

**MINUTES  
PUBLIC SERVICE BOARD  
CITY OF EL PASO  
April 12, 2017**

The regular meeting of the Public Service Board was held Wednesday, April 12, 2017, at the El Paso Water Utilities Public Service Board Meeting Room located at 1154 Hawkins Boulevard, El Paso, Texas.

**PSB MEMBERS PRESENT**

Henry Gallardo, Chair  
Christopher Antcliff, Vice Chair  
Dr. Ivonne Santiago, Member  
Bradley Roe, Member  
Dr. Kristina Mena, Member

**PSB MEMBERS ABSENT**

Mayor Oscar Leeser, Ex-Officio Member  
Terri Garcia, Secretary-Treasurer

**PSB EMPLOYEES PRESENT**

John E. Balliew, P.E., President and Chief Executive Officer  
Lee Ann Koehler, General Counsel

**EPWU EMPLOYEES PRESENT**

Matthew Behrens, Assistant General Counsel  
Marcela Navarrete, Vice President  
Art Duran, Chief Financial Officer  
Gilbert Trejo, Chief Technical Officer  
Fernie Rico, Chief Operations Officer  
Armando Renteria, Chief Information Officer  
Lidia Carranco, Treasury & Property Control Manager  
Jeff Tepsick, Fiscal Operations Manager  
Gretchen Byram, Computer Media Specialist  
Scott Reinert, Water Resources Manager  
Georgette Webber, Executive Assistant  
Rosemary Guevara, Senior Purchasing Agent  
Levi Chacon, Purchasing Agent  
Christina Montoya, Marketing and Communications Manager  
Joshua Moniz, Lead Public Information Coordinator  
Martin Noriega, Stormwater Operations Manager  
Cynthia Osborn, Real Estate Manager/Counsel  
Robert Davidson, Temporary Employee

**GUESTS**

Sam Irrinki, Weston  
Steve Ainsa, AECOM  
Horacio Juarez, CDM Smith  
Carlos Torres, Brown and Caldwell

**MEDIA**

None

The Public Service Board meeting was called to order by Mr. Gallardo at 8:05 a.m. A quorum of its members was present. After a moment of silence, those in attendance joined Dr. Santiago, in reciting the Pledge of Allegiance.

### CONSENT AGENDA

On a motion made by Mr. Antcliff, seconded by Mr. Roe and unanimously carried, the Board took action on the following agenda items:

**APPROVED THE MINUTES OF THE REGULARLY SCHEDULED MEETING HELD ON MARCH 8, 2017.**

The Board approved the minutes of the regularly scheduled meeting held on March 8, 2017.

**APPROVED THE PURCHASE OF THE NETWORK HARDWARE QUOTED BY PRESIDIO NETWORKED SOLUTIONS GROUP, LLC WITH BUY BOARD PRICING THROUGH TEXAS DIR CONTRACT NUMBER DIR-TSO-2542 IN THE AMOUNT OF \$67,797.60**

The Board approved the purchase of the network hardware quoted by Presidio Networked Solutions Group, LLC with buy board pricing through Texas DIR Contract Number DIR-TSO-2542 in the amount of \$67,797.60

**APPROVED THE PURCHASE OF 86 HP MODEL ELITEDESK 800 G3 DESKTOP COMPUTERS QUOTED BY DECISION TREE, INC. WITH BUY BOARD PRICING THROUGH TEXAS HP DIR CONTRACT NUMBER DIR-TSO-2538 IN THE AMOUNT OF \$73,702.**

The Board approved the purchase of an audiovisual system upgrade for the Tech2O Center from AV Concepts and Security, LLC with buy board pricing through Region 19 Contract No: RFP-15-7077 in the estimated amount of \$86,253.17.

### REGULAR AGENDA

**AUTHORIZED THE PRESIDENT/CEO TO SIGN AN AGREEMENT WITH THE CAMINO REAL REGIONAL MOBILITY AUTHORITY SPECIFYING THE TERMS AND CONDITIONS, TO INCLUDE REIMBURSEMENT OF COSTS, FOR THE CONSTRUCTION OF A WATER MAIN LOCATED WITHIN THE VISTA DEL SOL EXTENSION PROJECT.**

Mr. Gilbert Trejo, Chief Technical Officer, made a PowerPoint presentation to the Board regarding this item (copy on file in Central Files). The Camino Real Regional Mobility Authority (CRRMA) received funding for the Vista Del Sol Extension Project. El Paso Water (EPWater) will construct 12-inch and 24-inch water mains and 8-inch, 12-inch, and 15-inch sanitary sewer mains that will connect an existing development to a future residential development. The water main will also provide redundant water supply to both developments. EPWater coordinated with the CRRMA and the design drawings were included with the CRRMA bid package. In January, the CRRMA put the bid out and a lowest responsive, responsible bidder was selected. Staff determined that it would be beneficial to have CRRMA's contractor construct the water and sanitary sewer lines rather than to bid the project and hire a contractor. Bidding the water and sanitary sewer mains extension project separately will delay the construction of the roadway. CRRMA approved this agreement at its March 8, 2017 meeting. Mr. Trejo addressed questions from the Board regarding this item.

On a motion made by Mr. Roe, seconded by Dr. Mena and unanimously carried, the Board authorized the President/CEO to sign an agreement with the Camino Real Regional Mobility Authority specifying the terms and conditions, to include reimbursement of costs, for the construction of a water main located within the Vista Del Sol Extension Project.

**AWARDED A CONTRACT FOR THE REPAIR OF THE INTERNATIONAL WATER QUALITY LABORATORY ROOF THROUGH ESC REGION 19 ALLIED STATES COOPERATIVE**

**CONTRACT NUMBER 14-7072 TO JORDAN FOSTER CONSTRUCTION IN THE AMOUNT OF \$524,828.00 AND AUTHORIZED THE USE OF COMMERCIAL PAPER.**

Mr. Trejo made a PowerPoint presentation to the Board regarding this item (copy on file in Central Files). The International Water Quality Laboratory building is experiencing roof leaks, water damage, and water intrusion into the lab facility. Staff evaluated the roof and identified the membrane system has failed. The roof continues to deteriorate, requiring several patch repairs. In February 2017, the Public Service Board awarded three contracts for National Job Order Contracting Services through ESC Region 19 Allied States Cooperative contract in the cumulative annual amount not to exceed \$500,000. Staff utilized this job order contracting service to request a proposal from Jordan Foster Construction for this project. The cost proposal was for \$524,828.00. For comparison, earlier this year, staff attempted to bid this project and only received one non-responsive bid in the amount of \$536,172.00. This JFC proposal is 2.1% less than the bid received in February, and 10.1% over the engineers' estimate. Because this single job order contract exceeds the annual amount approved by the Public Service Board, staff recommends awarding a standalone job order contract to Jordan Foster Construction through the same ESC Region 19 Allied States Cooperative contract. Mr. Trejo and Mr. John Balliew, President/CEO, addressed questions from the Board regarding this item.

On a motion made by Mr. Antcliff, seconded by Dr. Mena and unanimously carried, the Board awarded a contract for the repair of the International Water Quality Laboratory roof through ESC Region 19 Allied States Cooperative Contract Number 14-7072 to Jordan Foster Construction in the amount of \$524,828.00 and authorized the use of commercial paper.

**APPROVED PROFESSIONAL ENGINEERING SERVICES CONTRACTS FOR ON-CALL WELL EQUIPPING PROFESSIONAL ENGINEERING SERVICES IN THE AMOUNT OF \$700,000 EACH WITH A TERM OF THREE YEARS FOR VARIOUS WELL DRILLING PROJECTS TO BROWN AND CALDWELL AND TO CDM-SMITH, INC.**

Mr. Trejo, made a PowerPoint presentation to the Board regarding this item (copy on file in Central Files). El Paso Water (EPWater) will use this On-Call Well Equipping Professional Engineering Services contract to provide engineering support on upcoming well equipping projects. The engineering services included in this contract will provide for the engineering design, bid phase services, and construction management services for the infrastructure that is to be built to connect wells to the EPWater distribution system. The Architectural/Engineering Selection Advisory Committee met on March 8, 2017, to review and recommend selection of the engineering firm for the above referenced project. Proposals were scored in the areas of technical competence, project approach, team organization and availability, and project management and quality control. The firms of Brown and Caldwell and CDM-Smith were selected as the most qualified firms. Each consultant will be issued a professional services contract for a maximum amount of \$700,000, and each contract will be limited to no more than three years. Mr. Trejo addressed questions from the Board following his presentation.

On a motion made by Mr. Antcliff, seconded by Mr. Roe and unanimously carried, the Board approve professional engineering services contracts for On-Call Well Equipping Professional Engineering Services in the amount of \$700,000 each with a term of three years for various well drilling projects to Brown and Caldwell and to CDM-Smith, Inc.

**APPROVED A PROFESSIONAL ENGINEERING SERVICES CONTRACT FOR THE VISTA DEL ESTE 2.5 MG ELEVATED WATER STORAGE TANK TO MORENO CARDENAS, INCORPORATED IN THE AMOUNT OF \$263,763.**

Mr. Trejo, made a PowerPoint presentation to the Board regarding this item (copy on file in Central Files). The Vista Del Este 2.5 MG elevated water storage tank is needed to serve the far east portions of the Tierra Del Este and Homestead developments in El Paso County. The tank will be constructed along the future extension of Vista Del Este Drive past Edgemere Boulevard. The tank will provide additional water storage to the East Montana Pressure Zone, which is currently supplied by a 0.75 MG Montana East elevated tank, a 0.25 MG

Homestead elevated tank, and the Montana North pumping station. The Architectural/Engineering Selection Advisory Committee met on February 8, 2017, to review and recommend selection of the engineering firm for the above-referenced project. Proposals were scored in the areas of technical competence, project approach, team organization and availability, and project management and quality control. Moreno Cardenas was selected as the most qualified firm that best meets the needs of the Utility for these important services and demonstrated excellent abilities in all evaluated categories. Staff worked with Moreno Cardenas to develop the scope of services required for this project. A fee proposal associated with the scope of services was submitted, reviewed, and negotiated with the Consultant for the defined scope of work. The negotiated fees are in line with the level of effort required to complete the task and consistent with similar work completed recently. Mr. Trejo and Mr. Fernando Rico, Chief Operations Officer, addressed questions from the Board following the presentation.

