

**North Texas Municipal Water District**

**Finance Policies Manual**

**Adopted September 2023**

**Amended September 2024**

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# **SECTION 1. FISCAL MANAGEMENT POLICY**

## **1.1. Purpose**

1. This Policy establishes the basic framework for the financial management of the North Texas Municipal Water District (the "District").

## **1.2. Basis of Accounting and Budgeting**

1. The District's finances are accounted for in accordance with generally accepted accounting principles (GAAP) as established by the Governmental Accounting Standards Board (GASB).
2. The budget is prepared in accordance with GAAP, with the exception of depreciation, pension expense, other post-employment benefits (OPEB) expense, and compensated absences (accrued but unused vacation and sick leave).

## **1.3. Long-term Financial Planning**

1. The objective of long-term planning is to ensure sufficient resources are available when required to fund capital projects, operations and maintenance expenses, manage debt incurred from bond sales, and to inform the District's Members and Customers of projected future cost changes for their own planning.
2. A ten (10) year cost projection, Strategic Financial Plan (SFP), for each system will be prepared annually. Each SFP will incorporate any significant changes in service, participants, laws or regulations, and/or customer behavior (such as volume) that may affect future expenses or allocations. The SFP for each system is intended but not guaranteed to serve as a ceiling for the upcoming fiscal year's budget.
3. The SFPs are expected to be completed, reviewed by the Finance Committee and shared with the cities between February and June each year.

## **1.4. Annual Budget**

1. The District is committed to maintaining a balanced budget and provides full disclosure when a deviation from a balanced budget occurs.
2. Annual budgets will ensure that fund balances are established and maintained in accordance with the Fund Balance Policy. Contractually established fund balance limits may only be exceeded with the consent of the system's participating entities.
3. Revenues shall be conservatively estimated, and expenditures shall be budgeted in accordance with contracts and based on prudent forecasts.
4. The Finance Committee will review the proposed and current year amended budgets.
5. Each year, the Executive Director shall submit to the Board a budget for the ensuing

fiscal year and an accompanying budget message prior to Board action.

6. The All Systems Annual Budget will be considered by the Board of Directors in September via resolution. All appropriations shall be established at the system level.
7. All operating budget appropriations and encumbrances lapse at fiscal year-end. Selected encumbrances meeting certain criteria may be extended into the upcoming fiscal year. Capital projects and grant fund appropriations do not lapse at fiscal year-end.
8. Operating Fund Budgets
  - a. Revenues and expenditures are generally expected to be equal. Some exceptions may occur if reserves are being utilized or increased.
  - b. Transfers to Capital Improvement Funds, Debt Reserve Funds, Escrow Funds, Health and Retirement Funds are budgeted based on needs, internal or external studies, and/or the Fund Balance Policy.
  - c. The debt service coverage ratio will be budgeted at a minimum of 1.0 in all systems with outstanding debt.
  - d. All systems shall be budgeted to ensure sufficient funds are available for current debt service payments and any debt to be issued in the upcoming fiscal year.
  - e. Planned bond and extendable commercial paper (ECP) issues will be sized based on the most recent CIP and the corresponding debt service payments will be programmed into the budget. Projected debt service for future bond issues and/or ECP will be budgeted at the estimate of the District's 30-year borrowing cost.
  - f. At year end, any excess funds may be used to pay off or defease outstanding ECP or bonds, and/or other purposes allowed by the contract and policy.
9. The annual budget document will include a Capital Improvement Plan that details the planned projects for the upcoming fiscal year. Each project or contract within a project will be appropriated at the time of award by the Board.
10. Regional Water System budget shall include cash funded transfer to Capital Improvement Fund of 5%-15% of historical 5-year average annual capital spending.
11. The budget document shall be designed to meet the criteria to receive the Distinguished Budget Presentation Award from the Government Finance Officers Association.

## **1.5. Emergency Expenditures**

### **1. Overview**

- a. The financial operation of NTMWD is controlled by the Board of Directors through the Annual Budget by the adoption of an appropriation resolution. From time to time, it is necessary for emergency expenditures to be authorized that were not planned in the Annual Budget. This section of the Fiscal Management Policy outlines how NTMWD may make emergency expenditures when necessary, prior to Board action.
- b. An emergency is a condition when the failure to immediately repair equipment could endanger the delivery system; endanger the service provided by NTMWD to the municipalities with which it contracts; or cause deterioration to facilities that could result in a failure of the system. Under these circumstances, the ED/GM may declare an emergency and, using the best judgment possible, develop a plan to remedy the apparent problem on a temporary or permanent basis in accordance with the following procedures.

### **2. Executive Director/General Manager – Less Than \$25,000**

- a. When an emergency condition has been declared, the cost will over-expend the budget of a Fund and cause an increase to the total charges of the applicable system participants, the ED/GM may expend up to \$25,000 for the necessary repairs or replacements. The ED/GM will, at the next regular meeting of the Board of Directors, detail in a memorandum the emergency, the planned action, and the cost, and request that the Board amend the planned budget.

### **3. Executive Committee - \$25,000 to \$100,000**

- a. When an emergency condition has been declared and the expenditure to implement the planned repair or replacement will cost between \$25,000 and \$100,000, the cost will over-expend the budget of a Fund and cause an increase to the total charges of the applicable system participants, the ED/GM may counsel with the members of the Executive Committee of the Board of Directors (President, Vice President, Secretary, and Past President) and proceed with the majority approval of the Executive Committee. The ED/GM will, at the next regular meeting of the Board of Directors, detail in a memorandum the emergency, the planned action, and the cost, and request that the Board amend the planned budget.

### **4. Board of Directors – More Than \$100,000**

- a. When an emergency condition has been declared and the plan of action for repair or replacement exceeds \$100,000, the cost will over expend the budget of a Fund and cause an increase to the total charges of the applicable system participants, a special meeting of the Board of Directors will be required to authorize the expenditure.

## **1.6. Financial Reporting**

1. The accounting records will be audited by an independent public accounting firm following the conclusion of each fiscal year. The Annual Comprehensive Financial Report will be prepared in accordance with GAAP as applicable to state and local governments established by the Governmental Accounting Standards Board (GASB) for governmental accounting and financial reporting principles.
2. The document is planned to satisfy all criteria of the Government Finance Officers Association's Certificate of Achievement for Excellence in Financial Reporting program. The results of the annual audit prepared by independent certified public accountants is included as part of the Annual Comprehensive Financial Report.
3. A report will be provided at least quarterly that details the status of the current year's revenues and expenditures; provides an explanation of major variances and includes the quarterly investment report.

## **1.7. Capital Assets**

1. The District distinguishes between capital assets and capital projects for the purpose of Capital Improvement Planning (CIP). Outlays for capital assets and improvements are capitalized as the projects are constructed.
2. Standard capitalization thresholds are established for each major asset class. Any asset received by the District that exceeds the following thresholds and has an estimated useful life of two or more years must be treated as capital assets.

<b>Major Asset Class</b>	<b>Threshold</b>
Land, right-of-way and easements	Capitalize All
Water treatment, storage, and transmission facilities	\$50,000
Wastewater treatment and disposal facilities	\$50,000
Solid waste transfer and disposal facilities	\$50,000
Reservoir facilities and water rights	\$50,000
Land improvements	\$20,000
Buildings	\$50,000
Automobiles and light trucks	\$15,000
Office furniture and fixtures	\$10,000
Other equipment and machinery	\$10,000

3. Depreciation is calculated on each class of depreciable property using the straight-line method and the following useful lives:

Asset Classes	Life in Years
Land, Right-of-Way and Easements	Non-depreciable
Water Treatment, Storage, & Transmission Facilities	
Water Treatment Plants	40
Water Storage Facilities	50
Metering and Pumping Stations	40
Raw Water Pipelines	75
Water Transmission Lines	40
Wastewater Treatment & Disposal Facilities	
Wastewater Treatment Plants	40
Lift Stations	40
Interceptor/Gravity Lines	50
Solid Waste Transfer & Disposal Facilities	40
Reservoir Facilities	
Contractual Water Rights	50
Reservoir Facilities	50
Land Improvements	20
Buildings	40
Automobiles & Light Trucks	5

Office Furniture & Fixtures	10
Other Equipment & Machinery*	
Other Equipment & Machinery (Non-Office)	5 - 10
Heavy Equipment & Machinery	5 - 20

\* The proper depreciation rate is determined based on information obtained and the type of item purchased.

4. The costs of normal maintenance and repairs that do not materially add to the value of the asset or significantly extend asset lives are not capitalized.

## **1.8. Communications with Member Cities and Customers**

1. At a minimum, correspondence with Member Cities and Customers will be provided in accordance with each of the Operating Systems' contracts.

## **SECTION 2. FUND BALANCE POLICY**

### **2.1. Purpose**

1. The purpose of this Policy is to set guidelines for NTMWD's fund balances. Fund balance shall be defined as the total amount of cash and investments (at purchase cost) plus accounts receivable less accounts payable, and less any remaining payments to be made on contracts and agreements that have been awarded by the Board of Directors. The intent of this Policy is to ensure that NTMWD maintains adequate fund balances to:
  - a. Provide sufficient cash flow liquidity for NTMWD's operations.
  - b. Secure and maintain investment grade bond ratings.
  - c. Minimize revenue shortfalls.
  - d. Provide funds for unforeseen expenditures including emergencies.
  - e. Comply with contractual and bond covenant obligations.

### **2.2. Guidelines for Fiscal Year End Fund Balances**

#### **1. Operating Funds:**

- a. Definition: The Operating Funds pay for operating expenses including maintenance, minor capital outlay, and other operational expenses.
- b. Regional Water System – Minimum balance based on 90 days' budgeted operations and maintenance (O&M) expense for the next fiscal year and maintain a minimum 130-150 days cumulative fund balance within the Operating and Contingency Funds.
- c. All other systems including Shared Service Internal Service Fund – shall be maintained at \$0.
- d. Excess operating funds in each system may be utilized to defease outstanding extendable commercial paper, if applicable, or transferred to that system's:
  - 1) Capital Improvement Fund,
  - 2) Contingency or Escrow Fund, or,
  - 3) Equipment Replacement Fund

#### **2. Capital Improvement Funds:**

- a. Definition: Funded by either budgeted transfers from operating funds or funds directly provided by cities, capital improvement funds cash finance projects within the Capital Improvement Plans. Systems, not including the Regional Water System,

may also be funded with year-end excess operating funds.

