

CITY OF FAIR OAKS RANCH

MUNICIPAL DEVELOPMENT DISTRICT MEETING

Wednesday, October 09, 2024 at 4:00 PM

Public Safety Training Room, Police Station, 7286 Dietz Elkhorn, Fair Oaks Ranch

AGENDA

OPEN MEETING

1. Roll Call - Declaration of a Quorum
2. Pledge of Allegiance

CITIZENS and GUEST FORUM

To address the Board, please sign the Attendance Roster located on the table at the entrance in the foyer of the Public Safety Training Room. In accordance with the Open Meetings Act, the MDD Board may not discuss or take action on any item which has not been posted on the agenda. Speakers shall limit their comments to five (5) minutes each.

3. Citizens to be heard.

CONSENT AGENDA

4. Approval of the July 10, 2024 Regular MDD Board meeting minutes.

Keith Rhoden, MDD Secretary

REPORTS

5. Quarterly Financial and Investment Report for the Quarter Ended September 30, 2024.

Summer Fleming, CGFO, MDD Investment Officer

6. Financial Statement Auditor Selection.

Summer Fleming, CGFO, MDD Investment Officer

7. Fair Oaks Ranch Community Center project status update.

Grant Watanabe, P.E., Director of Public Works and Engineering Services

CONSIDERATION / ACTION ITEMS

8. Consideration and possible action regarding the election of MDD Officers for Fiscal Year 2024/2025.

Laura Koerner, MDD President

9. Consideration and possible action regarding subcommittee assignments of current MDD Board Members.

Laura Koerner, MDD President

10. Consideration of a resolution approving and adopting an amended Investment Policy for the Fair Oaks Ranch Municipal Development District.

Summer Fleming, CGFO, MDD Investment Officer

11. Discussion, consideration, and possible action on amendments to the existing Fair Oaks Ranch Municipal Development District Policy for Evaluation of Development Projects.

Mike Lovelace, Small Scope / Small Dollar Subcommittee Chairman

12. Discussion, consideration, and possible action on the following MDD policies, rules, procedures, document reviews, and committees:

- Rules of Procedure
- Interlocal Agreement with the City of Fair Oaks Ranch
- Policy Review Procedure

Laura Koerner, MDD President

13. Consideration and possible action regarding upcoming Regular MDD Board Meeting Dates.

Amanda Valdez, TRMC, Deputy City Secretary

ADJOURNMENT

Next quarterly meeting: To Be Announced

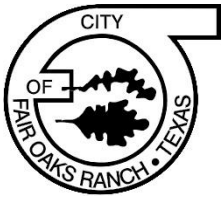
Signature of Agenda Approval: s/ Laura Koerner

Laura Koerner, President

I, Amanda Valdez, TRMC, Deputy City Secretary, certify that the above Notice of Meeting was posted on the outside bulletin board at the Fair Oaks Ranch City Hall, 7286 Dietz Elkhorn, Fair Oaks Ranch, Texas, and on the City’s website www.fairoaksranchtx.org, both places being convenient and readily accessible to the general public at all times.

As per Texas Government Code 551.045, said Notice was posted by 4:00 PM, October 6, 2024 and remained so posted continuously for at least 72 hours before said meeting was convened. A quorum of City Council and various boards, committees, and commissions may attend the Municipal Development District board meeting.

The Fair Oaks Ranch Police Station is wheelchair accessible at the front main entrance of the building from the parking lot. Requests for special services must be received forty-eight (48) hours prior to the meeting time by calling the City Secretary’s office at (210) 698-0900. Braille is not available.



CITY OF FAIR OAKS RANCH

MUNICIPAL DEVELOPMENT DISTRICT MEETING

Wednesday, July 10, 2024 at 4:00 PM

Public Safety Training Room in the Police Station, 7286 Dietz Elkhorn, Fair Oaks Ranch

MINUTES

OPEN MEETING

1. Roll Call - Declaration of a Quorum.

Present: President Laura Koerner, Treasurer Mike Lovelace, Steven Robertson
Keith Rhoden, David Fairhurst, and Ruben Olvera

Absent Vice President Nicholas DiCianni

With a quorum present, the meeting was called to order at 4:00 PM.

2. Pledge of Allegiance – The Pledge of Allegiance was recited in unison.

CITIZENS and GUEST FORUM

3. Citizens to be heard.

Resident, Carol Willoughby, spoke to the Board about her concerns with the funding for the proposed community center and sked the MDD Board to consider purchasing land for the project.

Resident, Sharon Brimhall, spoke against the MDD funding the community center and stated that the funds should be used for another purpose.

CONSENT AGENDA

4. Approval of the April 10, 2024 Regular MDD Board meeting minutes.

The consent agenda was approved by consensus.

REPORTS

5. Quarterly Financial and Investment Report for the Quarter Ended June 30, 2024.

Summer Fleming, MDD Investment Officer, provided a financial and investment report to the Board on the District's investment portfolio performance and updated projections for the remainder of the year.

6. Fair Oaks Ranch Community Center project status update.

Grant Watanabe, P.E., Director of Public Works and Engineering Services, provided an update to the Board on the status of the Community Center project

CONSIDERATION / ACTION ITEMS

7. Consideration and possible action to approve the FY 2024-25 MDD Budget.

MOTION Made by Mike Lovelace and seconded by Steven Robertson, to approve the MDD FY 2024-25 Budget as presented.
VOTE: 6-0; Motion Passed.

8. Discussion, consideration, and possible action on MDD policies, rules, procedures, document reviews, and committees.

The Board discussed several documents needing review. Each document was assigned to a Board member for them to place on a future agenda.

9. Marketing and Project Opportunities Subcommittee Report.

Nicholas DiCianni, Marketing and Project Opportunities Subcommittee Chair, discussed the marketing process with the Board.

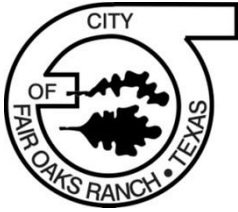
ADJOURNMENT

President Koerner adjourned the meeting at 5:24 PM.

ATTEST:

Laura Koerner, MDD President

Keith Rhoden, MDD Secretary



**MUNICIPAL DEVELOPMENT DISTRICT
REPORT
CITY OF FAIR OAKS RANCH, TEXAS**



AGENDA TOPIC: Quarterly Financial and Investment Report for the Quarter Ended September 30,2024.
DATE: October 9, 2024
Department: Finance
PRESENTED BY: Summer Fleming, CGFO, MDD Investment Officer

INTRODUCTION/BACKGROUND:

Pursuant to Government Code Section 2256.023 and the MDD’s Investment Policy Section 11, the Investment Officer is required, on a quarterly basis, to prepare and submit to the MDD Board a written report of investment assets and the market value of the current investments.

The attached presentation is being made to comply with the Q4 FY2024 reporting requirements.

POLICY ANALYSIS/BENEFIT(S) TO CITIZENS:

Frequent review and reporting of the MDD’s assets and investment vehicles is both prudent and necessary to verify that the MDD’s investment portfolio is being managed according to the investment policy.

LONG TERM FINANCIAL & BUDGETARY IMPACT:

The District earned \$525,573 in sales taxes, \$157,987 in interest, and incurred \$38,534 in expenditures during the fiscal year. Fund balance is increasing \$645,026 for a projected ending fund balance of \$3.35 million of which \$1.2 million is committed and unavailable for future projects.

Investments are currently held in two local government investment pools with a combined balance of \$3.19 million on September 30.