On a motion made by Mr. Roe, seconded by Dr. Santiago, and unanimously carried, the Board approved a professional engineering services contract for the Vista Del Este 2.5 MG Elevated Water Storage Tank to Moreno Cardenas, Incorporated in the amount of \$263,763.

**APPROVE A PROFESSIONAL ENGINEERING SERVICES CONTRACT FOR THE BIDIRECTIONAL WASTEWATER DIVERSION FROM THE HASKELL R. STREET WASTEWATER TREATMENT PLANT TO THE FRED HERVEY WATER RECLAMATION PLANT TO AECOM IN THE AMOUNT OF \$235,000.**

Mr. Trejo made a PowerPoint presentation to the Board regarding this item (copy on file in Central Files). Reduction in wastewater flows due to conservation and increasing demand of reclaimed water has El Paso Water (EPWater) seeking innovative solutions for meeting this demand. El Paso County Water Improvement District No. 1 also requires EPWater to discharge treated wastewater flows back into their irrigation conveyance system from the Haskell R. Street Wastewater Treatment Plant (WWTP) and the John T. Hickerson Water Reclamation Facility. A solution was identified that would redirect and transfer flows from the Fred Hervey Water Reclamation Plant (WRP) wastewater service area to the Haskell R. Street WWTP. The project services include the design of the necessary improvements to complete the diversion of wastewater in both directions from the Fred Hervey WRP service area to Haskell WWTP and back to Fred Hervey WRP.

The Architectural/Engineering Selection Advisory Committee met on January 11, 2017, to review and recommend selection of the engineering firm for the above-referenced project. Proposals were scored in the areas of technical competence, project approach, team organization and availability, and project management and quality control. AECOM was selected as the most qualified firm that best meets the needs of the Utility for these important services and demonstrated excellent abilities in all the evaluated categories. Staff worked with AECOM to develop the scope of services required for the design and bid phase services of this project. A fee proposal associated with the scope of services was submitted, reviewed, and negotiated with the consultant for the defined scope of work. The negotiated fees are in line with the level of effort required to complete the task and consistent with similar work completed recently. Mr. Trejo and Mr. Balliew addressed questions from the Board regarding this item.

On a motion made by Mr. Antcliff, seconded by Mr. Roe and unanimously carried, the Board approved a professional engineering services contract for the bidirectional wastewater diversion from the Haskell R. Street Wastewater Treatment Plant to the Fred Hervey Water Reclamation Plant to AECOM in the amount of \$235,000.

**AWARDED BID NUMBER 82-16, PICO NORTE LIFT STATION FENCE, TO THE LOWEST RESPONSIVE, RESPONSIBLE BIDDER, KEYSTONE GENERAL CONTRACTORS, LLC, IN THE AMOUNT OF \$125,758.66 AND AUTHORIZED THE USE OF COMMERCIAL PAPER.**

Mr. Trejo made a PowerPoint presentation to the Board regarding this item (copy on file in Central Files). The Pico Norte lift station is located at Pico Norte Park; the perimeter is enclosed by a chain link fence with barbwire. As part of El Paso Water's (EPWater) ongoing initiative to improve facility aesthetics, the chain link



fence will be replaced with a combination of rock wall and wrought iron fence. EPWater received five bids for this project on February 14, 2017 ranging from \$125,758.66 to \$230,857.50. The engineer's estimate was \$151,091.09. The project consulting engineer, MM Structural Engineers, evaluated the bids and determined that Keystone General Contractors, met the minimum general requirements as well as the minimum project specific criteria as specified on the bid documents. Staff evaluated the engineer's evaluation matrix and recommended award of Bid Number 82-16, Pico Norte Lift Station Fence to Keystone General Contractors, the lowest responsive, responsible bidder, in the amount of \$125,758.66. Mr. Trejo and Mr. Balliew addressed questions from the Board regarding this item.

On a motion made by Mr. Antcliff, seconded by Dr. Mena and unanimously carried, the Board awarded Bid Number 82-16, Pico Norte Lift Station Fence, to the lowest responsive, responsible bidder, Keystone General Contractors, LLC, in the amount of \$125,758.66 and authorized the use of commercial paper.

**AWARDED BID NUMBER 02-17, VISTA DEL SOL 24-INCH WATER MAIN EXTENSION - PHASE II, TO THE LOWEST RESPONSIVE, RESPONSIBLE BIDDER, CMD ENDEAVORS, INC., IN THE AMOUNT OF \$971,390.**

Mr. Trejo made a PowerPoint presentation to the Board regarding this item (copy on file in Central Files). The Vista Del Sol 24-Inch Water Main Extension Phase II project will extend water services to the area east of Loop 375 and north and south of Vista Del Sol Drive. The main will tie into the existing 36-inch that crosses Loop 375. This will connect to the existing development and to a future residential development along north of Vista Del Sol. The proposed water main will also provide water supply to the existing 24-inch water main along Vista Del Sol Drive. EPWater received four bids for this project on March 17, 2017 ranging from \$971,390 to \$1,249,905. The engineer's estimate was \$1,305,733.38. The project consulting engineer, CEA Group, evaluated the qualifications of the apparent low bidder and determined that CMD Endeavors met the minimum general requirements as well as the minimum project specific criteria as specified on the bid documents. Staff evaluated the engineer's evaluation matrix and recommended award of Bid Number 02-17, Vista Del Sol 24-Inch Water Main Extension - Phase II, to CMD Endeavors as the lowest responsive, responsible bidder in the amount of \$971,390. Mr. Trejo and Mr. Balliew addressed questions from the Board regarding this item.

On a motion made by Dr. Mena, seconded by Mr. Roe and unanimously carried, the Board awarded Bid Number 02-17, Vista Del Sol 24-Inch Water Main Extension - Phase II, to the lowest responsive, responsible bidder, CMD Endeavors, Inc., in the amount of \$971,390.

**DECLARED BLACK STALLION CONTRACTORS, INC.; KEYSTONE GC, LLC; AND HORIZONE CONSTRUCTION I, LTD. AS NON-RESPONSIBLE AND AWARDED BID NUMBER 13-17, MONTANA RESERVOIR AND BOOSTER STATION SITE IMPROVEMENTS, TO THE LOWEST RESPONSIVE, RESPONSIBLE BIDDER, DANNY SANDER CONSTRUCTION INC., IN THE AMOUNT OF \$144,835.**

Mr. Trejo made a PowerPoint presentation to the Board regarding this item. The Montana Reservoir and Booster Station site is located off of Montana Avenue adjacent to the Sun Metro Transit Operations Center. This project will move the entrance to the site from Montana Avenue to the Sun Metro Center, improving the safety and accessibility to the site. Electrical service and site drainage improvements will also be completed as part of this project. El Paso Water (EPWater) received five bids on February 15, 2017 ranging from \$108,162.50 to \$262,406.00. The engineer's estimate was \$191,760.45. The apparent low bidder was Black Stallion Contractors. Staff evaluated the qualifications of the four low bidders and determined that Black Stallion Contractors, Keystone GC, and Horzone Construction I did not meet the minimum general requirements or the minimum project specific criteria as specified on the bid documents. The fourth low bidder, Danny Sander Construction, met the minimum general requirements as well as the minimum project specific criteria as specified on the bid documents.

Black Stallion reported an Experience Modification Rate (EMR) greater than 1.25 and insufficient projects submitted demonstrating experience with medium voltage cable and terminations. Keystone GC did not present a project demonstrating where continued facility operation was critical during construction of improvements. Horizone Construction I failed to provide a complete Safety Record; reported an EMR greater than 1.25; insufficient projects submitted demonstrating experience with medium voltage cable and terminations; and lastly, did not present a project demonstrating where continued facility operation was critical during construction of improvements. Based on the engineer's evaluation matrix and the comments above, staff recommended award of Bid Number 13-17, Montana Reservoir and Booster Station Site Improvements, to Danny Sander Construction as the lowest responsive, responsible bidder, in the amount of \$144,835. Mr. Trejo and Mr. Balliew addressed questions from the Board following the presentation.

On a motion made by Dr. Santiago, seconded by Mr. Roe and unanimously carried, the Board, declared Black Stallion Contractors, Inc.; Keystone GC, LLC; and Horizone Construction I, Ltd. as non-responsive; and awarded Bid Number 13-17, Montana Reservoir and Booster Station Site Improvements to the lowest responsive, responsible bidder, Danny Sander Construction Inc., in the amount of \$144,835.

**REJECTED ALL BIDS FOR BID NUMBER 06-17, POLY ORTHOPHOSPHATE BLEND (REBID).**

Ms. Rosemary Guevara, Senior Purchasing Agent, presented information to the Board regarding the item. Poly Orthophosphate is a product used as a corrosion inhibitor in the water treatment process. Poly Orthophosphate is needed at the Upper Valley Water Treatment Plant, the Jonathan Rogers Water Treatment Plant, the Canal Water Treatment Plant, the Kay Bailey Hutchison Desalination Plant, and at well sites throughout the city. Seven bids were received. Staff reviewed the bids and determined that the specifications of the bid require re-evaluation. Staff is currently reviewing the type of certification required for various chemicals. For Bid Number 06-17, NSF accreditation is the only certification accepted. Staff is evaluating the possibility of allowing certifications from other certifying laboratories that meet ANSI/NSF 60 certification. Therefore, staff recommended re-bidding this procurement until the determination can be made. Ms. Guevara and Mr. Balliew addressed questions from the Board regarding this item.

