

Bolivar Peninsula Special Utility District

INVESTMENT POLICY

Reviewed & Adopted:

August 14, 2007

Houston Sliger, President

Attest:

Harold Guidry, Secretary

PREFACE

It is the policy of Bolivar Peninsula Special Utility District (the District) 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 Resolution requirements, adopted Investment Policy and adopted Investment Strategy.

Effective cash management is recognized as essential 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 District funds. The Bolivar Peninsula Special Utility District's portfolio shall be designed and managed in a manner responsive to the public trust and consistent with this Policy.

Investment shall be designed and managed in a manner responsive to the public trust and consistent with the primary objectives of:

< Preservation of principal

< Safety of District funds

< Maintenance of sufficient liquidity

< Maximization of return within acceptable risk constraints

< Diversification of investments

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I. PURPOSE

A. Formal Adoption

The Bolivar Peninsula Special Utility District, in accordance with Chapter 2256, Texas Government Code, and the Public Funds Investment Act authorizes the Investment Policy and Investment Strategy Statements.

B. Scope

This Investment Policy applies to all of the investment activities of the Bolivar Peninsula Special Utility District, excluding the Bolivar Peninsula Special Utility District Employees' Retirement Fund Trust. This Policy establishes guidelines for: 1) who can invest funds, 2) how funds will be invested, and 3) when and how a periodic review of investments will be made. In addition to this Policy, bond funds (as defined by the Internal Revenue Service) shall be managed by their governing resolution and all applicable State and Federal Law.

C. Review and Amendment

This Policy shall be reviewed by the Board of Directors annually. Amendments must be approved and adopted by the Board of Directors.

D. Investment Strategy

In conjunction with the annual Policy review, the Board of Directors shall review the investment strategies for District funds. The investment strategies must describe the investment objectives according to the following priorities:

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

II. 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 be from securities defaults or erosion of market value.

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.

III. INVESTMENT POLICIES

A. Authorized Investments

Chapter 2256, Texas Government Code as eligible securities for the District, authorizes investments described below. The purchase of specific issues may at times be restricted or prohibited by the Investment Committee. District funds governed by this Policy may be invested in:

1. Obligations of the United States or its agencies and instrumentalities, excluding principal-only and interest-only mortgage backed securities, and collateralized mortgage obligations and real estate mortgage investment conduits with stated final maturities greater than ten years and collateralized mortgage obligations and real estate mortgage investment conduits the interest rate of which is determined by an index that adjusts opposite to changes in a market index.
2. Other obligations, the principal and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit, of the State of Texas or the United States or their respective agencies and instrumentalities, excluding principal-only and interest-only mortgage backed securities, and collateralized mortgage obligations and real estate mortgage investment conduits with stated final maturities greater than ten years and collateralized mortgage obligations and real estate mortgage investment conduits the interest rate of which is determined by an index that adjusts opposite to changes in a market index.
3. Certificates of deposit issued by state and national banks and savings and loan associations, and share certificates issued by a state or federal credit union domiciled in Texas that are:
 - a. guaranteed or insured by the Federal Deposit Insurance Corporation, the National Credit Union Share Insurance Fund or their successors; or, secured by obligations that are described by A-2 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 District;
 - b. governed by a Depository Contract, as described in B.4 of this section, that complies with Federal and State regulation to properly secure a pledged security interest;

c. solicited for bid orally, in writing, electronically, or any combination of those methods.

4. Money market mutual funds regulated by the Securities & Exchange Commission, with a dollar weighted average portfolio maturity of 90 days or less; that fully invest dollar-for-dollar all District funds without sales commissions or loads; and, whose investment objectives include seeking to maintain a stable net asset value of \$1 per share.

5. Eligible Investment Pools as defined in Section 2256.016 of the Texas Government Code provided that (a) investment in the particular pool has been authorized by the District of Directors; (b) the pool shall have furnished the Investment Officers or other authorized representatives of the District investment transaction confirmations with respect to all investments made with it; (d) the pool shall furnish to the Investment Officers or other authorized representatives of the District, monthly reports that contain the information required by Section 2256.016 (c) of the Government Code; (e) the pool's assets shall consist exclusively of the obligations that are described by A-2 above; (f) and whose investment philosophy and strategy are consistent with this Policy and the District's ongoing investment strategy.

B. Protection of Principal

The District shall seek to control the risk of loss due to the failure of a security issuer or grantor. Such risk shall be controlled by investing only in the safest types of securities as defined in the Policy; by 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 District's Safekeeping Agent, the securities purchased. By so doing, District funds are not released until the District 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 and opportunity risks associated with specific investment types.

