

**BOARD OF DIRECTORS
SAN JACINTO RIVER AUTHORITY
MINUTES OF REGULAR MEETING
JANUARY 24, 2019**

A regular meeting of the Board of Directors of the San Jacinto River Authority was held at 8:00 a.m., January 24, 2019, at the San Jacinto River Authority General and Administration Building, a notice of said meeting was posted as required by law. President Lloyd Tisdale, Vice-President Ronnie Anderson, Secretary Jim Alexander, Assistant Secretary Ed Boulware, and Board Members Kaaren Cambio and Brenda Cooper were present. Treasurer Mark Micheletti was absent. General Manager Jace Houston, Deputy General Manager Ron Kelling, Director of Financial and Administrative Services Tom Michel, Director of Water Resources and Flood Management Chuck Gilman, Director of Communications and Public Affairs Heather Ramsey Cook, GRP Division Manager Mark Smith, Lake Conroe Division Manager Bret Raley, Highlands Division Manager Kim Wright, Administrative Services Manager Cynthia Bowman, Financial Advisor Jan Bartholomew, and General Counsel Mitchell Page were in attendance.

1. CALL TO ORDER

The meeting was called to order at 8:01 a.m.

2. PLEDGES OF ALLEGIANCE

The Pledges of Allegiance were led by Mr. Alexander.

3. PUBLIC COMMENTS

Mr. Mike Bleier spoke in opposition to the seasonal lake lowering on behalf of the Lake Conroe Association and requested that the seasonal lake level adjustment program be eliminated effective March 1, 2019. Ms. Katherine Person, Mr. Tim Baker, and Mr. Jonathan Brinsden spoke in favor of seasonal lake lowering.

4. DIVISION UPDATES

a. G & A:

Mr. Houston welcomed and introduced Director of Communications and Public Affairs, Heather Ramsey Cook. Mr. Houston spoke about legislative bills being introduced during the 86th Legislative session.

b. G & A:

Mr. Michel provided a brief update related to the impacts of significant rainfall to the GRP and Woodlands Division budgets.

c. Woodlands:

No update was provided by the Woodlands Division.

d. GRP:

Mr. Smith commented on the new look of the GRP Monthly Report. He reported that the GRP Review Committee recommended approval of all GRP items on the agenda. He provided an update relative to shortfalls due to short payment by two participants since Fiscal Year 2017 in the approximate amount of \$2.3 million dollars.

e. Lake Conroe:

Mr. Raley provided a brief update related to the Lake Conroe Dam Crest Repairs Project.

f. Highlands:

No update was provided by the Highlands Division.

g. Flood Management:

Mr. Gilman provided updates regarding the West Fork San Jacinto River dredging project, the regional flood study with Harris County Flood Control District and Montgomery County, and meetings with residents from Woodforest Subdivision.

5. CONSENT AGENDA

Mr. Alexander made a motion to approve the consent agenda as recommended. The motion was seconded by Mr. Anderson and carried unanimously.

a. Approval of Minutes

Approve the minutes of the Regular Meeting of December 13, 2018.

b. Unaudited Financials for the Months of November and December, 2018

Approve the unaudited financials for the months of November and December, 2018.

c. Resolution Amending the Policy for Investment of San Jacinto River Authority Funds and Appointment of an Investment Officer

Adopt Resolution No. 2019-R-01, attached hereto as Exhibit "A", of the Board of Directors of the San Jacinto River Authority adopting amended policy for investment of Authority funds and appointing investment officer.

d. New GRP Participants

Authorize the General Manager, or his designee, to execute letter(s) of assurance to Lone Star Groundwater Conservation District for Aqua Texas, Inc. (Woodland Ranch) and Quadvest, L.P. (Magnolia Reserve) in the GRP Program, as requested, and approve the GRP Contract(s) as presented and authorize the execution of same by the General Manager.

e. Law Enforcement Interlocal Agreement with Harris County for Highlands Division

Authorize the General Manager to execute a Law Enforcement Interlocal Agreement with Harris County in the amount of \$69,165, for law enforcement services commencing on March 1, 2019, and ending on February 28, 2020, for the Highlands Division.

f. Legal Services Related to Acquisition of Real Property Interests in Highlands

Authorize the General Manager to approve additional expenditures with Hunton Andrews Kurth, LLP, up to a total contract amount not to exceed \$200,000, to provide legal services related to acquisition of real property interest in Highlands.

g. Texas Water Development Board Flood Protection Planning Grant

Authorize the General Manager to negotiate and execute a contract with the Texas Water Development Board for the Flood Protection Planning Grant.

6. REGULAR AGENDA

1. Appointment of Members to Standing Committees of the Board of Directors

Mr. Tisdale appointed Ms. Cooper to the Board of Directors Personnel Committee.

2. Comprehensive Annual Financial Report for the Fiscal Year Ended August 31, 2018

Audit Manager Jennifer Weineke of Knox Cox and Company, LLP, reported an unmodified “clean” opinion on SJRA’s financial statements for the year ended August 31, 2018, and also issued an unmodified “clean” opinion for the Federal Single Audit Report for the Fiscal Year Ended August 31, 2018, related to the Texas Water Development Board bonds. The audits were conducted based on Government Auditing Standards and the evidence obtained through auditing procedures. Ms. Wienecke explained that the audit is a tedious and compliance-driven process which could not have been accomplished without the cooperation of staff and management. On behalf of the Finance Committee, Mr. Boulware reported that they met on January 4, 2019, and recommended approval. Mr. Anderson made a motion to approve the Comprehensive Annual Financial Report – Audited Financial Statements and Related Notes, and the Federal Single Audit Report for the Fiscal Year ended August 31, 2018. The motion was seconded by Mr. Alexander and carried unanimously.

3. Resolution Amending the Fiscal Year 2019 Operating Budget

Mr. Michel presented information related to a budget amendment for Fiscal Year 2019, explaining the events that necessitated an increase to the GRP legal fees line item. He explained that the proposed budget amendment increases the Professional Fees/Legal line item by \$500,000, bringing said amended amount to \$850,000. Mr. Michel then explained the rationale behind the General and Administration Division paying for proposed improvements to the Lake Conroe Jim Adams Building. He stated that all remediation, modifications, and improvements to the building are estimated at \$605,000. Mr. Michel explained proposed budget amendment increases to the Capital Improvements/Building line item by \$605,000, bringing the total amended amount to \$747,000. Mr. Boulware made a motion to adopt Resolution No. 2019-R-02, attached hereto as Exhibit “B”, of the Board of Directors of the San Jacinto River Authority amending the Fiscal Year 2019 Operating Budget for the GRP and General & Administration Divisions. The motion was seconded by Mr. Alexander and carried unanimously.

b. RAW WATER ENTERPRISE

Mr. Raley provided detailed information related to Relief Well Rehabilitation at Lake Conroe. Mr. Alexander made a motion to approve items 6b1 and 6b2. The motion was seconded by Ms. Cambio and carried unanimously.

1. Construction Contract for Relief Well Rehabilitation at Lake Conroe

Authorize the General Manager to execute a construction contract with TerraFirma Earth Technologies, Ltd., in the amount of \$243,979.60, for Relief Well Rehabilitation at Lake Conroe. The motion was seconded by Ms. Cambio and carried unanimously.

2. Work Order No. 1 for Construction Phase Services and Inspection for Relief Well Rehabilitation at Lake Conroe

Authorize the General Manager to execute Work Order No. 1 with Freese and Nichols, Inc., in an amount not to exceed \$136,422, for construction phase services and inspection for Relief Well Rehabilitation at Lake Conroe.

7. BRIEFINGS AND PRESENTATIONS

a. Summary of Seasonal Lake Lowering

Mr. Gilman provided information related to lake levels and release rate impacts on Lake Conroe from August - October, 2018. He stated that staff lowered Lake Conroe according to the seasonal release protocol beginning August 1, 2018. He went on to state that Lake Conroe was 0.40 feet below normal pool elevation prior to August 1 due to normal losses such as evaporation, customer sales, etc. Further, Mr. Gilman explained that by August 31st, 18,265 acre-feet of water had been released, equating to approximately 1-foot of lake level. He stated that normal pool elevation was reached by October 17, 2018 and went on to provide rain amounts for the months of August through December. After further discussion, Mr. Boulware stated that, although he will not be in attendance at the February Board meeting, he was in support of continuing seasonal lake lowering with the caveat of a defined stopping point in the future. He continued by stating that he would be in favor of lowering the lake 6-inches in the spring and 1-foot in the fall.

b. Summary of 2018 Rainfall

Mr. Gilman provided information regarding lake levels as it related to rainfall. He stated that staff has been continuously releasing water from Lake Conroe since December 7, 2018. He provided data depicting annual rainfall averages from 2009 through 2018, stating that the last several years have been very wet. Mr. Gilman provided data comparing rainfall, lake level, and discharge amounts for the years 2015 through 2018.

c. Water Conservation and Drought Contingency Plan Update

Mr. Jason Afinowicz of Freese and Nichols provided an overview of the water conservation and drought contingency plans for the Highlands, Lake Conroe, Woodlands, and GRP Divisions. He stated that the overall focus of the water conservation plan is to provide for long term reduction of overall water usage; a 2.5% reduction in average per-capita municipal demand over the next five years; and a 5% reduction in municipal demand over the next ten years. Mr. Afinowicz went on to explain the changes to the drought contingency plans for each division, particularly noting the

trigger levels for Lake Conroe due to seasonal lake lowering. He stated that those levels carry down to the GRP and Woodlands Divisions as they receive water from Lake Conroe.