On a motion made by Dr. Santiago, seconded by Mr. Roe and unanimously carried, the Board rejected all bids for Bid Number 06-17, Poly Orthophosphate Blend (Rebid).

**AWARDED BID NUMBER 16-17, LIQUID CARBON DIOXIDE, TO THE SOLE RESPONSIVE, RESPONSIBLE BIDDER, RELIANT GASES LTD., IN THE ESTIMATED ANNUAL AMOUNT OF \$375,300 WITH THE OPTION FOR TWO ONE-YEAR EXTENSIONS.**

Ms. Guevara presented information to the Board regarding this item. Liquid carbon dioxide is primarily used to reduce the pH levels in water, to neutralize the water after the high-lime treatment process at the Fred Hervey Water Reclamation Plant and to remove arsenic from three booster stations. One bid was received from Reliant Gases. Staff evaluated the bid and determined that Reliant Gases meets all specifications set within the bid proposal and recommended award. Ms. Guevara and Mr. Balliew addressed questions from the Board regarding this item.

On a motion made by Mr. Antcliff, seconded by Mr. Roe and unanimously carried, the Board awarded Bid Number 16-17, Liquid Carbon Dioxide, to the sole responsive, responsible bidder, Reliant Gases Ltd., in the estimated annual amount of \$375,300 with the option for two one-year extensions.

**AWARDED REQUEST FOR PROPOSALS NUMBER 09-17, EL PASO WATER BILL PRINTING AND MAILING SERVICES, TO PINNACLE DATA SYSTEMS LLC IN THE ESTIMATED ANNUAL AMOUNT OF \$1,105,936 FOR A THREE-YEAR CONTRACT WITH AN OPTION FOR THREE ADDITIONAL ONE-YEAR EXTENSIONS.**

Mr. Armando Renteria, Chief Information Officer, made a PowerPoint presentation to the Board regarding this item (copy on file in Central Files). EPWater prints an average of 208,000 customer bills each month. The bills are printed in-house at the Customer Service Center by a computer operator using two leased high capacity printers. The printed bills are delivered to a local mail processing company to fold and insert them into envelopes, apply postage, prepare for mailing, and deliver to the post office. Staff developed the requirements for improving the customer bill print process, consolidating and outsourcing the bill print and mailing operation to one vendor and reducing operational costs. An evaluation committee reviewed 20 proposals and rated each one on the following evaluation criteria: experience and performance; technical competence; project approach; cost; as well as proposal and submittal responsiveness. As a result of the overall score and client references, the committee recommended award of RFP Number 09-17 to Pinnacle Data Systems LLC. The cost savings resulting from outsourcing the work to Pinnacle Data Systems LLC are estimated at \$62,000 per year. Mr. Renteria addressed questions from the Board regarding this item.

On a motion made by Mr. Roe, seconded by Dr. Mena and unanimously carried, the Board awarded Request for Proposals Number 09-17, El Paso Water Bill Printing and Mailing Services, to Pinnacle Data Systems LLC in the estimated annual amount of \$1,105,936 for a three-year contract with an option for three additional one-year extensions.

**RATIFIED A PURCHASE ORDER FOR EMERGENCY REPAIRS AT THE COATES LIFT STATION TO R.M. WRIGHT CONSTRUCTION COMPANY IN THE AMOUNT OF \$179,500 AND AUTHORIZED THE USE OF COMMERCIAL PAPER.**

Mr. Trejo made a PowerPoint presentation to the Board regarding this item (copy on file in Central Files). On February 24, 2017, leaks were detected on two discharge pipes at the Coates Lift Station. Since then, all four discharge pipes have developed significant leaks and all four pumps must be utilized to keep up with the influent flow rate. The Coates Lift Station is rated at 3.24 million gallons per day (MGD), however due to the leaks, the lift station capacity has dropped to 1.24 MGD. Emergency repair of the pump discharge piping was needed to regain the station pumping capacity. Staff recommended the selection of R.M. Wright Construction Company for this job because of their extensive experience with installation and repair of force mains and sewer lines for El Paso Water (EPWater). R.M. Wright's proposal was reviewed and the price was found to be fair and equitable for the nature of the work being done. In addition, they were able to mobilize immediately. The procurement falls within the exemptions found in 252.022(a) (3) of the Texas Local Government Code, which allows for a procurement necessary because of unforeseen damage to public machinery, equipment, or other property and 252.022(a) (2) Preservation of Public Health and Safety. Mr. Trejo addressed questions from the Board following the presentation.

On a motion made by Dr. Santiago, seconded by Mr. Roe and unanimously carried, the Board ratified a purchase order for emergency repairs at the Coates Lift Station to R.M. Wright Construction Company in the amount of \$179,500 and authorized the use of commercial paper.

**APPROVED A SOLE SOURCE PURCHASE FROM ANDRITZ SEPARATION INC. FOR ADDITIONAL WORK REQUIRED TO REBUILD THE SOLIDS CENTRIFUGE AT THE FRED HERVEY WATER RECLAMATION PLANT IN THE AMOUNT OF \$40,231.**

Ms. Guevara presented information to the Board regarding this item. Wastewater solids at the Fred Hervey Water Reclamation Plant are separated during the wastewater treatment process and are dewatered prior to disposal. Three centrifuge machines made by Andritz Separation Incorporated are utilized for dewatering. On August 10, 2016, the PSB approved a sole source purchase for \$62,546.13 to rebuild one of the centrifuges. Upon commencement of work, Andritz identified additional repairs that were required on the centrifuge. The additional work totals \$40,231. Andritz Separation Inc. is the original equipment manufacturer of the centrifuge, owner of proprietary equipment drawings, and sole source for all parts and accessories to rebuild the centrifuge. This purchase is exempt from the bidding statute in accordance with Texas Local Government Code Section 252.022(a)(7)(D). Ms. Guevara addressed questions from the Board regarding this item.

On a motion made by Dr. Santiago, seconded by Dr. Mena and unanimously carried, the Board approved a sole source purchase from Andritz Separation Inc. for additional work required to rebuild the solids centrifuge at the Fred Hervey Water Reclamation Plant in the amount of \$40,231.

**APPROVED A SOLE SOURCE CONTRACT FOR VOLVO PARTS AND SERVICE TO SIERRA MACHINERY INC. IN THE ESTIMATED ANNUAL AMOUNT OF \$75,000 WITH THE OPTION FOR TWO ONE-YEAR EXTENSIONS.**

Ms. Guevara presented information to the Board regarding this item. The Volvo parts and service contract will be used to maintain the 27 pieces of Volvo equipment currently in the fleet. This fleet of equipment provides service and support to various operations in the Utility. This contract will provide original equipment manufacturer parts and factory trained technician to support EPWater operations. Sierra Machinery is the only authorized Volvo dealer in El Paso County. Staff worked with Sierra Machinery in the past and recommended award of the Volvo parts and service contract. Ms. Guevara addressed questions from the Board regarding this item.

On a motion made by Mr. Antcliff, seconded by Dr. Mena and unanimously carried, the Board approved a sole source contract for Volvo parts and service to Sierra Machinery Inc. in the estimated annual amount of \$75,000 with the option for two one-year extensions.

**APPROVED THE PURCHASE OF TWO BACKHOE LOADERS THROUGH THE ESC REGION 19 CONTRACT NUMBER 15-7180 FROM 4 RIVERS EQUIPMENT IN THE AMOUNT OF \$188,754.20.**

Ms. Guevara presented the Board with information regarding this item. The backhoe loader is a key piece of equipment that is used in many facets of operations. When there are emergencies, this is one of the first pieces of equipment that is deployed. On the day to day operations, the backhoe loader is one of the most used pieces of equipment that is required to excavate the path for the piping. The current backhoe loaders have reached their useful life and have become unreliable. Staff obtained a quote from 4 Rivers Equipment utilizing the Education Services Center (ESC) Region 19 contract number 15-7180. Staff evaluated the quote and determined that the quote satisfied the requirements for this procurement. Therefore, staff recommended the purchase of two backhoe loaders from 4 Rivers Equipment. Ms. Guevara addressed questions from the Board regarding this item.

On a motion made by Dr. Santiago, seconded by Mr. Antcliff and unanimously carried, the Board approved the purchase of two backhoe loaders through the ESC Region 19 Contract Number 15-7180 from 4 Rivers Equipment in the amount of \$188,754.20.

**APPROVED THE PURCHASE OF TWO 2018 INTERNATIONAL VACUUM JET RODDER TRUCKS THROUGH THE TEXAS LOCAL GOVERNMENT PURCHASING COOPERATIVE HGACBUY CONTRACT NUMBER SC01-15 TO VAC-CON, INC. IN THE AMOUNT OF \$702,000.**

Ms. Guevara presented the Board with information regarding this item. The combination vacuum jet rodder truck is used to maintain the sewer collection system and to support the stormwater system during heavy rain storms. The purchase of these vacuum jet rodder trucks is available utilizing the Texas Local Government Purchasing Cooperative HGACBuy Contract Number SC01-15 through VAC-CON. Staff evaluated various vendors and determined that the quote from VAC-CON was the most beneficial and economical to El Paso Water and recommended award to VAC-CON in the amount of \$702,000. Mr. Balliew addressed questions from the Board regarding this item.

