AGENDA

Budget and Finance Committee Meeting
Tuesday, September 24, 2019, 4:00 p.m.
DART Conference Room C - 1st Floor
1401 Pacific Ave., Dallas, Texas 75202

1. Approval of Minutes: August 27, 2019
2. Approval of DART Board Policy II.04, Investment Policy, and Approval of DART’s FY 2020 Investment Strategy (Paul N. Wageman/Gary Thomas)
3. *Update on Status of Financing of Cotton Belt/Silver Line Regional Rail Project (Paul N. Wageman/Gary Thomas)
5. Identification of Future Agenda Items
6. Adjournment

*This Is A Briefing Item Only

The Budget and Finance Committee may go into Closed Session under the Texas Open Meetings Act, Section 551.071, Consultation with Attorney, for any legal issues, under Section 551.072 Deliberation Regarding Real Property for Real Estate issues, arising or regarding any item listed on this Agenda.

This facility is wheelchair accessible. For accommodations for the hearing impaired, sign interpretation is available. Please contact Community Affairs at 214-749-2543, 48 hours in advance.

Chair – Paul N. Wageman
Vice Chair – Jon-Bertrell Killen
Members – Mark Enoch, Ray Jackson, Patrick J. Kennedy, Michele Wong Krause, Gary Slagel, and Lissa Smith
Staff Liaison – Gary Thomas

Quorum = 5
MINUTES
DALLAS AREA RAPID TRANSIT
BUDGET AND FINANCE COMMITTEE MEETING
August 27, 2019

The Dallas Area Rapid Transit Budget and Finance Committee meeting convened at 4:03 p.m., Tuesday, August 27, 2019, at DART Headquarters, 1401 Pacific Avenue, Dallas, Texas, with Chair Wageman presiding.

The following Committee members were present: Paul N. Wageman, Jon-Bertrell Killen, Mark Enoch, Ray Jackson, Patrick J. Kennedy, Michele Wong Krause, and Lissa Smith.

Other Board members present: Lee Ruiz, Rick Stopfer, and Sue S. Bauman.

Others present: Gary Thomas, Gene Gamez, Joseph Costello, Dwight Burns, Todd Plesko, Steve Salin, Nicole Fontayne-Bardowell, Katina Morch-Pierre, John Adler, Chris Koloc, Donna Henry, Nancy Johnson, and Josefina Chavira.

1. Approval of Minutes: August 13, 2019

   Mr. Jackson made a motion to approve the Minutes from the August 13, 2019, Budget and Finance Committee Meeting and enter into record as written.

   Mr. Enoch seconded and the item was approved by a unanimous vote.

2. Approval of Revised Sixteenth Supplemental Debt Resolution for Financing the Second Central Business District (CBD) Light Rail Alignment Project (D2 Subway) Through Issuance of a Conventional Revenue Bond Issue

   Mr. Dwight D. Burns, Treasurer, briefed the Committee (slides on file with the Office of Board Support) as follows:

   Mr. Ruiz stepped out of the meeting at 4:04 p.m.

   • D2 Subway Funding in the Financial Plan (slide 1)
   • Parameters Governing the Revised 16th Supplemental Debt Resolution for the D2 Light Rail Alignment Project (slide 2)

   Mr. Ruiz reentered the meeting at 4:08 p.m.

   Mr. Enoch moved to forward this draft resolution to the Committee-Of-The-Whole agenda, with a recommendation, stating:

   Section 1: The Revised Sixteenth Supplemental Debt Resolution is approved, in substantially the same form as shown in Exhibit 1 to this Resolution, for the purpose of financing the Second Central Business District (CBD) Light Rail Alignment Project (D2 Subway) to be issued in multiple series as Current Interest Bonds.

   Section 2: The President/Executive Director and other designated Authorized Officers are authorized to sign all debt resolution agreements and documents, subject to the conditions and parameters set out in the Revised Sixteenth Supplemental Debt Resolution.
Ms. Smith seconded and the item was approved unanimously.


Mr. Gene Gamez, General Counsel, briefed the Committee (slides on file with the Office of Board Support) as follows:

- Presentation Outline (slide 2)

Mr. Killen entered the meeting at 4:12 p.m.

- Department Work Plan (slide 3-4)
- Organization Chart (slide 5)

Mr. Stopfer entered the meeting at 4:15 p.m.

After some discussion, Mr. Gamez concluded his presentation as follows:

- 303 – Legal Admin FY 2020 Budget by Account (slides 9-10)
- Additional Information (slide 12)

Ms. Nancy Johnson, Director of Board Support, briefed the Committee (slides on file with the Office of Board Support) as follows:

- Presentation Outline (slide 2)
- Department Narrative (slides 3-5)
- Office of Board Support’s Organizational Chart (slide 6)
- 80 – Board Support – Dept FY 2020 Position Details (slide 8)
- 80 – Board Support – Dept FY 2020 Budget by Cost Center (slide 10)
- 80 – Board Support – Dept FY 2020 Budget by Account (slides 11-12)

Mr. Ruiz stepped out of the meeting at 4:25 p.m.

Mr. Gary Thomas, President/Executive Director, briefed the Committee (slides on file with the Office of Board Support) as follows:

Mr. Stopfer stepped out of the meeting at 4:26 p.m.

- Presentation Outline (slide 2)
- Department Responsibilities (slide 3)
- FY 2020 Board Approved Goals (slide 4)
- Budget Summary (slide 5)
- Budget Breakdown (slide 6)
- Total Salaries & Benefits (slide 7)
- Salaries & Benefits by Department (slide 8)
- Total Services (slide 9)
- Services by Department (slide 10)
- Total Material & Supplies (slide 11)
- Materials & Supplies by Department (slide 12)
- Total Utilities (Slide 13)
- Utilities by Department (slide 14)
- Position Summary (slide 15)
- Organization Chart (slide 16)
- Executive Office Organization Chart (slide 18)
- 30 – Executive Office FY 2020 Budget by Cost Center (slide 19)
4. Approval of Fiscal Year (FY) 2020 Annual Budget

Mr. Senanu Adadevoh, Assistant Vice President of Business Planning & Analysis, briefed the Committee (slides on file with the Office of Board Support) as follows:

- FY 2020 Budget and Financial Planning Process Calendar (slides 1-2)

Ms. Bauman entered the meeting at 4:58 p.m.

- Presentation Outline (slide 3)
- Budget Adoption Process (slide 5)
- Proposed FY 2020 Annual Budget (slide 7)
- Proposed FY 2020 Annual Budget Summary ($M) (slide 8)
- Operating Budget Summary ($M) (slide 9)

Mr. Killen moved to forward this draft resolution to the Committee-Of-The-Whole agenda, with a recommendation, stating that the FY 2020 Annual Budget is approved in the amount of $1,362,136,103.

<table>
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<tr>
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<td>Debt Service Budget</td>
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<td><strong>Total FY 2020 Annual Budget</strong></td>
<td><strong>$1,362,136,103</strong></td>
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Mr. Enoch seconded and the item was approved unanimously.

5. Approval of Fiscal Year (FY) 2020 Twenty-Year Financial Plan

Mr. Adadevoh briefed the Committee (see handout on file with the Office of Board Support) as follows:

- Financial Plan Adoption Process (slide 5)
- Proposed FY 2020 Financial Plan Project Highlights (slide 8)
- Summary (slide 28)
After some discussion, Ms. Smith moved to forward this draft resolution to the Committee-Of-The-Whole agenda, with a recommendation, stating that the FY 2020 Financial Plan as shown in Exhibit 1 is approved.

Mr. Enoch seconded and the item was approved unanimously.


