

LNRA BOARD POLICY
401 – BANKING & INVESTMENT

401.10 PURPOSE

This Banking and Investment Policy is adopted to meet LNRA's responsibilities under the Public Funds Investment Act, Chapter 2256, TEX. GOV'T CODE.

401.20 POLICY

401.201 DEFINITIONS

- Bond Proceeds means the proceeds from the sale of bonds, notes and any other obligations issued by the LNRA, and reserves and funds maintained by the LNRA for debt service purposes.
- Book Value means the current face or par value of an investment plus or minus the accrued amortization or accretion.
- Funds means public funds in the custody of the LNRA and it is authorized to invest.
- Investment Pool means an entity created under the Texas Government Code to invest public funds jointly on behalf of the entities that participate in the pool and whose investment objectives in order of priority are: (i) preservation and safety of principal; (ii) liquidity; and (iii) yield.
- Market Value means the current face or par value of an investment multiplied by the net selling price of the security as quoted by a recognized market-pricing source quoted on the valuation date.
- Qualified Representative means a person who holds a position with a business organization, who is authorized to act on behalf of the business organization and who is one of the following:
 - (1) for a business organization doing business that is regulated or registered with a securities commission, a person who is registered under the rules of the National Association of Securities Dealers;
 - (2) for a state or federal bank, a savings bank, or a state or federal credit union, a member of the loan committee for the bank or branch of the bank or a person authorized by corporate resolution to act on behalf of and bind the banking institution; or

- (3) for an Investment Pool, the person authorized by the elected official or board with authority to administer the activities of the Investment Pool to sign the written instrument on behalf of the Investment Pool.
- (4) for an investment management firm regulated under the Investment Advisors Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or, if not subject to registration under that Act, registered with the State Securities Board, a person who is an officer or principal of the investment management firm.

401.202 INVESTMENT OFFICER

The General Manager and Deputy General Manager, Administration, shall serve as investment officers of the LNRA, shall recommend appropriate legally authorized and adequately secured investments, and shall invest LNRA funds as directed by this policy and in accordance with generally accepted accounting procedures. All investment transactions shall be executed on a delivery versus payment basis. The investment officer shall exercise the judgment and care under prevailing circumstances that a prudent person would exercise in the management of his or her own affairs.

401.203 WITHDRAWAL & TRANSFER AUTHORITY

The General Manager or Deputy General Manager, Administration, is authorized to withdraw and transfer and reinvest the LNRA's investments as prescribed in this policy. Any other employee or representative of the LNRA will be permitted to perform these functions by express written authority of the Board or the General Manager.

401.204 CHECKS, DRAFTS, ETC

All checks, drafts, notes or other orders for payment of money issued in the name of the LNRA shall be signed by the General Manager or his designee and one of the following: Deputy General Manager, Administration, Deputy General Manager, Operations, or Human Resource Manager as designated by the General Manager.

401.205 APPROVED INVESTMENTS

The LNRA is authorized to invest its funds in only the following investment types, consistent with the strategies and maturities defined in this policy:

- Obligations, including letters of credit, of the United States or its agencies and instrumentalities.
- Direct obligations of the State of Texas or its agencies and instrumentalities.
- Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas, the United States, or their respective agencies and instrumentalities.
- Certificates of Deposit issued by a bank organized under Texas law, the laws of

another state, or federal law, that has its main office or a branch office in Texas, or by a savings and loan association or a savings bank organized under Texas law, the laws of another state, or federal law, that has its main office or a branch office in Texas and that is guaranteed or insured by the Federal Deposit Insurance or its successor or secured by obligations in a manner and amount provided by law for deposits of LNRA.

- A public funds investment pool meeting the requirements of 2256.016-2256.019, TEX. GOV'T CODE if the Board authorizes the investment in the particular pool by resolution.

LNRA shall monitor the market price of its investments by using information from the appropriate financial sites posted on the Internet or financial information published in daily periodicals and/or other information available. As provided in §§ 2256.009(b), TEX. GOV'T CODE, the following are not authorized investments:

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

401.206 SAFETY AND INVESTMENT MANAGEMENT

The investment officer shall observe financial market indicators, study financial trends, and utilize available educational tools to maintain appropriate managerial expertise. Investments shall be made in a manner that ensures the preservation of capital in the overall portfolio and offsets, during a 12-month period, any market price losses resulting from interest-rate fluctuations by income received from the balance of the portfolio.

401.207 LIQUIDITY AND MATURITY

Assets of the LNRA shall be invested in instruments whose maturities do not exceed one year from the time of purchase, subject to the following exceptions:

- A shorter maturity is required by law.
- The LNRA's investment portfolio shall have sufficient liquidity to meet anticipated cash flow requirements, projected on a weekly, monthly, and annual basis.

401.208 DIVERSITY

The investment portfolio shall be diversified in terms of investment instruments, maturity scheduling, and financial institutions to reduce risk of loss resulting from over concentration of assets in a specific class of investments, specific maturity, or specific issuer. The LNRA may meet its obligation to diversify by placing all or part of its investment portfolio in a public funds investment pool meeting the requirements of §§ 2256.016-2256.019, TEX. GOV'T CODE, if the Board authorizes the investment in the pool by resolution.