Fair Oaks Ranch
Municipal Development District
Quarterly Financial & Investment Report

Preliminary Year End Results
September 30, 2024

Prepared by:

Summer Fleming

Summer Fleming, MDD Investment Officer

Fair Oaks Ranch Municipal Development District
 Statement of Revenues and Expenditures
 Preliminary Financial Results (Unaudited)
 For the Fiscal Year Ended September 30, 2024

	<u>Budget</u>	<u>Projected</u>	<u>Projected vs Budget</u>	<u>Percent of Budget</u>
Beginning Fund Balance	2,671,885	2,701,087		
Revenues				
Local Sales Tax	450,000	525,573	75,573	116.79%
Interest	83,000	157,987	74,987	190.35%
Total Revenue	<u>533,000</u>	<u>683,560</u>	<u>150,560</u>	<u>128.25%</u>
Expenditures				
Supplies	250	-	(250)	0.00%
Training/Seminars	250	-	(250)	0.00%
Attorney	3,500	3,577	77	102.19%
Auditor	4,550	4,500	(50)	98.90%
Professional Services	33,450	30,407	(3,043)	90.90%
Insurance	50	50	-	100.00%
Total Expenditures	<u>42,050</u>	<u>38,534</u>	<u>(3,516)</u>	<u>91.64%</u>
Revenues over/(under) expenditures	490,950	645,026	154,076	131.38%
Ending Fund Balance	3,162,835	3,346,113	154,076	105.79%

<u>Ending Fund Balance Detail</u>	<u>Budget</u>	<u>Projected</u>
Operating	50,000	50,000
Infrastructure - Assigned	1,912,835	2,096,113
Infrastructure - Committed	<u>1,200,000</u>	<u>1,200,000</u>
	3,162,835	3,346,113

Fair Oaks Ranch Municipal Development District
 Investment Report
 For the Quarter Ended September 30, 2024

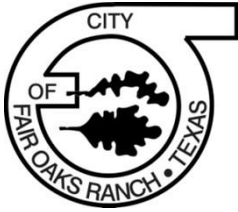
Description	Beginning Balance	Ending Balance	Market Value	QTD Interest	Fiscal YTD Interest	Avg Yield	Weighted Avg Maturity
Frost Bank	63,070	63,675	63,675	605	2,686	0.32%	N/A
TexPool	866,858	1,012,848	1,012,848	12,526	39,129	5.26%	34 Days
Texas Class	2,151,112	2,180,457	2,180,457	29,346	116,172	5.39%	34 Days
Total	3,081,040	3,256,981	3,256,981	42,477	157,987		

Interest Rate Comparison

Qtr Ended	MDD	TexPool	Texas CLASS	3 Month T-bill	6 Month T-bill	2 Year Treasury Note	CDARS 6 month CD
Dec-23	5.40%	5.36%	5.57%	5.44%	5.46%	4.81%	4.93%
Mar-24	5.40%	5.33%	5.57%	5.37%	5.34%	4.59%	4.73%
Jun-24	5.29%	5.31%	5.43%	5.36%	5.32%	4.63%	4.73%
Sep-24	5.28%	5.26%	5.39%	4.52%	4.23%	3.66%	3.74%
Year Average	5.34%	5.32%	5.49%	5.17%	5.09%	4.42%	4.53%

Trends and Future Outlook

- The Federal Reserve cut the target range for the fed funds rate by 50bps to 4.75%-5% in September 2024, the first reduction in borrowig costs since March 2020. Policymakers are suggesting two more 25bps cuts this year, and an additional percentage point of cuts in 2025.



**MUNICIPAL DEVELOPMENT DISTRICT
REPORT**
CITY OF FAIR OAKS RANCH, TEXAS



AGENDA TOPIC: Financial Statement Auditor Selection.
 DATE: October 9, 2024
 Department: Finance
 PRESENTED BY: Summer Fleming, CGFO, MDD Investment Officer

INTRODUCTION/BACKGROUND:

The Government Finance Officers Association (GFOA) recommends that state and local governmental entities obtain independent audits of their financial statements, performed in accordance with Generally Accepted Auditing Standards. Additionally, governmental entities should enter into multiyear agreements of at least five years in duration when obtaining the services of independent auditors. Such agreements allow for greater continuity and help to minimize the potential disruption in connection with the independent audit.

The City and Municipal Development District (MDD) had contracted with ABIP PC for the last seven years and Staff determined it was prudent to undertake a competitive process for the selection of an independent auditor for the FY 2023-24 financial statement audit. The City issued a Request For Qualifications (RFQ) in July and received three responses. The selection committee, made up of the Director of Finance, Procurement Manager, and Councilman Rhoden, met to discuss the responses and ranked them based on qualifications.

After receiving a fee proposal from the top ranked firm, we were unable to negotiate a fee within budget. However, after starting negotiations with the second ranked firm, we successfully negotiated a new contract for the City and MDD audit for FY 2023-24.

POLICY ANALYSIS/BENEFIT(S) TO CITIZENS:

Properly performed audits play a vital role in the public sector by helping to preserve the integrity of the public finance functions, and by maintaining citizens' confidence in their elected leaders. The selected firm, BrooksWatson & Co., PLLC, have extensive experience auditing cities throughout Texas and will bring fresh insights into our existing accounting policies and procedures. This change will provide for increased quality of the audit process and ultimately increased confidence in the audit results.

LONG TERM FINANCIAL & BUDGETARY IMPACT:

The negotiated fee with BrooksWatson & Co., PLLC, is \$4,725 and within budget.



MUNICIPAL DEVELOPMENT DISTRICT
CONSIDERATION ITEM
CITY OF FAIR OAKS RANCH, TEXAS



AGENDA TOPIC: Consideration and possible action regarding the election of MDD Officers for Fiscal Year 2024/2025
DATE: October 9, 2024
PRESENTED BY: Laura Koener, MDD President

INTRODUCTION/BACKGROUND:

Article III, Section 1 of the MDD By Laws states the MDD Board of Directors shall choose from its members a President, Vice President, Secretary and Treasurer.

POLICY ANALYSIS/BENEFIT(S) TO CITIZENS:

Effective leadership of the MDD Board of Directors is essential to conducting all MDD required actions and reports in accordance with Texas MDD Laws and Comptroller requirements, while also providing good stewardship of MDD funds on behalf of our citizens. These officers will be internally elected to serve for fiscal year 2024/2025 (FY 2024-25) with this term ending on 30 September 2025. A new election will be held for each position in October 2025 for fiscal year 2025/2026 (FY 2025-26). All duly appointed MDD board members may seek any office each year. Elections will be held in an open meeting and all votes will be publicly cast by each board member.

LONG TERM FINANCIAL & BUDGETARY IMPACT:

N/A

LEGAL ANALYSIS:

N/A

RECOMMENDATION/PROPOSED MOTION:

Separate motions may be required to elect a President, Vice President, Secretary and Treasurer. However, if each position has only one board member seeking that office a slate motion may be appropriate. This will be determined in real time in open forum during the election consideration item on this agenda.

I move to elect _____ for the position of President.

I move to elect _____ for the position of Vice President.

I move to elect _____ for the position of Secretary.

I move to elect _____ for the position of Treasurer.



**MUNICIPAL DEVELOPMENT DISTRICT
CONSIDERATION ITEM
CITY OF FAIR OAKS RANCH, TEXAS**



AGENDA TOPIC: Consideration of a resolution approving and adopting an amended Investment Policy for the investment of public funds, providing for the highest investment return, maximum security, and conforming to all state and local statutes governing the investment of public funds.

DATE: October 9, 2024

Department: Finance

PRESENTED BY: Summer Fleming, CGFO, MDD Investment Officer

INTRODUCTION/BACKGROUND:

Pursuant to Government Code Chapter 2256, the Public Funds Investment Act (PFIA), the Municipal Development District (the "District") Board shall adopt, annually, a resolution stating the Investment Policy has been reviewed and record any changes made thereof.