8. EXECUTIVE SESSION

The meeting was called into Executive Session at 10:05 a.m., under the authority of the Texas Government Code, Section 551.071, consultation with the Authority's attorney.

9. RECONVENE IN OPEN SESSION FOR ACTION FOLLOWING EXECUTIVE SESSION

The meeting was reconvened in open session at 11:10 a.m. No action was taken regarding the items discussed in executive session.

10. ANNOUNCEMENTS / FUTURE AGENDA

Mr. Tisdale announced that the next San Jacinto River Authority Board of Directors meeting will take place on February 28, 2019.

11. ADJOURN

Without objection, the meeting was adjourned at 11:11 a.m.


Jim Alexander
Secretary, Board of Directors



Exhibit A

RESOLUTION NO. 2019-R-01

RESOLUTION OF THE BOARD OF DIRECTORS OF THE SAN JACINTO RIVER AUTHORITY ADOPTING AN AMENDED POLICY FOR INVESTMENT OF AUTHORITY FUNDS AND APPOINTING INVESTMENT OFFICER.

WHEREAS, the San Jacinto River Authority (the "Authority"), is a conservation and reclamation district, body politic and corporate and a governmental agency of the State of Texas created and operating under the provisions of Chapter 426, Acts of the 45th Texas Legislature, Regular Session, 1937, as amended, enacted pursuant to the provisions of Section 59 of Article XVI of the Texas Constitution (the "Act"); and

WHEREAS, Chapter 2256, Texas Government Code (the "Investment Act"), and Section 49.199, Texas Water Code, require that the Board of Directors of the Authority adopt rules, regulations and policies governing the investment of Authority funds and designate one or more of its officers, employees or authorized representatives to be responsible for the investment of such funds.

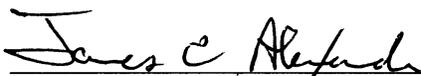
NOW THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE SAN JACINTO RIVER AUTHORITY THAT:

The Investment Policy attached hereto as Exhibit "A", is hereby **ADOPTED** and shall remain in effect until amended by the Board of Directors of the Authority, and that any resolution, and every amendment thereto, heretofore adopted by the Board of Directors to the Authority establishing policies for the investment of Authority funds and appointing an investment officer shall be and is hereby revoked and superseded effective as of January 25, 2018, the effective date of this resolution.

APPROVED AND ADOPTED by the Board of Directors of the San Jacinto River Authority, at a regular meeting on the 25th day of January, 2018.

ATTEST:

SAN JACINTO RIVER AUTHORITY


Secretary, Board of Directors

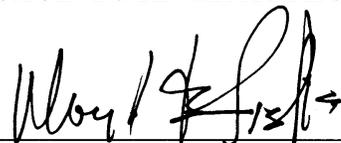

President, Board of Directors



EXHIBIT "A"

**SAN JACINTO RIVER AUTHORITY
INVESTMENT POLICY**

Section 1. Purpose. The purpose of this written policy is to adopt rules and regulations which set forth the Authority's policies with regard to the investment and security of Authority funds or funds under the Authority's control ("Investment Policy"). It is further the purpose of this Investment Policy to ensure that purchases and sales of Authority investments are initiated by authorized individuals, conform to investment objectives and regulations, and are properly documented and approved, and to provide for the periodic review of Authority investments to evaluate investment performance and security, all as required by applicable law.

Section 2. Appointment of Investment Officer; Standard of Care; Liability.

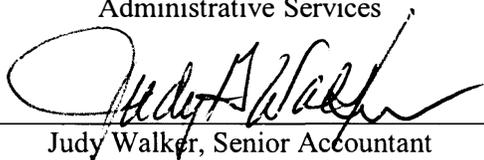
A. The Director of Financial and Administrative Services of the Authority, and the successive holders of such position, shall be and is hereby designated the Investment Officer of the Authority, responsible for supervision of the investment of Authority funds pursuant to this Investment Policy; however, the Authority's Board of Directors shall retain ultimate responsibility as fiduciaries of the Authority's assets. The Authority's Controller, Pam J. Steiger, the Authority's Senior Accountant, Judy Walker, and the Authority's Accountant, Pam Meekins (the "Investment Representatives") shall be authorized to assist the Investment Officer in carrying out the duties of such office. Following are the true, correct and genuine signatures of the Investment Officer and such Investment Representatives:



Tom Michel, Director of Financial and
Administrative Services



Pam J. Steiger, Controller



Judy Walker, Senior Accountant



Pam Meekins, Accountant

B. The standard of care to be applied by the Investment Officer and the Investment Representatives in the administration of their respective duties hereunder shall be the "prudent investor" rule:

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

In determining whether an Investment Officer or Investment Representative has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration:

- (1) the investment of all funds, or funds under the Authority's control, over which the officer or representative had responsibility rather than a consideration as to the prudence of a single investment; and
- (2) whether the investment decision was consistent with the written approved investment policy of the Authority.

C. The Investment Officer and the Investment Representatives shall not be held personally liable for a specific investment's credit risk or market price changes as long as such person acted in accordance with written procedures and the standard of care set forth hereinabove, and provided that such person reports deviations immediately and appropriate action is taken in response to same.

Section 3. Appointment of Investment Officer and Investment Representatives for Investment of Authority Funds. Pursuant to Section 49.157(b), Texas Water Code, the Board of Directors hereby designates the Authority's Investment Officer and Investment Representatives as the authorized representatives of the Authority to (a) invest and reinvest the funds of the Authority; (b) withdraw Authority funds from appropriate accounts of the Authority for the investment of same, but only in accordance with the terms, conditions and restrictions contained in this Investment Policy; and (c) arrange for adequate security for uninsured deposits or funds of the Authority pursuant to and in compliance with a Public Funds Depositor Collateral Security Agreement, which shall be substantially in the form attached hereto as Exhibit "B" or such other form that has been approved through formal action of the Board of Directors of the Authority, and to execute said Agreement(s) and any documentation required in connection therewith on behalf of the Authority.

Section 4. Authority and Duties of Investment Officer and Investment Representatives. The following rules shall apply to the Authority's Investment Officer and Investment Representatives:

A. The Board of Directors hereby instructs the Investment Officer and the Investment Representatives for the Authority to maintain the investments of the Authority in a manner consistent with the rules and regulations set forth in this Investment Policy and the Investment Act.

B. No person, other than those designated in Section 3 above, may invest, transfer, withdraw or otherwise manage Authority funds without express written authority of the Authority's Board of Directors.

C. The Investment Representatives for the Authority, under the supervision of the Authority's Investment Officer, shall invest and reinvest Authority funds only in those investments authorized under this Investment Policy or by the Board, and only in the name of and solely for the account of the Authority. The Investment Representatives for the Authority shall be authorized to wire transfer funds of the Authority or to utilize automated clearinghouse electronic transfer services through the Federal Reserve System for the transfer of funds of the Authority only (1) for the purchase of investments solely in the name of the Authority, (2) for the transfer of all or any portion of the principal of or interest earnings or profits or gains on any investment of the Authority to one or more previously authorized and established accounts of the Authority, (3) for the transfer of Authority funds to any paying agent or escrow agent of the Authority for the defeasance and/or payment of principal and interest payments on any outstanding bonds of the Authority and for the payment of paying agent and/or escrow agent

fees relative to same, or (4) for other purposes, such as payment of Authority bills, pursuant to a resolution or other express written instructions of the Authority's Board of Directors.

D. The Investment Officer and Investment Representatives of the Authority shall, not later than the first anniversary of the date the Investment Officer takes office or assumes such duties, attend a training session of at least six (6) hours of instruction relating to the Investment Officer's responsibilities under the Investment Act from an independent source approved by the Board of Directors of the Authority, and thereafter shall attend at least four (4) hours of additional investment training within each two-year period that begins on the first day of the Authority's fiscal year and consists of the two consecutive fiscal years after that date. Such investment training must include education in investment controls, security risks, diversification of investment portfolio, strategy risks, market risks, and compliance with the provisions of applicable law, as amended.