On a motion made by Dr. Santiago, seconded by Mr. Roe and unanimously carried, the Board approved the purchase of two 2018 International Vacuum Jet Rodder Trucks through the Texas Local Government Purchasing Cooperative HGACBuy Contract Number SC01-15 to VAC-CON, Inc. in the amount of \$702,000.

**APPROVED THE PURCHASE OF A FRONT END LOADER THROUGH THE TEXAS LOCAL GOVERNMENT PURCHASING COOPERATIVE HGACBUY, CONTRACT NUMBER EM06-15 TO SIERRA MACHINERY INC. IN THE AMOUNT OF \$126,794.**

Mr. Trejo made a PowerPoint presentation to the Board regarding this item (copy on file in Central Files). The front end loader is a key piece of equipment that is used in many facets of operations. When there are emergencies, this piece of equipment is one of the first deployed. The front end loader is also used in daily operations for loading dirt into the dump trucks, cleaning stormwater ponds and other uses. The new unit will replace a current front end loader that has reached its useful life. Staff obtained a quote from Sierra Machinery utilizing the Texas Local Government Purchasing Cooperative HGACBuy Contract # EM06-15. Staff evaluated the quote and determined that the quote fulfilled the requirements for this procurement. Therefore, staff recommended the purchase of the front end loader from Sierra Machinery.

On a motion made by Mr. Antcliff, seconded by Dr. Mena and unanimously carried, the Board approved the purchase of a front end loader through the Texas Local Government Purchasing Cooperative HGACBuy, Contract Number EM06-15 to Sierra Machinery Inc. in the amount of \$126,794.

**APPROVED A PROFESSIONAL SERVICES AGREEMENT FOR APPRAISAL SERVICES IN HUDSPETH COUNTY WITH THE GLEN COMPANY IN AN AMOUNT NOT TO EXCEED \$100,000.**

Ms. Cynthia Osborn, Real Estate Manager/Counsel, presented information to the Board regarding this item (copy on file in Central Files). In May 2016, El Paso Water (EPWater) retained The Glen Company to perform appraisal services for EPWater's project to acquire land with water rights in Hudspeth County. The Glen Company has performed seven separate appraisals for the project. Additional appraisal services are needed to complete EPWater's project to acquire land with water rights in Hudspeth County. The Glen Company was originally selected on the basis of demonstrated competence and qualifications to perform services based on their experience and expertise in appraising land and associated water rights. As a result of their ongoing work for appraisal services in Hudspeth County, The Glen Company is the most highly qualified provider to complete the project. Ms. Osborn addressed questions from the Board regarding this item.

On a motion made by Dr. Santiago, seconded by Mr. Roe and unanimously carried, the Board approved a professional services agreement for appraisal services in Hudspeth County with The Glen Company in an amount not to exceed \$100,000.

**APPROVED THE EL PASO WATER UTILITIES/PUBLIC SERVICE BOARD'S 4TH QUARTER PRELIMINARY FINANCIAL AND PERFORMANCE MEASURES REPORT FOR PERIOD ENDING FEBRUARY 28, 2017.**

Mr. Art Duran, Chief Financial Officer, made a PowerPoint presentation to the Board regarding this item (copy on file in Central Files). The Public Service Board requires regular financial reporting from the President/CEO and staff on the financial condition of EPWater. In regards to water and wastewater, operating revenue for the fiscal year were \$23.04 million more than the prior fiscal year mainly due to the approved eleven percent water and wastewater rate increases effective March 1, 2016. Operations and maintenance expenses were \$2.34 million more than last year mainly due to an increase of \$1.74 million in maintenance, an increase of \$998,000 in water purchased from EPCWID No. 1, and offset by a decrease of \$192,000 in utilities and \$196,000 in salaries and workers' compensation expense. El Paso Water met all of its water and wastewater operating, capital and debt service obligations this year. As for stormwater, the total operating revenues for fiscal year 2016-17 for the Stormwater Utility were \$2.18 million more than the prior fiscal year mainly due to the approved eleven percent fee increase effective March 1, 2016. Operating expenditures were \$173,000 more than last year mainly due to

an increase in maintenance. El Paso Water met all of its stormwater operating, capital and debt service requirements this year. Mr. Duran and Mr. Trejo addressed questions from the Board regarding this item.

On a motion made by Mr. Roe, seconded by Dr. Mena and unanimously carried, the Board approved the El Paso Water Utilities/Public Service Board's 4th Quarter Preliminary Financial and Performance Measures Report for period ending February 28, 2017.

**APPROVED THE EL PASO WATER UTILITIES/PUBLIC SERVICE BOARD'S 4TH QUARTER AND FISCAL YEAR-END INVESTMENT REPORT FOR PERIOD ENDING FEBRUARY 28, 2017; AND REVIEWED AND ADOPTED THE UTILITY'S RULES AND REGULATIONS NUMBER 10, ESTABLISHING THE INVESTMENT POLICY.**

Mr. Duran made a PowerPoint presentation to the Board regarding this item. The Public Funds Investment Act (PFIA) requires a quarterly report be submitted and an annual review of the entity's investment policy and investment strategies. El Paso Water's Investment Committee, consisting of Board member Dr. Ivonne Santiago; the President/CEO; the Vice President of Strategic, Financial and Management Services; General Counsel; Chief Financial Officer; Fiscal Operations Manager; Treasury Manager; and the Water and Wastewater Economic Analyst met on April 10, 2017, to review the 4th quarter investment report and the investment policies and strategies. No changes to the Investment Policy were required per the latest PFIA guidelines. During the fourth quarter of FY 2016-17, the portfolio par value was \$242.6 million. The weighted average maturity was 17 days. Mr. Duran said the Utility bid 19 investments totaling of \$25.94 million. The overall yield for the quarter was 0.56%. Mr. Duran addressed questions from the Board regarding this item.

On a motion made by Mr. Roe, seconded by Dr. Santiago and unanimously carried, the Board approved the El Paso Water Utilities/Public Service Board's 4th Quarter and Fiscal Year-End Investment Report for period ending February 28, 2017; and reviewed and adopted the Utility's Rules and Regulations Number 10, Establishing the Investment Policy.

**PUBLIC COMMENT: THE PSB WILL PERMIT PUBLIC COMMENT ON ANY ITEM NOT ON THE AGENDA. THE CHAIR MAY IMPOSE REASONABLE TIME LIMITS FOR EACH SPEAKER.**

There were no additional comments from the public.

**EXECUTIVE SESSION**

On a motion made by Mr. Antcliff, seconded by Mr. Roe, and unanimously carried, the Board retired into Executive Session at 9:34 a.m., April 12, 2017, pursuant to Section 3.5A of the El Paso City Charter and the Texas Government Code, Sections 551.071 through 551.076 to discuss any of the following:

Section 551.071	Consultation with Attorney
Section 551.072	Deliberation Regarding Real Property
Section 551.074	Personnel Matters

- a. **Section 551.072 Deliberation Regarding Real Property**  
The Board will deliberate regarding potential land purchases.

- b. **Section 551.072 Deliberation Regarding Real Property**  
The Board will deliberate regarding a potential option to lease property.

On a motion made by Mr. Roe, seconded by Dr. Santiago and unanimously carried, the Board reconvened in open session at 10:06 a.m., April 12, 2017.

**DELIBERATED REGARDING POTENTIAL LAND PURCHASES.**

On a motion made by Mr. Antcliff, seconded by Mr. Roe and unanimously carried, the Board authorized the President/CEO to proceed with the acquisition of land in the manner approved by the Board and in accordance with the terms and conditions specified by the Board and sign any and all documents necessary to complete the purchases, including the application for transfer for ownership of the validation permits.

**DELIBERATED REGARDING A POTENTIAL OPTION TO LEASE PROPERTY.**

On a motion made by Mr. Antcliff, seconded by Dr. Santiago and unanimously carried, the Board authorized the President/CEO to proceed with the option to lease property in the manner approved by the Board and in accordance with the terms and conditions specified by the Board and sign any and all documents necessary to complete the option to lease property.

**ADJOURNMENT**

The meeting adjourned at 10:07 a.m., April 12, 2017.

ATTEST:

  
\_\_\_\_\_  
Christine Antcliff, Vice Chair

Chair



## RULES AND REGULATIONS NO. 10

### RULES AND REGULATIONS ESTABLISHING THE INVESTMENT POLICY FOR THE PUBLIC SERVICE BOARD

BY THE AUTHORITY GRANTED TO THE PUBLIC SERVICE BOARD BY VIRTUE OF ARTICLES 1111-1118, REVISED CIVIL STATUTES OF TEXAS, THE PUBLIC FUNDS INVESTMENT ACT, CHAPTER 2256 TEXAS GOVERNMENT CODE, AND ORDINANCE 752, PASSED AND APPROVED BY THE CITY COUNCIL OF THE CITY OF EL PASO, TEXAS ON MAY 22, 1952, AND AS THEREAFTER AMENDED, NOW, THEREFORE BE IT RESOLVED BY THE PUBLIC SERVICE BOARD OF EL PASO:

THAT PUBLIC SERVICE BOARD RULES AND REGULATIONS NO. 10 ESTABLISHING THE INVESTMENT POLICY FOR THE PUBLIC SERVICE BOARD ARE HEREBY AMENDED BY ADOPTION OF NEW RULES AND REGULATIONS NO. 10, WHICH SUPERSEDE AND REPLACE THE EXISTING RULES AND REGULATIONS NO.10, AND WHICH SHALL READ AS FOLLOWS:

#### SECTION I TABLE OF CONTENTS

The following headings or captions are adopted as the Table of Contents for Public Service Board Rules and Regulations No. 10.

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## SECTION II POLICY

It is the policy of the El Paso Water Utilities that, giving due regard to the safety and risk of investment, all available funds shall be invested in conformance with State and Federal Regulations, applicable Bond Ordinance requirements (specifically the Public Funds Investment Act, Texas Government Code, Chapter 2256, the "Act"), to define, adopt and review a formal investment strategy and policy.