The policy has been revised by the District's Investment Officer based on best practices established by the Government Finance Officers Association (GFOA) and the Government Treasurers' Organization of Texas (GTOT) Investment Policy Certification Program requirements. Many of the proposed changes are not substantial, or do not change the effect of the policy, but are made to clarify our processes, intent, or to meet PFIA or GTOT requirements. Proposed amendments to the policy revising requirements and authorizations include the following:

- Added responsibilities of the Board of Directors
- Added internal compliance audit of management controls on investments to be performed
- Added requirement that authorized brokers/dealers must certify review and compliance with the District's Investment Policy
- Added authority to contract with an investment management firm at Board of Director's approval
- Added competitive bidding requirements
- Added credit ratings and insurance status will be monitored by the Investment Officer
- Added brokered certificates of deposit as an eligible investment in accordance with PFIA
- Revised investment cap on no-load money market mutual funds in accordance with PFIA
- Increased maximum maturity from 13 months to two (2) years as allowed under PFIA
- Revised performance standards to include pursuing a conservative buy-and-hold portfolio while allowing securities to be sold before maturity if market conditions present an opportunity for the District to benefit
- Clarified investment strategy regarding separate or pooled portfolios and interest income allocation between funds

POLICY ANALYSIS/BENEFIT(S) TO CITIZENS:

The District’s Investment Policy is conservative but allows investing in a manner which will provide the highest reasonable yield with maximum security while meeting daily cash flow needs. The Investment Policy as amended conforms to all state and local statutes, has been reviewed by the Investment Officer, and is in line with the City of Fair Oaks Ranch’s Investment Policy.

LONG TERM FINANCIAL & BUDGETARY IMPACT:

Investment strategies create a performing asset by putting money to work, assuring cash efficiency and security, and adding yield while minimizing risk to the District’s portfolio.

LEGAL ANALYSIS:

Approved as to form.

RECOMMENDATION/PROPOSED MOTION:

I move to approve a resolution adopting an amended Investment Policy for the investment of public funds.

A RESOLUTION

A RESOLUTION OF THE FAIR OAKS RANCH MUNICIPAL DEVELOPMENT DISTRICT ADOPTING AN AMENDED INVESTMENT POLICY FOR THE INVESTMENT OF PUBLIC FUNDS, PROVIDING FOR THE HIGHEST INVESTMENT RETURN, MAXIMUM SECURITY, AND CONFORMING TO ALL STATE AND LOCAL STATUTES GOVERNING THE INVESTMENT OF PUBLIC FUNDS.

WHEREAS, to ensure the highest return, maximum security, and to conform to all state and local statutes governing the investment of public funds, the Fair Oaks Ranch Municipal Development District (“the District”) adopted a written Investment Policy (“Policy”); and,

WHEREAS, said Policy is Appendix A of the District’s Financial Management Policy; and,

WHEREAS, the District adopted said Policy, with amendments, on January 12, 2022; and,

WHEREAS, pursuant to Government Code §2256.005, the District Board shall adopt annually a resolution stating the District’s Investment Policy has been reviewed and to record any changes made thereof; and,

WHEREAS, upon recommendation of the District’s Investment Officer, the Board of Directors desires to adopt amendments to the District’s Investment Policy; and,

WHEREAS, the written Investment Policy, as amended, will further protect the District’s assets by identifying performance standards, clarifying investment objectives and strategies, and providing the framework for internal controls, and responsibilities of the Investment Officer and the Board of Directors.

NOW THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE MUNICIPAL DEVELOPMENT DISTRICT OF THE CITY OF FAIR OAKS RANCH, TEXAS THAT:

Section 1. The Municipal Development District Board of Directors approves and adopts the amended Investment Policy attached hereto as **Exhibit A**.

Section 2. That the recitals contained in the preamble hereto are hereby found to be true and such recitals are hereby made a part of this resolution for all purposes and are adopted as a part of the judgment and findings of the Board.

Section 3. If any provision of this resolution or the application thereof to any person or circumstance shall be held to be invalid, the remainder of this resolution and the application of such provision to other persons and circumstances shall nevertheless be valid, and the Board hereby declares that this resolution would have been enacted without such invalid provision.

Section 4. That it is officially found, determined, and declared that that the meeting at which this resolution is adopted was open to the public and public notice of the time, place, and subject matter of the public business to be considered at such meeting, including this resolution, was given, all as required by Chapter 551, as amended, Texas Government Code.

Section 5. All resolutions or parts thereof, which are in conflict or inconsistent with any provision of this resolution are hereby repealed to the extent of such conflict, and the provision of this resolution shall be and remain controlling as to the matters resolved herein.

Section 6. This resolution shall be construed and enforced in accordance with the laws of the State of Texas and the United States of America.

Section 7. This resolution shall be in force and effect from and after its final passage, and it is so resolved.

PASSED, APPROVED, and ADOPTED on this 9th day of October 2024.

Laura Koerner, MDD President

ATTEST:

APPROVED AS TO FORM:

Keith Rhoden, MDD Secretary

Denton Navarro Rocha Bernal & Zech, P.C.,
Attorney

**FAIR OAKS RANCH MUNICIPAL DEVELOPMENT DISTRICT
FINANCIAL MANAGEMENT POLICY**

- Resolution 2013-01 (November 7, 2013)
- Resolution 2017-01 (April 10, 2017) Appendix A to the District’s Financial Management Policy
- Changes approved at the January 12, 2022 MDD Regular Meeting. Changes ratified by:
- Resolution 2022-01 (April 13, 2022)
- Resolution 2022-03 (October 12, 2022) Adding Subsection G to Section VI., Expenditure Control

October 12, 2022

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I. PURPOSE STATEMENT

These policies are developed by the Municipal Development District Board to guide the Board in financial matters. The overriding goal of the Financial Management Policy is to enable the District to achieve a long-term stable and positive financial condition while conducting its operations consistent with state laws. The watchwords of the District's financial management include integrity, prudent stewardship, planning, accountability, and full disclosure.

The purpose of the Financial Management Policy is to provide guidelines for the District in planning and directing the Board's financial affairs.

The scope of these policies span accounting, investments, auditing, financial reporting, internal controls, budgeting, capital program including capitalization, revenue and cash management, expenditure control, debt management, and identity theft prevention.

II. ACCOUNTING, AUDITING, AND FINANCIAL REPORTING

- A. **ACCOUNTING** - The Board will establish the chart of accounts and will properly record and report financial activity.
- B. **FUNDS** - Self-balancing groups of accounts are used to account for financial transactions in accordance with generally accepted accounting principles. Each fund is created for a specific purpose. Funds are created and fund names are changed by Board approval either during the year or in the Board's approval of the annual operating budget.
- C. **EXTERNAL AUDITING** - The District's financial statements will be audited annually by an outside independent auditor who will conduct the District's audit in accordance with generally accepted auditing standards, generally accepted government auditing standards and contractual requirements.
- D. **EXTERNAL AUDITORS RESPONSIBLE TO BOARD** - The external auditor is accountable to the Board and will have access to direct communication with the Board.
- E. **EXTERNAL AUDITOR ROTATION** - The District will not require external auditor rotation, but may circulate requests for proposal for audit services, periodically.
- F. **INTERNAL CONTROLS** - The Board is responsible for ensuring a strong internal controls environment.

III. OPERATING BUDGET

- A. **PREPARATION** - The District's operating budget is the District's annual financial operating plan and the Board Treasurer is the Budget Officer. No later than July of each year, the Budget is submitted to the Board for changes prior to approval. Prior to the budget's fiscal year, the Budget must be approved by the Fair Oaks Ranch City Council.
- B. **REPORTING** - Periodic financial reports will be prepared in conformance with pertinent statutes, regulations and policies of the Board. Financial reports will be presented to the Board at each of its regularly called meetings and include current year revenue and expenditures and fund balances.
- C. **CONTROL** - Operating Expenditure Control is addressed in Section VI.
- D. **RECORD KEEPING** - All permanent historical budget documents will be filed with the Fair Oaks Ranch City Secretary for record keeping pursuant to State law and District resolution).

IV. FUND BALANCE / POLICY

- A. Fund balance shall mean the gross difference between fund assets and liabilities reflected on the balance sheet. The District shall report fund balances per GASB54 definitions on the balance sheet as follows:
1. *Non-spendable* – Portion of total fund balance that is not in spendable form or required to be maintained intact. Example: Prepaids.
 2. *Restricted* – Portion of total fund balance constrained for specific purposes by such grantors, bondholders, higher level of government or by law.
 3. *Committed* – Portion of total fund balance constrained to specific purposes and amounts by the Board. Only the Board can release committed funds. Example: Grants awarded by the District.
 4. *Assigned* – Portion of total fund balance the Board designates for specific purposes as expressed by the Board. Example: Infrastructure Improvements.
 5. *Unassigned* – Portion of total fund balance not identified in one of the above categories.
- B. The fund balance will be managed carefully and used wisely by the Board.