Bond proceeds may be invested in a single security or investment if the Investment Committee 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 fluctuations, investment maturities will not exceed the anticipated cash flow requirements of the funds. Maturity guidelines by fund are as follows:

a. Operations Fund

The weighted average days to maturity for the operations fund portfolio shall be less than 365 days and the maximum allowable maturity shall be three years.

b. Construction Bond Proceeds

The investment maturity of bond 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. During the temporary period bond proceeds may be invested at an unrestricted yield. After the expiration of the temporary period, bond 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. Interest and Sinking Service Funds

Interest and Sinking 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.

District funds that are considered “bond proceeds” for arbitrage purposes will be invested using a more conservative approach than the standard investment strategy when arbitrage rebate rules require refunding excess earnings. All excess earnings received will be segregated to allow a proper determination of interest income to be used in the rates, fees and charges calculation.

The Investment Committee may temporarily modify the diversification objectives based on economic, market and District conditions.

3. Ensuring Liquidity

Liquidity shall be achieved by anticipating cash flow requirements, by investing in securities, 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 requirements of State law, the District requires all bank and savings and loan association deposits to be federally insured or collateralized with eligible securities. Financial institutions serving as District Depositories will be required to sign a Depository Agreement with the District and the District's safekeeping agent. The safekeeping portion of the Agreement shall define the District's rights to the collateral in case of default, bankruptcy, or closing and shall establish a perfected security interest in compliance with Federal and State regulations, including:

The Agreement must be in writing;

The Agreement has to be executed by the Depository and the District contemporaneously with the acquisition of the asset;

The Directors or the loan committee of the Depository must approve the Agreement and a copy of the meeting minutes must be delivered to the District;

The Agreement must be part of the Depository's "official record" continuously since its execution.

- a. Allowable Collateral
 - (1) Certificates of Deposit

Eligible securities for collateralization of deposits are defined by the Public Funds Collateral Act, as amended and meet the constraints of this Policy.

b. Collateral Levels

(1) Certificates of Deposit

Eligible securities for collateral pledged for certificates of deposit must at all times be equal to or greater than the par value of the certificate of deposit plus accrued interest, less the applicable level of FDIC insurance.

c. Monitoring Collateral Adequacy

(1) Certificates of Deposit

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

d. Additional Collateral and Securities

(1) Certificates of Deposit

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 C.D's will be notified by the Investment Officers and will be required to pledge additional securities no later than the end of the next succeeding business day.

e. Collateral Substitution

Collateralized certificates of deposit and repurchase agreements often require substitution of collateral. Any broker, dealer or 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 a 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.

5. Safekeeping

a. Safekeeping Agreement

The District shall contract with a bank or banks for the safekeeping of securities either owned by the District as a part of its investments portfolio or as part of its depository and repurchase agreements.

b. Safekeeping of Certificate of Deposit Collateral

A third-party banking institution must hold all collateral securing bank and savings and loan deposits acceptable to and under contract with the District, or by the Federal Reserve Bank.

6. Loss of Credit Rating

An investment that requires a minimum credit rating does not qualify as an Authorized Investment during the period the investment does not have the minimum credit rating even if the investment had the appropriate rating at the time of purchase. The Investment Officers shall take all prudent measures that are consistent with this Policy to liquidate an investment that does not have the minimum rating.

C. Investment Advisors and Broker/Dealers

Investment selection for all funds shall be based on legality, appropriateness, liquidity, and risk/return considerations. All District investment portfolios shall be actively managed to enhance overall interest income. Investment Advisors shall adhere to the spirit, philosophy and specific term of this Policy and shall invest within the same “Standard of Care.”

Selection of Investment Advisors and Brokers/Dealers will be performed by the spirit, philosophy and specific term of this Policy and shall invest within the same “Standard of Care.”

Selection of Investment Advisors and Broker/Dealers will be performed by the Investment Committee. The Investment Officers will establish criteria to evaluate Investment Advisors and Broker/Dealers, including:

- a. Adherence to the District's policies and strategies
- b. Investment performance and transaction pricing within accepted risk constraints
- c. Responsiveness to the District's request for services, information and open communication
- d. Understanding of the inherent fiduciary responsibility of investing public funds
- e. Similarity in philosophy and strategy with district's objectives

Selected Investment Advisors and Broker/Dealers are listed in Appendix B of this policy.