401.209 FUNDS/STRATEGIES

Investments of the following fund categories shall be consistent with this policy and in accordance with the strategy defined below:

- **Operating Funds.** Investment strategies for operating funds and commingled pools containing operating funds shall have as their primary objective investment liquidity and maturity sufficient to meet anticipated cash flow requirements.
- **Debt Service Funds.** Investment strategies for debt service funds shall be consistent with any requirements in the bond documents and shall have as their objective sufficient investment liquidity to timely meet debt service payment obligations and with no maturities extending beyond the final debt service payment date.
- **Debt Service Reserve Funds.** Investment strategies of debt service reserve funds shall be consistent with any requirements in the bond documents and shall have as their primary objective the generation of a dependable revenue stream from high quality short-to-medium term securities with minimal volatility.
- **Bond Proceeds.** Investment strategies shall be in compliance with the bond covenants regarding the investment and handling of such Funds.
- **Safekeeping and Custody.** The cash, collateral, and investments of the LNRA shall be held by an independent third party with whom the LNRA has a current custodial agreement. Funds of the LNRA in excess of federally insured amounts shall be collateralized by pledged securities in accordance with the Public Funds Investment Act Chapter 2256, TEX. GOV'T CODE. The LNRA shall retain clearly marked receipts providing proof of the LNRA's ownership, or the LNRA may delegate to an investment pool the authority to hold legal title as custodian of investments purchased with LNRA funds.

401.210 BROKER/DEALERS

Broker/dealers must submit annual audited financial statements to the LNRA and be in good standing with the National Association of Securities Dealers. Representatives of brokers/dealers must be a Qualified Representative. The LNRA Board, at least annually, shall review, revise and adopt a list of qualified brokers that are authorized to engage in investment transactions with the LNRA.

401.211 SELLERS OF INVESTMENTS

A written copy of this policy shall be presented to any person offering to engage in an investment transaction with the LNRA. The Qualified Representative of the business organization seeking to sell an authorized investment shall execute a written instrument stating:

- The business organization has received and reviewed the LNRA's banking and investment policy; and
- Has acknowledged that the business organization has implemented reasonable procedures and controls in an effort to preclude imprudent investment activities arising out of investment transactions conducted between the LNRA and the organization that are not authorized by the LNRA's banking and investment policy, except to the extent that this authorization requires an analysis of the LNRA's entire portfolio or requires an interpretation of subjective investment standards.

A form of the written instrument is attached as Exhibit A. The investment officer may not acquire or otherwise obtain any authorized investment described in this policy from a person who has not executed and delivered to the LNRA an instrument that is substantially in this form.

401.212 INVESTMENT TRAINING

The General Manager as the chief financial officer of the LNRA, and the investment officers of the LNRA shall: (1) attend at least one training session of at least four hours of instruction relating to the investment officer's responsibilities under the Public Funds Investment Act within 12 months after taking office or assuming duties; and (2) attend an investment training session not less than once each fiscal biennium and receive not less than four hours of instruction relating to investment responsibilities under the Public Funds Investment Act from an independent source approved by the Board. The training must include education in investment controls, security risks, strategy risks, market risks, and compliance with the Public Funds Investment Act.

401.213 STANDARD OF CARE

Investments shall be made with judgment and care, under prevailing circumstances that a person of prudence, discretion, and intelligence would exercise in the management of his or her own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived. Investment of Funds shall be governed by the objectives specified in §§2256.006, TEX. GOV'T CODE, in the order of priority specified therein. In determining whether an investment officer has exercised prudence with respect to an investment decision, the following shall be taken into consideration:

- The investment of all Funds over which the officer had responsibility, rather than the prudence of a single investment.
- Whether the investment decision was consistent with this Investment Policy.

401.214 PERSONAL INTEREST

An investment officer who has a personal business relationship with a business organization offering to engage in an investment transaction for the LNRA shall file a statement disclosing that personal business interest. An investment officer who is related within the second degree by affinity or consanguinity, as determined by Chapter 573, TEX. GOV'T CODE, to an individual seeking to sell an investment to the LNRA, shall file a statement disclosing that relationship with the Board and with the Texas Ethics Commission. An investment officer has a personal business relationship with a business organization if:

- 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;
- 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
- The investment officer has acquired from the business organization investments with a Book Value of \$2,500 or more for the personal account of the investment officer.

401.215 QUARTERLY REPORTS

Not less than quarterly, the investment officer shall prepare and submit to the Board a written report of investment transactions for all funds covered by the Public Funds Investment Act, Chapter 2256, TEX. GOV'T CODE. This quarterly report shall be presented to the Board within a reasonable time after the end of each quarter. The report must:

- Contain a detailed description of the investment position of the LNRA on the date of the report.
- Be prepared jointly and signed by all LNRA investment officers.
- Contain a summary statement, prepared in compliance with generally accepted accounting principles, of each pooled funds group that states:
 - (1) Beginning market value for the reporting period.
 - (2) Deposits and withdrawals to each pooled fund during the period.
 - (3) Ending market value for the period.
 - (4) Fully accrued interest for the reporting period.