V. REVENUE MANAGEMENT

- A. **SIMPLICITY** - The District will rely on local sales tax as its main source of recurring revenue.
- B. **ADMINISTRATION** - The benefits of a revenue will exceed the cost of producing the revenue. The cost of collection will be reviewed as appropriate for cost effectiveness as a part of the indirect cost, and cost of services analysis.
- C. **INTEREST INCOME** - Interest earned from investment of available monies, whether pooled or not, will be distributed to the funds in accordance with the operating budgets which, wherever possible, will be in accordance with the equity balance of the fund from which monies were provided to be invested.
- D. **REVENUE MONITORING** - Revenues actually received will be regularly compared to budgeted revenues and variances will be investigated.

VI. EXPENDITURE CONTROL

- A. **APPROPRIATIONS** - Budget adjustments must be approved by the Board and City Council.
- B. **PURCHASING** - The District will pay from receipts, invoices and disbursement vouchers that have the approval of the Board President, date of approval, total dollar amount (excluding tax), and general ledger account code. The President can authorize up to \$2,000 in addition to annual and District approved contracts, recurring charges, and approved budgetary items. All other disbursements exceeding \$2,000 require Board approval.
- C. **PROFESSIONAL SERVICES** - Professional services will be processed through a request for qualifications as defined by the Texas local government code. The Board President may execute any professional services contract, except for insurance, less than \$25,000 provided there is an appropriation for such contract.

- D. **ADMINISTRATIVE CHARGES** – An Interlocal Agreement with the City will be maintained whereby the District will pay a management fee to the City of Fair Oaks Ranch for administrative costs performed on the District’s behalf.
- E. **PROMPT PAYMENT** - All invoices will be paid 30 days of receipt in accordance with the prompt payment requirements of State law. Procedures will be used to take advantage of all purchase discounts where considered cost effective. However, payments will also be reasonably delayed to maximize the District’s investable cash, where such delay does not violate the agreed upon payment terms.
- F. **REIMBURSEMENTS** - The policy of the District is that employees/board members are to be reimbursed for necessary and reasonable district-related expenses incurred in the authorized conduct of business. All requests for reimbursement of expenses are subject to requirements of documentation and reasonableness, and will be honored in conformance with adopted policies, provided that the expenditure was properly authorized. See Appendix C for complete details.
- G. **DISBURSEMENT OF GRANT AWARDS** - All grant awards must comply with the Texas Local Government Code Chapter 377, and MDD policies and procedures. The requirements for the release of grant funds and grant award amount must be defined in a grant award agreement between the MDD Board and the project owner. The grant award agreement must conform to the MDD Policy for Evaluation of Development Projects. Disbursements of grant funds will be made after the project requirements are completed in accordance with the requirements set forth in the grant award agreement. On a case-by-case basis, the MDD Board may approve advance funding of a grant award by an affirmative vote of three fourths of Board members present and qualified to vote. The requirements for the advance funding arrangements must be included in the grant award agreement and should specifically address the incremental risks associated with advance funding.

VII. ASSET MANAGEMENT

- A. **INVESTMENTS** - Investments will be conducted in accordance with the Investment Policy attached as Appendix A.
- B. **CASH MANAGEMENT** - The District’s cash flow will be managed to maximize the cash available to invest.
- C. **FIXED ASSETS AND INVENTORY** - The assets will be reasonably safeguarded and properly accounted for.
- D. **CAPITALIZATION OF CAPITAL ASSETS** - The capitalization of capital assets will be conducted in accordance with the Capitalization of Capital Assets Policy attached as Appendix B.

VIII. FINANCIAL CONDITION / DEBT MANAGEMENT

- A. **NO OPERATING DEFICITS** - Current operating expenditures will be paid with current operating revenues.
- B. **GENERAL** - The District’s borrowing practices, including issuing bonds, will be conducted in accordance with state law and the Board’s Rules of Procedure.
- C. **ANALYSIS OF FINANCING ALTERNATIVES** - The District will explore other financing alternatives in addition to long-term debt including leasing, grants and other aid, developer contributions, and use of reserves or current monies.

IX. ANNUAL REVIEW

- A. The Financial Management Policy will be reviewed bi-annually or as needed by the Board President and Treasurer. Recommended amendments will be presented to the Board for approval.
- B. The Board, pursuant to Government Code §2256.005, shall adopt, annually, a resolution stating the Investment Policy has been reviewed and, record any changes made thereof.

*Appendix A***INVESTMENT POLICY****I. Policy**

It is the policy of the City of Fair Oaks Ranch Municipal Development District (the "District") to invest funds in a manner which will provide the highest, reasonable investment return with the maximum security of principal while meeting the daily cash flow demands of the District and conforming to all federal, state, and local statutes governing the investment of public funds. It is also the policy of the District that the administration of its funds and the investment of those funds shall be handled as its highest public trust.

~~(Moved Sections) The Investment Policy shall be adopted by Resolution as part of the Financial Management Policies. The policy shall be reviewed and adopted by Resolution annually by the Board of Directors.~~

II. Purpose

The purpose of this policy is to comply with ~~Chapters 2256 and 2257~~ of the Texas Government Code, Chapter 2256, the Public Funds Investment Act (the "Act"), and Texas Government Code, Chapter 2257, the Public Funds Collateral Act, which requires the adoption of a written investment policy regarding the investment of funds. The investment policy addresses the methods, procedures and practices that must be exercised to ensure effective and judicious fiscal management of the District's funds.

III. Scope

This investment policy applies to all financial assets and funds of the District. Funds are defined in the District's audited Annual Financial Report. Funds are created by the Board unless specifically exempted by the Board and this policy.

Investments are being pooled into a pooled group fund that consists of balances from the District's funds. The strategy of pooling investments is subject to change as deemed appropriate by the Investment Officer, and subject to the provisions of this Policy.

IV. General Objectives

The primary objectives, in priority order, of the District's investment activities shall be safety, liquidity, diversification, and yield.

Safety - Safety of the principal is the foremost objective of the District. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio guarding against security defaults or erosion of market value.

Liquidity - The investment portfolio will remain sufficiently liquid to meet all operating requirements which might be reasonably anticipated. To the extent possible, this will be achieved by matching investment maturities with forecasted cash flow liabilities and maintaining additional liquidity for unexpected liabilities.

Diversification - Diversification of the portfolio will include diversification by maturity and market sector to manage market risk.

Yield - The investment portfolio shall be designed with the objective of attaining a market rate of return, taking into account the investment risk constraints and liquidity needs. Market rate of return may be defined as the average yield of the current six-month US Treasury Bill. Return on investment is of secondary importance compared to the safety and liquidity objectives described above.

Effective cash management is recognized as essential to good fiscal management. Cash Management is defined as the process of managing monies in order to ensure maximum cash availability. The District will effectively collect account receivables, practice prudent investment of its available cash, disburse payments

in accordance with invoice terms and manage banking services.

V. Prudence Standards of Care

Prudence - The standard of prudence to be used by investing officials shall be the "prudent person" rule and shall be applied in the context of managing ~~an~~ the District's overall portfolio with the objectives and priority of preservation of safety of principal, liquidity, and yield. This rule states:~~that~~

"Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the expected income to be derived." Prudence of an investment officer's decisions shall be exercised and measured by considering the investment of all funds under the District's authority, which the investment officer had a responsibility, rather than a consideration to the prudence of a single investment, and whether the investment decision was consistent with the written investment policy.

Limitation of Personal Liability - Investment officials acting in accordance with this policy and in accord with the Prudent Person Rule shall be relieved of personal liability in the management of the portfolio provided that deviations from expectations for a specific security's credit risk or market price change is reported in a timely fashion and the appropriate action is taken to control unfavorable developments.