- b. Regional Water System Capital Improvement Fund balance shall be maintained at a minimum of \$15,000,000. End-of-year balances not required for reserve replenishment may be utilized for cash financed construction or extendable commercial paper defeasance up to 15% of the historical 5-year average annual capital spending. If contract awards that are planned to be funded with the Capital Improvement Fund are rescheduled to the following year, the funds may be considered obligated for those contracts.
  - c. The Regional Wastewater System, Upper East Fork Interceptor System, and the Regional Solid Waste Systems Capital Improvement Funds minimum balances shall be maintained at the projected ending balances set forth in the most recent budget document.
  - d. All Other Systems' Capital Improvement Funds minimum balances shall be maintained to fund upcoming projects. If there are no upcoming projects, the system participants may be contacted to discuss options of transferring to other funds or returning the funds to the system participants.
3. Construction Funds:
  - a. Definition: Funded by the issuance of revenue bonds or extendable commercial paper, Construction Funds are used to debt finance projects within the Capital Improvement Plans.
  - b. No minimum balance required. The fund will remain open until final remaining balance is transferred to the Interest and Sinking Fund as required by the Bond Resolution.
4. Interest & Sinking Funds:
  - a. Definition: The Interest and Sinking Funds pay the principal and interest on each system's debt service obligations.
  - b. Minimum balance based on 1/12 of the next year's debt service payment multiplied by the number of months since the last debt service payment as required by the Bond Resolution.
5. Debt Service Reserve Funds:
  - a. Definition: Funded by bond proceeds or cash, Debt Service Reserve Funds are required in accordance with the System's Bond Resolutions.
  - b. Minimum balance based on the average annual debt service payments on the outstanding bonds as required by the Bond Resolution.
6. Pipeline Reserve Fund – Chapman (Regional Water System):

- a. Definition: Funded by budgeted transfers from operating funds, these funds are 50% NTMWD and 50% the City of Irving. May also be funded with year-end excess operating funds, with City of Irving consent. These reserve funds are used for repairs and projects on the Chapman Pump Station and Pipeline.
- b. \$500,000 Maximum Balance as required by the June 4, 1998 Irving Operations Agreement. Maximum balance may be exceeded with the City of Irving consent.

7. Contingency Funds and Reserve for Maintenance Funds (terms are used interchangeably depending on the term used in the contract):

- a. Definition: Funded by budgeted transfers or year-end excess operating funds, Contingency Funds are used for large unforeseen expenses or to set aside funds for contract commitments that extend past fiscal year end.
- b. Target balances are not intended to be a required maximum. Target balances may be achieved over time.
- c. Contractual balance limits may only be exceeded with entities' consent.
- d. Regional Water System Contingency Fund - Shall maintain a minimum of 130-150 days of budgeted O&M expense for next fiscal year with a target 150 days cumulative fund balance within the Operating and Contingency Fund. Funds available at fiscal year-end will be contributed to such balances, up to 150 days cumulative.
- e. Regional Wastewater System and Upper East Fork Interceptor System - Shall target 90 days' budgeted O&M expense for the next fiscal year.
- f. Regional Solid Waste System - Shall target 30 days' Budgeted Operations and Maintenance Expense for the next Fiscal Year.
- g. Plano Water Transmission Facilities Contingency Fund for the City of Plano - \$75,000 maximum balance as required by the March 27, 1997 Water Transmission Facilities Contract.
- h. Stewart Creek Wastewater Treatment Plant Contingency Fund for the City of Frisco - \$100,000 maximum balance as required by the October 27, 2011 Wastewater Contract.
- i. Muddy Creek Wastewater Treatment Plant Contingency Fund for the Cities of Wylie and Murphy - \$15,000 maximum balance as required by the May 27, 1999 Wastewater Contract.
- j. Internal Service Funds – Balance maintained at 15-45 days' budgeted O&M expense for the next fiscal year with a target of 30 days for the next fiscal year. Fund balance may be used for offsetting extraordinary or one-time expenditures in the current or next fiscal year.

- k. Kaufman Four-One Water Distribution Facilities Escrow Fund - \$75,000 maximum balance as required by the October 2, 1989 Water Supply Contract.

All Other Systems' Contingency or Reserve for Maintenance Fund minimum balances shall target 90 days' budgeted operations and maintenance expense for the next fiscal year, up to a maximum of \$500,000.

8. Preventative Maintenance Escrow Funds:

- a. Definition: Funded by budgeted transfers or year-end excess from operating funds, the Preventative Maintenance Escrow Funds are used for large operations and maintenance inspection projects that occur on a schedule for certain systems. Funds required for the projects are collected over a course of years with the objective to smooth annual expenses.
- b. All Systems' Preventative Maintenance Escrow Funds' minimum balances shall be maintained based on the preventative maintenance schedules for the Operating Systems. The preventative maintenance schedules shall be updated annually.

9. Equipment Replacement Escrow Funds:

- a. Definition: Funded by budgeted transfers or year-end excess funds from operating funds, the Equipment Replacement Escrow Funds are used for purchasing periodic short term capital purchases.
- b. All Systems' Equipment Replacement Fund minimum balances shall be maintained based on the equipment replacement schedules for the Operating Systems. The equipment replacement schedules shall be updated annually.

10. Health Insurance Holding Funds:

- a. Definition: The Health Insurance Holding Funds are used to operate the District's Health Insurance Fund for active employees and retirees.
- b. Cumulative balance for the active and retiree Health Insurance Holding Funds shall be maintained at a minimum of 2-4 months' worth of expenses, with 4 months as the target.

11. Arbitrage Liability Funds:

- a. Definition: Arbitrage Liability Funds are restricted for the payment of arbitrage rebate as well as yield reduction payments.
- b. All Systems' Arbitrage Liability Funds shall be maintained at the annual arbitrage

liability calculations.

12. Lawsuit Settlement Funds (Received)

- a. Definition: Lawsuit Settlement Funds are received from the settlement of lawsuits and will only be used for the purpose(s) intended by the settlement agreement.
- b. No minimum balance is required,

2.3 Fund balances shall be evaluated by NTMWD Staff as of September 30 each fiscal year and reviewed with the Finance Committee within a reasonable time after completion of the annual financial audit.

## **SECTION 3. DEBT MANAGEMENT POLICY**

### **3.1. Purpose**

This Policy sets guidelines for NTMWD's management of debt to ensure that all debt is issued both prudently and cost effectively. NTMWD issues debt to primarily fund major capital improvements, expansions and repairs to existing facilities for projects identified in the Capital Improvement Plan of each System. NTMWD does not issue debt to fund routine operation and maintenance expenses or for the primary purpose of investing bond proceeds.

### **3.2. Responsibilities**

The Board and Finance Committee shall review and approve the:

- a. Bond sales.
- b. Debt Management Policy.
- c. Annual budgets sufficient to make all debt payments.

District staff, with assistance from NTMWD's Bond Counsel and Financial Advisor, shall:

- a. Assume primary responsibility for debt management.
- b. Provide issuance of debt in the appropriate amounts and at the appropriate times to fund capital expenditures.
- c. Recommend the manner of sale of debt.
- d. Monitor and recommend potential refunding opportunities.
- e. Comply with all rules, regulations, and policies.
- f. Provide timely payment of all debt and ensure the payments are received on or before the due date.
- g. Prepare and review bond documents.
- h. Apply and promote prudent fiscal practices.
- i. Monitor and ensure compliance with all covenants and provisions contained in the bond documents.

### **3.3. Ethics and Standards of Care**

Employees involved in the debt management process will act as responsible stewards and shall refrain from personal business activity that could conflict with the proper execution and management for the debt management program, or that could impair their ability to make impartial decisions. Employees shall abide by NTMWD's Code of Ethics as outlined in NTMWD Personnel Policies Manual, Ethics, Gifts, and Conflicts of Interest.

### **3.4. Issuance of Debt**

1. NTMWD will use the services of an independent Financial Advisor (FA) for advice on the structuring of new debt, financial analysis of various options, including refunding

opportunities, the rating review process, the marketing and marketability of NTMWD debt obligations, issuance and post-issuance services, the preparation of offering documents and other services as necessary. The FA shall not bid on nor underwrite any NTMWD debt issues. NTMWD will be informed by the FA of changes in state and federal legislation related to debt management. The FA shall evaluate credit enhancements for each debt issuance and evaluate the need of bond insurance when applicable and provide a recommendation.

2. NTMWD shall consider the current debt service payments over the life of outstanding bonds and attempt to maintain level debt service payments unless it is determined that a nonlevel debt service structure would achieve a more desirable result on the system's rates/revenue requirements. Debt issuance schedules shall be determined based upon anticipated funding needs and delivered in a manner that best manages the system's costs over time. Long-term debt shall be issued at a fixed rate, and the term of the debt may not exceed the expected useful life of the project being financed.
3. Use of specific debt products will be based on analysis provided by the District's Finance Department and FA. Recommendations to the Board of Directors will be provided by NTMWD's Executive Staff including but not limited to the Executive Director and the Assistant General Manager – Chief Financial Officer . The types of debt that may be issued are long-term and short-term revenue bonds in accordance with each system's bond resolution and short-term Extendable Commercial Paper (ECP) in systems authorized by the NTMWD Board of Directors. Bonds may be sold through competitive sales, negotiated sales or private placement. NTMWD shall integrate its debt issuance with its Capital Improvement Plan (CIP). For matters not addressed in this Policy, legal requirements will prevail.
4. NTMWD has, but is not limited to the following options when structuring its debt sales:
  - a. Level or structured debt service
  - b. Call provisions
  - c. Periods of interest only (deferred principal)
  - d. Capitalized interest
  - e. Tax exempt or taxable
  - f. Other options as offered through private placement such as Texas Water Development Board programs.

Different financing options may be used individually or together. Selection of an option or options will be based on the specific circumstances of the project(s) to be financed while considering the financial impact to the system customers.

Debt may be issued to refund existing debt for restructuring purposes to increase debt capacity, improve debt coverage ratios in specific years, improve debt service structure, or to comply with

federal tax laws. Refunding existing debt may be taxable or tax-exempt, and the District shall require a minimum of 3.00% present value savings to consider a refunding unless the refunding is undertaken for debt restructuring purposes. A Parameter Bond Resolution for refunding existing debt or new money projects may be recommended for approval to the NTMWD Board of Directors seeking to ‘pre-approve’ a transaction subject to certain parameters.

