

**GENERAL MEETING OF THE BOARD OF DIRECTORS  
OF THE NORTH EAST TEXAS  
REGIONAL MOBILITY AUTHORITY**

**RESOLUTION NO. 16-31**

WHEREAS, the North East Texas Regional Mobility Authority (“NET RMA”) was created pursuant to the request of Gregg and Smith Counties and in accordance with provisions of the Transportation Code and the petition and approval process established in 43 Tex. Admin. Code § 26.1, *et seq.* (the “RMA Rules”); and

WHEREAS, the Board of Directors of the NET RMA has been constituted in accordance with the Transportation Code and the RMA Rules; and

WHEREAS, subsequent to the initial formation of the NET RMA the Counties of Cherokee, Rusk, Harrison, Upshur, Bowie, Panola, Titus, Van Zandt, Wood, and Kaufman joined the Authority and are represented on the Board of Directors; and

WHEREAS, the prudent and legally permissible management and investment of NET RMA funds is the responsibility of the Board of Directors and its designees; and

WHEREAS, on February 28, 2011, in Resolution No. 11-11, the Board of Directors adopted the NET RMA Investment Policy; and


WHEREAS, in consultation with the NET RMA Financial Advisor, the NET RMA Interim Executive Director has prepared an amended NET RMA Investment Policy, a copy of which is attached hereto as Attachment “A”, incorporating certain revisions intended to address proposed financial transactions in connection with the development of the Toll 49, Segment 4 Project.

NOW THEREFORE, BE IT RESOLVED, that the Board of Directors of the NET RMA hereby approves the adoption of the amended NET RMA Investment Policy, attached hereto as Attachment “A”; and

BE IT FURTHER RESOLVED, that the NET RMA Investment Policy may be further amended from time to time at the discretion of the Board of Directors.

Adopted by the Board of Directors of the North East Texas Regional Mobility Authority on the 12th day of April, 2016.

Submitted and reviewed by:



C. Brian Cassidy  
General Counsel for the North East  
Texas Regional Mobility Authority

Approved:



Linda Ryan Thomas  
Chair, Board of Directors  
Resolution Number 16-31  
Date Passed 04/12/16



# **INVESTMENT POLICY**

## **NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY**

**Adopted: April 2016**

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***NORTH EAST TEXAS REGIONAL MOBILITY  
AUTHORITY INVESTMENT POLICY***

**I. OVERVIEW**

This policy is adopted and intended to comply with the Texas Public Funds Investment Act Chapter 2256 of the Texas Government Code as the Act may be amended from time to time (the “PFIA”). It is the policy of the North East Texas Regional Mobility Authority (the “Authority”) to invest public funds in a manner which will provide the maximum security with the highest investment return while meeting the daily cash flow demands of the Authority conforming to all state and local statutes governing the investment of public funds. The Authority’s investment policy is approved by the Authority’s Board of Directors (The “Board”) and is adopted to provide investment policy guidelines for use by Authority staff and its advisors.

**II. SCOPE**

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

- A. Special Revenue Funds – used to account for the proceeds from specific revenue sources which are restricted to expenditures for specific purposes.
- B. Rebate Fund - Fund into which funds are distributed to pay amounts due to the federal government from arbitrage earnings on bond proceeds and certain other funds as required under the Internal Revenue Code with respect to tax-exempt bonds or other federally tax-advantaged bonds.
- C. Operating Funds – A fund into which funds are deposited to be used for the purpose of meeting the costs of operation.
- D. Debt Service Funds – used to account for resources to be used for the payment of principal, interest and related costs on general obligation debt.
- E. Debt Service Reserve Funds – A fund in which funds are placed to be applied to pay debt service if pledged revenues are insufficient to satisfy the debt service requirements.
- F. Renewal and Replacement Fund – A fund into which funds are deposited to cover anticipated expenses for major repairs of the issuer’s facilities or a project whose revenues are pledged to the bonds or for repair and replacement of related equipment.
- G. General Fund – used to account for resources traditionally associated with government, which are not required to be accounted for in another fund.

- H. Capital Projects Funds – used to account for resources to enable the acquisition or construction of major capital facilities which are not financed by enterprise funds, internal service funds or trust funds.