~~(Moved Sections) **Ethics and Conflicts of Interest** - Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution and management of the investment program, or that could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose any material interests in financial institutions that conduct business with the District. An investment official who has a personal business relationship with an organization seeking to sell an investment to the District shall file a statement disclosing that personal business interest. An investment official who is related within the second degree by affinity or consanguinity to an individual seeking to sell an investment to the District shall file a statement disclosing the relationship. A statement required under this subsection must be filed with the Texas Ethics Commission.~~

VI. Delegation of Authority and Responsibilities

Delegation of Authority - The Board of Directors will appoint an Investment Officer. Responsibility for the operation of the investment program is hereby delegated to the Investment Officer, who shall act in accordance with established procedures and internal controls for the operation of the investment program consistent with this investment policy. The Investment Officer shall be responsible for all investment transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials. No person may engage in an investment transaction except as provided under the terms of this policy and established written procedures.

Training In accordance with the Act, Investment Officials shall attend ongoing trainings from an independent source authorized to provide PFIA certification. Investment Officials (an Investment Committee made up of the President, Treasurer and Investment Officer) must complete at least 10 hours of investment training within 12 months of taking office or assuming duties, and shall attend a PFIA certified investment training course not less than once in a two-year fiscal period receiving no less than 10 hours of instruction relating to investment controls, security risks, strategy risks, market risk, diversification, and compliance.

~~(Moved Sections) **Ethics and Conflicts of Interest** - Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution and management of the investment program, or that could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose any material interests in financial institutions~~

that conduct business with the District. An investment official who has a personal business relationship with an organization seeking to sell an investment to the District shall file a statement disclosing that personal business interest. An investment official who is related within the second degree by affinity or consanguinity to an individual seeking to sell an investment to the District shall file a statement disclosing the relationship. A statement required under this subsection must be filed with the Texas Ethics Commission. **Board of Directors Responsibilities** – The Board of Directors hold ultimate fiduciary responsibility for the investment portfolio. The Board of Directors will appoint an investment officer, review quarterly reporting, approve authorized broker/dealers, and annually review and adopt the Investment Policy by Resolution.

VII. Internal Controls

The Board President and Investment Officer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse. The internal control shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (a) the cost of a control should not exceed the benefits likely to be derived and (b) the valuation of costs and benefits requires estimates and judgments by management.

The internal controls shall focus on the following points:

- Separation of duties to prevent collusion
- Separation of transaction authority from accounting and recordkeeping
- Custodial safekeeping
- Clear delegation of authority
- Documentation of transactions

The District's Investment Officer shall perform an internal compliance audit of management controls on investments and adherence to investment policies in conjunction with the annual financial audit.

VIII. Safekeeping and Custody

Safekeeping – All securities purchased by the District under this Policy, excluding Investment Pools and Mutual Funds, shall be settled on a delivery versus payment basis and held in safekeeping by an independent third-party financial institution approved by the District. All safekeeping arrangements will be approved by the Investment Officer and an agreement of the terms executed in writing. The safekeeping institution shall be required to issue safekeeping receipts to the District including all pertinent information for each security and clearly indicating the ownership by or pledge to the District.

Authorized Financial Dealers and Institutions - The Investment Officer will maintain a list of financial institutions and security broker/dealers authorized to provide investment/depository services. The list of qualified brokers/dealers shall be reviewed and adopted annually by the Board of Directors as part of the investment policy resolution. All authorized brokers/dealers will be provided with a copy of our investment policy and have a qualified representative sign a policy certification stating they have (1) read and reviewed the policy and (2) have implemented reasonable procedures and controls in an effort to prevent unauthorized investment transactions not authorized by this Policy, except to the extent that this authorization is dependent on an analysis makeup of the District's entire portfolio or requires an interpretation of subjective investment standards. A broker may be removed from eligible status, without notice, at the District's sole discretion.

Those firms that request to become qualified bidders for securities transactions must provide one or more of the following as applicable:

- Proof of Financial Industry Regulatory Authority (FINRA) certification and FINRA's Central Depository Registration (CRD) number
- Proof of Texas State Securities registration
- Annual audited financial statements,
- ~~Proof of National Association of Security Dealers certification,~~
- ~~Trading resolution, proof of state registrations, certification of having read the entity's investment policy and depository contracts.~~

Each pool the District participates will be provided a copy of the District's current investment policy and have a qualified representative sign a compliance certification stating that they have (1) read and reviewed the policy and (2) have implemented reasonable procedures and controls to preclude unauthorized investment transactions in the entity's investment policy, except to the extent authorization is dependent on an analysis makeup of the District's entire portfolio, requires an interpretation of subjective investment standards.

The Investment Officer of the District may not use any dealer or institution which has not met the requirements above.

Investment Management Firms – The District may, at the Board of Director's approval, contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for investment and management of its public funds or funds under its control. This contract term shall be a maximum of 2 years with renewal or extensions subject to approval by the Board of Directors by resolution.

Depository Agreement - ~~The District shall follow~~ At least every five (5) years, a primary services depository shall be selected by the District through a competitive request for proposal (RFP) or bid process in accordance with Section 105 of the ~~Local~~ Texas Government Code. ~~when entering into a depository agreement~~ In selecting this depository, the services, cost of services, credit worthiness, earnings potential, and collateralization by the institutions shall be considered. This institution shall be used for normal banking services including disbursements, collections, and safekeeping. Other banking institutions from which the District may purchase certificates of deposit will also be designated as a depository and must execute a written agreement in accordance with the provisions of this Policy if collateral is required.

Delivery vs Payment - All trades except for investment pools and mutual funds will be executed by delivery vs payment to ensure that securities are deposited in an eligible financial institution prior to the release of funds. Securities and collateral will be held in the District's name by a third-party custodian as evidenced by safekeeping receipts of the institution with which the securities are deposited.

Competitive Bidding – All investment transactions, excluding market mutual funds, local government investment pools and securities made at prevailing market rates, shall be made on a competitive basis to assure that the District is receiving fair market prices. Bids, of at least three competitive offers, may be orally, in writing, electronically, or in any combination of those methods.

Monitoring Credit Ratings – The Investment Officer shall monitor the credit rating on all authorized investments in the portfolio based upon independent information from a nationally recognized rating agency. If any security falls below the minimum rating required by the Policy, the Investment Officer will notify the Board President of the loss or rating immediately and make a recommendation as to the conditions affecting the rating and possible loss of principal with available liquidation options.

IX. Monitoring Insurance Status – The Investment Officer shall monitor the status and ownership of all banks issuing brokered CDs owned by the District based upon information from the FDIC / NCUA / SIPC. If any bank has been acquired or merged with another bank in which brokered CDs are

owned, the Investment Officer will immediately liquidate any brokered certificate of deposit which placed the District above the FDIC / NCUA / SIPA insurance level. **Authorized and Suitable**

Investments

Eligible Investments - Assets of the District may be invested in the following instruments as authorized by the Public Funds Investment Act (Section 2256). Only those instruments listed in this section are authorized and will be used as needed to maintain an appropriate diversified portfolio. An investment that requires a minimum rating under this subchapter does not qualify as an authorized investment during the period the investment does not have the minimum rating. Prudent measures will be taken to liquidate any investment that drop below the required minimum rating in accordance with the District's policy.

- a. Local Government Investment Pools which meets the requirements of Chapters 2256.016-2256.019 of the Public Funds Act which include being ~~and are~~ rated no lower than AAA or AAA- or an equivalent rating by at least one nationally recognized rating service and strive to maintain a \$1 net asset value.
- b. Obligations of the United States or its agencies and instrumentalities, excluding mortgage-backed securities.
- c. Certificates of Deposit CDs issued by a depository institution that has its main office or a branch in Texas. The CD must be guaranteed or fully insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor and secured by obligations and collateralized in a manner and amount as provided by law.
- d. Brokered Certificates of Deposit issued by one or more federally insured depository institutions, wherever located within the United States, delivered versus payment to the District's safekeeping agent. The CD must be guaranteed or fully insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor and secured by obligations and collateralized in a manner and amount as provided by law. Before purchase, the Investment Officer must verify the FDIC/NCUA status of the bank to assure the bank is FDIC/NCUA insured.
- e. No-load Money Market Mutual Funds that comply with SEC Rule 2a-7 and 1) are registered and regulated by the Securities and Exchange Commission and provides a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940, ~~2) have a dollar weighted average stated maturity of 90 days or fewer, 32) seek to maintain a net asset value of \$1 per share, and 43) are rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service. The City may not invest in money market mutual funds in the aggregate more than 80 percent of its monthly average fund balance.~~

Existing Investments – The District is not required to liquidate investments which were authorized investments at the time of purchase under the Public Funds Investment Act (Section 2256.017).