### **3.5. Extendable Commercial Paper Bonds**

1. Staff will provide the –Finance Department with an estimate of capital needs for the upcoming budget year by March 1. The Finance Department will determine if long-term debt and/or ECP will be used during the budget year to finance the capital needs, although such determination is not required for the issuance of ECP during the year.
2. The Board of Directors will annually approve a resolution authorizing bonds to currently refund ECP in the event of a failed ECP refunding. Unless there is a failed ECP refunding, a resolution for the sale of long-term bonds will be presented to the Board for approval.
3. After consideration of market conditions, the District may exercise its option to issue long term fixed rate bonds.
4. The District’s obligation to pay the principal and interest on each ECP bond when due is a limited obligation of the District payable solely from proceeds of the sale of ECP Bonds, a subordinate lien on pledged revenues (as further described in each resolution that authorizes the ECP bond program), or long-term refunding bonds issued to refinance ECP Bonds, and any funds held and lawfully available for such purpose.
5. All transactions in ECP bonds between the Dealer, the Issuing and Paying Agent, and the District shall be in accordance with the ECP bond financing documents and with the customs and practices in the commercial paper market regarding settlement and delivery, to the extent not inconsistent with the ECP bond financing documents.

### **3.6. Compliance**

1. NTMWD shall comply with continuing disclosure requirements under SEC Rule 15c2-12 and its bond documents. NTMWD may use a contracted party to complete continuing disclosure requirements. NTMWD shall provide an annual report of outstanding debt obligations in accordance with Texas House Bill No. 1378 (codified as section 140.008 of the Local Government Code) and provide a link to debt information on the NTMWD website.

2. NTMWD will comply with all regulations regarding arbitrage.
3. NTMWD shall comply with all covenants and conditions contained in governing laws, and any legal documents entered into at the time of a bond offering.
4. At a minimum, the Debt Management Policy shall be reviewed and if necessary, updated every three (3) years.

## **SECTION 4. GENERAL INVESTMENT POLICY**

### **4.1. Governing Authority**

This Investment Policy is in accordance with Chapter 2256 of the Texas Government Code, the Public Funds Investment Act (the “Act”). The investment strategy conforms to governing legislation and other legal requirements. In addition to this Policy, borrowed funds shall be managed by their respective governing resolution, and by all applicable state and federal regulations.

### **4.2. Purpose and Scope**

This Investment Policy establishes authorized officers to invest NTMWD funds, how NTMWD funds shall be invested, and guidelines for periodic reviews of investments.

This Investment Policy applies to all of the investment activities for NTMWD funds excluding certain trust and pension funds contractually invested by outside managers, e.g., Retirement/Pension, and Employee Deferred Compensation.

This Policy includes all funds listed and accounted for in the District’s Annual Comprehensive Financial Report (ACFR) which includes the following:

1. Unrestricted Funds
  - a. Operating Funds
  - b. Capital Improvement Funds
  - c. Preventative Maintenance Funds
  - d. Shared Services Escrow Funds
  - e. Health Insurance Holding Funds
2. Restricted Funds
  - a. Construction Funds
  - b. Interest and Redemption (Sinking) Funds
  - c. Reserve Funds
  - d. Contingency Funds
  - e. Reserve for Maintenance Funds
  - f. Arbitrage Liability Funds
  - g. Lawsuit Settlement Funds (Received)

### **Pooling of Funds**

NTMWD will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration.

Investment income shall be allocated to the various funds based on their respective investment participation, in accordance with generally accepted accounting principles.

#### **4.3. Investment Strategy and Objectives**

In conjunction with the annual review, the Board shall review the separate written Investment Strategy Statement, included as Exhibit “A,” for each of NTMWD’s funds, and adopt revisions or additional Investment Strategy Statements as needed. The Statement describes the investment objectives according to the following priorities:

1. Investment suitability;
2. Preservation and safety of principal;
3. Liquidity;
4. Marketability prior to maturity of each investment;
5. Diversification; and,
6. Yield.

The primary objective of all investment activity is the preservation of capital and the safety of principal throughout the portfolio. Each investment transaction shall seek to avoid capital losses, whether from securities default or erosion of market value.

The investment portfolio will maintain liquidity to meet reasonably anticipated cash flow requirements. This will be accomplished by structuring the portfolio so securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, not all possible cash demands can be anticipated; the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). Alternatively, a portion of the portfolio may be placed in local government investment pools and/or money market mutual funds or which offer same-day liquidity for short-term funds.

NTMWD’s portfolio shall be designed with the objective of regularly meeting or exceeding the average yield on three-month U.S. Treasury bills. This appropriate indicator is the benchmark for lower risk investment transactions and therefore comprise a minimum standard for NTMWD’s portfolio’s rate of return. The investment strategy shall seek to augment returns above this threshold, consistent with risk limitations identified herein and prudent investment principles.

#### **4.4. Responsibility and Controls**

##### Authority to Invest

The Executive Director/General Manager (“ED/GM”) or his/her designee shall be the “Investment Officer” of NTMWD. The ED/GM shall designate one or more Alternate Investment Officers to perform the duties of managing NTMWD funds in the absence of the Investment Officer. The authorized Investment Officer can deposit, withdraw, invest, transfer, execute documentation, and otherwise manage NTMWD funds according to the rules governing NTMWD’s funds, including but not limited to this Policy.

The Investment Officer and Alternate Investment Officers shall attend training in accordance with requirements set forth by the Act. Investment training shall be taught by an independent source as listed in Exhibit “B.”

##### Prudent Investment Management and Standard of Care

Investment Officers exercising due diligence while acting in accordance with written procedures and this investment policy, shall be relieved of personal responsibility for individual security 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.

The standard of prudence used by the Investment Officer shall be the “prudent investor rule” as set forth in the Act and shall be applied in the context of managing an overall portfolio within the applicable legal constraints. The Act states:

“Investments shall be made with the judgment and care, under prevailing circumstances, that a person of prudence, discretion and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived.”

#### Standards of Ethics

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 that could impair their ability to make impartial decisions. Employees and investment officials shall adhere to NTMWD’s “Code of Conduct” policies. Additionally, they shall file with the Texas Ethics Commission and NTMWD’s Board of Directors a statement disclosing any personal business relationship with an entity seeking to sell investments to NTMWD or any relationship within the second degree by affinity or consanguinity to an individual seeking to sell investments to NTMWD. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of NTMWD.

#### Establishment of Internal Controls

The ED/GM or his/her designee will oversee the Investment Officer in the maintenance of a system of internal controls over the investment activities of NTMWD.

#### **4.5. Reporting**

The Investment Officer shall prepare a quarterly investment report, including a management summary that provides an analysis of the status of the current investment portfolio and the individual transactions executed over the previous quarter. This management summary will be prepared in a manner that will allow NTMWD to ascertain whether investment activities during the reporting period have conformed to the Investment Policy. The Board of Directors will receive the quarterly report; prepared and signed by the Investment Officer and the Alternate Investment Officer. The report will include the following:

1. Describe in detail the investment position of NTMWD;

2. State the reporting period beginning book and market value, fully accrued interest during the period, and ending book and market value for the period for each pooled fund group;
3. State the reporting period ending book and market value for each investment security by asset type and fund type;
4. State the maturity date of each investment security;
5. State the fund type for which each investment security was purchased, and;
6. State the compliance of the investment portfolio with NTMWD's Investment Policy and Investment Strategy Statement and the Public Funds Investment Act.

NTMWD, in conjunction with its annual financial audit, shall perform a compliance audit of management controls on investments and adherence to NTMWD's Investment Policy and Investment Strategy Statement. If NTMWD purchases securities other than money market funds, investment pools or accounts offered by its depository bank, an independent auditor shall formally review the reports prepared by the Investment Officer annually. Then, these results of the review will be reported to the Board of Directors.

#### **4.6. Authorized Investment Advisors and Broker/Dealers**

An approved list of Authorized Investment Advisors (if applicable) and Broker/Dealers will provide investment transaction services to NTMWD are listed in Exhibit "C".

1. Investment Advisors shall adhere to the spirit, philosophy and specific term of this Policy and shall invest within the same "Standard of Care" as applied to NTMWD.

The Investment Officer will select and establish criteria to evaluate Investment Advisors including:

1. Adherence to NTMWD's policies and strategies;
2. Portfolio performance and transaction pricing within accepted risk constraints;
3. Responsiveness to NTMWD's request for services and information;
4. Understanding of the inherent fiduciary responsibility of investing public funds; and
5. Similarity in philosophy and strategy with NTMWD's objectives.

2. Broker/Dealers shall adhere to the spirit and philosophy of this Policy and shall avoid recommending or suggesting transactions outside of such standard.

The approved security broker/dealers are selected by creditworthiness and/or other factors, such as FINRA broker check. In addition, the Board of Directors will at least annually, review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the entity.

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

- Audited financial statements demonstrating compliance with state and federal

capital adequacy guidelines

- Proof of Financial Industry Regulatory Authority (FINRA) certification
- Proof of state registration
- Completed broker/dealer questionnaire Certification of having read, understood, and agreeing to comply with NTMWD's Investment Policy. In addition, they have implemented reasonable procedures and controls in an effort to preclude investment transactions conducted that are not authorized by the NTMWD's Investment Policy, except to the extent that this authorization is dependent on an analysis of the makeup of the entity's entire portfolio or requires an interpretation of subjective investment standards.

#### **4.7. Safekeeping and Custody**

##### **1. Delivery vs. Payment**

All trades of marketable securities will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible custody account prior to the release of funds.

##### **2. Safekeeping**

Securities will be held by an independent third-party custodian selected by NTMWD and held in NTMWD's name as evidenced by safekeeping receipts of the institution with which the securities are deposited. The safekeeping institution shall annually provide a copy of their most recent report on internal controls.

##### **3. Internal Controls**

The Investment Officer shall establish a system of internal controls, which shall be documented in writing. The internal controls shall be reviewed annually by the staff, where present, and with the independent auditor. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, third-party misrepresentation, unanticipated changes in financial markets, or imprudent actions by employees and officers of NTMWD.