E. Not less frequently than each fiscal quarter, the Investment Representatives, under the supervision of the Authority's Investment Officer, shall prepare and submit to the Board of Directors of the Authority a written report of investment transactions for all invested funds of the Authority for the preceding reporting period. Such report must (1) describe in detail the investment position of the Authority on the date of the report; (2) be prepared jointly by the Investment Representatives, as applicable, and the Investment Officer of the Authority; (3) be signed by the Investment Officer of the Authority; (4) contain a summary statement of each pooled fund group, if any has been created by the Authority, that states the beginning market value for the reporting period, ending market value for the period, and fully accrued interest for the reporting period; (5) state the book value and market value of each separately invested asset of the Authority at the beginning and at the end of the reporting period by the type of asset and fund type invested; (6) state the maturity date of each separately invested asset that has a maturity date; (7) state the current rating assigned to each investment, investment vehicle, or investment security by a nationally recognized investment rating firm, nationally recognized credit rating agency or nationally recognized rating service, as appropriate; (8) state the account or fund or pooled group fund, if the Authority has any, for which each individual investment was acquired; and (9) state the compliance of the Authority's investment portfolio as it relates to the investment strategy for each account of the Authority as set forth in this Investment Policy and the provisions of applicable law. Such report must be presented to the Board of Directors of the Authority within a reasonable period of time after the end of each fiscal quarter. If the Authority invests in other than (i) money market mutual funds, (ii) investment pools or (iii) accounts offered by its depository bank in the form of certificates of deposit, money market accounts or similar accounts, all of the type authorized under Section 6 of this Investment Policy, the reports prepared under this Section 4.E. shall be formally reviewed at least annually by an independent auditor, and the result of such review shall be reported to the Authority's Board of Directors by that auditor.

F. In the event an investment or investment vehicle in which the Authority has placed funds, or the security therefor, is required to maintain a minimum rating pursuant to the Investment Act fails to maintain the minimum required rating, the Investment Representatives, under the supervision of the Investment Officer, shall take all prudent measures consistent with this Order to liquidate the investment in a reasonable amount of time and reinvest such funds in a conforming investment, if appropriate.

G. In the event Authority funds are invested or reinvested in Certificates of Deposit, the Investment Representatives shall solicit bids or ascertain prevailing rates from at least two (2) banking institutions, either orally, in writing, electronically or by any combination of these methods, for each such investment.

H. All purchases of securities, except investments in investment pools or in mutual funds, shall be made on a delivery versus payment basis.

I. Not less frequently than each fiscal quarter, and as close as practicable to the end of such reporting period, the Authority's Investment Representatives, under the supervision of the Authority's Investment Officer, shall determine the market value of each Authority investment. Such market values shall be included in the written reports submitted to the Authority's Board of Directors pursuant to Section 4.E hereinabove. The following methods shall be used:

- (1) Certificates of deposit shall be valued at their face value plus any accrued but unpaid interest.
- (2) Shares in money market mutual funds and investment pools, if any, shall be valued at par plus any accrued but unpaid interest.
- (3) Other investment securities may be valued in any of the following ways:
 - (a) the lower of two bids for such security obtained from qualified securities brokers/dealers with whom the Authority may engage in investment transactions;
 - (b) the average of the bid and asked prices for such security, as published in The Wall Street Journal or The New York Times;
 - (c) the bid price for such security published by any nationally recognized security pricing service; or
 - (d) the market value quoted by the seller of the security.

J. A written copy of the Authority's Investment Policy must be presented to any business organization offering to engage in an investment transaction with the Authority. For purposes of this section J., the term "business organization" means an investment pool or an investment management firm under contract with the Authority to invest or manage the Authority's investment portfolio that has accepted authority from the Authority to exercise investment discretion in regard to the Authority for the investment and management of its funds. The "qualified representative" of the business organization offering to engage in an investment transaction with the Authority or an investment management firm shall execute a written instrument in a form acceptable to the Authority substantially to the effect that the business organization or firm has received and reviewed the Investment Policy of the Authority and acknowledges that such business organization or firm has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the Authority and such organization or firm that are not authorized by the Authority's Investment

Policy, except to the extent that such authorization is dependent on an analysis of the makeup of the Authority's entire investment portfolio or requires an interpretation of subjective investment standards, or relates to investment transactions of the Authority that are not made through accounts or other contractual arrangements over which the business organization has accepted discretionary investment authority. The Authority's Investment Officer and Investment Representatives may not acquire or otherwise obtain any authorized investment described in Section 6 hereof from a business organization that has not delivered to the Authority the written statement acknowledging receipt of this Investment Policy in a form substantially similar to that attached hereto as Exhibit "A" (the "Certificate of Compliance"). For purposes of this Section 4.J., the "qualified representative" of a business organization offering to engage in an investment transaction with the Authority means a person who holds a position with a business organization, who is authorized to act on behalf of the business organization, and who is one of the following:

- (1) for a business organization doing business that is regulated by or registered with a securities commission, a person who is registered under the rules of the National Association of Securities Dealers;
- (2) for a state or federal bank, a savings bank, or a state or federal credit union, a member of the loan committee for the bank or branch of the bank or a person authorized by corporate resolution to act on behalf of and bind the banking institution; or
- (3) for an investment pool, the person authorized to sign the written instrument on behalf of the investment pool by the elected official or board with authority to administer the activities of the investment pool.

The "qualified representative" of an investment management firm under contract with the Authority for the investment and management of its public funds is a person who is an officer or principal of such firm.

K. The Investment Officer and the Investment Representatives for the Authority shall disclose in writing to the Board of Directors any (i) "personal business relationship" that they may have with a business organization offering to engage in an investment transaction with the Authority, or (ii) any or relationship within the second degree by affinity or consanguinity, as determined by Chapter 573, Texas Government Code, as amended, to any individual seeking to sell an investment to the Authority. Any written disclosure statement filed with the Board of Directors by the Investment Officer or any Investment Representative pursuant to this section must also be filed with the Texas Ethics Commission. For purposes of this Section 4.K., the Investment Officer or any Investment Representative has a "personal business relationship" with a business organization if:

- (1) such person owns 10 percent or more of the voting stock or shares of the business organization, or owns \$5,000 or more of the fair market value of the business organization;
- (2) funds received by the Investment Officer or Investment Representative from the business organization exceeded 10 percent of such person's gross income for the previous year; or

- (3) such person has acquired from the business organization during the previous year investments with a book value of \$2,500 or more for their personal account.

L. In conjunction with the Authority's annual financial audit, a compliance audit of management controls on investments and adherence to this Investment Policy must be performed. In connection with said compliance audit, the Board of Directors shall review on an annual basis this Investment Policy and investment strategies. In connection with such annual review, the Authority's Board of Directors shall adopt a written resolution stating that it has reviewed this Investment Policy and the investment strategies set forth herein and shall indicate in such resolution either the continuation of this Investment Policy without amendment, or any changes to be made to this Investment Policy and/or the investment strategies herein.

M. In addition to all other requirements set forth herein, the Investment Representatives for the Authority, under the supervision of the Authority's Investment Officer shall invest and reinvest Authority funds in a manner consistent with Chapter 2270, Texas Government Code, relative to prohibition of investment or reinvestment of public funds in publically traded securities of scrutinized companies, as determined by the Texas State Comptroller, engaging in scrutinized business operations in the Sudan, Iran, or with a designated foreign terrorist organization. In the event an investment or investment vehicle in which the Authority has placed funds, or the security therefor, requires divestment in accordance with the requirements of Chapter 2270, Texas Government Code, the Investment Representatives for the Authority, under the supervision of the Authority's Investment Officer, shall sell, redeem, divest, or withdraw all publically traded securities of the company engaging in scrutinized business operations, all in accordance with Chapter 2270.

N. Not later than December 31 of each year, the Investment Representatives of the Authority, under the supervision of the Authority's Investment Officer, shall prepare and file on behalf of the Authority: (i) a publicly available report with the presiding officer of each chamber of the State Legislature and the State Attorney General identifying: (a) all investments sold, redeemed, divested, or withdrawn in compliance with Section 2270.0206, Texas Government Code; (b) all prohibited investments under Section 2270.0209, Texas Government Code; and (c) summarizing any changes made with respect to investments of the Authority exempted from divestment pursuant to Section 2270.0207, Texas Government Code; and (ii) a report with the United States presidential special envoy to Sudan that identifies investments in Sudan identified in the report filed with the State Legislature and Attorney General and any changes made under Section 2270.0207 related to those investments. Prior to December 31 of each year, the Investment Representatives of the Authority, under the supervision of the Authority's Investment Officer, shall provide the Board of Directors of the Authority with a copy of both reports required by this subsection, along with evidence of filing same with the required entities.

Section 5. General Investment Principles. All investments of Authority funds or funds under the Authority's control shall be made in accordance with the following general rules, regulations and policies:

A. Any moneys in any fund of the Authority or in any fund established by the Board of Directors in connection with the authorization of the Authority's bonds, including, but not limited to, proceeds from the sale of such bonds, which funds are not required for the payment of obligations due or to become due immediately, shall be invested and reinvested, from time to time, only in the authorized investments specified in Section 6 hereunder; provided, however, that all such investments shall be secured in the manner provided by applicable law, including the Public Funds Collateral Act, Chapter 2257, Texas Government Code, as amended, or in such other manner as may be authorized by law from time to time and otherwise suitable for the Authority's needs.

B. The policy of the Authority is to invest Authority funds only in instruments which further the following investment objectives of the Authority stated in order of importance: (1) preservation and safety of principal; (2) understanding of the suitability of the investment to the financial requirements of the Authority and that particular fund; (3) liquidity; (4) marketability of the investment if the need arises to liquidate the investment before maturity; (5) diversity of the investment portfolio; and (6) yield. The type, conditions and maturity date of Authority investments shall be consistent with the cash flow needs and operating requirements of the Authority, as determined from time to time by the Board of Directors, and consistent with the investment strategy for each Authority account as set forth in Section 7 hereunder.