Mr. Adadevoh briefed the Committee on Agenda Item 6, *Review of Quarterly Disclosure Update as of June 30, 2019 and Agenda Item 7, *Review of FY 2019 Third Quarter Operating & Financial Performance Report, jointly (see handout on file with the Office of Board Support) as follows:

- Third Quarter Disclosure (slide 3)
- Third Quarter Financial Highlights (slide 4)
- Budget Summary (slide 6)
- Federal Revenue Summary (slide 7)
- Budget Summary (Operating Expenses) (slide 8)
- Capital Summary (slide 9)
- Debt Service – Projected Year-End (slide 10)
- Ridership (slide 12)
- Subsidy Per Passenger (slide 13)
- Agency Scorecard – Performance (slide 14)


8. Identification of Future Agenda Items

There were no future agenda items identified for this committee.

9. Adjournment

There being no further business to discuss, the meeting was adjourned at 5:21 p.m.

Josefina Chavira, CAP
Board Committee Secretary

/jc
+Same Night Item
*Briefing Item
Agenda Report

Attachments:  
1. Investment Policy Redline  
2. Investment Strategy Redline

Voting Requirements:  
Majority

DATE: September 24, 2019

SUBJECT: Approval of DART Board Policy II.04, Investment Policy, and Approval of DART’s FY 2020 Investment Strategy

RECOMMENDATION

Approval of a resolution to: 1) approve DART Board Policy II.04, Investment Policy, as shown in Exhibit 1 to the Resolution; and 2) approve DART’s FY 2020 Investment Strategy as shown in Exhibit 2 to the Resolution.

BUSINESS PURPOSE AND FINANCIAL CONSIDERATIONS

· The Texas Public Funds Investment Act (PFIA) and DART Board Policy II.04, Investment Policy, require the DART Board to review a written investment policy and a statement of investment strategy for funds under its control on an annual basis.

· DART Board Policy II.04, Investment Policy, included as Attachment 1, sets out the types of investments in which funds may be invested.

· The following changes are recommended to the Investment Policy:

  · Add the authorization to invest funds into interest-bearing bank deposit accounts in conformity with state law as allowed under Government Code Section 2256.009(7).
  · Conform the investment policy with state law by changing the maximum maturity of commercial paper up to 365 days from up to 270 days as allowed by Government Code 2256.013(1).
  · Add the criteria of a personal business relationship as defined under Government Code Section 2256.005(i).
  · Conform the investment policy with state law by expanding the security for a repurchase agreement to include a combination of cash and obligations such as commercial paper as allowed under Government Code Section 2256.009(a).
  · Conform the investment policy with state law by adding criteria that Local Government Investment Pools must make available an offering circular or similar disclosure instrument as required under Government Code Section 2256.016.

· The DART Investment Strategy, included as Attachment 2, describes the fund portfolios established by the Board of Directors and provides an investment strategy for each portfolio based on the fund objective and its unique cashflow characteristics.

· The following changes are recommended to the Investment Strategy:
Conform with state law by adding “average dollar-weighted maturity” whenever the term “average maturity” is used throughout the FY 2020 Investment Strategy as stated under Government Code Section 2256.005(c).

Add Project Funds to the FY 2020 Investment Strategy to identify this category of funds separately.

Change the title of the Capital Project Reserve Fund to the Mobility Assistance and Innovation Fund to comply with Board Resolution No. 190053.

Approval of the Investment Policy and FY 2020 Investment Strategy will help achieve Board Strategic Priority 6: Innovate to improve levels of service, business processes, and funding.

LEGAL CONSIDERATIONS

- Section 452.101 of the Texas Transportation Code authorizes the Board to designate authorized representatives to invest DART funds according to terms prescribed by the Board.

- Section 452.102 of the Texas Transportation Code sets out those investment instruments in which the funds of the authority may be invested.

- The Public Funds Investment Act (PFIA), Chapter 2256 of the Texas Government Code and DART Board Policy No. II.04, requires that the Board approve a written investment policy and a separate investment strategy, both of which must be reviewed not less than annually. The PFIA and Board Policy No. II.04 also set out the types of investments in which funds may be invested.

- The Public Funds Collateral Act, Chapter 2257 of the Texas Government Code, requires that the Board adopt a written policy addressing which investment securities are eligible to secure deposits of public funds.
Dallas Area Rapid Transit
Investment Policy, II.04
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**DART Investment Policy, II.04**

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Section 1: SCOPE
Dallas Area Rapid Transit (DART) shall utilize those investment strategies and procedures that most effectively accomplish the following goals in order of priority: (1) preservation of capital; (2) liquidity to meet all obligations in a timely manner; and (3) maximization of earnings from the full investment of all available funds. DART funds will be invested and managed in compliance with Section 452.102 of the Texas Transportation Code, the Public Funds Investment Act (Chapter 2256, Government Code), DART’s Investment Policy, and internal procedures as documented in DART’s Funds Administration Procedures Manual. The funds as listed in the Investment Strategy Guidelines Attachment 2 - Dallas Area Rapid Transit FY 2020 Statement of Investment Strategy shall be subject to these requirements.

Section 2: DEFINITIONS
Defined terms shall, for all purposes of this Investment Policy, have the meanings set out below unless otherwise expressly provided or unless the context clearly requires otherwise.

2.1 Aggregate Portfolio combined assets held in all investment portfolios managed by DART, including, but not limited to, General Operating Fund, Project Funds, Insurance Reserve Fund, Capital Reserve Mobility Assistance and Innovation Fund, Financial Reserve Fund, DART Commercial Paper and Bonds System Expansion & Acquisition Funds, Debt Service Funds (Senior Lien and Senior Subordinate Lien), and State or Local Government-Provided Funds.

2.2 Approved Security are obligations which fall within the definitions of investment securities legal for DART under the Public Funds Investment Act (PFIA) or Section 452.102 of the Texas Transportation Code and which are specifically included in the Investment Policy as approved by the Board of Directors. DART is not required to liquidate investments that were authorized investments at the time of purchase, but may no longer be authorized due to regulatory changes.

2.3 Arbitrage Regulations are regulations issued by the IRS limiting ability of municipalities to take advantage of, arbitrage, the rate differential between their own tax-exempt securities and taxable securities such as U.S. Treasury Notes. One method of yield restriction to comply with regulations is investing proceeds in other municipal securities.

2.4 Banker’s Acceptance negotiable time draft, typically arising from letters of credit issued in a foreign trade transaction, drawn on and accepted by a bank which adds its credit to that of an importer of the merchandise. Prime Banker’s Acceptances are those, which are liquidated at maturity from proceeds of the sale of goods, distinguishing these self-liquidating instruments from those used only to finance inventory.
2.5 **Certificate of Deposit** interest bearing negotiable time deposit of fixed maturity at a bank or trust company organized under the laws of Texas or national banking associations.

2.6 **Mutual Funds**
Mutual fund of money market instruments, which is no-load and complies with the Securities and Exchange Commission Rule 2a-7. Ultra short bond funds that have a duration of less than one year and whose investments are limited to investment grade securities, excluding asset-backed securities, are eligible investments.

2.7 **Commercial Paper** the promissory note or draft of a corporation, government agency, or bank holding company, usually unsecured but backed by unused bank credit lines and issued for short-term credit needs with a maturity of up to 270-365 days.

2.8 **Corporate Securities** corporation-issued debt instruments as opposed to securities issued by a government agency or a municipality.

2.8 **Federal Agency Securities** debt instruments issued by federal agencies that are presumed to be unconditionally guaranteed, or backed by the full faith and credit of, the United States of America. These agencies include, but are not limited to: Federal Agricultural Mortgage Corporation, Federal Home Loan Banks, Federal Farm Credit Banks, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Government National Mortgage Association, and the Tennessee Valley Authority.

2.9 **Federal Deposit Insurance Corporation (FDIC)** established in the U.S. in 1933 to insure accounts at commercial and mutual saving banks and thus protect depositors.