#### **4.8. Suitable and Authorized Investments**

##### **1. Investment Types –The following investments will be permitted by this Policy:**

- U.S. Treasury obligations which carry the full faith and credit guarantee of the United States government;
- U.S. government agency and instrumentality obligations unconditionally guaranteed or insured by, or backed by the full faith and credit of, the United States or its respective agencies and instrumentalities, excluding mortgage backed and asset backed securities

- A certificate of deposit or share certificate is an authorized investment if the certificate is issued by a depository institution that has its main office or a branch in this state and is:
  - a. Secured in accordance with Chapter 2257 or in any other manner and amount provided by law for deposits of NTMWD; or
  - b. Secured by obligations that are described in Section 2256.009(a) of the Act, 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 mortgaged backed securities of the nature described by Section 2256.009(b) of the Act; and
  - c. Solicited for bid orally, in writing, electronically, or any combination of those methods.
- Fully collateralized repurchase agreements meeting the requirements described by the Public Funds Investment Act. The term includes direct security repurchase agreements entered into by NTMWD and reverse repurchase agreements only obtained in connection with investment by NTMWD in an Eligible Investment Pool. All NTMWD repurchase agreement transactions shall be governed by a signed master repurchase agreement.
- Money market mutual funds regulated by the Securities and Exchange Commission and whose portfolios consist only of dollar-denominated securities; and
- Local government investment pools either state-administered or developed through joint powers statutes and other intergovernmental agreement legislation

The following maximum limits, by instrument, are established for the District's total portfolio to be followed at time of purchase:

- U.S. Treasury Securities ..... 100%
- U.S. Agencies and Instrumentalities ..... 75%
  - U.S. Agency Bullet ..... 75%
  - U.S. Agency Callable ..... 25%
- Certificates of Deposit ..... 40%
- Repurchase Agreements ..... 40%
- Money Market Mutual Funds ..... 25%
- Authorized Investment Pools ..... 100%
- If an authorized investment in the District's portfolio is rated in a way that causes it to become an unauthorized investment, the Investment Officer shall review the investment to determine whether it would be more prudent to hold the investment until its maturity, or to redeem the investment;
- The District is not required to liquidate investments that were authorized investments at the time of purchase;
- Investments not specifically listed in this Policy are strictly prohibited.

## 2. Collateralization

All bank deposits of NTMWD shall be federally insured or collateralized with eligible securities. Financial institutions serving as depository of NTMWD Funds (“Depositories”) will be required to sign a Depository Pledge Agreement with NTMWD and a third-party safekeeping institution (the “Agreement”). The Agreement shall define NTMWD’s 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, and shall be:

- in writing;
- executed by the Depository, NTMWD, and the third-party safekeeping institution (“Safekeeping Institution”) contemporaneously with the acquisition of the asset;
- approved by the Depository’s Board of Directors or the loan committee of the Depository and a copy of the meeting minutes must be delivered to NTMWD; and
- part of the Depository’s “official record” continuously since its execution.

### Allowable Collateral

1. Collateralized Deposit - Eligible securities for collateralization of deposits are defined by the Public Funds Collateral Act, Chapter 2257, Texas Government Code, as amended and meet the constraints of this Policy.
2. Repurchase Agreement - Securities underlying repurchase agreements are limited to cash, United States Government, Agencies and Instrumentalities obligations, which are eligible for wire transfer (i.e., book entry) to NTMWD’s designated Safekeeping Institution through the Federal Reserve System and meet the constraints of the Act.

### Collateral Levels

1. Collateralized Deposits - The market value of the principal portion of collateral pledged for collateralized deposits must at all times be equal to or greater than the amount of the deposit plus accrued interest, less the applicable level of FDIC insurance.
2. Repurchase Agreements - A repurchase agreement’s purchase security market value shall include the accrued interest applicable to the security. The security’s market value must be maintained at the minimum level of 102% of the repurchase agreement’s principal value.

### 3. Protection of Principal

NTMWD shall seek to control the risk of loss due to the failure of a security issuer or grantor. Such risk shall be controlled by investing only in the safest types of securities as defined in the Policy, by qualifying the Investment Provider with whom NTMWD will transact, by collateralization and through portfolio diversification by maturity and type.

## **4.9. Investment Diversification and Constraints**

### 1. Diversification by Investment Type

Diversification by investment type shall provide NTMWD's portfolio with a reduction in credit risk. Bond proceeds may be invested in a single security or investment if the Investment Officer determines that such an investment is necessary to comply with Federal arbitrage restrictions or to facilitate arbitrage recordkeeping and calculation.

### 2. Diversification by Investment Maturity

In order to minimize risk of loss due to interest rate fluctuations, investment maturities will not exceed the anticipated cash flow requirements of the funds. Maturity guidelines, at the time of purchase, by fund are as follows:

- Operating Funds - The weighted average days to maturity for the operating fund portfolio shall be less than 270 days and the maximum allowable maturity shall be 18 months.
- Construction Funds - The investment maturity of Construction Funds shall be limited to the anticipated expenditure schedule. Bond proceeds (excluding Reserve and Interest and Sinking Funds) shall generally be limited to the anticipated cash flow requirement.
- Interest and Sinking Funds - Interest and Sinking Funds shall be invested to ensure adequate funding for each consecutive debt service payment. The Investment Officer shall invest in such a manner as not to exceed an "unfunded" debt service date with the maturity of any investment. An unfunded debt service date is defined as a coupon or principal payment date that does not have cash or investment securities available to satisfy said payment.
- Debt Service Reserve Funds - Market conditions, Bond Resolution constraints, and Arbitrage regulation compliance will be considered when formulating Reserve Fund strategy. Maturity limitation shall generally not exceed the call provisions of the Bond Resolution and shall not exceed the final maturity of the bond issue.

- Contingency - The weighted average days to maturity for the fund portfolios shall be less than 180 days and the maximum allowable maturity shall be 3 months.
- Reserve for Maintenance Funds – The weighted average days to maturity for the fund portfolios shall be less than 180 days and the maximum allowable maturity shall be 3 months
- Arbitrage Liability Funds – The weighted average days to maturity for the arbitrage fund portfolio shall be less than 270 days and the maximum allowable maturity shall be 18 months.
- Health Insurance Holding Funds – The weighted average days to maturity for the Health Insurance Holding Funds portfolio shall be less than 270 days and the maximum allowable maturity shall be 18 months.
- Lawsuit Settlement Funds (Received) – The weighted average days to maturity for the Lawsuit Settlement Funds (Received) portfolio shall be less than 270 days and the maximum allowable maturity shall be 18 months.

#### **4.10. Term of Investments**

The maximum term of any investment may not exceed ten (10) years from the settlement date.

#### **4.11. Competitive Bidding**

The Investment Officer shall attempt to obtain competitive bids from at least three approved brokers or financial institutions on all purchases and sales of investment instruments transacted on the secondary market. In the case of the purchases executed by the approved Investment Advisor, the Investment Advisor shall obtain at least three bids from their list of approved brokers and provide documentation accordingly with the trade ticket.

#### **4.12. Portfolio Pricing Source**

When determining the market value of NTMWD's securities, prices shall be obtained from a reputable and independent source including but not limited to Bloomberg, the Wall Street Journal, Intercontinental Exchange (ICE), and the District's safekeeping agent. In the event NTMWD has retained the services of a Registered Investment Advisor, the advisor shall also provide security pricing from ICE, Bloomberg or similarly recognized pricing services.

#### **4.13. Policy Considerations**

This Policy shall be reviewed on an annual basis. Any changes must be submitted by the Investment Officer. Additionally, it shall be approved by the investment oversight committee or authoritative body acting in such capacity.

#### **4.14. Approval of Investment Policy**

The Investment Policy shall be formally approved and adopted by the governing body of NTMWD and reviewed annually.

## **SECTION 5. INVESTMENT POLICY FOR THE RETIREE HEALTH INSURANCE PROGRAM**

### **5.1. Purpose and Scope**

This Investment Policy applies to all of the investment activities of the Retiree Health Insurance Program (the “Program”), and establishes guidelines for those who can invest NTMWD funds, for how NTMWD funds will be invested, and for when and how a periodic review of investments will be made. This Investment Policy shall also apply to all of the investment activities of the NTMWD Retirement Fund (the "Retirement Fund") until such time as an Oversight Committee is created for the Retirement Fund and such committee adopts a separate investment policy.

#### Retiree Health Insurance Program

Funding for the Retiree Health Insurance Program shall be included in NTMWD's annual operating budget and:

1. NTMWD's contributions to the Program shall be irrevocable;
2. Program assets shall be used for the exclusive benefit of the participants of the Program; and
3. Program assets shall be protected from creditors.

### **5.2. Responsibility and Controls**

The Finance Committee shall manage the investment of funds of the Retirement Fund and the Program. The ED/GM or his/her designee shall be the “Investment Officer” of NTMWD. The ED/GM shall designate one or more Alternate Investment Officers to perform the duties of the Investment Officer in the absence of the Investment Officer. The Investment Officer is authorized to deposit, withdraw, invest, transfer, execute documentation, and otherwise manage NTMWD funds according to the instructions of the Finance Committee. The Finance Committee acting in accordance with these policies and procedures shall be relieved of personal liability.

#### Controls

The Finance Committee members adhere to NTMWD's “Code of Conduct” Policies. Additionally, the Finance Committee shall file with NTMWD's Board of Directors a statement disclosing any personal business relationship with an entity seeking to sell investments to NTMWD or any relationship within the second degree by affinity or consanguinity to an individual seeking to sell investments to NTMWD. The ED/GM will oversee the Investment Officer in the maintenance of a system of internal controls over the investment activities of NTMWD.

### **5.3. Reporting and Advisors**

#### Reporting

The Investment Officer will provide a quarterly comprehensive report signed by the Investment Officer and Alternate Investment Officer, to NTMWD's Board of Directors within a reasonable time after the end of the period. This investment report shall:

1. Describe in detail the investment position of the funds.
2. State the reporting period beginning book and market value, additions or changes to the book and market value during the period and ending book and market value for the period of each investment.
3. State the compliance of the investment portfolio with this Investment Policy.

NTMWD, in conjunction with its annual financial audit, shall perform a compliance audit of management controls on investments and adherence to this Investment Policy and strategies.

#### Investment Advisors and Investment Providers

Selection of Investment Advisors and Investment Providers will be performed by the Finance Committee. The Finance Committee will establish criteria to evaluate Investment Advisors and Providers including:

1. Adherence to NTMWD's policies and strategies.
2. Portfolio performance and transaction pricing within accepted risk constraints.
3. Responsiveness to NTMWD's request for services and information.
4. Understanding of the inherent fiduciary responsibility of investing public funds.

### **5.4. Investment Policies and Strategies**

#### Authorized Investments

Investments described below are authorized as eligible securities for the funds of the Retirement Fund and Program. The purchase of specific issues may at times be restricted or prohibited by the Finance Committee. NTMWD funds governed by this Investment Policy may be invested in:

1. Obligations of the United States or its agencies and instrumentalities.
2. Other obligations, the principal and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the United States or its respective agencies and instrumentalities.
3. Collateralized deposits issued by state and national banks and savings and loan associations that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor.
4. Mutual Funds or commingled funds, which may include equities or bonds in their portfolio.
5. Money market funds and other pooled fixed rate investments.

## Protection of Principal

Safety of principal is provided through diversification in the portfolio of investments. The overall allocation of investments should fall within the following ranges:

Fixed Income Investments	20% to 80%
Equities	20% to 80%

The mutual funds or commingled funds portion of the portfolio is to be diversified so that no one mutual fund or commingled fund represents more than 50% of the mutual fund or commingled fund portion.