C. If invested in certificates of deposits, the Authority's funds shall be secured, to the extent that such funds are not insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, by the pledge to the Authority of certain types of securities, as determined in the sole discretion of the Authority, which under the laws of the State of Texas may be used to secure the deposits of conservation and reclamation districts, pursuant to and in compliance with a Public Funds Depositor Collateral Security Agreement which shall be substantially in the form attached hereto as Exhibit "B", the terms and conditions of which are incorporated herein by reference (the "Public Funds Depositor Collateral Security Agreement").

D. Securities pledged to the Authority shall be pledged pursuant to and in compliance with a Public Funds Depositor Collateral Security Agreement to be entered into by and between the Authority and the institution(s) pledging such securities. Securities pledged to the Authority shall either be deposited and held in safekeeping at the trust or safekeeping department of a commercial banking institution located in the State of Texas and not affiliated with the pledging institution(s) or a federal home loan bank, or shall be held in a restricted securities account, joint safekeeping account or other similar account in a branch of the Federal Reserve Bank pursuant to any and all applicable regulations, operating circulars, bulletins and policies of the Federal Reserve Bank, including the terms and conditions of any applicable forms or agreements, as may exist now or hereafter be enacted, promulgated or issued by the Federal Reserve Bank. The Authority's Investment Officer and Investment Representatives shall, within the limits of business practicality and consistent with the Federal Deposit Insurance Corporation Statement of Policy dated March 23, 1993, (or any subsequent applicable Statement of Policy issued by the FDIC) relative to the securing of public funds, ensure that the Authority's uninsured funds are at all times secured as required by the Public Funds Collateral Act (Chapter 2257, Texas Government Code, as amended) and in the manner set forth in the Public Funds Depositor Collateral Security Agreement. The Authority's Investment Officer and Investment Representatives are hereby authorized to execute Public

Funds Depositor Collateral Security Agreements and any agreements, documents or forms required by the Federal Reserve Bank on behalf of the Authority, as and when required, and to approve the substitution of securities pledged to the Authority as collateral pursuant to and in the manner set forth in any Public Funds Depositor Collateral Security Agreement entered into by the Authority.

E. The Board of Directors recognizes that, within the framework of the above rules, decisions must be made concerning the type and duration of each investment transaction and that such decisions are best made by the person responsible for implementing the transaction, based upon the facts and circumstances prevailing at the time. As a guide to making such decisions, it is hereby declared the policy of the Board of Directors that priority should be given to proper security of the Authority's funds over maximizing the yield on investments. Furthermore, in cases where the rate of return on an investment security offered by competing banking institutions are substantially equivalent, the Authority's Investment Officer and Investment Representatives shall give preference to those investments and investment institutions offering the greatest degree of administrative convenience and proximity, and the flexibility of investment arrangements.

F. Except as herein expressly provided, and except for (i) insufficient funds debits for returned items, and (ii) payment of bank service charges (or deductions from interest income in lieu of such payment) established by written agreements with the Authority's depository bank or banks, nothing herein shall be deemed or construed to authorize the withdrawal, expenditure or appropriation of funds of the Authority except by check or draft signed by three (3) members of the Board of Directors, or as otherwise provided by applicable statutes or the resolutions, rules, regulations, policies, orders or proceedings of the Board of Directors. Furthermore, the Board of Directors shall retain sole responsibility for establishing and implementing, from time to time, this Investment Policy, and all investment transactions to be undertaken by the Authority's Investment Officer and the Authority's Investment Representatives pursuant to this Investment Policy shall be subject to the further or more specific directions, instructions, orders, resolutions or actions of the Board of Directors.

Section 6. Authorized Investments. The following categories of investment are authorized for investment of Authority funds:

A. Obligations, including letters of credit, of the United States or its agencies and instrumentalities;

B. Direct obligations of the State of Texas or its agencies and instrumentalities;

C. Other obligations, the principal and interest of 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 any of their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States;

D. Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent;

E. Interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor;

F. (1) Certificates of deposit that are issued by a depository institution that has its main office or a branch office in the State of Texas that are:

- (a) guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor;
- (b) secured by obligations of the type described in Section 2256.010(a)(2) of the Investment Act; or
- (c) secured in any other manner and amount provided by law for deposits of the Authority pursuant to an approved and fully executed Public Funds Depositor Collateral Security Agreement;

(2) Certificates of deposit that are acquired in the manner described in Section 2256.010(b), Texas Government Code, as amended; provided, however, that each investment of Authority funds in the foregoing shall require specific prior approval by the Board of Directors;

G. Banker's acceptances with a stated maturity of 270 days or fewer from the date of issuance which meet the requirements set forth in Section 2256.012 of the Investment Act;

H. Commercial paper with a stated maturity of 270 days or fewer from the date of issuance which meets the requirements set forth in Section 2256.013 of the Investment Act;

I. No-load money market mutual funds that:

- (1) are registered with and regulated by the Securities and Exchange Commission;
- (2) provide the Authority with a prospectus and other information required by the Securities Exchange Act of 1934 (15 U.S.C. Section 78a et seq.) or the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.);
- (3) comply with federal Securities and Exchange Commission Rule 2a-7 (17 C.F.R. Section 270.2a-7), promulgated under the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.);
- (4) have a dollar-weighted average stated maturity of 90 days or fewer; and
- (5) include in their investment objectives the maintenance of a stable net asset value of \$1.00 for each share;

J. Investment pools which meet the requirements set forth in Section 2256.016 and Section 2256.019 of the Investment Act;

K. No-load mutual funds that:

- (1) are registered with the Securities and Exchange Commission; and
- (2) have an average weighted maturity of less than two (2) years; and
- (3) either:
 - (a) have a duration of one (1) year or more; or
 - (b) have a duration of less than (1) year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities; and
- (4) are invested exclusively in obligations approved by Subchapter A. of the Investment Act; and
- (5) are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent; and

L. Fully collateralized repurchase agreements meeting the requirements set forth in Section 2256.011 of the Investment Act, provided that (1) the maximum maturity of same shall not exceed seven (7) days, and (2) unless otherwise authorized by the Board of Directors of the Authority, no such agreement shall waive the sovereign immunity of the Authority;

M. Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, provided that the obligation is not:

- (1) an obligation whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal;
- (2) an obligation whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest;
- (3) a collateralized mortgage obligation that has a stated final maturity date of greater than ten (10) years; or
- (4) a collateralized mortgage obligation the interest rate of which is determined by an index that adjusts opposite to the changes in a market index;

N. Bonds issued, assumed or guaranteed by the State of Israel;

O. Guaranteed investment contracts meeting the requirements set forth in Section 2256.015 of the Investment Act, provided that, unless otherwise authorized by the Board of Directors of the Authority, no such contract shall waive the sovereign immunity of the Authority; and

P. Securities lending programs meeting the requirements set forth in Section 2256.0115 of the Investment Act.

Section 7. Investment Strategies. Authority investments shall be made upon the evaluation of the specific investment objectives and strategies of each account of the Authority, with the primary objective for the selection of any Authority investment being the understanding of the suitability of such investment to the financial requirements of the Authority. The Authority's investment strategy for each of its accounts is as follows:

A. General Funds: The Authority's several General Funds are used for all operations and maintenance needs of the Authority. The highest priorities for the accounts comprising the General Funds are the preservation and safety of the principal of investments in the operating account. Of next importance is the liquidity and marketability of an investment if the need arises to liquidate the investment before its maturity. The Authority may conduct cash flow analysis to determine the appropriate liquidity needs for any of the Authority's several General Funds or the accounts comprising such funds. Typically, the Authority will ladder or match investment maturity dates so that any such maturity coincides with a potential expenditure of the Authority. Secondly, should the Authority establish reserve accounts for the benefit of a General Fund, or have funds on hand in a General Fund that are not specifically budgeted towards a specific expenditure, the Authority may invest these funds in various maturing investments as deemed prudent. However, no investment of a General Fund, unless otherwise authorized by the Board, shall exceed (5) five years in final maturity. The Authority may utilize an investment pool to fund some or all of the short-term expenditures.

B. Debt Service Funds: The Authority's several Debt Service Funds are used to pay debt service on outstanding bonds. The highest priority for the accounts comprising the Debt Service Funds is the preservation and safety of principal. Since the Authority knows the amount of its debt service requirements and when it becomes due, investments for such Debt Service Funds should be structured to coincide with the amount and timing of debt service requirements. When the preservation and safety of principal and liquidity considerations for debt service purposes are assured, including the marketability of investments in the event the need arises to liquidate an investment before its maturity, the yield on investments should be considered. Since the amount of Authority funds in the several Debt Service Funds can be significant, diversification of the investment portfolio for such funds may be necessary. The Authority may easily liquidate investments in an investment pool and therefore such investments may be appropriate in combination with longer term investments in the Debt Service Funds. However, no investment of a Debt Service Fund, unless otherwise expressly authorized by the Board, shall exceed (5) five years in final maturity. The Authority may utilize an investment pool to fund some or all of the short-term expenditures.