In accordance with Chapter 402, Subchapter C of the Texas Local Government Code, the City of El Paso established the El Paso Municipal Drainage Utility System under the auspices of the El Paso Water Utilities Public Service Board with the complete authority and control of the management and operation of the System vested in the Board. The Board will establish a drainage utility fund. All drainage utility fees shall be deposited as collected and received into this fund and shall be used exclusively for the drainage services set forth under the Act, including but not limited to those services referenced in Local Government Code Section 402.044(2). The revenues collected from drainage utility fees must be segregated and completely identifiable from other City or Board accounts. Any investments made of such funds shall be in accordance with the Texas Public Funds Investment Act and the Investment Policy of the El Paso Water Utilities Public Service Board as may be amended from time to time.

Management responsibility for the investment program is hereby delegated to the Investment Committee, which shall establish written procedures for the operation of the investment program consistent with this Investment Policy. The Investment Committee shall be made up of three Public Service Board Members designated by the Board, the President/CEO, the General Counsel, Vice President, Chief Financial Officer, Fiscal Operations Manager, Treasury Manager, and the Water and Wastewater Economic Analyst.

Effective cash management is recognized as essential to good fiscal management. Aggressive cash management and effective investment strategy development will be pursued to take advantage of interest earnings as viable and material revenue to all PSB funds. The PSB portfolio shall be designed and managed in a manner responsive to the public trust and consistent with these Rules and Regulations. Investments shall be made with the primary objectives of:

- Preservation of capital;
- Safety of PSB funds;
- Maintenance of sufficient liquidity;
- Maximization of return within acceptable risk constraints; and,
- Diversification of investments.

### SECTION III PURPOSE

#### A. FORMAL ADOPTION

This Investment Policy is authorized by the Public Service Board.

#### B. SCOPE

This Investment Policy applies to all of the investment activities of the PSB. These Rules and Regulations establish guidelines for: (1) who can invest PSB funds; (2) how PSB funds will be invested; and, (3) when and how a periodic review of investments will be made. In addition to these Rules and Regulations, bond funds (as defined by the Internal Revenue Service) shall be managed by their governing ordinance and all applicable State and Federal Law. These funds are accounted for in the PSB Comprehensive Annual Financial Report (CAFR) and include Operating Funds, the General Bond Reserve Fund, the Interest and Sinking Fund, and various Improvement & Construction Funds.

#### C. INVESTMENT STRATEGY

The PSB shall annually have a review and adoption of its investment policy and strategies. The PSB attempts to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, with the exception of debt service reserve funds, the PSB will not directly invest in securities maturity more than three (3) years from the date of purchase; however, the above described obligations, certificates, or agreements may be collateralized using longer dated investments. The composite portfolio will have a weighted average maturity of one (1) year or less. This dollar weighted average maturity will be calculated using the stated final maturity dates of each security. The investment strategy must describe the investment objectives for each particular fund according to the following objectives:

- Investment suitability;
- Preservation and safety of principal;
- Liquidity;
- Diversification; and,
- Yield
- Public Trust

### SECTION IV INVESTMENT OBJECTIVES

#### A. SAFETY OF PRINCIPAL

The primary objective of all investment activity is the preservation of capital and the safety of principal in the overall

portfolio. Each investment transaction shall seek to ensure first that capital losses are avoided, whether they are from securities defaults or erosion of market value. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit and interest rate risk.

- Credit Risk - The PSB will minimize credit risk, the risk of loss due to failure of the security issuer backer, by:
  - Limiting investments to the safest types of securities
  - Pre-qualifying the financial institutions and broker/dealers with which the PSB will do business
  - Diversifying the investment portfolio so that potential losses on individual securities will be minimized.
- Interest Rate Risk - The PSB will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates, by:
  - Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.
  - Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pool.

B. MAINTENANCE OF ADEQUATE LIQUIDITY

The investment portfolio will remain sufficiently liquid to meet the cash flow requirements that might be reasonably anticipated. Liquidity shall be achieved by matching investment maturities with forecasted cash flow requirements; investing in securities with active secondary markets; and maintaining appropriate portfolio diversification.

C. YIELD

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

D. PUBLIC TRUST

All participants in the PSB investment process shall seek to act responsibly as custodians of the public. Investment officials shall avoid any transactions which might impair public confidence in the PSB's ability to operate.

SECTION V INVESTMENT PROCEDURES A

A. AUTHORIZED INVESTMENTS

Investments described below are authorized by Chapter 2256, Texas Government Code, as eligible securities for the PSB. The purchase of specific issues may at times be restricted or prohibited by the Investment Committee. PSB funds may be invested in:

1. Obligations of the United States or its agencies and instrumentalities, excluding mortgage backed securities, collateralized mortgage obligations and real estate mortgage investment conduits.
2. Direct obligations of the State of Texas, or its agencies and instrumentalities.

3. Other obligations, the principal and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas, or the United States, or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicitly full faith and credit of the United States. Excluding mortgage backed securities, collateralized mortgage obligations and real estate mortgage investment conduits.
4. Other obligations of states, agencies, counties, cities, and other political subdivisions of any State having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than "A" or its equivalent.
5. Fully collateralized repurchase agreements having a defined termination date, placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution that has its main office or a branch office in Texas, and secured by obligations described by #1 above, which are eligible investments under the Public Funds Investment Act, pledged with a third party selected or approved by the PSB, and having a market value of not less than the principal amount of the funds disbursed. The term includes direct security repurchase agreements and reverse repurchase agreements structured in compliance with the Texas Government Code and purchased only through approved investment Pools or Money Market Mutual Funds. All PSB repurchase agreement transactions shall be governed by a signed Master Repurchase Agreement.
6. Certificates of deposit issued by state and national banks and/or depository institutions that has its main office or a branch office in Texas and is:
  - a. Guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor, or insured by the National Credit Union Share Insurance Fund or its successor and is secured by obligations that are obligations under the law and described by #1-4 above, which are intended to include all direct Federal agency or instrumentality issued mortgage backed securities, but excluding those mortgage backed securities of the nature described in Section 2256.009(b) of the Texas Government Code, that have a market value of not less than the principal amount of the certificates or in any other manner and amount provided by law for deposits of the PSB;
  - b. Governed by a Depository Contract, that complies with Federal and State regulation to properly secure a pledged security interest; and,
  - c. Solicited for bid orally, in writing, electronically, or any combination of those methods.
  - d. In addition to the authority to invest funds in certificates of deposit under Subsection (a), an investment in certificates of deposit made in accordance with the following conditions if an authorized investment under this subchapter:
    - 1) The funds are invested by an investing entity through:
      - A) A broker that has a main office or a branch office in this state and is selected from a list adopted by the investing entity as required by section 2256.025: or
    - 2) The broker or the depository institution selected by the investing entity under Subdivision (1) arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the investing entity;
    - 3) The full amount of the principal and accrued interest of each of the certificates of deposit is

insured by the United States or an instrumentality of the United States;

- 4) The investing entity appoints the depository institution selected by the investing entity under Subdivision (1) an entity described by Section 2257.041 (d), or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the investing entity with respect to the certificates of deposit issued for the account of the investing entity;

7. Eligible money market funds must provide PSB with a fund prospectus.

(a) A no-load money market mutual fund is an authorized investment under this subchapter if the mutual fund:

- (1) is registered with and regulated by the Securities and Exchange Commission;
- (2) provides the investing entity with a prospectus and other information required by the Securities Exchange Act of 1934 (15 U.S.C. Section 78a et seq.) or the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.);
- (3) has a dollar-weighted average stated maturity of 90 days or fewer; and
- (4) includes in its investment objectives the maintenance of a stable net asset value of \$1 for each share.

(b) In addition to a no-load money market mutual fund permitted as an authorized investment in Subsection (a), a no-load mutual fund is an authorized investment under this subchapter if the mutual fund:

- (1) is registered with the Securities and Exchange Commission;
- (2) has an average weighted maturity of less than two years;
- (3) is invested exclusively in obligations approved by this subchapter;
- (4) is continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent; and
- (5) conforms to the requirements set forth in Sections 2256.016(b) and (c) relating to the eligibility of investment pools to receive and invest funds of investing entities.

(c) An entity is not authorized by this section to:

- (1) The PSB may not invest funds under its control in an amount that exceeds 10% of the total assets of any individual money market mutual fund or exceeds 80% of the PSB's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service in money market mutual funds.

8. Eligible Investment Pools as defined in Section 2256.016 of the Texas Government Code, provided that:

- (a) An entity may invest its funds and funds under its control through an eligible investment pool if the

governing body of the entity by rule, order, ordinance, or resolution, as appropriate, authorizes investment in the particular pool. An investment pool shall invest the funds it receives from entities in authorized investments permitted by this subchapter. An investment pool may invest its funds in money market mutual funds to the extent permitted by and consistent with this subchapter and the investment policies and objectives adopted by the investment pool.

(b) To be eligible to receive funds from and invest funds on behalf of an entity under this chapter, an investment pool must furnish to the investment officer or other authorized representative of the entity an offering circular or other similar disclosure instrument that contains, at a minimum, the following information:

- (1) the types of investments in which money is allowed to be invested;
- (2) the maximum average dollar-weighted maturity allowed, based on the stated maturity date, of the pool
- (3) the maximum stated maturity date any investment security within the portfolio has;
- (4) the objectives of the pool;
- (5) the size of the pool;
- (6) the names of the members of the advisory board of the pool and the dates their terms expire;
- (7) the custodian bank that will safe keep the pool's assets;
- (8) whether the intent of the pool is to maintain a net asset value of one dollar and the risk of market price fluctuation;
- (9) whether the only source of payment is the assets of the pool at market value or whether there is a secondary source of payment, such as insurance or guarantees, and a description of the secondary source of payment;
- (10) the name and address of the independent auditor of the pool;
- (11) the requirements to be satisfied for an entity to deposit funds in and withdraw funds from the pool and any deadlines or other operating policies required for the entity to invest funds in and withdraw funds from the pool; and
- (12) the performance history of the pool, including yield, average dollar-weighted maturities, and expense ratios.