### III. OBJECTIVES

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

#### A. Safety

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

##### 1. Credit Risk

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

- a. Limiting investments to the safest types of securities; as listed in Section VII.
- b. Pre-qualifying the financial institutions, brokers/dealers, intermediaries, and advisors with which the Authority will do business; and,
- c. Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

##### 2. Interest Rate Risk

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

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

B. **Liquidity**

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

C. **Yield**

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

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

D. **Public Trust**

Participants in the Authority's investment process shall act responsibly as public trust custodians. Investment Officers shall avoid transactions which might impair public confidence in the Authority's ability to manage effectively.

IV. **STANDARDS OF CARE**

A. **Prudence**

The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. An Investment Officer acting in accordance with the investment policy and written procedures and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

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

B. **Ethics and Conflicts**

1. Investment Officers shall refrain from personal business activity that could conflict with or be perceived to conflict with the proper execution and management of the investment program, or that could impair their ability to make an impartial decision. An Investment Officer shall refrain from undertaking personal investment transactions with an individual person with whom business is conducted on behalf of the Authority.
2. For purposes of this subsection, an investment officer has a personal business relationship with a business organization if:
  - a. the investment officer owns 10 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;
  - b. funds received by the investment officer from the business organization exceed 10 percent of the investment officer's gross income for the previous year; or
  - c. 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.
3. An Investment Officer shall file with the Texas Ethics Commission and with the Board of Directors a statement disclosing the existence of the relationship if the Investment Officer:
  - a. has a personal business relationship with a business organization offering to engage in an investment transaction with the Authority; or
  - b. is related within the second degree by affinity or consanguinity, as determined under Chapter 573 of the Texas Government Code, to an individual seeking to sell an investment to the Authority.

C. **Designation of Investment Officer**

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



D. **Investment Advisor**

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

E. **Investment Committee**

The Board Chair will appoint an Investment Committee approved by the Board to advise the Investment Officer. The Investment Committee will consist of Five (5) Board Members including the Treasurer who shall be Chair of the Committee.

The Investment Committee shall meet at least quarterly to determine general strategies, investment guidelines and to monitor results. Included in its deliberations will be such topics as: economic outlook, portfolio diversification, maturity structure, potential risk to the Authority's funds, authorized broker/dealers (if applicable), and the target rate of return on the investment portfolio.

The Investment Committee shall provide meeting summations to all members. Any two members of the Investment Committee may request a special meeting, and three members shall constitute a quorum.

F. **Required Training**

The Investment Officer and any other person designated by resolution of the Board as an Investment Officer shall attend at least one training session relating to the responsibilities of maintaining the investment portfolio within 12 months after taking office or assuming duties; and shall attend a training session not less than once every two years and receive not less than ten (10) hours of training. Such training, from an independent source, shall include education in investment controls, security risks, strategy risks, market risks, and compliance with the PFIA. Training required by this subsection shall be from an independent source certified to provide training required by the PFIA and approved or endorsed by the University of North Texas Center for Public Management, Government Finance Officers Association of Texas, the Government Treasurers Organization of Texas, the Texas Municipal League, or the North Central Texas Council of Governments.

V. **INVESTMENT STRATEGIES**

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

A. **Market Yield Benchmark**

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

B. **Maximum Maturities**

To the extent possible, the Authority will attempt to match its individual investments with anticipated cash flow requirements of each fund. However in no instance shall the maximum stated maturity of an individual investment exceed five (5) years, unless approved by the Board of Directors.

C. **Diversification**

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

**VI. SAFEKEEPING AND CUSTODY**

A. **Authorized Financial Dealer and Institutions**

The Investment Officer shall maintain a list of financial institutions authorized by the Board to provide investment services and a list of security broker/dealers who are authorized to provide investment services in the State of Texas and who have been approved by the Board. These may include "primary" dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule).

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

1. Audited financial statements;
2. Proof of Financial Industry Regulatory Authority (FINRA);
3. Proof of state registration;
4. The completed broker/dealer questionnaire in the form approved by this Investment Policy on page 13; and,
5. A written certification signed by a qualified representative of the firm in the form approved by this Investment Policy on page 14. The Authority will not enter into an investment transaction with a financial institution prior to receiving this written certification and acknowledgement.