2.10 **Financial Institutions and Authorized Broker/Dealers** financial Institutions and Authorized Broker/Dealers means qualified financial institutions and broker/dealers authorized to engage in the purchase and sale of obligations of the U.S. Government, its agencies or other approved investments to DART. The Investment Committee will review, revise and adopt the list on an annual basis. Such selection shall include but not be limited to the following criteria:

* Certification with the Financial Industry Regulatory Authority or be subject to regulation by the U.S. Comptroller of the Currency.
* [Certification](#) [Acknowledge](#) to DART that the latest investment policy was received, and reasonable controls are in place to abide by the terms of the Policy, and as required under Section 2256.005(k) of the Public Funds Investment Act, as amended.
* Proven access to new issue market for government securities, suitable for DART’s approved strategies.

2.11 **Floating Rate Securities** are securities which change coupon rate periodically based on changes in specified benchmarks. Unless there is a cap on the amount of change allowed at each reset, these securities will move with the current market and maintain a price close to par. Although these securities have a final stated maturity, the maturity date for purposes of liquidity analysis is the next reset date.
2.13 Funds Administration Procedures Manual the manual maintained by DART's Treasury Division which provides detailed procedures and guidelines for investing and controlling DART funds and which is subject to review and approval by the Investment Committee, consisting of representatives from various departments such as the Finance, Legal, and Executive Departments.

2.14 Futures Contracts/Options Contracts agreements executed on the floor of a commodity exchange, to sell or buy a specific amount of a commodity or security at a specific price and time, and options on futures contracts which provide the buyer the right, but not the obligation, to exercise the option by the exercise date.

2.15 Hedge establishment of a position on a commodity or financial futures or options market, which is equal and opposite to a transaction made on an actual or physical market.

2.16 Interest-Bearing Bank Deposit Account bank deposit accounts that bear interest and are collateralized, or guaranteed, or insured by FDIC, or the National Credit Union Share Insurance Fund or its successor.

2.17 Investment Committee nine-member committee consisting of the five Board-approved Investment Officers and four additional employees as designated by the President/Executive Director.

2.17 Investment Officers Staff to be authorized by Board Resolution to invest and manage DART funds. The Board of Directors may authorize persons in the following positions as Investment Officers: Chief Financial Officer, Senior Vice President/Finance, Treasurer, Assistant Treasurer, and Senior Manager, Cash and Debt Administration. In order to assure quality and capability of investment management, the Investment Officers shall possess sufficient working knowledge of economics and securities markets, as well as the supervisory experience and judgment necessary to carry out the responsibilities outlined in this Policy.

2.18 Municipal Securities debt instruments issued by a city, state, or other governmental entity with interest paid to holders being exempt from federal income tax.

2.19 Mutual Funds means mutual funds of money market instruments, which are no-load and comply with the Securities and Exchange Commission Rule 2a-7. Ultra-short bond funds that have a duration of less than one year and whose investments are limited to investment grade securities, excluding asset backed securities, are eligible investments.

2.19 Prudent Person Rule the standard to be applied to Investment Officers stated as follows: Investments shall be made with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived.

2.21 Rating (of Securities) the determination of an issuing company's financial strength and stability, based on the company's management ability, debts, and payment history. The highest rating for notes/bonds is AAA; for commercial paper A-1+ or P-1; and for variable rate notes MIG-1.
**2.2122 Repurchase Agreement** an agreement that is fully secured by a combination of cash and obligations including commercial paper in which an investor sells an investment to another investor with the provision that the first investor will buy it back for a specific price by a specific date, with the difference between the amount received and the final amount paid representing the interest.

(a) **Direct Repurchase Agreement**
An agreement for sale of securities by a broker/dealer under the provision that the buyer will sell them back at a predetermined date for a specific price.

(b) **Master Repurchase Agreement**
An agreement between the customer and the financial institution setting out the conditions under which repurchase or reverse repurchase transactions may be negotiated and executed, including requirements for delivery, default provisions, and collateral value of underlying securities.

(c) **Reverse Repurchase Agreement**
An agreement for sale of securities to a broker-dealer under the provision that the seller will buy them back by a predetermined date for a specific price.

**2.2223 Security Agreement** an agreement between DART and a Depository Bank governing the pledging of collateral against deposits held by the bank.

**2.2324 Swap Agreement** an agreement to exchange one stream of payments for another, such as floating interest rate payments for fixed rate payments or payments in one currency for payments in another.

**2.2425 U.S. Government Securities** U.S. government debt instruments, such as Treasury bills, notes, and bonds, payable by the U.S. government and which carry the full faith and credit of the U.S. government.

**Section 3: DELEGATION OF AUTHORITY**
The Investment Officers shall have the authority without further Board review to purchase or sell any Approved Security, without limitation as to dollar amount, through Financial Institutions and Authorized Broker/Dealers and subject to DART’s Investment Policy. All securities, other than money market mutual funds and investment pools, must be purchased or sold on a delivery versus payment basis.

**Section 4: STANDARD OF CARE**

4.1 **Prudent Person Rule** the standard of care to be applied to the Investment Officers shall be the Prudent Person Rule as defined herein and stated in Government Code, Section 2256.006, taking into consideration the investment of all funds over which the Officer has responsibility rather than consideration as to the prudence of a single investment.

4.2 **Personal Responsibility** the Investment Officers, acting in accordance with DART’s Investment Policy and exercising due diligence, shall not be held personally responsible for changes to a specific security’s credit risk or market price, provided that appropriate actions are taken to report and control adverse developments as provided in DART’s Funds Administration Procedures Manual.
4.3 Ethics Disclosure and Conflicts of Interest

an Investment Officer must file a disclosure statement with the Texas Ethics Commission, the Board of Directors, and with the General Counsel of DART if:

1. The Investment Officer has a personal business relationship, as defined under Section 2256.005(i) of the Public Funds Investment Act, with businesses offering to engage in investment transactions with DART;
   a. Owning ten (10) percent or more of the voting stock or shares or owns $5,000 or more of the fair market value of the business organization; or
   b. Funds received exceeding ten (10) percent of the investment officer’s gross income for the previous year; or
   c. The investment officer 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 officer.
2. The Investment Officer is related within the second degree of affinity or consanguinity, as determined under Chapter 573 of the Texas Government Code, to an individual seeking to transact investment business with DART.

Section 5: INVESTMENT GUIDELINES

Investment decisions of the Investment Officers shall be made within the following guidelines:

5.1 U.S. Government Securities are not restricted to any minimum or maximum limitation.

5.2 Federal Agency Securities issued by any single issuer shall not exceed 25% of the Aggregate Portfolio at the time any part of the holding was purchased. Agency securities, which meet the criteria set out in Section 6, Prohibited Investments, shall not be purchased for any portfolio and shall not be accepted as collateral for repurchase agreements or certificates of deposit.

5.3 Municipal Securities with a Rating of A or better from a nationally recognized rating agency may be purchased as needed to comply with Arbitrage Regulations applicable to proceeds of DART debt issues. Total securities of a single Municipal Issuer shall not exceed 10% of funds subject to the Arbitrage Regulations.

5.4 Repurchase Agreements and Reverse Repurchase Agreements covering U.S. Government Securities or Federal Agency Securities, may be executed with a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State of Texas which has entered into a written Master Repurchase Agreement with DART. All Repurchase Agreements will require that securities purchased be pledged to DART, held in DART’s name, and deposited at the time the investment is made with DART or with a third party selected and approved by DART’s Executive Vice President/Chief Financial Officer. All repurchase agreements must be collateralized by U.S. Government Securities at a level of at least 101% initially and monitored on a daily basis for potential collateral adjustments. The term of any reverse repurchase agreement may not exceed 90 days, and proceeds may not be used to acquire investments maturing beyond the expiration date of the reverse repurchase agreement. No more than 5% of the Aggregate Portfolio should be loaned to any one dealer in a reverse repurchase situation at the time the holding was loaned. Total Repurchase Agreement transactions shall not exceed 50% of the Aggregate Portfolio at the time the holding was loaned.
5.5 **Money Market Mutual Funds** may be purchased primarily for purposes of liquidity or timing of investments.