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

- (1) investment transaction confirmations; and
- (2) a monthly report that contains, at a minimum, the following information:

- (A) the types and percentage breakdown of securities in which the pool is invested;
  - (B) the current average dollar-weighted maturity, based on the stated maturity date, of the pool;
  - (C) the current percentage of the pool's portfolio in investments that have stated maturities of more than one year;
  - (D) the book value versus the market value of the pool's portfolio, using amortized cost valuation;
  - (E) the size of the pool;
  - (F) the number of participants in the pool;
  - (G) the custodian bank that is safekeeping the assets of the pool;
  - (H) a listing of daily transaction activity of the entity participating in the pool;
  - (I) the yield and expense ratio of the pool, including a statement regarding how yield is calculated;
  - (J) the portfolio managers of the pool; and
  - (K) any changes or addenda to the offering circular.
- (d) An entity by contract may delegate to an investment pool the authority to hold legal title as custodian of investments purchased with its local funds.
  - (e) In this section, "yield" shall be calculated in accordance with regulations governing the registration of open-end management investment companies under the Investment Company Act of 1940, as promulgated from time to time by the federal Securities and Exchange Commission.
  - (f) To be eligible to receive funds from and invest funds on behalf of an entity under this chapter, a public funds investment pool created to function as a money market mutual fund must mark its portfolio to market daily, and, to the extent reasonably possible, stabilize at a \$1 net asset value. If the ratio of the market value of the portfolio divided by the book value of the portfolio is less than 0.995 or greater than 1.005, portfolio holdings shall be sold as necessary to maintain the ratio between 0.995 and 1.005. In addition to the requirements of its investment policy and any other forms of reporting, a public funds investment pool created to function as a money market mutual fund shall report yield to its investors in accordance with regulations of the federal Securities and Exchange Commission applicable to reporting by money market funds.
  - (g) If the investment pool operates an Internet website, the information in a disclosure instrument or report described in Subsection (b), (c) (2), and (f) must be posted on the website.



- (h) To be eligible to receive funds from and invest funds on behalf of an entity under this chapter, a public funds investment pool must have an advisory board composed:
  - (1) equally of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool, for a public funds investment pool created under Chapter 791 and managed by a state agency; or
  - (2) of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool, for other investment pools.
- (i) To maintain eligibility to receive funds from and invest funds on behalf of an entity under this chapter, an investment pool must:
  - 1) be continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service.
  - 2) Make available to the entity an annual audited financial statement of the investment pool in which the entity has funds invested.
- (j) If an investment pool offers fee breakpoints based on fund balances invested, the investment pool in advertising investment rates must include either all levels of return based on the breakpoints provided or state the lowest possible level of return based on the smallest level of funds invested.

B. NOT AUTHORIZED

- 1. Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal.
- 2. Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest.
- 3. Collateralized mortgage obligations that have a stated final maturity date of greater than 10 years.
- 4. Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.
- 5. Neither shall investments be made in obligations that are secured by these prohibited investments.
- 6. Collateral debt obligations (CDOs) structured asset-backed securities that are issued by special purpose entities and collateralized by debt obligations including bonds and loans.

C. PROTECTION OF PRINCIPAL

The PSB 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 these Rules and Regulations, by collateralization as required by law, and through portfolio diversification by maturity and type.

The purchase of individual securities shall be executed "delivery versus payment" (DVP) through the PSB Safekeeping Agent. By so doing, PSB funds are not released until the PSB has received, through the Safekeeping Agent, the securities purchased.

1. Diversification by Investment Type

Diversification by investment type shall be maintained by ensuring an active and efficient secondary market in

portfolio investments and by controlling the market and opportunity risks associated with specific investment types.

Risk is controlled through portfolio diversification which shall be achieved by the following general guidelines:

- Limiting investments to avoid over concentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities)
- Limiting investments in securities that have a higher credit risks,
- Investing in securities with varying maturities, and
- Continuously investing a portion of the portfolio in readily available funds such as local government investment pools (LGIPs), money market funds.

Diversification by investment type shall be established by the following maximum percentages of investment type to the total PSB investment portfolio:

▪ U.S. Government Securities.....	100%
▪ State, Agencies, Counties, Cities, and Other .....	50%
▪ Certificates of Deposit .....	50%
▪ Money Market Mutual Funds .....	80%
▪ Eligible Investment Pools.....	100%

Bond proceeds may be invested in a single security or investment if the Chief Financial Officer determines that such an investment is necessary to comply with Federal arbitrage restrictions or to facilitate arbitrage record keeping and calculation.

2. Diversification by Investment Maturity

In order to minimize risk of loss due to interest rate fluctuation, investment maturities will not exceed the anticipated cash flow requirements of the funds.

Maturity guidelines by fund are as follows:

a. Operating Fund

The weighted average days to maturity for the operating fund portfolio shall be less than 270 days and the maximum allowable maturity shall be two years.

b. Improvement & Construction Funds

The investment maturity of construction fund proceeds (excluding reserve and debt service funds) shall generally be limited to the anticipated cash flow requirement or the "temporary period," as defined by Federal tax law. Improvement & Construction funds may be invested for three years at an unrestricted yield. After the expiration of the temporary period, construction fund proceeds subject to yield restriction shall be invested considering the anticipated cash flow requirements of the funds and market conditions to achieve compliance with the applicable regulations.

c. Debt Service Reserve Funds

Market conditions, Bond Ordinance constraints and arbitrage regulations compliance will be considered when formulating Debt Service Reserve Fund strategy. Maturity limitations shall generally not exceed the call provisions of the Bond Ordinance and shall not exceed the final maturity of the bond issue or five years, whichever is shorter.

d. Debt Service Funds

Debt Service Funds shall be invested to ensure adequate funding for each consecutive debt service payment. The Investment Officers 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.

PSB funds that are considered "bond proceeds" for arbitrage purposes will be invested using a more conservative approach than the standard investment strategy when compliance with the arbitrage regulations will result in a rebating of any excess earnings.

3. Ensuring Liquidity

Liquidity shall be achieved by anticipating cash flow requirements by investing in securities with active secondary markets and by investing in eligible money market mutual funds and local government investment pools.

A security may be liquidated to meet unanticipated cash requirements, to re-deploy cash into other investments expected to outperform current holdings, or otherwise to adjust the portfolio.

4. Collateralization

Consistent with the State law, the PSB requires all deposits in depository institutions to be insured. Amounts not insured must be collateralized with eligible securities. Financial institutions serving as PSB Depositories will be required to sign a Depository Agreement with the PSB and the PSB safekeeping agent. The safekeeping portion of the Agreement shall define the PSB 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, including:

- The Agreement must be in writing;
- The Agreement has to be executed by the Depository and the PSB contemporaneously with the acquisition of the asset;
- The Agreement must be approved by the Board or the Loan Committee of the Depository and a copy of the meeting minutes must be delivered to the PSB; and,
- The Agreement must be part of the Depository's "official record" continuously from its execution.

Consistent with the requirements of the Public Funds Collateral Act, it is the policy of the PSB to require full collateralization of all PSB investments and funds on deposit with a depository bank, other than investments which are obligations of the U.S. government and its agencies and instrumentalities. At its discretion, the PSB may require a higher level of collateralization for certain investment securities. Securities pledged as collateral shall be held by an independent third party with whom the PSB has a current custodial agreement. The Chief Financial Officer is responsible for entering into collateralization agreements with third party custodians in compliance with this Policy. The agreements are to specify the acceptable investment securities for collateral, including provisions relating to possession of the collateral, the substitution for release of investment securities, ownership of securities, and the method of valuation of securities. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the PSB and retained. Collateral shall be reviewed at least weekly to assure the market value of the pledged securities is adequate.

a. Allowable Collateral

The Public Service Board shall accept only the following securities as collateral:

- ▲ FDIC and NCUA insurance coverage.
- ▲ A bond, certificate of indebtedness, or Treasury Notes of the United States, or other evidence of indebtedness of the United States that is guaranteed as a principal and interest by the United States.
- ▲ Obligations, the principal and interest on which, are unconditionally guaranteed or insured by the State of Texas.
- ▲ A bond of the State of Texas or of a county, city or other political subdivision of the State of Texas having been rated as investment grade (investment rating no less than "A" or its equivalent) by a nationally recognized rating agency with a remaining maturity of ten (10) years or less.
- ▲ Surety Bonds

b. Collateral Levels

In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 102% of market value of principal and accrued interest on the deposits or investments less an amount insured by the FDIC and NCUA.

c. Monitoring Collateral Adequacy

The PSB shall require monthly reports with market values of pledged securities from all financial institutions with which the PSB has collateralized deposits. The Investment Officers will monitor adequacy of collateralization levels to verify market values and total collateral positions.

d. Additional Collateral and Securities

If the collateral pledged for a certificate of deposit falls below the par value of the deposit, plus accrued interest less FDIC insurance, the institution issuing the Collateralized Deposit will be notified by the Investment Officers and will be required to pledge additional securities no later than the end of the next business day.

e. Collateral Substitution

Collateralized certificates of deposit often require substitution of collateral. Any financial institution requesting substitution must contact the Investment Officers for approval and settlement. The substituted security's value will be calculated and substitution approved if its value is equal to or greater than the required security level. The Investment Officers, or their designee, must provide written notification of the decision to the bank or the safekeeping agent holding the security prior to any security release. Substitution is allowable for all transactions, but should be limited, if possible, to minimize potential administrative problems and transfer expense. The Investment Officers may limit substitution and assess appropriate fees if substitution becomes excessive or abusive.

f. Subject to Audit

All collateral shall be subject to inspection and audit by the EPWU Chief Financial Officer or the PSB's independent auditors.