C. Debt Service Reserve Funds: The Authority's several Debt Service Reserve Funds are used to pay debt service in the event of a shortfall in an underlying Debt Service Fund. Since the Authority knows timing and amounts of future debt service payments, the

Authority should ensure that any investment strategy provides for ample liquidity in the event of a shortfall in a Debt Service Fund. Therefore, the Authority should seek to mitigate interest rate risk arising from investments in a Debt Service Reserve Fund. While Debt Service Reserve Funds are not likely to be needed, unless otherwise expressly authorized by the Board, no investment shall have a final maturity in excess of (5) years in final maturity. Furthermore, any securities purchased for the account of a Debt Service Reserve Fund should be highly marketable securities in the event the Authority needs to raise liquidity.

D. Construction Funds: The Authority's several Construction Funds are used to pay for capital improvements of the Authority. The highest priority for the accounts comprising the Construction Funds is the preservation and safety of principal. In the event that funds held in the several Construction Funds are for particular improvement projects that have been previously identified by the Authority's Board of Directors, the Investment Representatives should secure a schedule of the approximate time when disbursements will be required to be made from such accounts. Investments in the several Construction Funds should be structured so that they mature or can be liquidated on or about the dates that disbursements are expected to be made. Once the safety of principal and liquidity and marketability of investments which are to match certain disbursement dates are assured, the yield on such investments may be considered. Since Authority funds in the several Construction Funds may not be needed for a year or more, longer term instruments should be considered to increase yield. If funds available in any Construction Fund are deemed surplus or are not required for specific improvement projects, such funds should be considered for longer term investment. Investment diversification for large amounts of Authority funds that may be deposited into the several Construction Funds for a very short term may be achieved through the use of an investment pool. Since investment pools are short term in nature, they would normally be used for Authority funds in these accounts only if the Authority knows that it will be disbursing funds in a relatively short period of time. However, on some occasions the yield on investment pools is higher than on longer term investments, so their use may be optimal for other funds in the several Construction Funds. However, no investment in the Construction Funds, unless otherwise Authorized by the Board, shall exceed (5) five years in final maturity. The Authority may utilize and investment pool to fund some or all of the short-term expenditures.

E. Other Funds: From time to time, the Authority may create new Fund types by resolution or order of the Board of Directors. Any investment strategy for such Funds shall take into account the underlying cash flow needs of such Fund. Investment strategy shall correspond to the needs of such Fund. In addition, upon the annual review of the Investment Policy, the Authority may adopt a specific formal investment strategy for any new Fund type. However, no investment in these other Funds, unless otherwise Authorized by the Board, shall exceed (5) five years in final maturity. The Authority may utilize and investment pool to fund some or all of the short-term expenditures.

Section 8. Miscellaneous.

A. In the event of any conflict or inconsistency between the terms of this Investment Policy and applicable requirements of law, such conflict or inconsistency will be resolved in favor of the more restrictive of this Investment Policy or the applicable requirements of law. In the event of any ambiguity or uncertainty as to the intent and application of any part, section, paragraph or provision hereof, a written request for clarification or approval of a proposed action describing such circumstances shall be submitted to the Board of Directors for a decision as to a proper course of action.

B. The rules, regulations and policies set forth herein shall be and remain in full force and effect unless and until amended, revised, rescinded or repealed by action of the Board of Directors. The Authority's Board of Directors specifically reserves the right to change, alter or amend any provision of this Investment Policy at any time.

C. The provisions of this Investment Policy are severable, and if any provision or part of this Investment Policy or the application thereof to any person or circumstances shall ever be held by any court of competent jurisdiction to be invalid or unconstitutional for any reason, the remainder of this Investment Policy and the application of such provision or part of this Investment Policy shall not be affected thereby.

D. All rules, regulations and policies heretofore adopted on the subject matter hereof or in conflict herewith are hereby repealed, revoked and rescinded as of the effective date hereof.

EXHIBIT "A"

CERTIFICATE OF COMPLIANCE FROM SELLERS OF INVESTMENTS AS REQUIRED BY
THE PUBLIC FUNDS INVESTMENT ACT

To: San Jacinto River Authority (the "Authority")

From: _____
[Name of the person offering
or the "qualified representative"
of the business organization
offering to engage in an investment
transaction with the Authority or of
the Authority's Investment Manager] _____
[Title of such person]

of _____ (the "Business Organization")
[Name of financial institution,
business organization or
investment pool]

Date: _____, 20__

In accordance with the provisions of the Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended, I hereby certify that:

1. I am an individual offering to enter into an investment transaction with the Authority or a "qualified representative" of the Business Organization offering to enter into an investment transaction with the Authority, as applicable, as such terms are used in the Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended (the "Seller"), and that Seller meets all requirements under such Act to execute this Certificate.

2. The Business Organization is an investment pool or an investment management firm under contract with the Authority to invest or manage the Authority's investment portfolio that has accepted authority from the Authority to exercise investment discretion in regard to the Authority's funds.

3. Seller anticipates selling to the Authority investments that are authorized by the Authority's Order Establishing Policy for Investment of Authority Funds and Appointing Investment Officer, dated [____], 20__ (the "Investment Policy") and the Public Funds Investment Act (collectively referred to herein as the "Investments").

4. I or a registered investment professional that services the Authority's account, as applicable, have received and reviewed the Authority's Investment Policy now in full force and effect. The Authority has further acknowledged that Seller may rely upon the Investment Policy until the Authority provides Seller with any amendments to or any newly adopted form of the Investment Policy.

5. Seller has implemented reasonable procedures and controls in an effort to preclude investment transactions between the Authority and Seller that are not authorized by the Investment Policy, except to the extent that this authorization is dependent upon an analysis of the Authority's

entire portfolio, requires an interpretation of subjective investment standards, or relates to investment transactions of the Authority that are not made through accounts or other contractual arrangements over which the Business Organization has accepted discretionary investment authority.

6. Seller has reviewed or will review prior to sale, the terms, conditions and characteristics of the investments to be sold to the Authority and has determined or will determine, prior to sale, that (i) each of the Investments is an authorized investment for local governments under the Public Funds Investment Act and (ii) each of the Investments is an authorized investment under the Authority's Investment Policy.

7. Seller acknowledges that the Authority has disclosed and hereby discloses that certain funds within the custody of the Authority which may be deposited or invested with Seller are by law or under a bond indenture required to be set aside to discharge a debt owed to the holder(s) of the Authority's outstanding notes, bonds or other obligations. As such, these funds shall be deemed to be a deposit by a trustee of trust funds of which the holder(s) are pro rata beneficiaries in accordance with 12 C.F.R. §330.15(c). Such funds held in trust for the holder(s) of the Authority's notes, bonds or other obligations are deposited within the account(s) titled "Bond Fund", "Bond Account", "Debt Service Fund", "Debt Service Account", "Interest and Sinking Fund", "Interest and Sinking Account", or other similar name sufficient to satisfy the requirements of 12 C.F.R. §330.5(b) indicating that such funds are pledged towards the payment of principal and interest on the Authority's notes, bonds or other obligations. Seller further acknowledges that the Authority may be acting in a fiduciary capacity on behalf of certain persons or entities who may, in turn, be acting in a fiduciary capacity for subsequent purchasers and/or holders of the Authority's outstanding notes, bonds or other obligations.

8. Seller will continuously maintain an executed copy of this Certificate of Compliance in its "deposit account records" (as defined in 12 C.F.R. §330.1(e)) for so long as Seller holds any funds of or within the custody of the Authority.

By: _____

Name: _____

Title: _____

EXHIBIT "B"

PUBLIC FUNDS DEPOSITOR COLLATERAL SECURITY AGREEMENT

This Public Funds Depositor Collateral Security Agreement (the "Agreement") is made and entered into as of the __ day of ____, 20__ by and between SAN JACINTO RIVER AUTHORITY (the "Depositor") and _____ ("Bank"), and any prior Agreement between Depositor and Bank relative to the subject matter hereof is hereby terminated as of the date first written above.

RECITALS

Depositor, through action of its Board of Directors, has designated Bank as a depository for Depositor's funds. Funds on deposit with Bank to the credit of Depositor in excess of federal deposit insurance are required to be secured by eligible security as provided for by the Public Funds Collateral Act, V.T.C.A. Government Code Section 2257.001 et seq. (the "Public Funds Law"). Depositor and Bank understand and acknowledge that the amount of Depositor's uninsured deposits in Bank may vary substantially from time to time; that under the circumstances permitted herein, the Bank may release, add to or substitute for the securities pledged by Bank from time to time to secure such uninsured deposits of Depositor; and that it is the intent of the parties that this Agreement be renewed and extended upon and at the time of each permitted release, addition or substitution of collateral securities and thereafter remain in force and effect for the full term thereof until terminated in the manner set forth herein. In order to perfect Depositor's security interest in eligible securities pledged by Bank from time to time to secure such uninsured deposits, the Board of Directors of the Bank (the "Bank Board") has authorized the undersigned Bank officer to enter into this Agreement on behalf of Bank under the terms of which Bank will either [(i) cause

_____,
a [state or national bank], which has its main office or a branch office in Texas and which has been designated by the State Comptroller as a Texas State Depository to hold the collateral assets in a custody account as bailee for the benefit of Depositor, or (ii)] cause the Federal Reserve Bank or a federal home loan bank ("FHLB") to hold the collateral assets in a restricted securities account, joint safekeeping account or other similar account as custodian/bailee for the benefit of Depositor (such [bank or] FHLB or the Federal Reserve Bank, as the case may be, hereinafter called the "Custodian").