5.6 **Commercial Paper** may be used for matching cash flow of expenditures, but must be rated either A-1 or P-1 or an equivalent rating by at least two nationally recognized credit rating agencies and have a maturity of 270-365 days or less. Total commercial paper from a single issuer shall not exceed 5% of the Aggregate Portfolio at the time any part of the holding was purchased.

5.7 **Banker’s Acceptances** may be used for matching cash flow of expenditures, but must have a stated maturity of 270 days or less, be deemed as eligible collateral for borrowings from the Federal Reserve Bank, be designated as “prime” or self-liquidating at maturity, and be accepted by a bank organized under the laws of the United States or any state. The short-term obligations of the accepting bank (or of the bank holding company of which the bank is the largest subsidiary) must be rated not less than A-1 or P-1 or an equivalent rating by at least one nationally recognized credit agency. Total Banker’s Acceptances from a single bank shall not exceed 5% of the Aggregate Portfolio at the time any part of the holding was purchased.

5.8 **Certificates of Deposit** may be purchased through a Financial Institution or Authorized Broker/Dealer approved by DART’s Investment Committee that has its main office or branch office within the DART Service Area and that contractually agrees to place the funds in federally-insured depository institutions in accordance with the conditions prescribed in Section 2256.010(b) of the Act. Good-faith efforts will be made to encourage the participation of minority and women-owned financial institutions in the placement of Certificates of Deposit.

5.9 **Futures Contracts, Options Contracts, and Swap Agreements** will require prior Board approval before being implemented to Hedge against security market losses or unfavorable movements in interest rates, currency exchange rates, fuel prices, and other areas of identified risk, where prudent.

5.10 **Local Government Investment Pools (LGIPs)** may be purchased, primarily for the purpose of liquidity or timing of investments. LGIPs must comply with the Public Funds Investment Act, must be individually approved by the Board of Directors, must make available an offering circular or similar disclosure instrument, and must maintain an AAA or equivalent rating by a nationally-recognized rating agency. May be purchased primarily for the purposes of liquidity or timing of investments, must maintain an AAA or equivalent rating by a nationally-recognized rating agency, comply with the Public Funds Investment Act, and be individually approved by the Board of Directors.

**Section 6: PROHIBITED INVESTMENTS**

The following government securities are not allowable investments: (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; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.
Section 7: INVESTMENT STRATEGY
A brief investment strategy statement shall be developed for each fund established by the Board of Directors to ensure investment holdings have the required credit quality, diversification, volatility characteristics, yield, and maturity structure to satisfy the stated objectives and cash flow of each fund. Notwithstanding any specific strategic criteria, no security may be purchased in any fund with a maturity in excess of ten years from the settlement date of its purchase. The use of any structured product, not prohibited above, must add value to the total portfolio on a risk-adjusted basis while keeping the total portfolio in compliance with the guidelines.

Section 8: COMPETITIVE BIDDING
Security transactions will be executed on the basis of a competitive bid or offer from three Authorized Broker/ Dealers. Exceptions are:

1. Transactions with money market mutual funds and local government investment pools;
2. Treasury and Agency Securities purchased at issue through an Authorized Broker/Dealer; or
3. Fully insured Certificates of Deposit placed in accordance with the conditions prescribed in Section 2256.010(b) of the Act.

Section 9: SALE OF SECURITIES
DART’s policy is to hold securities to maturity. However, securities may be sold:

1. in order to minimize the potential loss of principal on a security whose credit quality has declined;
2. in order to reposition the portfolio for the purpose of improving the quality, yield, or target duration of the portfolio; or
3. in order to meet unanticipated liquidity needs of the portfolio.

Section 10: REPORTING REQUIREMENTS
The Board of Directors will be provided detailed information at least quarterly on DART’s Aggregate Portfolio and by Fund, covering maturity structure, average yield, diversity, market value, portfolio changes from the prior period, and demonstrating compliance with each fund’s objectives and investment strategy. Market prices of securities for recording and reporting purposes must be verified from independent sources, such as The Wall Street Journal, Bloomberg, or written bids from Eligible Financial Institutions. The portfolio’s performance measure shall be the weighted average yield to stated final maturity date. The Report must meet all requirements of the Act.

Section 11: POLICY REVIEW
The Board of Directors will review and adopt DART’s Investment Policy and the Statement of Investment Strategy for each fund not less than annually.

Section 12: ANNUAL POLICY COMPLIANCE AND CONTROL REVIEW
The external auditors, in conjunction with the annual audit, shall review management’s controls, the quarterly investment reports prepared to comply with PFIA, and adherence to the investment policy. The results of the review will be reported to the Board of Directors as part of their regular audit report.
Section 13: INVESTMENT TRAINING
All Investment Officers must attend a minimum of ten hours of investment training during a two-year period that begins on the first day of DART’s fiscal year and consists of the two consecutive fiscal years after that date. Newly appointed Investment Officers must, within twelve months after taking office, attend at least one training session specifically relating to responsibilities under the Public Funds Investment Act. Such training must be from an independent source and be approved by DART’s Investment Committee and include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with the Public Funds Investment Act. Newly appointed Investment Officers must, within twelve months after taking office, attend at least one training session specifically relating to responsibilities under the Public Funds Investment Act.

Section 14: SAFEKEEPING AND CUSTODY
Safekeeping and custody of investment securities shall be in accordance with applicable law and accounting standards. Investment securities will be held by a third-party custodian designated by DART and will be required to issue safekeeping receipts clearly detailing that the securities are owned by DART. Pledged securities serving as collateral will be held by a third-party custodian designated by DART and pledged to DART as evidenced by safekeeping receipts of the institution with which the securities are deposited.

Section 15: SECURITIES ACCEPTED AS COLLATERAL
Securities pledged in accordance with Chapter 2257 of the Government Code, Collateral for Public Funds to secure DART’s various deposits to the extent not protected by F.D.I.C. insurance shall be limited to: (1) U.S. Government Securities; (2) Federal Agency Securities; (3) Municipal Securities as defined in Section 2 of this Investment Policy; and (4) Federal Home Loan Bank Letters of Credit. A third-party custodian shall hold securities, and the market value of such securities shall be monitored using an independent pricing source. Acceptance, substitution, valuation, and release of securities shall be controlled by the terms of a pledge agreement to be executed between DART and the depository institution(s). DART requires that all uninsured collected balances plus accrued interest, if any, in depository accounts must also be collateralized.

Section 16: MONITORING OF RATING CHANGES
DART will periodically monitor investment ratings of all investments in its portfolio. DART will take all prudent measures to liquidate an investment when its current rating falls below the minimum required rating
Dallas Area Rapid Transit manages separate portfolios for funds established by the Board of Directors. The investment strategy for each portfolio is based on the fund objective and its unique cash flow characteristics.

**GENERAL OPERATING FUND**

The primary objective of investment strategies for the operating fund is liquidity achieved by matching investment maturities and income stream with anticipated cash flows. The majority of funds are placed in short-term or readily marketable securities with emphasis on high-grade commercial paper and government agencies. Local government investment pools are used to provide diversity and facilitate daily funding of cash outflows.

The average dollar-weighted maturity of this portfolio shall not exceed two years; the maximum maturity for any single holding shall not exceed five years. Yield enhancing techniques applied to a core segment of this portfolio, may include the use of Treasury notes in the two to three year area which can be purchased for yield and held for possible capital gains and intermediate-term agencies with short-call provisions offering a spread to comparable Treasuries.

**PROJECT FUNDS**

Include monies designated for project financing greater than 90 days. The investment goals in this fund will be to provide capital preservation, liquidity needs, and investment return. The average dollar-weighted maturity of these portfolios are in the two to three year area with a maximum maturity for any single security of four years.