Collateralization - Collateralization will be required on all funds on time and demand deposits with a depository bank, other than investments, above the FDIC coverage by pledged collateral. To anticipate market changes and provide a level of security, the collateralization level will be not less than one hundred two percent (102%) of market value of principal and accrued interest. All collateral must be pledged to the District and shall be held by an independent third-party institution approved by the District outside the holding company of the pledging bank. A depository/collateral agreement shall be executed between the District, district depository, and custodian. The pledging institution will monitor and maintain the margins daily. The custodian will provide a monthly report of collateral pledged to the District.

Authorized Collateral - Only securities prescribed as eligible investments under the Public Funds

Investment Act qualify as pledged securities and are limited by the District as appropriate.

X. Investment Parameters

Diversification - See Section IV; General Objectives

Maximum Maturities - To the extent possible, the District shall attempt to match its investments with anticipated cash flow requirements. ~~Unless matched to a specific cash flow, the District will not directly invest in securities maturing more than 13 months from the date of purchase. Reserve funds may be invested in securities up to 2 years if the maturity of such investments are made to coincide as nearly as practicable with the expected use of the funds.~~ The average dollar-weighted maturity of an individual investment of the District's portfolio shall not exceed one (1) year. The maximum allowable maturity of an individual investment shall be no more than two (2) years.

XI. (Moved Sections) Performance Standards - The investment portfolio shall be managed in accordance with the objectives specified in this policy (safety, liquidity, diversification, and yield). The District shall pursue a conservative buy-and-hold portfolio and swaps will be prohibited. However, securities may be sold before they mature if market conditions present an opportunity for the District to benefit from the trade. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. As the benchmark, the Investment Officer shall determine whether market yields are being achieved by comparing the portfolio market yield to the three (3) month U.S. Treasury Bill, the six (6) month U.S. Treasury Bill and the two (2) year U.S. Treasury Note. **Investment Strategies**

The District ~~maintains separate portfolios~~ may maintain separate portfolios, or one commingled portfolio for individual funds that are managed according to the terms of this Policy. Investments may be pooled or invested for the benefit of one or more funds. If pooled, principal and interest income is distributed to each respective fund on a pro rata basis. Whether investments are pooled or invested separately is decided by the Investment Officer based upon which method is most beneficial to the District for the investment strategies established. The investment strategy for portfolios established after the annual Investment Policy review and adoption will be managed to ensure that it will meet all the requirements established by the District's investment policy and the Public Funds Investment Act.

The District's portfolio is maintained to meet anticipated cash needs for operations, capital projects and debt service. In order to ensure the ability to meet obligations and to minimize potential liquidation losses, the dollar-weighted average stated maturity of the investment portfolio shall not exceed one (1) year. The objectives of this portfolio are to ensure safety of principal; ensure adequate investment liquidity; limit market and credit risk through diversification; and attain the best feasible yield in accordance with the objectives and restrictions set for in this Policy.

XII. Reporting

Methods - As required by Government Code 2256.023, on a quarterly basis, the Investment Officer shall prepare and submit to the Board, a written report ~~of investment transactions that have occurred since the previous report and, the market value of current investments.~~ for the preceding quarter in accordance with the Public Funds Investment Act. The report will include the following, at a minimum:

- A description of the Investment position of the District on the date of the report.
- A summary statement for each pooled fund group stating the beginning market value for the period, additions and changes to the market value during the period, and the ending market value for the period, and any fully accrued interest.
- Book value and market value of each separately invested asset at the beginning and end of the reporting period by the type of asset and fund type invested.
- Maturity date of each separately invested asset that has a maturity date.

- Account or fund or pooled group fund of the District for which each individual investment was acquired.
- Statement of compliance of the investment portfolio of the District with the Act and Investment Policy.

Market prices for market value calculation of the investment portfolio will be calculated quarterly by independent sources.

If the District invests in any investments other than money market mutual funds, investment pools, or depository bank investment accounts then the District's internal controls and quarterly reports shall be reviewed by the District's independent auditor during the annual audit process. **(Moved Sections) Performance Standards**—~~The investment portfolio shall be managed in accordance with the objectives specified in this policy (safety, liquidity, diversification, and yield). The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. The Investment Officer shall determine whether market yields are being achieved by comparing the portfolio market yield to the three (3) month U.S. Treasury Bill, the six (6) month U.S. Treasury Bill and the two (2) year U.S. Treasury Note.~~

XIII. Investment Policy Adoption

The Investment Policy shall be adopted by Resolution as part of the Financial Management Policies. The policy shall be reviewed and adopted by Resolution annually by the Board of Directors.

List of Qualified Brokers/Dealers

<u>Frost Bank</u> <u>111 W. Houston Street</u> <u>San Antonio, TX 78205</u>	<u>Manuel Long</u> <u>Vice President - Public Finance</u> <u>manuel.long@frostbank.com</u>	<u>(210) 220-5372</u> <u>(210) 262-9081 C</u>
<u>Frost Bank Securities</u> <u>111 W. Houston Street</u> <u>San Antonio, TX 78205</u>	<u>Eileen Slater</u> <u>Sr. Vice President - Capital Markets</u> <u>eileen.slater@frostbank.com</u>	<u>(210) 220-5546</u> <u>(210) 404-8815 C</u>
<u>TexPool Participant Services</u> <u>1001 Texas Avenue</u> <u>Suite 1150</u> <u>Houston, TX 77002</u>	<u>Denise Hamala</u> <u>Unit Manager</u> <u>denise.hamala@FederatedHermes.com</u>	<u>(866) 839-7665</u>
<u>Texas CLASS</u> <u>6907 Shavelson St.</u> <u>Houston, TX 77055</u>	<u>Zach Brewer</u> <u>Director - Investment Services</u> <u>zach.brewer@texasclass.com</u>	<u>(281) 642-4350</u>
<u>Hilltop Securities Inc.</u> <u>1201 Elm Street</u> <u>Suite 3500</u> <u>Dallas, TX 75270</u>	<u>Gilbert Ramon</u> <u>Vice President</u> <u>gilbert.ramon@hilltopsecurities.com</u>	<u>(713) 654-8606</u> <u>(713) 724-4178 C</u>
<u>UBS Financial Services, Inc.</u> <u>1780 Hughes Landing Blvd.</u> <u>3 Hughes Landing, Suite 200</u> <u>The Woodlands, TX 77380</u>	<u>Richard Ebert</u> <u>First Vice President - Wealth Management</u> <u>richard.ebert@ubs.com</u>	<u>(281) 362-6340</u>
<u>Stifel, Nicolaus & Company, Inc.</u> <u>2107 Elliott Avenue</u> <u>Suite 208</u> <u>Seattle, WA 98121</u>	<u>Josh Gorham</u> <u>Managing Director</u> <u>gorhamj@stifel.com</u>	<u>(206) 443-7260</u> <u>(206) 963-1280 C</u>

CAPITALIZATION POLICY FOR CAPITAL ASSETS

The purpose of this policy is to establish a capitalization policy for auditing purposes and, to set standards of accounting for City of Fair Oaks Ranch Municipal Development District according to Government Accounting Standards Board Statement 34 (and subsequent relevant guidance) with regard to categories and threshold amounts to be capitalized.