AGREEMENT

Now, therefore, in consideration of the mutual covenants in this Agreement, the parties agree as follows:

1. Grant of Security Interest. To secure the uninsured deposits maintained by Depositor with Bank from time to time, Bank hereby pledges and grants to Depositor a security interest in its Eligible Securities (as defined in the Public Funds Law) which are held, now or hereafter, by Custodian for the benefit of Depositor in accordance with the terms of this Agreement (the "Collateral"). At all times during the term of this Agreement, the Collateral shall consist solely of the following:

general obligations of the United States of America or its agencies or instrumentalities backed by its full faith and credit;

direct obligations of the State of Texas or Texas State agencies and instrumentalities;

collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States of America, the underlying security for which is guaranteed by an agency or instrumentality of the United States of America;

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 of America or their respective agencies and instrumentalities;

obligations of states, agencies, counties, cities and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent;

fixed-rate collateralized mortgage obligations that have an expected weighted average life of 10 years or less and which do not constitute a high-risk mortgage security as defined in the Public Funds Law;

floating-rate collateralized mortgage obligations that do not constitute a high-risk mortgage security as defined in the Public Funds Law; and

letters of credit issued by a federal home loan bank.

Bank shall cause Custodian to accept and hold the Collateral as bailee and/or custodian for Depositor to secure Bank's obligation to repay the deposits.

2. Receipts. The Collateral held by Custodian for the benefit of Depositor, as of the effective date of this Agreement, has been described on Trust Receipts (as defined in the Public Funds Law) issued by Custodian, copies of which Custodian has forwarded to Depositor, and such current Collateral is described on Exhibit "A" attached hereto and made a part hereof for all purposes. With respect to additional or substitute Collateral hereafter delivered by Bank to Custodian to hold for the benefit of Depositor, or any releases of securities previously held as Collateral ("Releases"), as contemplated by this Agreement, Bank shall cause Custodian to issue Trust Receipts or Releases describing such additional or substitute Collateral or released securities and promptly forward copies of same to Depositor. Such Trust Receipts and Releases which are furnished to Depositor by Custodian from time to time shall be deemed a part of this Agreement without further action on the part of any party hereto, and this Agreement shall apply to such released, additional or substitute Collateral to the same extent as if it were described on Exhibit "A" attached hereto. If the Custodian is the Federal Reserve Bank, such Trust Receipts or Releases will consist of a written confirmation (the "Advice"). Such Advice shall be subject to the terms and conditions of all applicable regulations, operating circulars, bulletins and policies of the Federal Reserve Bank, including the terms and conditions of any applicable forms or agreements, as may now exist or hereafter be enacted, promulgated or issued by the Federal Reserve Bank (collectively "Applicable Regulations"). If the Custodian is the Federal Home Loan Bank of Dallas ("FHLB Dallas"), notwithstanding the foregoing, such Trust Receipts may be forwarded to Bank with instructions for Bank to immediately forward the same to Depositor. Bank hereby agrees to comply with Custodian's instructions and forward each Trust Receipt to Depositor

immediately upon receipt of same. Upon request of Depositor, Bank agrees to provide or cause Custodian to provide a then-current list of all Collateral pledged by Bank to secure Depositor's funds to update Exhibit "A" to this Agreement. If the Custodian is FHLB Dallas and the Custodian is forwarding Trust Receipts to Bank, Depositor may, at any time and from time to time, request that FHLB Dallas provide one or more Trust Receipts directly to Depositor, and FHLB Dallas shall immediately so provide the requested Trust Receipts to the Depositor, at no cost to the Depositor.

3. Required Collateral Value. Bank agrees with Depositor that the total market value of the Collateral securing uninsured deposits maintained by Depositor with Bank will at all times during the term of the Agreement be not less than (i) one hundred ten percent (110%) of the amount of such uninsured deposits, if the determination of the market value of Collateral is calculated less frequently than weekly by Bank, or (ii) one hundred five percent (105%) of the amount of such uninsured deposits if the determination of the market value of Collateral is calculated at least weekly by Bank (the "Required Collateral Value"). To insure that the Required Collateral Value is maintained, Bank will redetermine, on a daily basis, the amount of Depositor's uninsured deposits (taking into account that day's deposits, accrued interest, disbursements and withdrawals) held by Bank and (using the most recently determined market value of the Collateral) promptly add any additional Collateral which may be necessary to maintain the Required Collateral Value by either (i) depositing with Custodian for the purposes of this Agreement any additional Collateral or (ii) if the Custodian is the Federal Reserve Bank, transferring additional Collateral to a restricted securities account, joint safekeeping account or other similar account maintained by the Federal Reserve Bank. **Determination of the market value of Collateral by Bank will be calculated periodically as indicated by Bank on the signature page hereof or more frequently on Depositor's request;** provided, however, the foregoing shall not relieve Bank of its obligation to fully collateralize at all times the Depositor's uninsured deposits with Bank. If upon the periodic determination of the Collateral's market value as set forth herein, the Required Collateral Value is not then maintained, Bank will promptly deposit with Custodian for the purposes of this Agreement additional Collateral necessary to maintain the Required Collateral Value.

4. Release of Collateral. Custodian shall not release any part of the Collateral without Depositor's written authorization. Depositor agrees to furnish such authorization promptly upon Bank's request under the circumstances described in Sections 5, 6, or 8 of this Agreement. Depositor's authorization to Custodian to release from the Collateral only designated Eligible Securities shall terminate the security interest granted by Bank in this Agreement only with respect to such designated Eligible Securities. If the Custodian is the Federal Reserve Bank, this section shall apply except to the extent it is in conflict with the provisions of the Applicable Regulations, in which event the provisions of the Applicable Regulations shall govern the release of Collateral.

5. Substitution of Collateral. It is hereby agreed that upon obtaining the prior written consent of the Depositor, which consent shall not be unreasonably withheld, substitutions of the Collateral held hereunder may be made at any time so long as the fair market value of the Eligible Securities being substituted is at least equal to the fair market value of the Eligible Securities being removed. If the Custodian is the Federal Reserve Bank, this section shall apply except to the extent it is in conflict with the provisions of the Applicable Regulations, in which event the provisions of the Applicable Regulations shall govern the substitution of Collateral.

6. Excess Collateral. At such times as the aggregate market value of the Collateral held by Custodian exceeds the Required Collateral Value, Depositor, upon request by Bank, shall authorize Custodian to permit Bank to release the excess portion of the Collateral. Custodian shall have no

further liability to Depositor with respect to those Eligible Securities released upon Depositor's authorization.

7. Additional Collateral. If at any time the aggregate market value of Collateral held by Custodian is less than the Required Collateral Value, Bank shall immediately upon learning of such circumstance, and without further action by Depositor, promptly either (i) deposit with Custodian sufficient additional Eligible Securities of the type specified in Section 1 as may be necessary to cause the aggregate market value of the Collateral to equal the Required Collateral Value, or (ii) transfer additional Eligible Securities of the type specified in Section 1 to the restricted securities account, joint safekeeping account or other similar account maintained by the Federal Reserve Bank as may be necessary to cause the aggregate market value of the Collateral to equal the Required Collateral Value and cause the Federal Reserve Bank to issue a corresponding Advice (and Bank will deposit with the Federal Reserve Bank additional Eligible Securities if and to the extent necessary to fulfill its obligations under this Agreement).

8. Earnings and Payments on Collateral. Bank shall be entitled to the interest income and earnings paid on the Collateral and Custodian may dispose of such interest income and earnings as directed by Bank without approval of Depositor, so long as Depositor has not notified Custodian of Bank's default under this Agreement. Bank shall not be entitled to and Custodian shall not release to Bank any partial or full call of the Collateral without Depositor's prior written authorization as described in Section 4 of this Agreement. If the Custodian is the Federal Reserve Bank, this section shall apply except to the extent it is in conflict with the provisions of the Applicable Regulations, in which event the provisions of the Applicable Regulations shall govern the disposition of interest earnings and principal payments on the Collateral.