**DART COMMERCIAL PAPER SYSTEM EXPANSION & ACQUISITION FUND**

Deposits in this fund are generally held less than ninety (90) days between the sale of DART's commercial paper and contract payments for the financed capital projects. To provide the short-term liquidity required, investments are limited to money market instruments, such as money market mutual funds or local government investment pools, commercial paper, discount agencies, or repurchase agreements, with maturities matched to check payment dates where feasible. The average dollar-weighted maturity for this fund is up to 90 days, with a maximum maturity of 180 days.
FINANCIAL RESERVE FUND

The investment goal of capital preservation is primary for this fund, which will be accessed in the event of a downturn in sales tax receipts, unanticipated capital overruns, or other financial difficulties. The need for liquidity is low. To maximize yield while maintaining a relatively stable market value, this portfolio will use an investment strategy of normally placing securities evenly spaced over a one to five year maturity range, commonly referred to as a ladder maturity structure, to ensure consistent availability of current funds for reinvestment or cash flow requirements. Securities will be evaluated on a risk-return basis, with bond swaps used to take advantage of market anomalies while maintaining market quality and structure. The average dollar-weighted maturity of this portfolio is four years or less with ten years as the maximum maturity for any single holding.

INSURANCE RESERVE FUND

DART's self-insurance program for liability and workers compensation claims requires the preservation of assets to ensure funding capability. The reserve amount required will vary on a yearly basis as new claims offset claims payments. The fund will be adjusted no less frequently than yearly to reflect the appropriate level, upon approval of the Investment Officers, and after consultation with Risk Management. The lack of liquidity requirements in this fund allows for an average dollar-weighted maturity of four years or less, with a maximum maturity for any single holding of ten years. Capital preservation is valued above yield, but the stable balance and minimal cash outflow permits a higher level of interim market price volatility than in other DART portfolios.

SENIOR LIEN DEBT SERVICE FUNDS

The long-term bond program requires the establishment of two reserve funds: an interest fund and a principal fund. These funds will be used to make payments directly to bond investors as needed during the month. The investment objective of these two funds is to provide sufficient liquidity to meet the payment requirements and to minimize market and credit risk. To meet this investment objective, investments will be limited to money market mutual funds that invest in short-term securities that are issued or guaranteed by the U.S. government or U.S. government agencies, or direct obligations of the U.S. government and its agencies with maturities closely matched to specific payment requirements. The average dollar-weighted maturity of the interest fund shall not exceed six months, with a maximum maturity of six months. The average dollar-weighted maturity of the principal fund shall not exceed one year with a maximum maturity of one year.

SENIOR SUBORDINATE LIEN DEBT SERVICE FUNDS

The commercial paper program requires the establishment of two reserve funds: an interest fund and a principal fund. These funds will be used to make payments directly to commercial paper investors as needed during the month. The investment objective of the two funds is to provide sufficient liquidity to meet the payment requirements and to minimize market and credit risk. To meet this investment objective, investments will be limited to money market mutual funds that invest in short-term securities that are issued or guaranteed by the U.S. government or U.S.
government agencies, or direct obligations of the U.S. government and its agencies with maturities closely matched to specific payment requirements. The average dollar-weighted maturity of these funds shall not exceed 90 days, with a maximum maturity of one year.

**CAPITAL RESERVE FUND MOBILITY ASSISTANCE AND INNOVATION FUND**

The investment goal of capital preservation and liquidity is primary for this fund to meet unplanned capital project funding requirements. The liquidity need of this fund is 20%. To maximize yield while maintaining a relatively stable market value and the desired liquidity component, this portfolio will use a two-tiered investment strategy. The liquidity needs will be invested evenly, 50% in the 1 to 6 month and 50% in the 6 to 12 month maturity range. The remainder of the portfolio will be invested by placing securities evenly spaced over a two to five year maturity range, commonly referred to as a ladder maturity structure, to ensure consistent availability of current funds for reinvestment or cash flow requirements. Securities will be evaluated on a risk-return basis, with bond swaps used to take advantage of market anomalies while maintaining market quality and structure. The average dollar-weighted maturity of this portfolio is four years or less with ten years as the maximum maturity for any single holding.

**DART BOND SYSTEM EXPANSION & ACQUISITION FUND**

The Bond proceeds in this fund are held up to 36 months between the sale of DART's long-term bonds and contract payments to finance capital projects. The investment goals in this fund will be to provide capital preservation, liquidity needs, and investment return. To meet the investment goals, investments will be in high grade corporate and government/agency instruments and local government investment pools. The investments purchased will have maturities that match forecasted payments. The average dollar-weighted maturity for this fund is up to 30 months, with a maximum maturity of 36 months.

**STATE OR LOCAL GOVERNMENT-PROVIDED FUNDS**

The deposits in these funds are provided by State or Local Governments for specific projects. Preservation of capital and liquidity are the paramount investment objectives of these funds. Therefore, the deposits in these funds will be invested in AAA or United States Treasury money market funds. The average dollar-weighted maturity will be one day, with a maximum maturity of one day.
DRAFT
RESOLUTION
of the
DALLAS AREA RAPID TRANSIT BOARD
(Executive Committee)

Approval of DART Board Policy II.04, Investment Policy, and Approval of DART’s FY 2020 Investment Strategy

WHEREAS, the Texas Public Funds Investment Act (PFIA) and DART Board Policy II.04, Investment Policy, require the DART Board to review, approve, and adopt a written investment policy and a statement of investment strategy for funds under its control on an annual basis; and

WHEREAS, the Board has reviewed DART Board Policy II.04, Investment Policy as shown in Exhibit 1 to the Resolution, which sets out the type of investments in which funds may be invested; and

WHEREAS, the Board desires to include recent legislative changes to the Texas Public Funds Investment Act in Board Policy II.04; and

WHEREAS, administrative changes to Board Policy II.04 are required due to personnel changes within the agency; and

WHEREAS, the Board has reviewed the FY 2020 Investment Strategy as shown in Exhibit 2 to the Resolution, which describes the fund portfolios established by the Board of Directors and provides an investment strategy for each portfolio based on the fund objective and its unique cashflow characteristics; and

WHEREAS, the Board desires to bring the Investment Strategy into conformance with recent changes to the Public Funds Investment Act and DART Board Resolution No. 190053 which changed the name of the Capital Project Reserve to the Mobility Assistance and Innovation Fund.

NOW, THEREFORE, BE IT RESOLVED by the Dallas Area Rapid Transit Board of Directors that:

Section 1: In accordance with the Texas Public Funds Investment Act, DART Board Policy II.04, Investment Policy, has been reviewed and is approved as shown in Exhibit 1 to this Resolution.

Section 2: The FY 2020 Investment Strategy as shown in Exhibit 2 to this Resolution is adopted and shall become effective on October 1, 2019.

Section 3: The Investment Policy and FY 2020 Investment Strategy are adopted by the DART Board of Directors.
Approval of DART Board Policy II.04, Investment Policy, and Approval of DART’s FY 2020 Investment Strategy

Prepared by: Joseph G. Costello
Chief Financial Officer

Approved as to form: Gene Gamez
General Counsel

Approved by: Gary C. Thomas
President/Executive Director
Dallas Area Rapid Transit
Investment Policy, II.04
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DART Investment Policy, II.04

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Section 1: SCOPE
Dallas Area Rapid Transit (DART) shall utilize those investment strategies and procedures that most effectively accomplish the following goals in order of priority: (1) preservation of capital; (2) liquidity to meet all obligations in a timely manner; and (3) maximization of earnings from the full investment of all available funds. DART funds will be invested and managed in compliance with Section 452.102 of the Texas Transportation Code, the Public Funds Investment Act (Chapter 2256, Government Code), DART's Investment Policy, and internal procedures as documented in DART's Funds Administration Procedures Manual. The funds as listed in Attachment 2 - Dallas Area Rapid Transit FY 2020 Statement of Investment Strategy shall be subject to these requirements.