## **5.5. Voting**

For the Finance Committee to take any action on the investment of funds of the Retirement Fund or the Program, a two-thirds majority vote must be obtained.

## **SECTION 6. WATER VARIABLE COST REBATE POLICY**

### **6.1. Overview**

This Policy is intended to provide a framework with which the Board of Directors, on an annual basis, may consider a rebate of monies paid by the Member Cities and customers, when such cities' and customers' demands for water do not meet or exceed their annual system volume requirement. This Policy is intended to incentivize water conservation and reward the Member Cities and customers when their actions result in reduced water deliveries and greater water conservation.

### **6.2. Procedure**

The following provides a description of the program and required procedures:

1. To be eligible for a rebate, the Member City or customer shall:
  - a. have had water demands supplied at volumes less than its annual minimum volume requirement as established in the Budget Resolution;
  - b. not currently be establishing an annual minimum volume requirement by contract negotiation.
2. The volume eligible for rebate, if authorized by the Board of Directors, would be the difference between the annual minimum volume requirement as established in the Budget Resolution and the actual usage by the Member City or customer during the most recently completed 12-month water year (August 1 through July 31).
3. The total amount of funds to be considered for rebate shall be calculated as the difference between the budgeted fiscal year variable costs, as determined annually by the Board of Directors, and the corresponding fiscal year unaudited variable expenses in the Regional Water System. If variable expenses are greater than the budgeted fiscal year variable costs/charges, no rebate shall be administered.
4. The total amount of funds to be considered for rebate shall be allocated amongst all eligible Member Cities and customers based on such Member City or customer's proportionate share of the total volume eligible for rebated as determined in Item 2 above.
5. Each year at the October Board of Directors meeting, the ED/GM will provide the Board of Directors a list of Member Cities and customers eligible for rebate, if any, and the total amount of funds to be considered for rebate (the original budget of the variable cost less actual use). The item shall be a "discussion item" on the October agenda.

After considering the financial condition of NTMWD, the Board of Directors shall either instruct the ED/GM to place the rebates on the November agenda for consideration or accept the report as information only.

6. Should the Board of Directors elect to provide a rebate at the November Board of Directors meeting, the ED/GM shall authorize payment to the eligible Member Cities and customers within 30 days of the Board's action.

The Board shall follow the above-referenced procedure on an annual fiscal year basis.

## **SECTION 7. PROCUREMENT POLICY**

It is the goal of NTMWD to obtain quality goods and services at reasonable cost by generating competition whenever possible. The Executive Director/General Manager, in an Administrative Directive, will create procedures, guidance and instruction to be followed by NTMWD employees for purchasing activities.

### **7.1. Purpose**

The purpose of this Policy is to:

1. Establish authority of the procurement function within NTMWD;
2. Establish procurement guidelines to obtain goods and services in a consistent manner;
3. Serve as stewards of NTMWD funds by exercising fiduciary responsibility through compliance with applicable laws, internal policies, directives, and industry best practices;
4. Ensure the procurement system is fair and equitable;
5. Provide for increased efficiency in public procurement;
6. Foster effective competition from all segments of the supplier community;
7. Safeguard the integrity of the procurement system and protect against corruption, waste, fraud and abuse.

### **7.2. Application**

1. This procurement policy applies to all NTMWD employees and officials involved in the procurement process. Adherence to this Policy and NTMWD Personnel Policies Manual is an individual and department/system responsibility. A breach or unauthorized departure from the procedures derived from this Policy may result in removal from the procurement process and possible criminal penalties.
2. This Policy applies to NTMWD purchases made with All Systems Budget funds approved by the Board in the annual operating budget.
3. All NTMWD construction bidding of \$25,000 or more will be facilitated through the Procurement Department. Construction contracts that are not funded from the annual operating budget will be processed for approval according to the procurement program approved by the Board for the construction project. This Policy excludes grant-funded projects outlined in the Board approved annual budget.

### **7.3. Procurement Authority**

The NTMWD Board of Directors has designated the Procurement Department as being the procurement authority for NTMWD. The Procurement Manager will have the right to determine which method of purchase provides the best value for NTMWD, adopt operational procedures consistent with sound business practices and applicable state law; and oversee the purchase of materials, goods, construction, professional, and general services applicable under this Policy.

### **7.4. Signature Authority**

1. This section applies to expenditures funded in the annual operating budget approved by the Board and awarded by contract, agreement, modification, purchase order, and/or change order.
  - a. Signature authority of \$100,000.00 or more is granted to the Executive Director/General Manager, or their designee.
  - b. Signature authority up to \$99,999.99 is granted to Assistant General Managers, or their designee.
  - c. Signature authority up to \$24,999.99 is granted to Directors, or their designee for an amount not to exceed \$10,000.00. Signature authority up to \$24,999.99 is granted to the Procurement Manager, or their designee. If Directors or Procurement Manager need to delegate their signature authority, approval is required from their Assistant General Manager.
2. Requisition approval levels for the NTMWD financial system are outlined in Administrative Directive No. 10.
3. Signature Authorization on Checks

All checks written for services or goods purchased by NTMWD, in any amount, must be signed by at least two individuals. The primary signees are the Executive Director/General Manager and the Assistant General Manager – Chief Financial Officer. The Executive Director/General Manager shall designate alternate signees in the event of absence of the primary signees. Delegated signature authority card is on file at the bank.

### **7.5. Centralized and Decentralized Procurement Functions**

1. NTMWD shall maintain a centralized procurement function. As such, the following applies:
  - a. The Procurement Department is responsible for administration of the Procurement Policy and directives, consolidation of purchases when applicable, and analysis of prices paid.
  - b. Department expenditures between \$0.01 and \$24,999.99 may be reviewed by

the Procurement Department to verify compliance with this Policy.

- c. Expenditures, including construction, of \$25,000.00 and above will be facilitated through the Procurement Department.
2. Grant funded expenditures are considered decentralized and it shall be the overseeing Assistant General Manager's responsibility to abide by applicable Board policies, statutes, and related requirements:

## **7.6. Procurement Thresholds**

1. Department Managers are responsible for compliance with all procurement policies and related directives, for maintaining controls and oversight of their department involvement in all procurement processes, and for ensuring employees under their control comply with all procurement policies and directives.
2. Cumulative Spend
  - a. NTMWD has a cumulative spend competition threshold that applies to all expenditures. Purchases with any one supplier, or category of spend, regardless of general ledger accounts, are subject to the thresholds in Section 7.6 over a single fiscal year period.
3. For Purchases of \$25,000.00 or more
  - a. The Procurement Department will facilitate the appropriate competitive process and award via written contract and/or purchase order.
    - i. Contracts entered into through the Procurement Department must have a commencement date and a specific expiration date. The standard duration for a contract without reissuing a competitive solicitation is five years. This includes renewal and/or extension periods.
    - ii. Exceptions to the standard duration must be approved in writing by the overseeing Director or Assistant General Manager.
4. For Purchases between \$3,000.00 and \$24,999.99
  - a. User departments must request price quotations in writing from a minimum of three sources, or purchase through an approved cooperative contract, unless subject to an exemption.
  - b. If an increase to the original award causes the amount to exceed \$24,999.99, user departments must first contact the Procurement Department.
5. For Purchases between \$0.01 and \$2,999.99
  - a. User departments shall seek a source with fair and reasonable pricing,

competitive quotations are encouraged, but are not required. These may be purchased prior to completion of a purchase requisition.

- b. User departments shall make reasonable efforts to assure that the best value is being obtained for NTMWD.
6. Change Order Thresholds
  - a. The original award amount may not be increased by more than 25 percent, unless approved by the Executive Director/General Manager.
  - b. The original award amount may not be decreased by more than 25 percent without the consent of the contractor.

## **7.7. Personal, Professional and Consulting Services**

1. NTMWD must follow the Professional Services Procurement Act and facilitate the process as outlined in Texas Government Code Chapter 2254 to award professional services defined in statute.
2. For personal, professional, and consulting services that are not defined in Chapter 2254 but “require special knowledge or attainment and a higher order of learning, skill, and intelligence,” per *Op. Tex. Att'y Gen. Nos. JM-1038 (1989), JM-940 (1988), MW-344 (1981)*, a competitive process based upon demonstrated competence, qualifications, and a fair and reasonable price may be used for expenditures of \$25,000.00 or more.

## **7.8. Cooperative Purchasing**

NTMWD participates in purchasing programs of various local, state and national cooperatives. The Procurement Department acts as the official representative for NTMWD in all matters relating to cooperative purchasing programs.

1. Procurement Department Responsibility:
  - a. For purchases of \$25,000.00 or more, the Procurement Department may garner competition within cooperatives to obtain the best value for NTMWD;
  - b. All purchasing-related interlocal and cooperative agreements must be reviewed by the Procurement Manager and entered into through the Procurement Department;
  - c. The Procurement Department will maintain a list of approved interlocal and cooperative purchasing programs that can be found on the Procurement Department’s NTMWD intranet page;
    - 1) For interlocal or cooperative purchasing programs that are not found on this list, the Procurement Department must first review, recommend approval, and obtain proper authorization before the agreement is used.

2. Department Responsibility:
  - a. For purchases of \$24,999.99 and under
    - i. Departments must follow instructions found on the NTMWD Procurement intranet page on how to search, review and purchase through each cooperative.
    - ii. Departments may garner competition within cooperatives to obtain the best value for NTMWD.

## **7.9. General Exemptions**

The following is an inclusive list of exemptions to this Policy:

1. Emergency Expenditures
  - a. For emergency expenditures, NTMWD must adhere to the process as outlined in the NTMWD Finance Policies Manual, Emergency Expenditures.
    - 1) Emergency conditions include:
      - a) A purchase made because of a public calamity that requires the immediate appropriation of money to preserve the property of NTMWD;
      - b) A purchase necessary to preserve or protect public health or safety;
      - c) A purchase necessary because of unforeseen damage to public machinery, equipment, or other property;
  2. A purchase for personal, professional, or planning services;
  3. A purchase of land or right-of-way;
  4. Electricity, unless as described in Administrative Directive No. 42;
  5. Advertising, other than legal notices;
  6. Sole and Single Source Purchases
    - a.

## **7.10. Roles and Responsibilities in the Procurement Process**

1. NTMWD employees must:
  - a. Not purchase any goods or services for personal benefit;
  - b. Not use NTMWD cooperative accounts for personal purchases, even if using a

personal payment method;

- c. Not share NTMWD cooperative account information with non-NTMWD employees;
- d. Not authorize product demonstrations, trials or wear tests with intent to purchase without prior notification given to the Procurement Department;
- e. Not obligate NTMWD for the purchase of goods that are delivered for use on a trial basis;
- f. Not commit to acquire goods or services without an authorized purchase order;
- g. Not use purchasing strategies to avoid the requirements of this Policy such as “Component,” “Separate,” or “Sequential”.