9. Default and Remedies. If Bank fails at any time to pay and satisfy, when due, any check, draft, or voucher lawfully drawn against any deposit or becomes insolvent or materially breaches its contract with Depositor, a default shall exist under this Agreement and Depositor shall give written notice of such default to Bank, and Bank shall have ten (10) days to cure same. In the event Bank fails to do so, it shall be the duty of Custodian, upon written demand of Depositor, to surrender or transfer the Collateral to Depositor or Depositor's nominee and Bank hereby irrevocably authorizes Custodian to surrender or transfer the Collateral upon the conditions herein specified. Depositor may sell all or any part of such Collateral in a commercially reasonable manner and out of the proceeds of the Collateral may pay Depositor all damages and losses sustained by it, together with all expenses of any and every kind incurred by it on account of such failure or insolvency sale. Depositor shall account to Bank for the remainder, if any, of said proceeds or Collateral remaining unsold. Such sale may be either at public or private sale; provided, however, Depositor shall give Bank ten (10) days' written notice of the time and place where such sale shall take place, and such sale shall be to the highest bidder for cash. Depositor and Bank shall have the right to bid at such sale. If the Custodian is the Federal Reserve Bank, this section shall apply except to the extent it is in conflict with the provisions of the Applicable Regulations, in which event the provisions of the Applicable Regulations shall govern the Depositor's exercise of remedies against the Collateral.

10. Authorization and Records. The Bank Board has authorized the pledge of Bank assets to collateralize uninsured deposits maintained by Depositor pursuant to resolutions substantially in the form of Annex I attached to the form of Resolution Certificate and Certificate of Incumbency attached hereto as Exhibit "B" (the "Resolution Certificate"), and has authorized the undersigned Bank officer to enter into, execute and deliver to Depositor this Agreement on behalf of Bank and to take all action which may be necessary or appropriate to create and perfect the security interest in the Collateral

contemplated hereunder. Bank shall deliver to Depositor a fully executed Resolution Certificate as a condition precedent to the effectiveness of this Agreement and shall advise Depositor immediately of any revocation, amendment or modification thereof. Bank acknowledges that the Authority has disclosed and hereby discloses that certain funds within the custody of the Authority which may be deposited or invested with Bank are by law or under a bond indenture required to be set aside to discharge a debt owed to the holder(s) of the Authority's outstanding notes and/or bonds. As such, these funds shall be deemed to be a deposit by a trustee of trust funds of which the holder(s) are pro rata beneficiaries in accordance with 12 C.F.R. §330.15(c). Such funds held in trust for the holder(s) of the Authority's notes and bonds are deposited within the account(s) titled "Bond Fund", "Bond Account", "Debt Service Fund", "Debt Service Account", "Interest and Sinking Fund", "Interest and Sinking Account", or other similar name sufficient to satisfy the requirements of 12 C.F.R. §330.5(b) indicating that such funds are pledged towards the payment of principal and interest on the Authority's bonds and notes. Bank further acknowledges that the Authority may be acting in a fiduciary capacity on behalf of certain persons or entities who may, in turn, be acting in a fiduciary capacity for subsequent purchasers and/or holders of the Authority's outstanding bonds and notes. Bank shall continuously maintain an executed copy of this Agreement, its copies of all Trust Receipts, Releases and Advices, and the Resolution Certificate among its official "deposit account records" (as defined in 12 C.F.R. §330.1(e)) until such time as this Agreement is terminated and all uninsured deposits of Depositor have been properly and fully paid out. This Agreement may be executed in one or more counterparts, each of which shall be an original.

11. Authorized Representatives; Depositor Agreements. The Depositor hereby confirms that it has previously authorized its Investment Officer and/or Investment Representatives to execute this Agreement and any documentation required in connection therewith, including specifically pursuant to the Applicable Regulations and documentation related thereto, and to represent it and act on its behalf in any and all matters of every kind arising under this Agreement. During the term of this Agreement, the Depositor may further designate an additional officer or officers to singly or jointly represent and act on behalf of Depositor in any and all matters of every kind arising under this Agreement and, in such event, shall provide written notice thereof to Bank. In the event of any conflict between the provisions of this Agreement and any other agreement between the Depositor and the Bank relating to the deposits, this Agreement will control, unless the conflict is with the Applicable Regulations, in which event the Applicable Regulations will control. Bank and Depositor specifically agree that Depositor's prior approval is required for any par-for-par Collateral substitutions.

12. Custodian as Bailee. Custodian will promptly identify the pledge by Bank to Depositor of the Collateral on the Custodian's books and records and any additional or substitute Collateral and issue to Bank and Depositor Trust Receipts covering the Collateral. Similarly, Custodian will promptly remove from its books and records any securities released from the pledge by Bank in compliance with the terms of this Agreement and issue to Bank and Depositor appropriate Releases identifying the released securities. Custodian acknowledges that it is the bailee of Depositor for purposes of Section 2257.044 of the Public Funds Law, and its custodial capacity is deemed to be set forth on any Trust Receipt delivered to Bank and Depositor, whether such capacity is expressly so noted or not. If the Custodian is the Federal Reserve Bank, this section shall not apply, but Bank acknowledges the provisions of the Applicable Regulations which provide that the Federal Reserve Bank is acting as custodian/bailee; that the Collateral identified on the Advice is subject to the custodial provisions of the Applicable Regulations; and that the disposition thereof is subject to Depositor's approval.

13. Financial Condition. Bank will provide a statement of its financial position to the Depositor on at least a quarterly basis. Bank will provide to the Depositor an annual statement audited by its outside auditors including a statement by its outside auditors as to its "fair presentation."

14. Amendment, Modification, Renewal. Each permitted release of previously pledged Collateral and each addition to or permitted substitution for Collateral shall be deemed and considered, without further action by Bank or Depositor, as an amendment to Exhibit "A" attached hereto and a contemporaneous renewal and extension of this Agreement for the term hereinafter stated upon the same terms and containing the same provisions as set forth herein, except as the Collateral subject to this Agreement may be modified or amended thereby; provided, however, that any such renewal and extension shall not affect any transaction entered into prior to such renewal and extension until Bank shall have properly and fully paid out all uninsured deposits (including any uninsured time deposits) and Depositor shall have authorized Custodian to redeliver to Bank's sole control all Collateral then in Custodian's possession. Otherwise, this Agreement may not be amended or modified except by mutual written agreement of the parties hereto.

15. Term. Unless sooner terminated as hereinafter provided, the term of this Agreement, and any renewal or extension hereof resulting from any release, addition to or substitution of securities pledged as Collateral hereunder, shall commence on the date of this Agreement, or the date of such release, addition or substitution, and continue for a term of ten (10) years.

16. Termination. Either Depositor, Bank or Custodian may terminate this Agreement prior to the expiration of the term hereof upon thirty (30) days' advance written notice to the other parties or by entering into a new Public Funds Depositor Collateral Security Agreement which is intended to supersede and replace this Agreement; provided, however, that the terms of this Agreement shall continue to apply to all transactions entered into prior to such termination and until Bank shall have properly and fully paid out all uninsured deposits (including any uninsured time deposits) and Depositor shall have authorized Custodian to redeliver to Bank's sole control all Collateral then in Custodian's possession.

17. Custodian Fees. Any and all fees associated with the Custodian's holding of Collateral for the benefit of the Depositor will be paid by Bank and the Depositor will have no liability therefor.

In witness whereof, the parties hereto have caused this Agreement to be executed by their duly authorized representatives as of the day first above written.

18. Representations. As required by Chapter 2270, Texas Government Code, Bank hereby verifies that Bank, including a wholly owned subsidiary, majority-owned subsidiary, parent company or affiliate of the same, does not boycott Israel and will not boycott Israel through the term of this Agreement. Custodian hereby verifies that Custodian, including a wholly owned subsidiary, majority-owned subsidiary, parent company or affiliate of the same, does not boycott Israel and will not boycott Israel through the term of this Agreement. The term "boycott Israel" in this paragraph has the meaning assigned to such term in Section 808.001 of the Texas Government Code, as amended. Pursuant to Chapter 2252, Texas Government Code, Bank represents and certifies that, at the time of execution of this Agreement neither Bank, nor any wholly owned subsidiary, majority-owned subsidiary, parent company or affiliate of the same, is a company listed by the Texas Comptroller of Public Accounts under Sections 2270.0201 or 2252.153 of the Texas Government Code. Custodian represents and certifies that, at the time of execution of this

Agreement neither Custodian, nor any wholly owned subsidiary, majority-owned subsidiary, parent company or affiliate of the same, is a company listed by the Texas Comptroller of Public Accounts under Sections 2270.0201 or 2252.153 of the Texas Government Code.

DEPOSITOR:

SAN JACINTO RIVER AUTHORITY

By: _____

Name: _____

Title: _____

Bank hereby agrees that it will periodically determine the market value of Collateral and maintain the corresponding Required Collateral Value throughout the term of this Agreement as indicated below (provided, however, that in the event no indication is made below, the Required Collateral Value for all purposes of this Agreement shall be 110%):

Less frequent than weekly No less than 110%

Weekly No less than 105%

BANK:

By: _____

Name: _____

Title: _____

The Custodian, if other than the Federal Reserve Bank, joins in the execution of this Agreement for purposes of Sections 4, 8, 9, 12, 16, and 18, and if the Custodian is the Federal Reserve Bank, such joinder is to be evidenced as set forth in the Applicable Regulations, the Advice and any documentation related thereto.