Section 2: DEFINITIONS
Defined terms shall, for all purposes of this Investment Policy, have the meanings set out below unless otherwise expressly provided or unless the context clearly requires otherwise.

2.1 Aggregate Portfolio combined assets held in all investment portfolios managed by DART, including, but not limited to, General Operating Fund, Project Fund, Insurance Reserve Fund, Mobility Assistance and Innovation Fund, Financial Reserve Fund, DART Commercial Paper and Bonds System Expansion & Acquisition Funds, Debt Service Funds (Senior Lien and Senior Subordinate Lien), and State or Local Government-Provided Funds.

2.2 Approved Security are obligations which fall within the definitions of investment securities legal for DART under the Public Funds Investment Act (PFIA) or Section 452.102 of the Texas Transportation Code and which are specifically included in the Investment Policy as approved by the Board of Directors. DART is not required to liquidate investments that were authorized investments at the time of purchase, but may no longer be authorized due to regulatory changes.

2.3 Arbitrage Regulations are regulations issued by the IRS limiting ability of municipalities to take advantage of, arbitrage, the rate differential between their own tax-exempt securities and taxable securities such as U.S. Treasury Notes. One method of yield restriction to comply with regulations is investing proceeds in other municipal securities.

2.4 Banker's Acceptance negotiable time draft, typically arising from letters of credit issued in a foreign trade transaction, drawn on and accepted by a bank which adds its credit to that of an importer of the merchandise. Prime Banker's Acceptances are those, which are liquidated at maturity from proceeds of the sale of goods, distinguishing these self-liquidating instruments from those used only to finance inventory.
2.5 **Certificate of Deposit** interest bearing negotiable time deposit of fixed maturity at a bank or trust company organized under the laws of Texas or national banking associations.

2.6 **Commercial Paper** the promissory note or draft of a corporation, government agency, or bank holding company, usually unsecured but backed by unused bank credit lines and issued for short-term credit needs with a maturity of up to 365 days.

2.7 **Corporate Securities** corporation-issued debt instruments as opposed to securities issued by a government agency or a municipality.

2.8 **Federal Agency Securities** debt instruments issued by federal agencies that are presumed to be unconditionally guaranteed, or backed by the full faith and credit of, the United States of America. These agencies include, but are not limited to: Federal Agricultural Mortgage Corporation, Federal Home Loan Banks, Federal Farm Credit Banks, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Government National Mortgage Association, and the Tennessee Valley Authority.

2.9 **Federal Deposit Insurance Corporation (FDIC)** established in the U.S. in 1933 to insure accounts at commercial and mutual saving banks and thus protect depositors.

2.10 **Financial Institutions and Authorized Broker/Dealers** financial Institutions and Authorized Broker/Dealers means qualified financial institutions and broker/dealers authorized to engage in the purchase and sale of obligations of the U.S. Government, its agencies or other approved investments to DART. The Investment Committee will review, revise and adopt the list on an annual basis. Such selection shall include but not be limited to the following criteria:

* Certification with the Financial Industry Regulatory Authority or be subject to regulation by the U.S. Comptroller of the Currency.
* Acknowledge to DART that the latest investment policy was received, and reasonable controls are in place to abide by the terms of the Policy, and as required under Section 2256.005(k) of the Public Funds Investment Act, as amended.
* Proven access to new issue market for government securities, suitable for DART’s approved strategies.

2.11 **Floating Rate Securities** are securities which change coupon rate periodically based on changes in specified benchmarks. Unless there is a cap on the amount of change allowed at each reset, these securities will move with the current market and maintain a price close to par. Although these securities have a final stated maturity, the maturity date for purposes of liquidity analysis is the next reset date.

2.12 **Funds Administration Procedures Manual** the manual maintained by DART’s Treasury Division which provides detailed procedures and guidelines for investing and controlling DART funds and which is subject to review and approval by the Investment Committee, consisting of representatives from various departments such as the Finance and Executive Departments.

2.13 **Futures Contracts/Options Contracts** agreements executed on the floor of a commodity exchange, to sell or buy a specific amount of a commodity or security at a specific price and time, and options on futures contracts which provide the buyer the right, but not the obligation, to exercise the option by the exercise date.
2.14 **Hedge** establishment of a position on a commodity or financial futures or options market, which is equal and opposite to a transaction made on an actual or physical market.

2.15 **Interest-Bearing Bank Deposit Account** bank deposit accounts that bear interest and are collateralized, or guaranteed, or insured by FDIC, or the National Credit Union Share Insurance Fund or its successor.

2.16 **Investment Committee** nine-member committee consisting of the five Board-approved Investment Officers and four additional employees as designated by the President/Executive Director.

2.17 **Investment Officers** Staff to be authorized by Board Resolution to invest and manage DART funds. The Board of Directors may authorize persons in the following positions as Investment Officers: Chief Financial Officer, Senior Vice President Finance, Treasurer, Assistant Treasurer, and Senior Manager Cash and Debt Administration. In order to assure quality and capability of investment management, the Investment Officers shall possess sufficient working knowledge of economics and securities markets, as well as the supervisory experience and judgment necessary to carry out the responsibilities outlined in this Policy.

2.18 **Municipal Securities** debt instruments issued by a city, state, or other governmental entity with interest paid to holders being exempt from federal income tax.

2.19 **Mutual Funds** means mutual funds of money market instruments, which are no-load and comply with the Securities and Exchange Commission Rule 2a-7. Ultra-short bond funds that have a duration of less than one year and whose investments are limited to investment grade securities, excluding asset backed securities, are eligible investments.

2.20 **Prudent Person Rule** the standard to be applied to Investment Officers stated as follows: Investments shall be made with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived.

2.21 **Rating (of Securities)** the determination of an issuing company's financial strength and stability, based on the company's management ability, debts, and payment history. The highest rating for notes/bonds is AAA; for commercial paper A-1+ or P-1; and for variable rate notes MIG-1.

2.22 **Repurchase Agreement** an agreement that is fully secured by a combination of cash and obligations including commercial paper in which an investor sells an investment to another investor with the provision that the first investor will buy it back for a specific price by a specific date, with the difference between the amount received and the final amount paid representing the interest.

(a) **Direct Repurchase Agreement**

An agreement for sale of securities by a broker/dealer under the provision that the buyer will sell them back at a predetermined date for a specific price.
(b) **Master Repurchase Agreement**
An agreement between the customer and the financial institution setting out the conditions under which repurchase or reverse repurchase transactions may be negotiated and executed, including requirements for delivery, default provisions, and collateral value of underlying securities.

(c) **Reverse Repurchase Agreement**
An agreement for sale of securities to a broker-dealer under the provision that the seller will buy them back by a predetermined date for a specific price.

2.23 **Security Agreement** an agreement between DART and a Depository Bank governing the pledging of collateral against deposits held by the bank.

2.24 **Swap Agreement** an agreement to exchange one stream of payments for another, such as floating interest rate payments for fixed rate payments or payments in one currency for payments in another.

2.25 **U.S. Government Securities** U.S. government debt instruments, such as Treasury bills, notes, and bonds, payable by the U.S. government and which carry the full faith and credit of the U.S. government.

Section 3: **DELEGATION OF AUTHORITY**
The Investment Officers shall have the authority without further Board review to purchase or sell any Approved Security, without limitation as to dollar amount, through Financial Institutions and Authorized Broker/Dealers and subject to DART’s Investment Policy. All securities, other than money market mutual funds and investment pools, must be purchased or sold on a delivery versus payment basis.

Section 4: **STANDARD OF CARE**

4.1 **Prudent Person Rule** the standard of care to be applied to the Investment Officers shall be the Prudent Person Rule as defined herein and stated in Government Code, Section 2256.006, taking into consideration the investment of all funds over which the Officer has responsibility rather than consideration as to the prudence of a single investment.