2. No officer or employee of NTMWD can participate on an evaluation committee or make a recommendation of award if they have a financial interest, direct or indirect, in the contract with NTMWD, or shall be financially interested, direct or indirect, in the sale to NTMWD of any materials, supplies, or services.

3. No persons writing specifications that are to be awarded through a NTMWD competitive solicitation process, including vendors and NTMWD personnel, shall receive any direct or indirect financial benefit from utilization of such specifications and in accordance with the NTMWD Personnel Policies Manual.

4. A vendor that prepares specifications in a bid/proposal should contractually agree that neither it nor its subsidiaries, or other entity with financial affiliation will be permitted to bid/propose on the project.

5. The Procurement Department is responsible for the following:

- a. Purchases of \$25,000.00 or more whose funding has been approved by the Board in the annual operating budget;
  - 1) Solicit, advertise, and facilitate the award of purchase orders and contracts to vendors;
- b. Foster a transparent and competitive procurement process, whether the item is subject to bid or not;
- c. Ensure applicable statutory compliance;
- d. Determine the best method to procure the requested goods or services;
- e. Determine responsive and responsible bidders;

- f. Work with departments to ensure prompt delivery of goods or services, as requested;
- g. Contact contractors in regard to breach of contract and/or poor performance, as requested;
- h. Develop change orders, contract modifications, renewals and other contract actions for awards made through the Procurement Department;
- i. Train personnel involved in the procurement process;
- j. Notify the department regarding violations of this Procurement Policy;
- k. Assist in combining purchases of similar items to allow for better pricing and establishing of a centralized, competitive atmosphere;
- l. Verify that appropriate departments have been notified of any purchase that may impact their department.

6. User Departments are responsible for the following:

- a. Purchases up to \$24,999.99 that have been approved by the Board in the annual operating budget;
- b. For purchases of \$3,000.00 and above, departments must enter a requisition in the financial system and verify its approval *prior to* placing orders against it;
- c. Departments must verify contract and/or quoted pricing prior to entering, approving, or receiving a NTMWD order;
- d. Items purchased online for NTMWD use must be shipped to a NTMWD address, or picked up in person and delivered to a NTMWD address;
- e. Departments must submit an approved Procurement Request form through Laserfiche to start the process for purchases of \$25,000.00 or more;
- f. Departments must provide scopes of work and specifications to the Procurement Department for goods or services of \$25,000.00 or more;
- g. Identify and ensure internal stakeholders from other departments have reviewed and approved scopes of work and specifications that directly impact their department;
- h. Managers are responsible for ensuring employees under their control have completed the mandatory procurement training. A signed and completed “North Texas Municipal Water District Employee Certification of Compliance

with Ethics Policies" form must be on file. Department personnel may be removed from the procurement process for policy violations;

- i.
- j. Departments are responsible for oversight of their solicitation and contracts to include, but not limited to:
  - 1) Specification development and approval;
  - 2) Technical evaluation of bid and proposal responses, assist in determining bidder responsibility, and provide recommendation of award;
  - 3) Monitor budget;
  - 4) Monitor contractor performance and compliance to ensure it meets specifications;
  - 5) Receive and inspect goods and ensure delivered items meet specifications and packaging documents are accurate. Inspect for damages;
  - 6) Submit receiving tickets to Accounts Payable within three working days;
  - 7) Review invoices to ensure they are correct;
  - 8) Establish and maintain professional communication with contractors;
  - 9) Provide documentation to the Procurement Department for change orders and contract modifications;
  - 10) Address performance issues promptly and maintain detailed documentation in a Laserfiche contract file, and;
  - 11) Notify the Procurement Department if performance issues are not easily resolved.

## **7.11. Vendor Relations and Vendor Performance**

- 1. No NTMWD employee is required to place their time at the disposal or discretion of salespeople.
- 2. For purchases \$25,000.00 or more, the Procurement Department will facilitate correspondence with vendors, with the exception of when technical or other details make it necessary to assign such correspondence to the department.
- 3. Prices and other specific information received from vendors will be considered confidential during the procurement process. Once the process has been awarded, information received from one supplier will not be divulged to another supplier unless through an open records request.
- 4. Departments must work with their Procurement Department representative to foster open competition.
- 5. If product/service demonstrations or budgetary information is needed, departments are to contact their Procurement Department representative. Procurement will communicate with the supplier to ensure understanding that the request is undertaken only as a means to gather additional information and the provision of a

budgetary quote(s) or product demonstration to NTMWD in no way obligates NTMWD to any present or future financial commitment of any kind.

## **7.12. Advertisement and Notice Requirements**

For bids and proposals of \$25,000.00 or more, notice of the bid request and of the time and place at which the sealed bids will be publicly opened and read aloud must be published at least once a week for two consecutive weeks in a newspaper of general circulation in Collin County and on NTMWD's website through the electronic bidding system. The date of the first publication must be at least 14 days before the date set to open the sealed bids. The Procurement Department will be responsible for preparing and submitting the request to publish the notice, and for publicly opening and reading aloud the bids.

## **7.13. Electronic Bidding**

Electronic sealed bids or proposals must be in compliance with state law which requires the identification, security, and confidentiality of electronic bids or proposals to remain effectively unopened until the proper time.

## **7.14. Procurement Code of Ethics**

1. NTMWD strictly adheres to conducting business activities at an uncompromising level of integrity and abides by NTMWD's Code of Ethics as outlined in NTMWD Personnel Policies Manual, Section 2.3 Ethics, Gifts, and Conflicts of Interest.
2. In addition, NTMWD adheres to National Institute of Governmental Purchasing, Inc. (NIGP) Code of Ethics. These principles shall govern the conduct of every employee involved, directly or indirectly, in NTMWD's procurement process.

## **7.15. Bid Protests**

1. Any active or prospective bidder or proposer who is aggrieved in connection with a solicitation for goods or services may protest.
2. If a department is made aware of or is contacted by a vendor regarding a protest relating to the advertising of bid notices, deadline, solicitation openings, and all other related procedures, as well as any protests relating to alleged improprieties or ambiguities in the specifications, the department must either contact the Procurement Manager or instruct the vendor to contact the Procurement Manager.
3. The Procurement Manager will attempt to determine the reasons behind the potential protest, and failing to satisfy the vendor, will instruct the vendor to prepare a written protest.

## **7.16. Request to Withdraw Bid After Closing**

No bid may be withdrawn after bid closing without acceptable reason given in writing and with the approval of the Procurement Manager.

## **7.17. Post Award Debriefing**

Vendors have the right to request a debrief and be furnished with the basis for the selection, decision and award of any purchase. Procurement will coordinate the vendor meeting and the user department may be required to attend and actively participate in all requested debriefing sessions.

## **7.18. Exceptions to Procurement Policy**

Exceptions to this Policy must be approved by an Assistant General Manager and/or the Executive Director/General Manager and must be submitted in writing to the Procurement Manager.

## **7.19. Credit Applications**

All requests for vendor credit accounts or new NTMWD customer applications for expenditures must be sent to the Procurement Department for approval.

## **7.20. Procurement Card Program**

NTMWD has established a Procurement Card Program for the purchase of infrequent, low-dollar items, and to provide an efficient, cost-effective method for payment of certain transactions. All procurement card transactions must comply with NTMWD Policies, and guidelines set forth in Administrative Directive No. 39.

1. Cardholder responsibility
  - a. The responsibility for card control ultimately rests with the employee using the card. The card should be kept secure and protected at all times.
  - b. The cardholder is responsible for all charges made to the card as one to whom payment authority has been delegated. The cardholder must ensure all transactions are conducted in compliance with NTMWD Policies and Directives.
  - c. The cardholder is responsible for obtaining itemized receipts for all of their Procurement Card purchases.
  - d. All purchases made on the Procurement Card are for official NTMWD business only. Use of the card for personal purchases is strictly prohibited. Misuse of the card will result in revocation of the card, disciplinary action up to and including termination, and possible filing of criminal charges.
2. Department Manager Responsibility
  - e. Department Managers are responsible for maintaining controls and oversight of Procurement Card purchases made by their employees. Violation of NTMWD Policies and Directives may result in loss of the privilege of using the card program and may include disciplinary action.

## **SECTION 8. GRANT MANAGEMENT POLICY**

### **8.1 Purpose and Scope**

This Policy sets guidelines for NTMWD's management of grants. This Policy is applicable to any NTMWD department submitting grant applications to agencies outside the District for funds, materials, or equipment to be received and administered by the NTMWD. The goals and objectives of the NTMWD department should be established early in the planning process and should not change based on changes in the availability of funding sources sought and received.

NTMWD staff, before applying for a grant, should review the rules, regulations and requirements applicable to each particular grant program to determine that such rules, regulations and requirements align with the NTMWD's visions and goals. Also, District staff should consider that it can be reasonably expected that the NTMWD will be able to comply with the known applicable rules, regulations and requirements of such grant program.

No grant will be accepted that will incur management reporting costs greater than the grant amount. Such costs include, but are not limited to, indirect costs, overhead and any other items needed to administer the grant.

The objectives of this Policy include:

- To ensure proper oversight of all grant funds appropriated to the NTMWD
- To minimize the NTMWD's risk of non-compliance with grant requirements
- To ensure proper administration and accounting of all grants

For matters not addressed in the policy, Texas statute and Federal requirements will prevail.

### **8.2 Definitions**

Grant: an award of financial assistance in the form of money or property by a funding source including the federal government, state government, or other local governments.

Department: the NTMWD requestor and/or group accepting responsibility for administration and oversight of the grant.

### **8.3 Central Responsibility**

The Board of Directors authorizes the Executive Director to implement any procedures and controls that minimize the NTMWD's risk for non-compliance with grant requirements and the Assistant General Manager – Chief Financial Officer or their delegate for providing support to requesting departments. The Accounting Department will maintain a central file for all grants in order to facilitate management reporting and overall monitoring.

For Federal Grants, the Accounting Department should ensure compliance with the Federal Office of Management and Budget (OMB) general requirements and any other state and/or federal requirements specified in the grant conditions. The Accounting Department will review expenses

for obvious non-compliance and will act as liaison with independent auditors. All NTMWD departments shall submit any/all grant information required by the Accounting Department to carry out its oversight responsibilities.