CUSTODIAN:

By: _____

Name: _____

Title: _____

EXHIBIT "A"

[Description of Eligible Securities Pledged]

EXHIBIT "B"

RESOLUTION CERTIFICATE

AND CERTIFICATE OF INCUMBENCY

OF _____ (BANK)

The undersigned hereby certifies as follows:

1. I am the officer of the Bank holding the title designated on the signature line of this Certificate.

2. Attached hereto as Annex I is a full, true and correct copy of resolutions (the "Resolutions") duly adopted by the [Board of Directors] [Loan Committee] of the Bank in conformity with the Articles of Association and By-laws of the Bank and in accordance with the laws of the State of Texas.

3. The Resolutions have not been amended, modified or rescinded, and are in full force and effect on the date hereof.

4. The Bank is duly organized and existing under the laws of _____.

5. All franchise and other taxes required to maintain the Bank's existence have been paid and none of such taxes are delinquent.

6. No proceedings are pending for the forfeiture of the Bank's authority to do business or for its dissolution, voluntarily or involuntarily.

7. The Bank is qualified to do business in each state where the nature of its business requires such qualification.

8. There is no provision in the Articles of Association, By-laws or any other agreement, indenture or contract to which the Bank or its property is subject which limits the Resolutions, and the Resolutions are in conformity with the provision of the Bank's Articles of Association and By-laws and with proceedings of the Board of Directors.

9. This resolution is made in order to comply with requirements of the Financial Institutions Reform, Recovery and Enforcement Act of 1989, as amended, and 12 U.S.C. 1823(e), and shall constitute a business record of the Bank and shall be continuously maintained in the official business records of Bank.

10. The undersigned officers have been duly elected to the positions set opposite their respective names below and are qualified to act in the present capacities in which they sign for the Bank.

11. The signatures appearing opposite each of the undersigned officers is his or her authentic signature and each of the undersigned holds the office designated for the same.

<u>Name</u>	<u>Office</u>	<u>Signature</u>
_____	_____	_____
_____	_____	_____

EXECUTED the _____ day of _____, 20__.

Name: _____

Title: [Secretary] [Recording Officer]

ANNEX I
RESOLUTIONS

RESOLVED, that this Bank shall secure all deposits of the San Jacinto River Authority (the "Authority") in excess of amounts insured by the Federal Deposit Insurance Corporation ("Excess Funds") on deposit with the Bank at any time in whatever amount; and further

RESOLVED, in regard to the above referenced deposits, that the Chairman of the Board of Directors, President, any Executive Vice President, any Vice President, any Assistant Vice President, or any other officer of the Bank is hereby authorized and directed to execute for and on behalf of the Bank the following documents, it being further agreed that the execution of any of the same prior to the adoption of these resolutions is hereby ratified, confirmed and adopted:

1. A Public Funds Depositor Collateral Security Agreement (the "Collateral Security Agreement") in favor of the Authority, covering the Collateral described therein;

2. Such other and further documents as may be deemed necessary or desirable by such officer or as required by the Authority in regard to the securing of the Excess Funds; and further

RESOLVED, that the officers executing any of the above described documents are hereby authorized and empowered to do and perform any and all actions required by the terms and provisions of same to execute the same in the name and on behalf of the Bank, in such number of counterparts as the officer or officers executing the same shall deem necessary or desirable, with such terms, conditions, modifications, changes and provisions as the officer or officers executing the same may approve, the execution of such documents to evidence approval of the terms thereof conclusively; and further

RESOLVED, that any and all instruments executed and delivered on behalf of the Bank in connection with these resolutions by any person purporting to be an officer of the Bank shall be deemed to be the act of the Bank and shall be in all respects binding against the Bank; and further

RESOLVED, that all actions of all officers, agents or other representatives of the Bank taken or performed up to the date hereof in respect to the preparation, execution and delivery of the documents, certificates or other instruments contemplated hereby, and the taking prior to the date hereof of any and all actions otherwise required by the terms and provisions of the above referenced documents, be, and they hereby are, in all respects approved, ratified and confirmed; and further

RESOLVED, that this approval is intended to comply in all respects with the requirements of applicable statutory law relating to insurance of accounts including specifically, but without limitation, the requirements of 12 U.S.C.A. §§ 1821(d)(9)(A) and 1823(e); and further

RESOLVED, that any deposit agreements between Bank and Authority and/or the Collateral Security Agreement are all intended to be, and shall be deemed to be, official records of the Bank; and further

RESOLVED, that any deposit agreements between Bank and Authority, the Collateral Security Agreement and these Resolutions shall be continuously maintained in the business records of the Bank.

Exhibit B

RESOLUTION NO. 2019-R-02

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE SAN JACINTO RIVER AUTHORITY AMENDING THE BUDGET FOR FISCAL YEAR 2019.

WHEREAS, on August 23, 2018, the San Jacinto River Authority Board of Directors adopted Resolution No. 2018-R-13 approving the Fiscal Year 2019 budget; and

WHEREAS, the San Jacinto River Authority finds it necessary to amend the Fiscal Year 2019 budget to facilitate expenditures which were not included in the Fiscal Year 2019 budget upon adoption; and

WHEREAS, the proposed budget amendment was reviewed by the Finance Committee of the Board of Directors on January 4, 2019, and recommended that the proposed budget amendment be approved and adopted by the Board of Directors as presented.

NOW THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE SAN JACINTO RIVER AUTHORITY:

Section 1. That the Fiscal Year 2019 budget, as approved under Resolution No. 2018-R-13, is further amended as detailed in Exhibit "A" attached hereto and incorporated herein for all purposes.

Section 2. That the budget amendment, attached hereto as Exhibit "A", shall be attached to and made part of the Fiscal Year 2019 Budget for all purposes.

Section 3. That except as amended hereby, the Fiscal Year 2019 budget, as approved under Resolution No. 2018-R-13 is ratified and confirmed in all respects and shall remain in effect.

Section 4. That this Resolution shall become effective immediately after adoption.

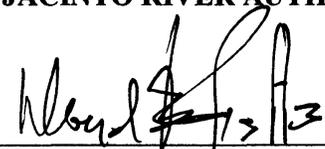
APPROVED AND ADOPTED by the Board of Directors of the San Jacinto River Authority on the 24th day of January, 2019.

ATTEST:

SAN JACINTO RIVER AUTHORITY



Jim Alexander, Secretary



Lloyd B. Tisdale, President

[SEAL]



San Jacinto River Authority - GRP
Proposed Budget Amendment
January 24, 2019

Description	Actuals 8/31/2017	Actuals Sept-March FY2018	Rolling 12	Budget FY2018	Budget FY2019	Proposed Changes	Proposed Amended Budget FY2019
			Mo. Actuals April 2017- March 2018				
PROFESSIONAL FEES							
Legal Fees	\$ 1,044,681	\$ 195,647	\$ 435,017	\$ 875,000	\$ 350,000	\$ 500,000	\$ 850,000
Disclosure Filing	375	-	-	500	500	-	500
Annual Financial Audit	27,170	31,549	35,927	35,000	35,000	-	35,000
Arbitrage Rebate Audit	6,700	3,250	3,250	3,600	4,000	-	4,000
Paying Agent Fees	6,500	2,500	4,500	4,500	4,750	-	4,750
Engineering	471,631	132,974	223,280	125,050	281,600	-	281,600
Safety Inspections & Testing	1,069	428	428	1,500	500	-	500
Graphic Design	94	-	94	2,000	2,000	-	2,000
TOTAL PROFESSIONAL FEES	\$ 1,558,220	\$ 366,348	\$ 702,496	\$ 1,047,150	\$ 678,350	\$ 500,000	\$ 1,178,350
OTHER SOURCES							
Cash Sources				\$ -	\$ -	\$ 500,000	\$ 500,000
Prepaid Reservation Fee				472,943	472,943	-	472,943
TOTAL OTHER SOURCES				\$ 472,943	\$ 472,943	\$ 500,000	\$ 972,943

*FY2018 Budget Amendments Approved October 26, 2017, January 25, 2018 and April 26, 2018.

San Jacinto River Authority - General and Administration
Proposed Budget Amendment
January 24, 2019

Description	Actuals 8/31/2017	Actuals Sept-March FY2018	Rolling 12 Mo. Actuals April 2017- March 2018	Budget FY2018	Budget FY2019	Proposed Changes	Proposed Amended Budget FY2019
CAPITAL IMPROVEMENTS							
Capital Improvements				\$ 117,000	\$ 142,000	\$ 605,000	\$ 747,000
Transportation Equipment				57,500	83,000	-	83,000
Software				5,564	3,107	-	3,107
Computer Equipment				58,193	55,699	-	55,699
Electronic Test Equipment				36,500	11,500	-	11,500
TOTAL CAPITAL IMPROVEMENTS				\$ 274,757	\$ 295,306	\$ 605,000	\$ 900,306
OTHER SOURCES							
Cash Sources				\$ -	\$ -	\$ 605,000	\$ 605,000
Operating Reserve Fund				-	70,102	-	70,102
Emergency Reserve Fund				-	70,102	-	70,102
TOTAL OTHER SOURCES				\$ -	\$ 140,203	\$ 605,000	\$ 745,203

*FY2018 Budget Amendments Approved October 26, 2017, January 25, 2018 and April 26, 2018.