4.2 **Personal Responsibility** the Investment Officers, acting in accordance with DART’s Investment Policy and exercising due diligence, shall not be held personally responsible for changes to a specific security’s credit risk or market price, provided that appropriate actions are taken to report and control adverse developments as provided in DART’s Funds Administration Procedures Manual.

4.3 **Ethics Disclosure and Conflicts of Interest** an Investment Officer must file a disclosure statement with the Texas Ethics Commission, the Board of Directors, and with the General Counsel of DART if:

1. The Investment Officer has a personal business relationship, as defined under Section 2256.005(i) of the Public Funds Investment Act, with businesses offering to engage in investment transactions with DART;
   a. Owning ten (10) percent or more of the voting stock or shares or owns $5,000 or more of the fair market value of the business organization; or
b. Funds received exceeding ten (10) percent of the investment officer’s gross income for the previous year; or

c. The investment officer 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 officer.

2. The Investment Officer is related within the second degree of affinity or consanguinity, as determined under Chapter 573 of the Texas Government Code, to an individual seeking to transact investment business with DART.

Section 5: INVESTMENT GUIDELINES

Investment decisions of the Investment Officers shall be made within the following guidelines:

5.1 U.S. Government Securities are not restricted to any minimum or maximum limitation.

5.2 Federal Agency Securities issued by any single issuer shall not exceed 25% of the Aggregate Portfolio at the time any part of the holding was purchased. Agency securities, which meet the criteria set out in Section 6, Prohibited Investments, shall not be purchased for any portfolio and shall not be accepted as collateral for repurchase agreements or certificates of deposit.

5.3 Municipal Securities with a Rating of A or better from a nationally recognized rating agency may be purchased as needed to comply with Arbitrage Regulations applicable to proceeds of DART debt issues. Total securities of a single Municipal Issuer shall not exceed 10% of funds subject to the Arbitrage Regulations.

5.4 Repurchase Agreements and Reverse Repurchase Agreements covering U.S. Government Securities or Federal Agency Securities, may be executed with a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State of Texas which has entered into a written Master Repurchase Agreement with DART. All Repurchase Agreements will require that securities purchased be pledged to DART, held in DART's name, and deposited at the time the investment is made with DART or with a third party selected and approved by DART's Executive Vice President/Chief Financial Officer. All repurchase agreements must be collateralized by U.S. Government Securities at a level of at least 101% initially and monitored on a daily basis for potential collateral adjustments. The term of any reverse repurchase agreement may not exceed 90 days, and proceeds may not be used to acquire investments maturing beyond the expiration date of the reverse repurchase agreement. No more than 5% of the Aggregate Portfolio should be loaned to any one dealer in a reverse repurchase situation at the time the holding was loaned. Total Repurchase Agreement transactions shall not exceed 50% of the Aggregate Portfolio at the time the holding was loaned.

5.5 Money Market Mutual Funds may be purchased primarily for purposes of liquidity or timing of investments.

5.6 Commercial Paper may be used for matching cash flow of expenditures, but must be rated either A-1 or P-1 or an equivalent rating by at least two nationally recognized credit rating agencies and have a maturity of 365 days or less. Total commercial paper from a single issuer shall not exceed 5% of the Aggregate Portfolio at the time any part of the holding was purchased.
5.7 **Banker's Acceptances** may be used for matching cash flow of expenditures, but must have a stated maturity of 270 days or less, be deemed as eligible collateral for borrowings from the Federal Reserve Bank, be designated as "prime" or self-liquidating at maturity, and be accepted by a bank organized under the laws of the United States or any state. The short-term obligations of the accepting bank (or of the bank holding company of which the bank is the largest subsidiary) must be rated not less than A-1 or P-1 or an equivalent rating by at least one nationally recognized credit agency. Total Banker's Acceptances from a single bank shall not exceed 5% of the Aggregate Portfolio at the time any part of the holding was purchased.

5.8 **Certificates of Deposit** may be purchased through a Financial Institution or Authorized Broker/Dealer approved by DART's Investment Committee that has its main office or branch office within the DART Service Area and that contractually agrees to place the funds in federally-insured depository institutions in accordance with the conditions prescribed in Section 2256.010(b) of the Act. Good-faith efforts will be made to encourage the participation of minority and women-owned financial institutions in the placement of Certificates of Deposit.

5.9 **Futures Contracts, Options Contracts, and Swap Agreements** will require prior Board approval before being implemented to Hedge against security market losses or unfavorable movements in interest rates, currency exchange rates, fuel prices, and other areas of identified risk, where prudent.

5.10 **Local Government Investment Pools (LGIPs)** may be purchased, primarily for the purposes of liquidity or timing of investments. LGIPs must comply with the Public Funds Investment Act, must be individually approved by the Board of Directors, must make available an offering circular or similar disclosure instrument, and must maintain a AAA-m or equivalent rating by a nationally-recognized rating agency.

**Section 6: PROHIBITED INVESTMENTS**

The following government securities are not allowable investments: (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; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

**Section 7: INVESTMENT STRATEGY**

A brief investment strategy statement shall be developed for each fund established by the Board of Directors to ensure investment holdings have the required credit quality, diversification, volatility characteristics, yield, and maturity structure to satisfy the stated objectives and cash flow of each fund. Notwithstanding any specific strategic criteria, no security may be purchased in any fund with a maturity in excess of ten years from the settlement date of its purchase. The use of any structured product, not prohibited above, must add value to the total portfolio on a risk-adjusted basis while keeping the total portfolio in compliance with the guidelines.

**Section 8: COMPETITIVE BIDDING**
Security transactions will be executed on the basis of a competitive bid or offer from three Authorized Broker/Dealers. Exceptions are:

1. Transactions with money market mutual funds and local government investment pools;
2. Treasury and Agency Securities purchased at issue through an Authorized Broker/Dealer; or
3. Fully insured Certificates of Deposit placed in accordance with the conditions prescribed in Section 2256.010(b) of the Act.

Section 9: SALE OF SECURITIES
DART’s policy is to hold securities to maturity. However, securities may be sold:

1. in order to minimize the potential loss of principal on a security whose credit quality has declined;
2. in order to reposition the portfolio for the purpose of improving the quality, yield, or target duration of the portfolio; or
3. in order to meet unanticipated liquidity needs of the portfolio.

Section 10: REPORTING REQUIREMENTS
The Board of Directors will be provided detailed information at least quarterly on DART’s Aggregate Portfolio and by Fund, covering maturity structure, average yield, diversity, market value, portfolio changes from the prior period, and demonstrating compliance with each fund’s objectives and investment strategy. Market prices of securities for recording and reporting purposes must be verified from independent sources, such as The Wall Street Journal, Bloomberg, or written bids from Eligible Financial Institutions. The portfolio’s performance measure shall be the weighted average yield to stated final maturity date. The Report must meet all requirements of the Act.

Section 11: POLICY REVIEW
The Board of Directors will review and adopt DART’s Investment Policy and the Statement of Investment Strategy for each fund not less than annually.

Section 12: ANNUAL POLICY COMPLIANCE AND CONTROL REVIEW
The external auditors, in conjunction with the annual audit, shall review management’s controls, the quarterly investment reports prepared to comply with PFIA, and adherence to the investment policy. The results of the review will be reported to the Board of Directors as part of their regular audit report.

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Section 15: SECURITIES ACCEPTED AS COLLATERAL
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Section 16: MONITORING OF RATING CHANGES
DART will periodically monitor investment ratings of all investments in its portfolio. DART will take all prudent measures to liquidate an investment when its current rating falls below the minimum required rating
Dallas Area Rapid Transit manages separate portfolios for funds established by the Board of Directors. The investment strategy for each portfolio is based on the fund objective and its unique cash flow characteristics.