SECTION 1. Capital assets categories and thresholds are:

Land/land improvement	Any amount
Buildings/building improvements	\$25,000
Infrastructure	\$25,000
Personal property	\$ 5,000
Leasehold improvements	\$25,000

SECTION 2. For clarification purposes the above items are generally defined as, but not expressly limited to the following definitions:

Land is the purchase price or fair market value at time of gift, any commissions, professional fees, land excavation, fill, grading, drainage, demolition of existing building (less salvage), property removal (relocation or reconstruction) of others (railroad, telephone, and power lines), date of purchase accrued mortgage interest and any unpaid taxes and right of way cost. Land improvements are considered to be fencing, landscaping structure(s), parking lots, driveway, recreation areas, septic systems, and pavilions.

A building is a structure that is permanently attached to the land, has a roof, is partially or completely enclosed by walls. A building improvement must extend the life of the building or increase the value of the building. Examples of capitalized building improvements are structural changes & installation or upgrade of roofing, heating & cooling systems, electrical, etc.

Infrastructure is usually considered stationary and can be preserved for a significantly greater number years than most capital assets. They are often linear and continuous in nature. Infrastructure improvements should extend the useful life and /or increase the value by 25% of the original cost or life period. Examples of infrastructure are streets, curbs, gutters, sidewalks, fire hydrants, bridges, dam, drainage facility, radio tower, water main and distribution lines, light systems and signage.

Personal property is fixed or movable tangible assets to be used for operations that has a life beyond one year. Examples of personal property are vehicles, other motor vehicles, furnishings & equipment.

Leasehold improvements are the construction of new buildings or improvements made to existing structures by the lessee, who has the right to use these leasehold improvements over the term of the lease.

REIMBURSEMENTS**GENERAL POLICY**

Travel expenses will be reimbursed for travel within the continental United States only. Reimbursement is based upon the most economical conveyance that is reasonably available. In some cases, the District may prepay such expenses as registration fees, hotel costs, and/or airline or other public transportation costs directly to the entity involved.

PROFESSIONAL MEMBERSHIPS AND SEMINARS

Subject to the approval of the Board, membership to a professional association related to the District will be reimbursed for dues. Necessary travel expenses for meetings, conferences, or seminars judged to offer special training or information of value to the attendee, and if the meeting, conference or seminar is related to the District, reimbursement of authorized expenses will be made.

TRAVEL AUTHORIZATION AND REIMBURSABLE EXPENSES

In and out of state travel is permissible provided that it is authorized in advance by the Board President and does not exceed budgetary limitations.

Travel. Necessary and authorized travel expenditures in the conduct of business will be reimbursed for actual costs of reasonable and documented expenses (furnished receipts). Reimbursable expenses will be for food, registration, lodging, parking, tolls, transportation, and reasonable gratuities. Conference registration checks will be made payable only to the organization sponsoring the conference. When private automobiles are used, reimbursement is allowed on the basis of actual mileage traveled at the prevailing federal per-mile rate for business use of a personal vehicle as noted by the Internal Revenue Service.

Overnight Travel. When travel is required for more than one consecutive day, thereby spending the night, hotel cost, and transportation will be submitted for reimbursement based on reasonableness of the expense and subject to the approval of the Board President. The District pays the single standard room hotel rate only. Parking and meals will be paid based on presentation of receipts and within a reasonable cost.

Expense Report. Within five days of the date the authorized travel was concluded, the attendee shall complete an expense report documenting actual expenses incurred on the trip which were not prepaid directly by the District to the entity involved. A reimbursement check will be issued as approved by the Board President.

USE OF PERSONAL VEHICLE

Use of a personal vehicle is authorized when on official District business as determined by the Board President. Reimbursement will be for actual miles driven, as documented at the prevailing federal per-mile rate for business use of a personal vehicle as noted by the Internal Revenue Service. The shortest distance between points of departure and destinations for travel by personal vehicle is to be reported.

OTHER EXPENSES

Other incidental expenses are governed under the terms defined in Section VI. B. of this document.

LIMITATIONS

Costs of personal entertainment, amusements, social activities, spouse's or others' expenses, alcoholic beverages, traffic citations, or illegal activities are not reimbursable.

The District reserves the right to limit the availability of education/training reimbursement due to budgetary or other reasons.

MDD Investment Policy - Summary of Changes

1. **Section I:** District name and reference to “the “District”” is now included in our policy. We did not have our full district name anywhere in the policy previously.
2. **Section II:** Incorporated PFIA Act name and reference to “the “Act””, and separated wording for Sections 2256 & 2257. Previously, we only stated the purpose is to comply with Chapters 2256 & 2257 of the Texas Gov. Code. Comparison investment policies referenced (the “Act”) and separately listed they are complying with Chapter 2256. This change was for clarification on the Act.
3. **Section III:** Policy now includes a statement on whether the funds listed in our Scope are pooled or separate. Reason for the change is due to the GTOT Certification Checklist stating to generally or specifically list the funds covered in the scope section along with whether these funds are pooled or separate. San Antonio’s City investment policy was looked at to develop wording here as they listed out the pooled or separate GTOT requirement in their scope.
4. **Section IV - Safety:** Extended objective to state what we are guarding against. All comparison investment policies stated what they were avoiding or guarding against in their safety statements.
5. **Section IV - Liquidity:** Added a statement to liquidity objective to show our intent and commitment to how we will accomplish the District’s goal. Majority of comparison policies stated how liquidity will be achieved.
6. **Section IV - Diversification:** Extended objective to state why we are diversifying. Majority of comparison policies made a statement on mitigating or avoiding market risk as a goal of diversifying.
7. **Section V:** Created a new header, ‘Standards of Care’ for this section which now contains Prudence and Limitation of Personal Liability under it. Texas Government Code includes Prudence within Standards of Care, and previously the header for the section was “Prudence”, but it was within the paragraph for Prudence yet had multiple paragraphs under it.
8. **Section V - Prudence:** Objectives of Prudence listed in Government code 2256.006(a-b) are now incorporated into our policy as well as performance measure of an officer’s decisions to be based on investments as a whole instead of a single investment. We did not have these items listed previously, and they are a requirement under the Act.
9. **Section VI:** Created a new header, ‘Delegation of Authority and Responsibilities’ for this section which now contains paragraphs for Delegation of Authority, Training, and Ethics and Conflicts of Interest under it. Previously the header for the section was “Delegation of Authority”, but it was within the 1st paragraph for Delegation of Authority yet had multiple paragraphs under it.

Also, the paragraph for Ethics and Conflicts of Interest was previously above this section following Prudence. It was reorganized to Section VI to more accurately align with responsibilities of the Investment Officer.
10. **Section VI - Training:** Our policy has been expanded upon to include more detail on the government requirements of PFIA Section 2256.008 for training. PFIA code and GTOT checklist specifically state the training needs to be from an independent source approved by the governing body, and the code states specific topics the training must include.
11. **Section VI – Board of Directors Responsibilities:** Incorporated a paragraph to state the responsibility held by our Board of Directors over the District’s investment portfolio. This statement was in a few comparison policies and determined it to be a wise statement to add into our policy as well.