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

**B. Collateralization**

The Authority, in accordance with State Statutes, requires all funds held by financial institutions above the Federal Deposit Insurance Corporation (FDIC) insurance limit to be collateralized with securities whose market value is pledged at 102% of principal and accrued interest by that institution with the Authority's custodial bank or FHLB letters of credit insuring the deposit at 100% or better. Private insurance coverage is not acceptable as a form of collateral. Securities which are acceptable for collateralization purposes are as follows:

1. FDIC insurance coverage.
2. U.S. Treasury obligations, or other evidence of indebtedness of the United States.
3. Federal agencies and instrumentalities including obligations of Ginnie Mae, Fannie Mae, Freddie Mac, the Federal Home Loan Bank (FHLB), and the Federal Farm Credit Bank (FFCB),
4. Obligations, the principal and interest on which, are unconditionally guaranteed or insured by the State of Texas.
5. A bond of the State of Texas or a county, city or other political subdivision of the State of Texas having been rated A or better by a nationally recognized rating agency with a remaining maturity of ten years or less.
6. FHLB Letter of Credit (LOC)

**C. Custody-Delivery vs. Payment**

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

**D. Safekeeping of Securities**

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

The Authority will execute Safekeeping Agreements prior to utilizing the custodian's safekeeping services. The safekeeping agreement must provide that

the safekeeping agent will immediately record and promptly issue and deliver a safekeeping receipt showing the receipt and the identification of the security, as well as the Authority's interest. All securities owned by the Authority will be held in a Customer Account naming the Authority as the customer.

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

## **VII. AUTHORIZED AND SUITABLE INVESTMENTS**

The investment of Authority funds will be made using only those investment types approved by the Board and which are in accordance with the PFIA. The approved investment types will be limited to the following:

### **A. Allowable Investments**

1. U.S. Treasury and Federal Agency Issues, including any investment backed by the full faith and credit of the United States or insured by the Federal Deposit Insurance Corporation (FDIC).
2. Certificates of Deposit as authorized under Section 2256.010 of the PFIA.
3. Repurchase Agreements, *including flexible Repurchase Agreements*, collateralized by U.S. Treasury or Federal Agency Securities whose market value is 102% of the Authority's investment and are pledged and held with the Authority's custodial bank or a third-party safekeeping agent approved by the Authority. Repurchase agreements must also be secured in accordance with State law. Each counter party to a repurchase transaction is required to sign a copy of an Investment Repurchase Agreement under the guidelines of Section 2256.011 of the PFIA, using the Security Industry and Financial Markets Association Master Repurchase Agreement as a general guide and with such changes thereto as are deemed in the best interest of the Authority. Such an Agreement must be executed prior to entering into any transaction with a repo counter-party.
4. Guaranteed Investment Contracts (GIC's) collateralized by any combination of U.S. Treasury or Federal Agency Securities and cash whose market value is 102% of the Authority's investment and are pledged and held with the Authority's custodial bank or a third-party safekeeping agent approved by the Authority. Bond proceeds, other than bond proceeds representing reserves and funds maintained for debt service purposes, may not be invested for a term which exceeds five years from the date of bond issuance.
5. Obligations of states, agencies, counties, cities, and other political subdivisions of any State having been rated as to investment quality by a

nationally recognized investment rating firm and having received a rating of not less than AA or its equivalent, with fixed interest rates and fixed maturities.

6. SEC registered no-load money market mutual funds with a dollar weighted average portfolio maturity of 90 days or less; that fully invests dollar for dollar all Authority funds without sales commissions or loads; and whose investment objectives include the maintenance of a stable net asset value of \$1 per share
7. Local government investment pools, which are “AAA” rated by a nationally recognized bond rating company (e.g., Moody’s, S&P, Fitch), and which participation in any particular investment pool(s) has been authorized by resolution of the Board, not to exceed 80% of the total investment portfolio less bond funds. Bond funds may be invested at 100%.

**B. Prohibited Investments**

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

**C. Downgrade Provisions**

An Investment that requires a minimum rating does not qualify as an authorized investment during the period the investment does not have the minimum rating. The Investment Officers shall monitor the credit rating on all authorized investments in the portfolio based upon independent information from a nationally recognized rating agency. The Authority shall take all prudent measures that are consistent with this investment policy to liquidate an investment that does not have the minimum rating.