Selected Investment Advisors and Broker/Dealers shall provide timely transaction confirmations and monthly portfolio reports.

Investment Advisors shall additionally:

- 1). Assist in the analysis of the District's cash flow requirements,
- 2). Develop appropriate investment strategies for approval by the Investment Committee,
- 3). Implement approved strategies, including: soliciting competitive prices, executing transactions, verifying settlement figures, and effectuating proper security delivery, and
- 4). Prepare on a monthly basis a comprehensive performance report that includes, at least, the following information:
 - Current Portfolio Status
 - Transactions and activity for the period
 - Bond Maturity Schedule
 - Security-Type allocation
 - Annual income earned
 - Yield analysis (including benchmarks)
 - Book value vs. market value comparison

In order to invoke the services of an Investment Advisor, the District shall enter into a formal contractual agreement between the District and the Advisor. This agreement shall specifically address the services required by this Policy, any additional services requested by the specific form and calculation of fees. All fees and transaction-related revenues received by the Investment Advisor must be reported to the District.

Broker/Dealers eligible to transact investment business with the District 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 thoroughly reviewed this Investment Policy, and
- 2) acknowledged that the organization has implemented reasonable procedures and controls in a effort to preclude imprudent investment activities with the District.

The District shall not enter into an investment transaction with a Broker/Dealer prior to receiving the written instrument described above.

All investment transactions governed by this Policy shall adhere to the Competitive Bid Policy of the District, whether the transaction execution is by an Investment Officer of the District or by a contracted Investment Advisor.

D. Responsibility and Controls

1. Investment Committee

An Investment Committee consisting of the Board of Directors shall establish the District's investment policies and strategies. The Committee shall meet at least annually and at its discretion, to review and propose modifications of the Investment Policy and the Investment Strategy Statements to be subsequently approved by the Bolivar Peninsula Special Utility District Board of Directors.

2. Authority to Invest

The "Investment Officer" of the District shall be designated by the Board of Directors and named in appendix A of this policy.

The "Investment Officer" shall attend at least one training session, within twelve months of assuming these duties, that addresses investment

controls, security risks, strategy risks, market risks, and compliance with the Public Funds Investment Act.

3. Prudent Investment Management

The designated Investment Officers shall perform their duties in accordance with the adopted Investment Policy and internal procedures. Investment Officers acting in good faith and in accordance with these policies and procedures shall be relieved of personal liability.

4. Standard Care

The standard of care used by the District 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:

“Investment 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.”

5. Standard of Ethics

The designated Investment Officers shall adhere to Bolivar Peninsula Special Utility District’s “Code of Conduct.” Additionally, all Investment Officers shall file with the District or any relationship within the second degree by affinity or consanguinity to an individual seeking to sell investments to the District.

6. Establishment of Internal Controls

The Investment Committee will oversee the Investment Officers in the maintenance of a system of internal controls over the investment activities of the District.

7. Reporting

Investment performance will be monitored and evaluated by the Investment Officer. The Investment Officer or Officers will provide a quarterly comprehensive report signed by an Investment Officer to the Investment Committee and the District’s Board of Directors. This investment report shall:

- 1) Describe in detail the investment position of the District
- 2) State the reporting period beginning book and market values, additions or changes to the book and market values during the period and ending book and market values for the period of each pooled fund group,
- 3) State the reporting period beginning book and market values and ending book and market values for each investment security by asset type and fund type,
- 4) State the maturity date of each investment security,
- 5) State the fund for which each investment security was purchased, and
- 6) State the compliance of the investment portfolio with the District's Investment Policy and strategy and the Public Funds Investment Act.

The District, in conjunction with its annual financial audit, shall perform a compliance audit of management controls on investments and adherence to the District's Investment Policy and strategies.

IV. INVESTMENT STRATEGIES

It is the policy of Bolivar Peninsula Special Utility District (the District) 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 Resolution requirements, and adopted Investment Policy and Strategy.

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

Understanding the suitability of the investment to the financial requirements of the District;

Preservation and safety of principal;

Liquidity;

Marketability of the investment if the need arises to liquidate the investment prior to maturity;

Diversification of the investment portfolio, and

Yield

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

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

- a. Operating Pool (Water Fund)**
- b. Construction Bond Proceeds**
- c. Interest and Sinking Funds (Debt Service Fund)**

INVESTMENT STRATEGY BY FUND TYPE

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

Investment guidelines by fund-type are as follows:

a. Operating Pool

Suitability – Any investment eligible in the Investment Policy is suitable for the Operating Pool.