5. Safekeeping

a. Safekeeping Agreement

The PSB shall contract with a bank or other depository institutions for the safekeeping of securities either owned by the PSB as a part of its investment portfolio or as part of its depository.

b. Safekeeping of Collateralized Deposits Collateral

All collateral securing bank or other depository institutions deposits must be held by a third-party banking institution acceptable to and under contract with the PSB, or by the Federal Reserve Bank, except the collateral for certificates of deposits in banks. The collateral for certificates of deposits in banks will be registered in the PSB's name in the bank's trust department or, alternatively, in a Federal Reserve Bank account in the PSB's name, or a third party bank in the PSB's name, at the PSB's discretion. Original safekeeping receipts shall be obtained.

D. INVESTMENT ADVISORS AND INVESTMENT PROVIDERS

Investment Advisors are brokers/dealers, banks, and other financial institutions who may participate in the management or handling of PSB cash and investments.

Investment Advisors shall adhere to the spirit, philosophy and specific term of these Rules and Regulations and shall invest within the same "Standard of Care". Investment Providers shall adhere to the spirit and philosophy of these Rules and Regulations and shall avoid recommending or suggesting transactions outside that "Standard of Care".

The Investment Officers will establish criteria to evaluate Investment Advisors and Investment Providers, including:

- Investment performance and transaction pricing within accepted risk constraints;
- Understanding of the inherent fiduciary responsibility of investing public funds; and,
- Similarity in philosophy and strategy with the PSB objectives.
- Adherence to the PSB policies, procedures and strategies;
- Responsiveness to the PSB request for services, information, and open communication;

Business organizations eligible to transact investment business with the PSB shall be presented a written copy of this Investment Policy. Additionally, the registered principal of the business organization seeking to transact investment business shall execute a written instrument substantially to the effect that the registered principal has: (1) received and reviewed this Investment Policy; and, (2) acknowledged that the organization has implemented reasonable procedures and controls in an effort to preclude imprudent investment activities with the PSB.

The PSB shall not enter into an investment transaction with a business organization prior to receiving the written instrument described above.

E. SELECTION OF BANKS AND DEALERS

1. Authorized Brokers/Dealers

Selection of Investment Advisors and Providers will be performed by the PSB. The PSB shall

select dealers reporting to the Market Reports Division of the Federal Reserve Bank of New York, also known as "Primary Government Security Dealers", or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule.)

Selected Investment Advisors and Providers shall provide timely transaction confirmations and monthly activity reports.

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

- audited financial statements
- completed broker/dealer questionnaire
- certification of having read and understood the PSB's investment policy and agreeing to
- comply with the policy

The PSB Investment Committee shall, at least annually, review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the entity.

2. Competitive Bids

Competitive quotes must be taken from at least three qualifying institutions for any investment transaction. Investment transactions may be done orally, but followed by electronic or written confirmation. Funds will be authorized to be released after notification that the purchased security has been received. Written confirmation shall be received from the financial institution or broker/dealer. All investments purchased will be held in safekeeping at a third party custodial institution with safekeeping receipt being sent to the PSB.

3. Delivery vs. Payment

Securities shall be purchased using the delivery vs payment method with the exception of investment pools and mutual funds. Funds shall not be wired or paid until verification has been made that the Trustee received the correct security. The security shall be held in the name of the PSB or held on behalf of the PSB. The Trustee's records shall assure the notation of the PSB's ownership of or explicit claim on the securities. The original copy of all safekeeping receipts shall be delivered to the PSB.

4. Depository

At least every five years a Depository shall be selected through the PSB's banking service procurement process, which shall include a formal request for proposal (RFP). The selection of a depository will be determined by competitive bid and evaluation of bids will be based on the following selection criteria:

- The ability to qualify as a depository for public funds in accordance with state and local laws.
- The ability to provide requested information or financial statements for the periods specified.

- The ability to meet all requirements in the banking RFP.
- Complete response to all required items on the bid form.
- Lowest net banking service cost, consistent with the ability to provide an appropriate level of service.
- The credit worthiness and financial stability of the bank.

F. RESPONSIBILITY AND CONTROLS

1. Authority to Invest

The Chief Financial Officer, Vice President, Treasury Manager, and Fiscal Operations Manager are the "Investment Officers" of the PSB. As Investment Officers, they are authorized to deposit, withdraw, invest, transfer, execute documentation, and otherwise manage PSB funds according to these Rules and Regulations.

The Chief Financial Officer and designated Investment Officers must attend ten (10) hours of training within twelve (12) months of taking office. The Chief Financial Officer and designated investment officers must attend eight (8) hours of training relating to investment responsibilities not less than once in a two year period that begins on the first day of that local government fiscal year and consists of the two consecutive fiscal years after that date. The investment training session shall be provided by an independent source approved by the PSB. For purposes of this policy, an "independent source" from which investment training shall be obtained shall include a professional organization, an institute of higher learning or any other sponsor other than a business organization with whom the PSB may engage in an investment transaction.

2. Prudent Investment Management

The designated Investment Officers shall perform their duties in accordance with the adopted Investment Policy and internal procedures. In determining whether an adopted Investment Officer has exercised prudence with respect to an investment decision, the investment of all funds over which the Investment Officer had responsibility, rather than the prudence of a single investment, shall be considered. Investment Officers, acting in good faith and in accordance with these policies and procedures, shall be relieved of personal liability.

3. Standard of Care

The standard of care used by the PSB shall be the "prudent investor rule", and shall be applied in the context of managing the overall portfolio within the applicable legal constraints. The Public Funds Investment Act states:

"Investments shall be made with judgment and care, under circumstances then prevailing, 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."

4. Standard of Ethics

The designated Investment Officers shall act as custodians of the public trust, avoiding any transaction which might involve a conflict of interest, the appearance of a conflict of interest, or any activity which might otherwise discourage public confidence. Investment Officers shall refrain from personal business

activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Additionally, all Investment Officers shall file with the Texas Ethics Commission and the Board a statement disclosing any personal business relationship with an entity seeking to sell investments to the PSB or any relationship within the second degree by affinity or consanguinity to an individual seeking to sell investments to the PSB. For purposes of this policy, an investment official has a personal business relationship with a business organization if:

- the investment official owns 10 percent or more of the voting stock or shares of the organization or owns \$5,000 or more of the fair market value of the business organization if;
- funds received by the investment official from the business organization exceed 10 percent of the investment official's gross income for the previous year;
- the investment official has acquired from the business organization during the previous year investments with a book value of \$2,500 or more for the personal account of the investment official.

5. Establishment of Internal Controls

The Chief Financial Officer will maintain a system of internal controls over the investment activities of the PSB.

6. Reporting

Investment performance will be monitored and evaluated by the Investment Officers. The Investment Officers will provide a quarterly comprehensive report signed by all to the Board. This investment report must:

- Contain a summary statement of each pooled fund group that states the:
  - a) Beginning market value for the reporting period
  - b) Ending market value for the period
- Describe in detail the investment position of the PSB;
- State the reporting period market value of each pooled fund group;
- State the reporting period book value, market value and accrued interest for each investment security at the end of the reporting period by asset type and fund type;
- State the maturity date of each investment security;
- State the fund for which each investment security was purchased; and,
- State the compliance of the investment portfolio with the PSB's Investment Policy and Investment Strategy Statement, and the Public Funds Investment Act.

The PSB, in conjunction with its annual financial audit, shall perform a compliance audit of management controls on investments and adherence to the PSB's investment policies, procedures and strategies.

7. Portfolio Pricing

Current market prices for individual securities held in the portfolio shall be obtained at least quarterly. This will ensure that the minimal amount of review has been performed on the investment portfolio in terms of value and subsequent price volatility. These prices should be obtained from a reputable source including, but not limited to the Wall Street Journal, Bloomberg Capital Markets, PSB's safekeeping agent and broker/dealers other than those who originally sold the security to the PSB.



G. PERFORMANCE

1. Performance Standards

The PSB's investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio shall be designed with the objective of obtaining a rate of return through budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow requirements of the PSB.

2. Performance Benchmarks

It is the policy of the PSB to purchase investments with maturity dates coinciding with cash flow needs. Through this strategy, the PSB attempts to purchase the highest yielding allowable investments available on the market at that time. Market value will be calculated on a quarterly basis on all securities owned and compared to current book value of those securities to determine portfolio performance during the period of time. The PSB's portfolio shall be designed with the objective of regularly meeting or exceeding the average rate of return on U.S. Treasury Bills at a maturity level comparable to the PSB's weighted average maturity in days.

ATTACHMENT A INVESTMENT STRATEGY STATEMENT

A. PREFACE

It is the policy of the PSB that, giving due regard to the safety and risk of investment, all available funds shall be invested in conformance with State and Federal investment regulations, applicable Bond Ordinance requirements, adopted Investment Policy and Investment Strategy.

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

- ◆ Understanding the suitability of the investment to the financial requirements of the PSB;
- ◆ Preservation and safety of principal;
- ◆ Liquidity;
- ◆ Marketability of the investment if the need arises to liquidate the investment prior to maturity; and,
- ◆ Yield.