**VIII. REPORTING AND REVIEW**

**A. Quarterly Report Requirements**

The Investment Officers shall jointly prepare, no less than on a quarterly basis, an investment report, including a summary that provides a clear picture of the status of the current investment portfolio and transactions made after the ending period of the most recent investment report. The report shall be provided to the Investment Committee and to the Board. The report shall comply with requirements of the PFIA and shall include the following:

1. The investment position of the Authority on the date of the report.

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

**B. Security Pricing**

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

**C. Annual Audit**

If the Authority places funds in any investment other than registered investment pools or accounts offered by its depository bank, the above reports shall be formally reviewed at least annually by an independent auditor, and the result of the review shall be reported to the Executive Committee.

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

**IX. POLICY**

**A. Exemptions from Policy**

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

**B. Annual Review**

The Authority shall review and approve the Investment Policy annually. This review shall be conducted by the Board. Any approved amendments shall be promptly incorporated into written policy.

**NORTH EAST TEXAS REGIONAL MOBILITY AUTHORITY**  
**SECURITY BROKER/DEALER QUESTIONNAIRE**

1. Name of Firm: \_\_\_\_\_

2. Primary Representative Name: \_\_\_\_\_ Title: \_\_\_\_\_  
 E-mail Address: \_\_\_\_\_  
 Phone number: \_\_\_\_\_

3. Is your firm registered with the Texas Securities Commission:  No  Yes [Include copy of registration]  
 Is your firm a FINRA member:  No  Yes [Include copy of certificates]

4. Does your firm come under SEC regulation and their Uniform Net Capital Rule (Rule 152c3-1)?  No  Yes

5. What was your firm's total volume in U.S. Treasuries/Agencies during your last fiscal year?

Firm Wide	\$		# of Transactions	
Local Office	\$		# of Transactions	

6. Which instruments are traded regularly by the local desk?  Treasuries  Agencies  Other

7. Please provide comparable public sector references.

<u>Name of Entity</u>	<u>Contact Name</u>	<u>Phone Number</u>

8. Please submit a copy of your annual financial report.

9. Please submit your trading authorization form

10. Please submit a copy of all necessary paperwork to establish an account with your firm.

11. Please describe a typical transaction between the Authority and your firm. Note deadlines or cut off times involved.

\_\_\_\_\_

12. Do you clear through another firm? If so, what firm?

\_\_\_\_\_

13. Has your firm ever been subject to a regulatory or state or federal agency investigation for alleged improper, fraudulent, disreputable or unfair activities related to the sale of government securities or money market instruments? Have any of your employees ever been so investigated? Explain.

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

**CERTIFICATION**

I hereby certify as the qualified representative of [INSERT NAME OF BUSINESS ORGANIZATION] that:

- (A) I am duly authorized to execute this this certification on behalf of [INSERT NAME OF BUSINESS ORGANIZATION];
- (B) I have received and personally read the Investment Policy adopted by the Board of Directors of the North East Texas Regional Mobility Authority (the “Authority”); and
- (C) [INSERT NAME OF BUSINESS ORGANIZATION] has implemented reasonable procedures and controls designed to preclude:
  - (1) investment transactions conducted between the Authority and [INSERT NAME OF BUSINESS ORGANIZATION] that are not authorized by the Authority’s Investment Policy, except to the extent that this authorization is dependent on an analysis of the makeup of the Authority’s entire portfolio or requires an interpretation of subjective investment standards; and
  - (2) imprudent investment activities arising out of transactions conducted between our firm and the Authority; and.

[INSERT NAME OF BUSINESS ORGANIZATION] will not deliver or propose any investments that are not allowed under the Authority’s Investment Policy. All our sales personnel will be routinely informed of the Authority’s investment objectives, strategies and constraints whenever we are so advised. We will notify the Authority immediately by telephone and in writing in the event of a material adverse change in our financial condition. We pledge to exercise due diligence in informing the Authority of all foreseeable risks associated with financial transactions conducted with our firm. I attest to the accuracy of our responses to the Authority’s questionnaire.

[INSERT NAME OF BUSINESS ORGANIZATION]:

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Title

\_\_\_\_\_  
Date