Safety of Principal – All investment will or shall be of high quality securities with no perceived default risk. Market price fluctuations will however occur, by managing the weighted average days to maturity for the Operating Pool portfolio to less than 365 days and restricting the maximum allowable maturity to three years, the price volatility of the overall portfolio will be minimized.

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

Liquidity – The Operating Pool requires the greatest short-term investment pools and money market mutual fund types. Short-term investment pools and money market mutual funds shall provide daily liquidity and may be utilized as a competitive yield alternative to fixed maturity investments.

Diversification – Investment maturities shall be staggered throughout the budget cycle to provide cash flow based on the anticipated operating needs of the District. Market cycle risk will be reduced by diversifying the appropriate maturity structure out through three years.

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

Additionally, the Investment Committee shall compare the Operating Pool's performance to other appropriate bench mark.

b. Construction Bond Funds

Suitability – Any investment eligible in the Investment Policy is suitable for the Construction Bond Fund.

Safety of Principal – All investments will or shall be of high quality securities with no perceived default risk. Market price fluctuations will however occur, by managing the Construction Bond fund's portfolio to exceed the anticipated expenditure schedule the market risk of the overall portfolio will be minimized.

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.

Liquidity – Bond proceeds 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. A singular repurchase agreement may be utilized if disbursements are allowed in the amount necessary to satisfy any expenditure request, this investment structure is commonly referred to as a flexible repurchase agreement.

Diversification – Market conditions and 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 District is best served by locking in most investments. If the arbitrage yield cannot be exceeded, than 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.

Yield – Achieving a positive spread to the applicable arbitrage yield is the desired object. Negative arbitrage Construction Bond Fund portfolio management shall operate to the limit of the Investment Policy’s risk constraints. Positive arbitrage portfolio management will allow tighter constraints than allowed by the Investment Policy.

c. Interest and Sinking Funds

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

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

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. A singular repurchase agreement may be utilized if disbursements are allowed in the amount necessary to satisfy any debt service payment, this investment structure is commonly referred to as a flexible repurchase agreement.

Diversification – Market conditions influence the attractiveness of fully extending maturity to the next “unfounded” payment date. Generally if investment rates exceed the applicable arbitrage yield for a specific bond issue, the District 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.

Yield – Attaining a competitive market yield for comparable security-type 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.

Strategies for Investments: Limits for Each Investment Type

1. Obligations of the United States or its agencies and instrumentalities: no more than 95% of total investments may be in this type investment at any time.

2. Other obligations, the principal and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit, of the State of Texas or the United States or their respective agencies and instrumentalities: no more than 95% of total investments may be in this type investment at any time.

3. Certificates of deposit: no more than 95% of total investments may be in this type investment at any time.

4. Money market mutual funds: no more than 95% of total investments may be in this type investment at any time.

5. Eligible Investment Pools: no more than 95% of total investments may be in this type investment at any time.

APPENDIX A

Designation of Investment Officer for Bolivar Peninsula Special Utility District

Effective August 14, 2007, George Strong and Dennis Stafford will serve as District Investment Officers.

APPENDIX B

Designation of Acceptable Brokers Bolivar Peninsula Special Utility District

1. Goldman Sachs
2. Lehman Brothers
3. Merrill Lynch
4. Morgan Stanley Dean Witter
5. Paine Weber UBS
6. Salomon Smith Barney
7. Moody Bank
8. Wells Fargo
9. First Southwest Company
10. Texas First Bank

APPENDIX C

Bolivar Peninsula Special Utility District Certification

This certification is executed on behalf of the Bolivar Peninsula Special Utility District (the Investor) and _____ (Business Organization) pursuant to the Public Funds Investment Act, Chapter 2256, Texas Government Code (the Act) in connection with investment transactions conducted between the Investor and the Business Organization.

1. The undersigned is a qualified representative of the Business Organization offering to enter an investment transaction with the Investor as such terms are used in the Public Funds Investment Act, Chapter 2256, Texas Government Code and
2. The Qualified representative of the Business Organization has received and reviewed the Investment Policy furnished by the Investor and
3. The Qualified representative of the Business Organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the Business Organization and the Investor that are not authorized by the entity's investment policy.

Business Organization Name: _____

Printed Name of Representative: _____

Title of Representative: _____

Signature of Representative

Date

APPENDIX D

District Depository Agreement(s) and Collateral Agreements