Effective investment strategy development coordinates the primary objectives of the PSB investment policies and procedures and cash management practices with investment security risk/return analysis to enhance interest earnings and reduce investment risk. Aggressive cash management will be used to increase the available "investment period". Maturity selections shall be based on cash flow and market conditions to take advantage of interest earnings as a viable and material revenue to all PSB funds. The PSB's portfolio shall be designed and managed in a manner responsive to the public trust and consistent with the PSB's policies and procedures.

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

- ◆ Operating Funds;
- ◆ Improvement and Construction Funds;

- ◆ Debt Service Reserve Funds; and,
- ◆ Debt Service Funds.

B. 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. Investing guidelines by fund type are as follows:

1. Operating Funds

a. Suitability

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

b. Safety of Principal

All investment will be of high quality securities with no perceived default risk. Market price fluctuations will be managed by the weighted average days to maturity for the Operating Pool portfolio to less than 270 days and restricting the maximum allowable maturity to two years, the price volatility of the overall portfolio will be minimized.

c. Marketability

Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash requirements. 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.

d. Liquidity

The Operating Fund requires the greatest short term liquidity of any of the fund types. Short term investment pools and money market mutual funds shall provide daily liquidity and may be used as a competitive yield alternative to fixed maturity investments.

e. Diversification

Investment maturities shall be staggered throughout the budget cycle to provide cash flow based on the anticipated operating needs of the PSB. Market cycle risk will reduced by diversifying the appropriate maturity structure throughout two years.

f. Yield

Attaining a competitive 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.

2. Improvement & Construction Funds

a. Suitability

Any investment eligible in the Investment Policy is suitable for the Improvement & Construction Fund.

b. Safety of Principal

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

c. 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.

d. Liquidity

Improvement & Construction funds used for construction programs have reasonably predictable draw down schedules. Therefore investment maturities shall generally follow the anticipated cash flow requirements. Investment pools and money market mutual funds 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

e. Diversification

Market conditions and the arbitrage regulations influence the attractiveness of staggering the maturity of fixed rate investments for bond proceeds. Generally, if investment rates exceed the applicable arbitrage yield for a specific bond issue, the PSB 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 lumps. At no time shall the anticipated expenditure schedule be exceeded in an attempt to bolster yield.

f. Yield

Achieving a positive spread to the applicable arbitrage yield is the desired objective for Bond Proceeds. For other Improvement & Construction Funds, the yield of an equally weighted, rolling three month treasury bill portfolio shall be the minimum yield objective.

3. Debt Service Reserve Funds

a. Suitability

An investment eligible in the Investment Policy is suitable for the Debt Service Reserve Funds. Bond Ordinance and loan documentation constraints and insurance company restrictions may create specific considerations in addition to the Investment Policy.

b. Safety of Principal

All investments will 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 borrowing will reduce the investment's market risk if the PSB's debt is redeemed and the reserve fund liquidated. No investment maturity shall exceed the final maturity of the borrowing or five years, whichever

is shorter. Annual market-to-market requirements or specific maturity and average life limitations within the borrowing's documentation will influence the attractiveness of market risk and may reduce the opportunity for maturity extensions.

c. Marketability

Securities with less active and efficient secondary markets are acceptable for Debt Service Reserve Funds.

d. Liquidity

Debt Service Reserve Funds have no anticipated expenditures. The funds are deposited to provide annual debt service payment protection to the PSB's debt holders. The funds are "returned" to the PSB 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 cost of borrowing, the PSB is best served by locking in investment maturities and reducing liquidity. If the borrowing cost cannot be exceeded, then concurrent market conditions will determine the attractiveness of locking in maturities or investing in shorter and anticipating future increase yields.

e. 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.

f. Yield

Achieving a positive spread to the applicable borrowing cost is the desired objective. Debt Service Reserve Fund portfolio management shall at all time operates within the limits of the Investment Policy's risk constraints.

4. Debt Service Funds

a. Suitability

Any investment eligible in the Investment Policy is suitable for the Debt Service Fund.

b. Safety of Principal

All investments will be of high quality securities with no perceived default risk. Market price fluctuations will however occur, by managing the Debt Service fund's portfolio to not to not exceed the debt service payment schedule the market risk of the overall portfolio will be minimized.

c. Marketability

Securities with active and efficient secondary markets are not necessary as the event of an unanticipated cash requirement is not probable.

d. Liquidity

Debt Service funds have predictable payment schedules. Therefore investment maturities shall not exceed the anticipated cash flow requirements. Investment pools and money market mutual funds shall provide a competitive yield alternative for short term fixed maturity investments.

e. Diversification

Market conditions influence the attractiveness of fully extending maturity to the next "unfunded" payment date. Generally if investment rates exceed the applicable arbitrage yield for a specific bond issue, the PSB 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 lumps. At no time shall the debt service schedule be exceeded in an attempt to bolster yield.

f. 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.

PASSED, APPROVED, and ADOPTED the 24th day of January, 1996, by the Public Service Board of the City of El Paso, Texas.

RULES AND REGULATIONS NO. 10, SECTION II, MODIFIED, APPROVED, and ADOPTED this 9th day of October, 2002.

RULES AND REGULATIONS NO. 10, SECTION III(B), SECTION V(A)(6), SECTION V(A)(6)(a) AND SECTION V(C)(4)(a), MODIFIED, APPROVED, and ADOPTED the 14<sup>th</sup> day of January, 2004, by the Public Service Board of the City of El Paso, Texas. RULES AND REGULATIONS NO. 10, SECTION II AND SECTION V(F)(1), MODIFIED, APPROVED, and ADOPTED the 27<sup>th</sup> day of April, 2005, by the Public Service Board of the City of El Paso, Texas.

RULES AND REGULATIONS NO. 10, SECTION II, SECTION III(B), SECTION V(A)(5), SECTION V(A)(6), SECTION V(A)(6)(a), SECTION V(C)(4), SECTION V(C)(4)(a), SECTION V(C)(4)(b), SECTION V(C)(5)(a) AND SECTION V(C)(5)(b), MODIFIED, APPROVED, and ADOPTED the 26<sup>th</sup> day of April, 2006, by the Public Service Board of the City of El Paso, Texas.

RULES AND REGULATIONS NO. 10, TABLE OF CONTENTS SECTION V(C)(2)(B); TABLE OF CONTENTS SECTION ATTACHMENT "A"(B)(2); SECTION II, SECTION III(B), SECTION IV(A), SECTION V (C)(2)(b); SECTION V(F)(1), ATTACHMENT "A" (A); ATTACHMENT "A" (B)(2)(a)(b)(d)(f), ADDED, MODIFIED, APPROVED, and ADOPTED the 12<sup>th</sup> day of December, 2007, by the Public Service Board of the City of El Paso, Texas.

RULES AND REGULATIONS NO. 10, SECTION V(A)(6)(D)(1)(2)(3)(4)(5); SECTION V (A)(7)(a)(1)(2)(3)(4); SECTION V(A)(7)(B)(1)(2)(3)(4)(5); SECTION V(A)(7)(c)(1); SECTION V(A)(8)(a)(b)(1)(2)(3)(4)(5); SECTION V(A)(7)(c)(1); SECTION V(A)(8)(c)(1)(2)(A)(B)(C)(D)(E)(F)(G)(H)(I)(J)(K); SECTION V(A)(8)(d)(e)(f)(g)(h);

SECTION V(6)(B)(1)(2)(3)(4)(5), ADDED, MODIFIED, APPROVED, AND ADOPTED THE 28<sup>TH</sup> day of April, 2010, by the Public Service Board of the City of El Paso, Texas.

RULES AND REGULATIONS NO. 10, SECTION II POLICY; SECTION V(A)(3); SECTION V(6)(d)(4)(5); SECTION V(8)(a); SECTION V(8)(c)(2)(I); SECTION V (8)(f)(g)(h)(i)(1)(2); SECTION V (B)(6); SECTION V(F)(1)(6), ADDED, MODIFIED, APPROVED, and ADOPTED the 11<sup>th</sup> day of April 2012, by the Public Service Board of El Paso, Texas.

RULES AND REGULATIONS NO. 10, SECTION II POLICY; SECTION V(A)(3); SECTION V(6)(d)(4)(5); SECTION V(8)(a); SECTION V(8)(c)(2)(I); SECTION V (8)(f)(g)(h)(i)(1)(2); SECTION V (B)(6); SECTION V(F)(1)(6), ADDED, MODIFIED, APPROVED, and ADOPTED the 11<sup>th</sup> day of April 2012, by the Public Service Board of El Paso, Texas.

RULES AND REGULATIONS NO. 10, SECTION II POLICY; SECTION V(A)(3); SECTION V(6)(d)(4)(5); SECTION V(8)(a); SECTION V(8)(c)(2)(I); SECTION V (8)(f)(g)(h)(i)(1)(2); SECTION V (B)(6); SECTION V(F)(1)(6), ADDED, MODIFIED, APPROVED, and ADOPTED the 9<sup>th</sup> day of April, 2014, by the Public Service Board of El Paso, Texas.  
RULES AND REGULATIONS NO. 10, APPROVED AND ADOPTED THE 8<sup>TH</sup> day of April 2015, by the Public Service Board of the City of El Paso, Texas.

RULES AND REGULATIONS NO. 10, SECTION V (F)(1), APPROVED AND ADOPTED THE 13<sup>TH</sup> day of April 2016, by the Public Service Board of the City of El Paso, Texas.


RULES AND REGULATIONS NO. 10, APPROVED AND ADOPTED, AND REAFFIRMED IN ITS ENTIRETY THE 12<sup>th</sup> day of April 2017 by the Public Service Board of the City of El Paso, Texas.

PUBLIC SERVICE BOARD

  
HENRY GALLARDO, CHAIR

APPROVED AS TO FORM:

  
LEE ANN B. KOEHLER, GENERAL COUNSEL

  
TERRELL GARCIA, SECRETARY-TREASURER  
