies for the River Authority's project funds must first have as their primary objective the assurance of meeting cash flow requirements on all contractual obligations. In addition, where applicable, all bond covenants must be followed. All securities purchased must be of high quality; short to medium term that complements each other in a laddered portfolio structure. Purchased securities will have a stated final maturity of five (5) years or less.

e. Special Revenue Funds:

The Special Revenue Funds of the River Authority are:

- Flood Tax Revenue
- South Texas Regional Water Planning Group
- Regional Water Resource Development Group
- Regional Water Alliance
- City of Kenedy Desalination
- ~~Bay & Estuary Study~~
- Insurance Fund
- TCEQ Clean Rivers Program
- ESD Contracts Fund
- Federal EPA Contracts Fund
- Karnes County Maintenance

- Local Grants Fund
- SACIP Land Sales Fund
- SARIDA Fund
- Park Resources Development Fund

Investment strategies for the special revenue funds of the River Authority have as their objectives the following: To assure that the anticipated cash flows are matched with adequate liquidity. During economic cycles assure that the investment portfolio experiences minimal volatility. Investment purchases will be of high quality, with short to medium term securities that complement each other in a ladder portfolio structure and will have a stated final maturity of five (5) years or less.

Approved:

Suzanne B. Scott, General Manager

10/19/2010
Date

ORDINANCE NO. O-1353

AN ORDINANCE OF THE BOARD OF DIRECTORS OF THE SAN ANTONIO RIVER AUTHORITY APPROVING BOARD POLICY FN 0003 CONCERNING INVESTMENT POLICIES AND STRATEGIES

Preamble

WHEREAS, FN 0003, passed and approved November 19, 2008, adopted policy FN 0003 concerning investment policies and strategies; and

WHEREAS, Ordinance No. O-1340, passed and approved October 20, 2010, adopted Board Policy concerning investment policies and strategies; and

WHEREAS, it is necessary and in the public interest to annually review and approve the Board Policy relating to public funds investments and strategies.

NOW, THEREFORE, BE IT ORDAINED BY THE BOARD OF DIRECTORS OF THE SAN ANTONIO RIVER AUTHORITY THAT:

1. Ordinance No. O-1340 passed and approved October 20, 2010, relating to the investment policies is repealed.
2. Policy FN 0003, attached to this Ordinance as Exhibit A and incorporated herein by reference, is approved as the official written policy of the River Authority concerning investment policies and strategies.

PASSED AND APPROVED this 19th day of October, A.D., 2011.

GAYLON J. OEHLKE, Chairman

ATTEST:

ROBERTO G. RODRÍGUEZ, Secretary

ACKNOWLEDGEMENT OF CHAIRMAN

STATE OF TEXAS §
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COUNTY OF BEXAR §

BEFORE ME, the undersigned authority on this day personally appeared GAYLON J. OEHLKE, Chairman of the Board of Directors of the SAN ANTONIO RIVER AUTHORITY, a political subdivision of the State of Texas known to me to be the person and officer whose name is subscribed to the foregoing instrument, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity therein stated, and as the act and deed of said political subdivision.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this 19th day of October, 2011.

LUPE SANCHEZ, Notary Public
In and for the State of Texas
My commission expires: 11/14/2012