12. **Section VII:** Our policy now includes the Investment Officer as being responsible for the internal control structure in addition to the Board President already stated. The District's focus points for internal controls on Investments are now listed. Other comparison policies included a list in their policies and deemed it clarifying to add in to our policy.
13. **Section VII:** PFIA Section 2256.005(m) and GTOT checklist require an investment policy to state the requirement of an internal compliance audit of management controls on investments in conjunction with the annual financial audit; therefore, this is now included in the internal controls section of our policy.
14. **Section VIII - Safekeeping:** Our policy now includes a separate paragraph expanding on our safekeeping requirements aside from our delivery vs. payment paragraph. This is a requirement under the GTOT Checklist.
15. **Section VIII - Authorized Financial Dealers:** Our policy now includes the requirement for the District's list of qualified brokers to be reviewed and adopted annually by the Board of Directors.
16. **Section VIII - Authorized Financial Dealers:** Our policy now states the requirement for brokers and organizations to sign a compliance certification stating they received and reviewed the District's investment policy and put into place reasonable procedures to avoid unauthorized transactions. Our policy also now includes a more detailed list of requirements bidders must provide.
17. **Section VIII – Investment Management Firms:** The District's policy now includes a statement addressing the District's ability to contract with a registered investment management firm for a maximum of 2 years with renewal or extension dependent on Board of Directors approval. This is at the request of the Investment Officer.
18. **Section VIII - Depository:** The District's depository agreement statement has been expanded upon to include more detail on the government requirement as well as our District requirements. Specifically, our policy now states that at least every five years a depository shall be selected by the District, states what is considered when selecting a depository, and the requirement that a written agreement is executed.
19. **Section VIII - Competitive Bidding:** Our policy now includes the requirement under PFIA 2256.005(c) and GTOT checklist to include a competitive bidding statement.
20. **Section VIII - Monitoring Credit Ratings/Insurance Status:** Our policy now includes statements over how the Investment Officer will monitor credit ratings of investments and FDIC/NCUA/SIPC status on all banks. PFIA Section 2256.005(b)(F) states there should be procedures in a District's investment policy to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the provisions of Section 2256.021. Also, majority of comparison policies listed paragraphs on monitoring credit ratings and monitoring insurance status.
21. **Section IX:** Our policy now includes PFIA Section 2256.021 requirement over effect of loss of required rating.
22. **Section IX –** There has been minimal wording updates for Local Government Investment Pools, Obligations of the US, and Certificates of Deposit. Minimal update for basic requirements under PFIA.
23. **Section IX – Brokered Certificates of Deposit:** Our policy now includes an additional authorized security under PFIA Section 2256.010(b) at the request of the District's Investment Officer from discussions with our broker.
24. **Section IX - No-load MM Mutual Fund:** Minimal updates to our No-load Money Market Mutual Funds investment for basic requirements under PFIA. Removed 80% limitation as this was inaccurately referenced and unallowable. Removed the statement 'have a dollar weighted average stated maturity of 90 days or fewer' which was not a requirement which will allow flexibility if needed.

25. **Section IX** - Existing Investments: Our policy now complies with PFIA Section 2256.017 on existing investments. This is also listed in the GTOT Checklist.
26. **Section IX** - Collateralization: Added wording to clarify our statements and meet the requirements under PFIA Section 2257.
27. **Section X** - Maximum Maturities: Our new maximum allowable maturity of an individual investment is 2 years in place of 13 months at the request of the Investment Officer. This allows more flexibility to take advantage of interest rates and diversify in a more advantageous manner with certain securities as deemed appropriate. This section also now includes our WAM requirement to not exceed 1 year which did not change.
28. **Section X** - Performance Standards: Reorganized this paragraph from being the District's last paragraph in our Policy to a more appropriate section. Also, our policy now states the type of portfolio we hold as well as our ability to sell a security before maturity if necessary even though it would not be our common practice. Several comparison policies listed the type of portfolio they held and made the statement of being able to sell before maturity if needed. This was deemed to be clarifying and appropriate.
29. **Section XI**: Our policy now states we may hold separate portfolios or a commingled portfolio to accurately reflect our investments and capability. Previously our policy stated only separate portfolios; however, we have a pooled fund containing our investments and reference the portfolio as a whole further in our strategy statement.
30. **Section XII**: Expanded upon our quarterly reporting statement to reflect the requirements included in PFIA Section 2256.023.
31. **Section XII**: Our policy now states the requirement for market value determination.
32. **Section XII**: Our policy now includes a statement on review by an independent auditor based on the Act and GTOT checklist. Comparison policies included this in their policies as well.
33. **Section XIII** - Investment Policy Adoption: Reorganized paragraph from beginning of the District's policy to end as a conclusion and final requirement for our policy. Five of the six comparison policies ended with the Investment Policy adoption requirement as well.



Investment Policy Annual Review and Adoption

October 9, 2024



Summer Fleming, CGFO
MDD Investment Officer

Background



- Public Funds Investment Act (PFIA)
 - Establishes requirements for local governments for managing investments.
- Government Finance Officers Association (GFOA)
 - Established a best practice for developing an investment program for public funds.
- Government Treasurers' Organization of Texas (GTOT)
 - Conducts an Investment Policy Certification Program designed to provide professional guidance in developing an investment policy and recognizing outstanding examples.

PFIA Requirements



- Review and adopt investment policy and investment strategy annually
- Designate an investment officer
- Provide policy for written certification
- Obtain annual audit
- Provide for training
- Provide quarterly reports



Investment Policy Strategies

- Provide safety of principal
- Remain sufficiently liquid to meet all operating requirements
- Diversification by maturity and market sector
- Obtain a market rate of return considering the investment risk constraints and liquidity needs



Amendments

- Board of Directors Responsibilities
 - Board of Directors holds ultimate fiduciary responsibility for the investment portfolio
- Internal Audit Compliance
 - Internal compliance audit of management controls on investments shall be performed in conjunction with the annual financial audit
- Authorized Financial Dealers and Institutions
 - List of qualified brokers shall be reviewed and adopted annually by Board of Directors
 - All authorized brokers and pool participants will sign compliance certification



Amendments

- Investment Management Firms
 - Allows the District, at Board of Director's approval, to contract with an investment firm registered under the Investment Advisers Act of 1940 or with the State Securities Board
- Competitive Bidding
 - All investments, excluding market mutual funds and local government investment pools, shall be made on a competitive basis of at least 3 offers
- Monitoring Credit Ratings & Insurance Status
 - Credit ratings on investments and FDIC/NCUA/SIPC status on all banks will be monitored by the Investment Officer



Amendments

- Eligible Investments
 - New Investment Authorized: Brokered Certificate of Deposit
 - No-load Money Market Mutual Fund
 - Removed following statements: “The City may not invest in money market mutual funds in the aggregate more than 80 percent of its monthly average fund balance” and “have a dollar weighted average stated maturity of 90 days or fewer”



Amendments

- Maximum Maturity
 - Increased from 13 months to two (2) years
- Performance Standards
 - District shall pursue a conservative buy-and-hold portfolio
 - Securities may be sold before they mature if market conditions present an opportunity for the District to benefit

Amendments



- Investment Strategies
 - District may maintain separate portfolios or one commingled portfolio
 - Principal and interest income is distributed to each respective fund on a pro rata basis
 - Whether investments are pooled or separate is decided by Investment Officer



Non-substantial Changes

- Modifications of a minor surface nature have been made to the investment policy.
- These changes do not change the premise or effect of our policy, rather were made to clarify our processes, intent, or meet PFIA or GTOT requirements.

Summary



Item #10.

- The Investment Policy and Investment Strategy must be reviewed and adopted annually.
- The proposed amendments are in line with PFIA regulations and best practices set by GFOA.



Item #10.

Questions?



**MUNICIPAL DEVELOPMENT DISTRICT
CONSIDERATION ITEM
CITY OF FAIR OAKS RANCH, TEXAS**



AGENDA TOPIC: Consideration and possible action regarding upcoming Regular MDD Board Meeting Dates
DATE: October 9, 2024
PRESENTED BY: Amanda Valdez, TRMC, Deputy City Secretary

INTRODUCTION/BACKGROUND:

MDD Rules of Procedure require a minimum of two meetings each fiscal year (Article II, Section 3). This item exceeds the requirement and proposes to continue conducting quarterly regular meetings. Special meetings will be called as needed. All meetings (regular or special) are open and announced in accordance with the Texas Open Meetings Act.

POLICY ANALYSIS/BENEFIT(S) TO CITIZENS:

The purpose of this action is to set a known MDD regular meeting date each quarter in the months of January, April, July, and October 2025. This provides a better planning cycle for citizens, board members, and staff. Special meetings may be called between quarterly meetings as required.

LONG TERM FINANCIAL & BUDGETARY IMPACT:

Attorney fees will be slightly increased due to the quarterly meeting frequency. However, the increased meeting frequency will benefit in reducing the length of each meeting, resulting in minimum budgetary impact.

LEGAL ANALYSIS:

N/A

RECOMMENDATION/PROPOSED MOTION:

I move that the MDD Board set the following dates for their known quarterly MDD regular meetings:

- January ____, 2025 at _____.
- April ____, 2025 at _____.
- July ____, 2025 at _____.
- October ____, 2025 at _____.