- State the Book Value and Market Value of each separately invested asset at the beginning and 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 in the LNRA for which each individual investment was acquired.
- State the compliance of the investment portfolio of the LNRA as it relates to the LNRA's investment strategy expressed in LNRA's banking and investment policy and relevant provisions of law.

401.216 ANNUAL REVIEW

This policy and the investment strategy shall be reviewed not less than annually by the Board. The Board shall affirmatively, by written resolution, state that it has reviewed this policy and investment strategy, and such resolution shall record any changes made in this policy or investment strategy.

401.217 ANNUAL AUDIT

The Board shall perform or have conducted a compliance audit of management controls on investments and adherence to the Board's established investment policies. The compliance audit shall be performed in conjunction with the annual financial audit by the LNRA's independent auditing firm. If the LNRA invests in other than money market mutual funds, Investment Pools or money market accounts offered by its depository bank in the form of certificates of deposit, or similar accounts, the reports prepared by the investment officers shall be formally reviewed at least annually by an independent auditor, and the result of the review shall be reported to the Board by that independent auditor.

401.218 ELECTRONIC FUNDS TRANSFER

The LNRA may use electronic means to transfer or invest all Funds collected or controlled by the LNRA.

401.219 AUTHORIZATION

Unless authorized by this policy, a person may not deposit, withdraw, transfer, or manage in any other manner the Funds of the LNRA.

401.220 COMPLIANCE

All investments made by the LNRA must comply with the Public Funds Investment Act, Chapter 2256, TEX. GOV'T CODE and all federal, state and local statutes, rules or regulations.

401.221 DEPOSITORIES

All Funds of the LNRA, except petty cash, shall be deposited from time to time to the credit of the LNRA in such banks as the Board may from time to time designate. The Board shall select a depository or depositories under the general provisions for the selection of depositories as provided for counties in Chapter 116 of the Local Government Code. The depository shall be located within the boundaries of the LNRA unless the Board determines that a suitable depository cannot be found within Jackson County.

The General Manager may from time to time authorize the opening and closing of general and special accounts within any such depository. The General Manager shall notify the Board of any such actions.

To the extent that funds in the depository bank or banks are not insured by the Federal Deposit Insurance Corporation (FDIC), they shall be collateralized above the FDIC coverage by pledged collateral. To anticipate market changes and provide a level of security for all funds, collateral will be maintained and monitored by the pledging depository at 102% of market value of principal and accrued interest on the deposits. The bank shall monitor and maintain the margins daily.

Collateral pledged to secure deposits shall be held by an independent financial institution outside the holding company of the depository. The collateral agreement with the depository shall be approved by resolution of the Bank Board or Bank Loan Committee. The Custodian shall provide a monthly report of collateral directly to the LNRA. The LNRA shall comply with the Public Funds Collateral Act, Chapter 2257, TEX. GOV'T CODE, to the extent applicable.

401.30 RESPONSIBILITIES

401.301 BOARD AND GENERAL MANAGER

The Board and the General Manager shall be responsible for the administration and coordination of this policy in accordance with their respective obligations set forth in this policy.

Effective: June 25, 2003, Amended August 24, 2005, Amended August 16, 2006, September 19, 2007, September 24, 2008, September 23, 2009, September 22, 2010, October 19, 2011, October 17, 2012, August 21, 2013, August 20, 2014, August 19, 2015, August 17, 2016, January 24, 2018, June 26, 2019, June 17, 2020, August 18, 2021, August 17, 2022, August 16, 2023, August 21, 2024

EXHIBIT A

Form of Statement by Seller of Investments

THE STATE OF TEXAS §
 §
COUNTY OF _____ §

BEFORE ME, the undersigned authority, on this day personally appeared the person whose name is subscribed below, who, being by me first duly sworn, upon oath deposed and said:

My name is _____. I am a qualified representative of _____ (the "Organization"), which is engaged in the business of selling investments and desires to sell investments to the Lavaca-Navidad River Authority ("LNRA"). This Statement is provided to meet the requirements of the Public Funds Investment Act, Chapter 2256-Texas Government Code.

I hereby certify that

1. I have received and reviewed LNRA’s Banking and Investment Policy;
2. The Organization has implemented reasonable procedures and controls to preclude investment transactions conducted between the LNRA and the Organization that are not authorized by LNRA’s Banking and Investment Policy, except to the extent that the Organization has not made an analysis of the make-up of LNRA’s entire portfolio or has not engaged in any interpretation of subjective investment standards; and
3. The statements, representations and declarations made in this document are true and correct.

Qualified Representative

SWORN TO AND SUBSCRIBED BEFORE ME, this ____ day of _____, 20__.

Notary Public in and for the State of Texas