If grant applications have special conditions, a copy of such conditions must be given to the Accounting Department for assistance in compliance monitoring. If grant guidelines require the NTMWD to abide by different procurement procedures other than those adopted by the NTMWD, the department should resolve the situation with the Accounting Department prior to submitting the application.

#### **8.4 Monitoring of Grants**

Departments are responsible for developing a monitoring plan and monitoring the financial status of grants. The Accounting Department will provide departments with regular access to monthly financial reports for such monitoring. Departments must review the monthly financial reports and notify the Accounting Department promptly of any discrepancies noted and/or any additional reports needed. Any line-item budget amendments must be approved by the grantor prior to grant expenses being made in order to avoid lost grant funds when/if amendments are denied.

Departments must also monitor grants for compliance with all applicable federal, state, and local regulations and ensure that grant expenses remain in compliance with grant procurement policies and procedures. For example, equipment procured with grant funds must be disposed of in accordance with the terms of the grant. Federal grants must meet requirements set out in the Uniform Grant Guidance, as applicable.

#### **8.5 Grant-funded Procurements**

Departments should follow the NTMWD's and grantor's policies and procedures for all practices including procurement for the selection of contractors and vendors.

#### **8.6 Closeout Procedures**

Departments will ensure proper closeout of all grant funds including coordinating with the Accounting Department to return any unspent funds to the grantor at the end of the term of the grant. According to the OMB Uniform Grants Guidance §200.343, the NTMWD must submit all financial, performance, and other reports required under the grant within 90 days after the grant award expires or is terminated.

## **SECTION 9. IDENTITY THEFT PREVENTION PROGRAM**

### **9.1. Purpose**

This Policy is to authorize an Identity Theft Prevention Program (“Program”) for NTMWD pursuant to the Federal Trade Commission Red Flags Rules (“Rules”), which implement Section 114 of the Fair and Accurate Credit Transactions Act of 2003. The Program is to provide for the identification, detection and responses to patterns, practices, or specific activities – known as “red flags” – that could indicate identity theft.

### **9.2. Definitions**

Following are definitions set forth in the Rules:

1. Identity Theft – fraud committed using the Identifying Information of another person.
2. Red Flag – a pattern, practice or specific activity that indicates the possible existence of Identity Theft.
3. Identifying Information – any name or number that may be used, alone or in conjunction with any other information, to identify a specific person. Such information may include name, address, telephone number, social security number, date of birth, government issued driver’s license or identification number, alien registration number, government passport number, employer or taxpayer identification number, unique electronic identification number, computer’s internet protocol address, or routing code.

### **9.3. Identification of Red Flags**

In order to detect potential identity theft, NTMWD has identified the following Red Flags in each of the listed categories:

#### Suspicious Documents:

- Identification document appears to be forged, altered or inauthentic.
- Identification document on which a person’s photograph or physical description is not consistent with the person presenting the document.
- Application for service appears to have been altered or forged.

#### Suspicious Personal Identifying Information

- Driver’s license number, address or phone number presented that is the same as another customer.
- A person fails to provide complete personal Identifying Information on the application when reminded to do so.
- A person’s Identifying Information is not consistent with the information that is on file for the customer.
- Identifying Information presented that is consistent with fraudulent activity such as an invalid phone number.

### Suspicious Account Activity or Unusual Use of Account

- Notice to NTMWD that the customer is not receiving mail sent by NTMWD.
- Notice to NTMWD that the account has unauthorized activity.
- Account used in a way that is not consistent with prior use (e.g., very high activity where low activity was previously the norm)

### Alerts from Others

- Notice to NTMWD from a customer, identity theft victim, law enforcement or other person, that NTMWD has opened or is maintaining a fraudulent account for a person engaged in identity theft.

## **9.4. Procedures to Prevent and Mitigate Identity Theft**

In order to enhance the detection of the Red Flags identified above associated with the opening of a new account, NTMWD personnel will take the following steps to obtain and verify the identity of the person opening the account:

- Require certain Identifying Information such as name, address, driver's license or other identification.
- Verify the customer's identity (example – review driver's license).
- Review documentation showing the existence of a business entity and independently contact the business entity.

For an existing account, NTMWD personnel will verify the validity of requests to change billing address.

In the event NTMWD personnel detect any of the above identified Red Flags, such personnel shall immediately notify the ED/GM or his/her designee, who will determine the appropriate action to be taken. Such action may include:

- Continue to monitor the account for further evidence of Identity Theft
- Contact the customer.
- Deny request to open a new account.
- Close an existing account.
- Notify local law enforcement.

In order to further minimize the likelihood of identity theft, NTMWD will take the following steps with respect to its internal operating procedures:

- Require and keep only the customer information necessary for NTMWD business purposes.
- Ensure that employees do not leave sensitive papers on their desks when not at their workstations.
- Require employee escorts accompany visitors who enter areas where sensitive files are kept.

- Install anti-virus and anti-spyware programs on any computers that run on NTMWD servers and ensure that programs are periodically updated.
- Ensure access to computer information is controlled using passwords that must be periodically changed.

## **9.5. Program Administration**

NTMWD's Board of Directors, after approving the initial Identity Theft Prevention Program, shall designate the ED/GM or his/her designee to administer the Program. Program administration responsibilities include:

- Assigning specific responsibility for the Program's implementation;
- Reviewing staff reports about compliance with the Rule;
- Approving important changes to the Program; and
- Monitoring the activities of any service providers covered by the Red Flags Rule.

The ED/GM's designee shall review the Program annually and provide a report to the ED/GM evaluating the effectiveness of the Program in addressing the risk of identity theft, any significant incidents of identity theft and NTMWD's response, and any recommendations for changes to the Program based on new technology or new tactics of identity thieves.

## **ADOPTION BY BOARD OF DIRECTORS**

The Finance Policies in this Manual have been established and adopted by the Board of Directors of the North Texas Municipal Water District, in a Regular Meeting of the Board, on this 26th day of September 2024, and attested to by the signature of the President and Secretary, as indicated below.

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Chip Imrie, Secretary

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George Crump, President

(SEAL)

# EXHIBIT A

## **NTMWD INVESTMENT STRATEGY STATEMENT**

### **PREFACE**

It is the policy of the North Texas Municipal Water District that, giving due regard to the safety and risk of investment, all available funds shall be invested in conformance with State legislation, Federal arbitrage regulations, applicable Bond Resolution requirements, adopted Investment Policy, and adopted Investment Strategy.

In accordance with the Public Funds Investment Act, NTMWD investment strategies shall address the following priorities (in order of importance):

- Understanding the suitability of the investment to the financial requirements of NTMWD;
- Preservation and safety of principal;
- Liquidity;
- Marketability of the investment prior to maturity;
- Diversification of the investment portfolio; and,
- Yield.

Effective investment strategy development coordinates the primary objectives of NTMWD's Investment Policy and cash management procedures to enhance interest earnings and reduce investment risk. Aggressive cash management will increase the available "investment period" and subsequently interest earnings. Maturity selections shall be based on cash flow and market conditions to take advantage of various interest rate cycles. NTMWD's portfolio shall be designed and managed in a timely manner responsive to the public trust and consistent with the Investment Policy.

Each major fund type has varying cash flow requirements and liquidity needs. Therefore, specific strategies shall be implemented considering the fund's unique requirements. NTMWD funds shall be analyzed and invested according to the following major fund types:

- A. Operating Funds
- B. Construction Funds
- C. Interest and Sinking Funds
- D. Debt Service Reserve Funds
- E. Contingency Funds
- F. Reserve for Maintenance Funds
- G. Arbitrage Liability Funds
- H. Health Insurance Holding Funds
- I. Lawsuit Settlement Funds(Received)

## INVESTMENT STRATEGY

In order to minimize risk of loss due to interest rate fluctuations, investment maturities will not exceed the anticipated cash flow requirements of the funds. Investment guidelines by fund-type are as follows:

### **A. OPERATING FUNDS**

#### **1. Suitability**

Any investment eligible in the Investment Policy is suitable for Operating Funds.

#### **2. Safety of Principal**

All investments shall be of high-quality securities with no perceived default risk. Market price fluctuations will however occur. By managing the weighted average days to maturity of the Operating Fund portfolios to less than 270 days and restricting the maximum allowable maturity to 18 months, the price volatility of the overall portfolio will be minimized.

#### **3. Liquidity**

The Operating Funds require short-term liquidity. Repurchase agreements and short-term investment pools shall provide daily liquidity and may be utilized as a competitive yield alternative to fixed maturity investments.

#### **4. Marketability**

Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash requirement. Historical market "spreads" between the bid and offer prices of a particular security-type of less than a quarter of a percentage point shall define an efficient secondary market.

#### **5. Diversification**

Investment maturities shall be staggered throughout the budget cycle to provide cash flow based on the anticipated operating needs of NTMWD. Market cycle risk will be reduced by diversifying the appropriate maturity structure out through 18 months.

#### **6. Yield**

Attaining a competitive market yield for comparable security-types and portfolio restrictions is the desired objective. The yield of an equally weighted, rolling three-month treasury bill portfolio shall be the minimum yield objective.

B. CONSTRUCTION FUNDS

1. Suitability

Any investment eligible in the Investment Policy is suitable for Construction Funds.

2. Safety of Principal

All investments shall be of high-quality securities with no perceived default risk. Market price fluctuations will however occur. By managing the Construction Fund's portfolio to not exceed the anticipated expenditure schedule, the market risk of the overall portfolio will be minimized.

3. Liquidity

NTMWD funds used for Construction programs have reasonably predictable draw down schedules. Therefore, investment maturities shall generally follow the anticipated cash flow requirements. Investment pools shall provide readily available funds generally equal to one month's anticipated cash flow needs, or a competitive yield alternative for short term fixed maturity investments. A singular repurchase agreement may be utilized if disbursements are allowed in the amount necessary to satisfy any expenditure request, this investment structure is commonly referred to as a flexible repurchase agreement.

4. Marketability

Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash requirement. Historical market "spreads" between the bid and offer prices of a particular security-type of less than a quarter of a percentage point shall define an efficient secondary market.

5. Diversification

Market conditions and the arbitrage regulations influence the attractiveness of staggering the maturity of fixed rate investments for bond proceeds and other construction funds. With bond proceeds, if investment rates exceed the applicable arbitrage yield, NTMWD is best served by locking in most investments. If the arbitrage yield cannot be exceeded, then concurrent market conditions will determine the attractiveness of diversifying maturities or investing in shorter and larger amounts. At no time shall the anticipated expenditure schedule be exceeded in an attempt to bolster yield with any NTMWD funds.

6. Yield

Achieving a positive spread to the applicable arbitrage yield is the desired objective for bond proceeds. Non-bond proceeds construction and capital project funds will target a rolling portfolio of six-month treasury bills.