**GENERAL OPERATING FUND**

The primary objective of investment strategies for the operating fund is liquidity achieved by matching investment maturities and income stream with anticipated cash flows. The majority of funds are placed in short-term or readily marketable securities with emphasis on high-grade commercial paper and government agencies. Local government investment pools are used to provide diversity and facilitate daily funding of cash outflows.

The average dollar-weighted maturity of this portfolio shall not exceed two years; the maximum maturity for any single holding shall not exceed five years. Yield enhancing techniques applied to a core segment of this portfolio, may include the use of Treasury notes in the two to three year area which can be purchased for yield and held for possible capital gains and intermediate-term agencies with short-call provisions offering a spread to comparable Treasuries.

**PROJECT FUNDS**

Include monies designated for project financing greater than 90 days. The investment goals in this fund will be to provide capital preservation, liquidity needs, and investment return. The average dollar-weighted maturity of these portfolios are in the two to three year area with a maximum maturity for any single security of four years.

**DART COMMERCIAL PAPER SYSTEM EXPANSION & ACQUISITION FUND**

Deposits in this fund are generally held less than ninety (90) days between the sale of DART's commercial paper and contract payments for the financed capital projects. To provide the short-term liquidity required, investments are limited to money market instruments, such as money market mutual funds or local government investment pools, commercial paper, discount agencies, or repurchase agreements, with maturities matched to check payment dates where feasible. The average dollar-weighted maturity for this fund is up to 90 days, with a maximum maturity of 180 days.
FINANCIAL RESERVE FUND

The investment goal of capital preservation is primary for this fund, which will be accessed in the event of a downturn in sales tax receipts, unanticipated capital overruns, or other financial difficulties. The need for liquidity is low. To maximize yield while maintaining a relatively stable market value, this portfolio will use an investment strategy of normally placing securities evenly spaced over a one to five year maturity range, commonly referred to as a ladder maturity structure, to ensure consistent availability of current funds for reinvestment or cash flow requirements. Securities will be evaluated on a risk-return basis, with bond swaps used to take advantage of market anomalies while maintaining market quality and structure. The average dollar-weighted maturity of this portfolio is four years or less with ten years as the maximum maturity for any single holding.

INSURANCE RESERVE FUND

DART's self-insurance program for liability and workers' compensation claims requires the preservation of assets to ensure funding capability. The reserve amount required will vary on a yearly basis as new claims offset claims payments. The fund will be adjusted no less frequently than yearly to reflect the appropriate level, upon approval of the Investment Officers, and after consultation with Risk Management. The lack of liquidity requirements in this fund allows for the average dollar-weighted maturity of four years or less, with a maximum maturity for any single holding of ten years. Capital preservation is valued above yield, but the stable balance and minimal cash outflow permits a higher level of interim market price volatility than in other DART portfolios.

SENIOR LIEN DEBT SERVICE FUNDS

The long-term bond program requires the establishment of two reserve funds: an interest fund and a principal fund. These funds will be used to make payments directly to bond investors as needed during the month. The investment objective of these two funds is to provide sufficient liquidity to meet the payment requirements and to minimize market and credit risk. To meet this investment objective, investments will be limited to money market mutual funds that invest in short-term securities that are issued or guaranteed by the U.S. government or U.S. government agencies, or direct obligations of the U.S. government and its agencies with maturities closely matched to specific payment requirements. The average dollar-weighted maturity of the interest fund shall not exceed six months, with a maximum maturity of six months. The average dollar-weighted maturity of the principal fund shall not exceed one year with a maximum maturity of one year.

SENIOR SUBORDINATE LIEN DEBT SERVICE FUNDS

The commercial paper program requires the establishment of two reserve funds: an interest fund and a principal fund. These funds will be used to make payments directly to commercial paper investors as needed during the month. The investment objective of the two funds is to provide sufficient liquidity to meet the payment requirements and to minimize market and credit risk. To meet this investment objective, investments will be limited to money market mutual funds that invest in short-term securities that are issued or guaranteed by the U.S. government or U.S.
government agencies, or direct obligations of the U.S. government and its agencies with maturities closely matched to specific payment requirements. The average dollar-weighted maturity of these funds shall not exceed 90 days, with a maximum maturity of one year.

MOBILITY ASSISTANCE AND INNOVATION FUND

The investment goal of capital preservation and liquidity is primary for this fund to meet unplanned capital project funding requirements. The liquidity need of this fund is 20%. To maximize yield while maintaining a relatively stable market value and the desired liquidity component, this portfolio will use a two-tiered investment strategy. The liquidity needs will be invested evenly, 50% in the 1 to 6 month and 50% in the 6 to 12 month maturity range. The remainder of the portfolio will be invested by placing securities evenly spaced over a two to five year maturity range, commonly referred to as a ladder maturity structure, to ensure consistent availability of current funds for reinvestment or cash flow requirements. Securities will be evaluated on a risk-return basis, with bond swaps used to take advantage of market anomalies while maintaining market quality and structure. The average dollar-weighted maturity of this portfolio is four years or less with ten years as the maximum maturity for any single holding.

DART BOND SYSTEM EXPANSION & ACQUISITION FUND

The Bond proceeds in this fund are held up to 36 months between the sale of DART's long-term bonds and contract payments to finance capital projects. The investment goals in this fund will be to provide capital preservation, liquidity needs, and investment return. To meet the investment goals, investments will be in high grade corporate and government/agency instruments and local government investment pools. The investments purchased will have maturities that match forecasted payments. The average dollar-weighted maturity for this fund is up to 30 months, with a maximum maturity of 36 months.

STATE OR LOCAL GOVERNMENT-PROVIDED FUNDS

The deposits in these funds are provided by State or Local Governments for specific projects. Preservation of capital and liquidity are the paramount investment objectives of these funds. Therefore, the deposits in these funds will be invested in AAA or United States Treasury money market funds. The average dollar-weighted maturity will be one day, with a maximum maturity of one day.
DATE: September 24, 2019

SUBJECT: Update on Status of Financing of Cotton Belt/Silver Line Regional Rail Project

RECOMMENDATION

This is a briefing item. No action is required at this time.

BUSINESS PURPOSE

. Staff will brief the Budget and Finance Committee on the status of activities related to DART’s financing of the Cotton Belt/Silver Line Regional Rail Project.

. On November 13, 2018, the DART Board approved two new Commercial Paper Programs (Resolution Nos. 180120 and 180121) totaling $250 million of authorized borrowing capacity.

. On December 20, 2018, DART closed on a $908 million Railroad Rehabilitation & Improvement Financing (RRIF) loan, enabling DART to draw up to this amount on a reimbursement basis for project costs.

. DART staff will update the Budget and Finance Committee on financing activities including the following:
  
  . RRIF loan
  . Federal Funds: Federal Highway Administration (FHWA) Congestion Mitigation/Air Quality (CMAQ) and Federal Transit Administration (FTA) Formula Funds
  . Commercial Paper
  . Interlocal Agreements

. The discussion will help achieve Board Strategic Priority 3: Optimize DART’s influence in regional transportation planning; Priority 4: Expand DART’s transportation system to serve cities inside and outside the current service area; and Priority 6: Innovate to improve levels of service, business processes, and funding.
DATE: September 24, 2019

SUBJECT: Briefing on the Current Status of 1401 Pacific Space Utilization, Remodeling, and Relocation Options Analysis

RECOMMENDATION

This is a briefing item. No action is required at this time.

BUSINESS PURPOSE

. The purpose of this item is to brief the Committee on items regarding the analysis of space utilization, remodeling, and relocation options for 1401 Pacific.

. The presentation will include a review of previous analyses and a discussion of upcoming steps to examine the costs and benefits of keeping the DART Headquarters in this building, as well as relocation options.

. The discussion of this item will help achieve Board Strategic Priority 6: Innovate to improve levels of service, business processes, and funding.