## C. INTEREST AND SINKING FUNDS

### 1. Suitability

Any investment eligible in the Investment Policy is suitable for Interest and Sinking Funds.

### 2. Safety of Principal

All investments shall be of high-quality securities with no perceived default risk. Market price fluctuations will however occur. By managing the Interest and Sinking Fund's portfolio to not exceed the debt service payment schedule, the market risk of the overall portfolio will be minimized.

### 3. Liquidity

Interest and Sinking Funds have predictable payment schedules. Therefore, investment maturities shall not exceed the anticipated cash flow requirements. Investment pools shall provide a competitive yield alternative for short-term fixed maturity investments. A singular repurchase agreement may be utilized if disbursements are allowed in the amount necessary to satisfy any debt service payment, this investment structure is commonly referred to as a flexible repurchase agreement.

### 4. Marketability

Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash requirement. Historical market "spreads" between the bid and offer prices of a particular security-type of less than a quarter of a percentage point shall define an efficient secondary market.

### 5. Diversification

Market conditions influence the attractiveness of fully extending maturity to the next "unfunded" payment date. Generally, if investment rates are trending down, NTMWD is best served by locking in most investments. If interest rates are flat or trending up, then concurrent market conditions will determine the attractiveness of extending maturity or investing in shorter alternatives. At no time shall the debt service schedule be exceeded in an attempt to bolster yield.

### 6. Yield

Attaining a competitive market yield for comparable security-types and portfolio restrictions is the desired objective. The yield of an equally weighted, rolling three month treasury bill portfolio shall be the minimum yield objective.

## **D. DEBT SERVICE RESERVE FUNDS**

### **1. Suitability**

Any investment eligible in the Investment Policy is suitable for the Debt Service Reserve Funds. Bond resolution constraints and insurance company restrictions create issue-specific considerations in addition to the Investment Policy.

### **2. Safety of Principal**

All investments shall be of high-quality securities with no perceived default risk. Market price fluctuations will however occur, by managing the Debt Service Reserve Fund's portfolio maturities to not exceed the call provisions of the bond issue, will reduce the investment's market risk if NTMWD's bonds are called and the reserve fund liquidated. No investment maturity shall exceed the final maturity of the bond issue. Annual mark-to-market requirements or specific maturity and average life limitations within the bond issues' documentation will influence the attractiveness of market risk and reduce the opportunity for maturity extension.

### **3. Liquidity**

Debt Service Reserve Funds have no anticipated expenditures. The funds are deposited to provide annual debt service payment protection to NTMWD's bond holders. The funds are "returned" to NTMWD at the final debt service payment. Market conditions and arbitrage regulation compliance determine the advantage of security diversification and liquidity. Generally, if investment rates exceed the applicable arbitrage yield for a specific bond issue, NTMWD is best served by locking in investment maturities and reducing liquidity. If the arbitrage yield cannot be exceeded, then concurrent market conditions will determine the attractiveness of locking in maturities or investing shorter and anticipating future increased yields.

### **4. Marketability**

Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash requirement. Historical market "spreads" between the bid and offer prices of a particular security-type of less than a quarter of a percentage point shall define an efficient secondary market.

### **5. Diversification**

Market conditions and the arbitrage regulations influence the attractiveness of staggering the maturity of fixed rate investments for Debt Service Reserve Funds. At no time shall the final debt service payment date of the bond issue be exceeded in an attempt to bolster yield.

### **6. Yield**

Achieving a positive spread to the applicable arbitrage yield is the desired objective.

## **E. CONTINGENCY FUNDS**

### **1. Suitability**

Any investment eligible in the Investment Policy is suitable for Contingency Funds.

### **2. Safety of Principal**

All investments shall be of high-quality securities with no perceived default risk. Market price fluctuations will however occur. By managing the weighted average days to maturity of the Contingency Fund's portfolio to less than 180 days and restricting the maximum allowable maturity to 3 months, the price volatility of the overall portfolio will be minimized.

### **3. Liquidity**

The Contingency Funds require the greatest short-term liquidity of any of the fund types. Repurchase agreements and short-term investment pools shall provide daily liquidity and may be utilized as a competitive yield alternative to fixed maturity investments.

### **4. Marketability**

Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash requirement. Historical market "spreads" between the bid and offer prices of a particular security-type of less than a quarter of a percentage point shall define an efficient secondary market.

### **5. Diversification**

Investment maturities shall be staggered throughout the budget cycle to provide cash flow based on the anticipated operating needs of NTMWD. Market cycle risk will be reduced by diversifying the appropriate maturity structure out through 3 months.

### **6. Yield**

Attaining a competitive market yield for comparable security-types and portfolio restrictions is the desired objective. The yield of an equally weighted, rolling three-month Treasury bill portfolio shall be the minimum yield objective.

## **F. RESERVE FOR MAINTENANCE FUNDS**

### **1. Suitability**

Any investment eligible in the Investment Policy is suitable for the Reserve for Maintenance Funds.

2. Safety of Principal

All investments shall be of high-quality securities with no perceived default risk. Market price fluctuations will however occur. By managing the weighted average days to maturity of the Reserve for Maintenance Fund's portfolio to less than 180 days and restricting the maximum allowable maturity to 3 months, the price volatility of the overall portfolio will be minimized.

3. Liquidity

The Reserve for Maintenance Funds require the greatest short-term liquidity of any of the fund types. Repurchase agreements and short-term investment pools shall provide daily liquidity and may be utilized as a competitive yield alternative to fixed maturity investments.

4. Marketability

Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash requirement. Historical market "spreads" between the bid and offer prices of a particular security-type of less than a quarter of a percentage point shall define an efficient secondary market.

5. Diversification

Investment maturities shall be staggered throughout the budget cycle to provide cash flow based on the anticipated operating needs of NTMWD. Market cycle risk will be reduced by diversifying the appropriate maturity structure out through 3 months.

6. Yield

Attaining a competitive market yield for comparable security-types and portfolio restrictions is the desired objective. The yield of an equally weighted, rolling three-month Treasury bill portfolio shall be the minimum yield objective.

**G. ARBITRAGE LIABILITY FUNDS**

1. Suitability

Any investment eligible in the Investment Policy is suitable for Arbitrage Liability Funds.

2. Safety of Principal

All investments shall be of high-quality securities with no perceived default risk. Market price fluctuations will however occur. By managing the weighted average days to maturity of the Arbitrage Liability Fund portfolios to less than 270 days and

restricting the maximum allowable maturity to 18 months, the price volatility of the overall portfolio will be minimized.

3. Liquidity

The Arbitrage Liability Funds require relatively short-term liquidity. Repurchase agreements and short-term investment pools shall provide daily liquidity and may be utilized as a competitive yield alternative to fixed maturity investments.

4. Marketability

Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash requirement. Historical market "spreads" between the bid and offer prices of a particular security-type of less than a quarter of a percentage point shall define an efficient secondary market.

5. Diversification

Investment maturities shall be staggered throughout the budget cycle to provide cash flow based on the anticipated operating needs of NTMWD. Market cycle risk will be reduced by diversifying the appropriate maturity structure out through 18 months.

6. Yield

Attaining a competitive market yield for comparable security-types and portfolio restrictions is the desired objective. The yield of an equally weighted, rolling three-month treasury bill portfolio shall be the minimum yield objective.

H. HEALTH INSURANCE HOLDING FUNDS

1. Suitability

Any investment eligible in the Investment Policy is suitable for Health Insurance Holding Funds.

2. Safety of Principal

All investments shall be of high-quality securities with no perceived default risk. Market price fluctuations will however occur. By managing the weighted average days to maturity of the Health Insurance Holding Fund portfolios to less than 270 days and restricting the maximum allowable maturity to 18 months, the price volatility of the overall portfolio will be minimized.

3. Liquidity

The Health Insurance Holding Funds require relatively short-term liquidity. Repurchase agreements and short-term investment pools shall provide daily liquidity and may be utilized as a competitive yield alternative to fixed maturity investments.

4. Marketability

Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash requirement. Historical market "spreads" between the bid and offer prices of a particular security-type of less than a quarter of a percentage point shall define an efficient secondary market.

5. Diversification

Investment maturities shall be staggered throughout the budget cycle to provide cash flow based on the anticipated operating needs of NTMWD. Market cycle risk will be reduced by diversifying the appropriate maturity structure out through 18 months.

6. Yield

Attaining a competitive market yield for comparable security-types and portfolio restrictions is the desired objective. The yield of an equally weighted, rolling three-month treasury bill portfolio shall be the minimum yield objective.

A. LAWSUIT SETTLEMENT FUNDS (RECEIVED)

1. Suitability

Any investment eligible in the Investment Policy is suitable for Lawsuit Settlement Funds (Received).

2. Safety of Principal

All investments shall be of high-quality securities with no perceived default risk. Market price fluctuations will however occur. By managing the weighted average days to maturity of the Lawsuit Settlement Fund (Received) portfolios to less than 270 days and restricting the maximum allowable maturity to 18 months, the price volatility of the overall portfolio will be minimized.

3. Liquidity

The Lawsuit Settlement Funds (Received) require short-term liquidity. Repurchase agreements and short-term investment pools shall provide daily liquidity and may be utilized as a competitive yield alternative to fixed maturity investments.

4. Marketability

Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash requirement. Historical market "spreads" between the bid and offer prices of a particular security-type of less than a quarter of a percentage point shall define an efficient secondary market.

5. Diversification

Investment maturities shall be staggered throughout the budget cycle to provide cash flow based on the anticipated operating needs of NTMWD. Market cycle risk will be reduced by diversifying the appropriate maturity structure out through 18 months.

6. Yield

Attaining a competitive market yield for comparable security-types and portfolio restrictions is the desired objective. The yield of an equally weighted, rolling three-month treasury bill portfolio shall be the minimum yield objective.

# **EXHIBIT B**

## **AUTHORIZED INVESTMENT TRAINING SOURCES**

Government Finance Officers Association  
Government Finance Officers Association of Texas  
University of North Texas Center for Public Management  
Government Treasurer's Organization of Texas  
Hilltop Securities  
Texas CLASS  
Alliance of Texas Treasury Associations  
Texas Treasury Management Association  
Texas Municipal League  
Texas Association of Counties  
Texas Association of School Boards  
Texas Water Conservation Association

# **EXHIBIT C**

## **AUTHORIZED INVESTMENT ADVISORS**

Hilltop Securities Asset Management, LLC.

## **AUTHORIZED BROKERS**

Hilltop Securities, Inc.  
Multi-Bank Securities, Inc.  
FTN Financial Capital Markets