RESOLUTION NO. 2005-51

RESOLUTION APPROVING INVESTMENT POLICY
OTHER MATTERS RELATING THERETO

WHEREAS, the Texas Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended, requires political subdivisions such as the Metropolitan Transit Authority of Harris County, Texas (the "Authority") to annually review and adopt a written investment policy with respect to the investment of the political subdivision's funds and other funds under its control; and

WHEREAS, the Board of Directors (the "Board") of the Authority has and now desires to approve the form Investment Policy attached hereto as Exhibit A (the "Investment Policy");

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE METROPOLITAN TRANSIT AUTHORITY OF HARRIS COUNTY, TEXAS THAT:

Section 1. Approval of Investment Policy The Board has reviewed and hereby approves the Investment Policy in the form attached as Exhibit A.

Section 2. Authorization to Execute and Deliver Documents and Approval of Certain Other Matters. The Board hereby authorizes the President and Chief Executive Officer, the Investment Officers named in the Investment Policy and any other officers of the Authority designated by the President and Chief Executive Officer (each, an "Authorized Representative") to execute and deliver, or to cause to be executed and delivered, any documents, instruments and certificates, as any such Authorized Representative, in such person's discretion, may deem necessary, advisable or appropriate to effectuate or carry out the obligations or responsibilities of the Authority under the Investment Policy or the purpose and intent of this Resolution, and the taking of any such action shall conclusively evidence the appropriateness or necessity of any such documents, instruments and certificates.

Section 3. Further Actions. The Board hereby authorizes the Authorized Representatives to take all other actions and do all other things, as may be necessary, desirable or appropriate to carry out the obligations or responsibilities of the Authority under the Investment Policy or the purpose and intent of this Resolution.

Section 4. Enforceable and Binding Act. Any agreement authorized by this Resolution shall become the enforceable and binding act and obligation of the Authority upon execution and delivery thereof.

Section 5. Severability. If any section, paragraph, clause, or provision of this Resolution shall for any reason be held to be invalid or unenforceable, the invalidity or unenforceability of such section, paragraph, clause, or provision shall not affect any of the remaining provisions of this Resolution.

Section 6. Open Meeting. It is hereby found, determined, and declared that a sufficient written notice of the date, hour, place, and subject of the meeting of the Board at which this Resolution was adopted was posted at a location and for the time required by law preceding this meeting, as required by the Open Meetings Act, Chapter 551, Texas Government Code, and that this meeting has been open to the public as required by law at all times during which this
Resolution and the subject matter thereof has been discussed, considered, and formally acted upon. The Board further ratifies, approves, and confirms such written notice and the contents and posting thereof.

Section 7. **Exhibit A Incorporated.** Exhibit A is incorporated hereby into and made a part of this Resolution for all purposes.

Section 8. **Power to Revise Form of Investment Policy.** Notwithstanding any other provision of this Resolution, the Investment Officers are hereby authorized to make or approve such revisions, additions, deletions, and variations in the form of Investment Policy attached hereto as Exhibit A as, in the judgment of the Investment Officers and in the opinion of legal counsel to the Authority, are consistent with the Texas Public Funds Investment Act and as may be necessary or convenient to carry out or assist in carrying out the purposes of this Resolution.

Section 9. **Ratification and Confirmation.** All acts, transactions or agreements undertaken prior to the adoption of this Resolution by any member of the Board or any representatives of the Authority in connection with the matters authorized by this Resolution and all actions incidental thereto are hereby ratified, confirmed and adopted by Authority.
RESOLUTION NO. 2005-51

APPROVED AND ADOPTED this June 16, 2005.

METROPOLITAN TRANSIT AUTHORITY OF
HARRIS COUNTY, TEXAS

By: [Signature]
Chairman, Board of Directors

ATTEST:

By: [Signature]
Secretary, Board of Directors
1.0 Policy

It is the policy of the Metropolitan Transit Authority of Harris County, Texas ("Metro") to invest public funds in a manner that will provide the highest investment return with maximum security while meeting the daily cash flow demands of Metro, conforming to all state and local statutes governing the investment of public funds and giving due consideration to the safety and risk of investments. This policy sets forth the investment program of Metro and the guidelines to be followed in achieving its objectives.

Effective cash management is recognized as essential to good fiscal management. Investment interest is a source of revenue to Metro. Metro's portfolio shall be designed and managed to maximize investment earnings as a revenue source, to be responsive to the public trust and to be in compliance with applicable legal requirements and limitations.

Investments shall be made with the primary objectives of:

- Preservation and safety of principal and diversification of the investment portfolio;
- Maintenance of sufficient liquidity to meet operating needs and marketability of the investment if the need arises to liquidate before maturity;
- Understanding the suitability of the investment to the financial requirements of Metro and maintaining public trust from prudent investment activities;
- Yield and optimization of interest earnings on the portfolio.

2.0 Purpose

The purpose of this investment policy is to comply with Section 451.104, Texas Transportation Code, and Chapter 2256, Texas Government Code (the "Public Funds Investment Act"). The Public Funds Investment Act requires Metro to adopt a written investment policy regarding the investment of its funds and funds under its control. This investment policy addresses the methods, procedures and practices that must be exercised to ensure effective and judicious fiscal management of Metro's funds.

3.0 Scope

This investment policy shall govern the investment of all financial assets of Metro, except those listed on Schedule 1, which are set up and administered separately and whose investment activities are conducted by third parties in accordance with instructions provided in ordinances, contracts, or escrow agreements, as applicable. The following funds shall be subject to this investment policy and are accounted for in Metro's Comprehensive Annual Financial Report ("CAFR"):

- General and Operating Funds;
- Capital Project Funds;
- Special Revenue Funds;
• Debt Service Funds, including reserves and sinking funds, to the extent not required by law, orders, resolutions or existing contracts to be kept segregated and managed separately;

• Trust and Agency Funds, to the extent not required by law, orders, resolutions or existing contracts to be kept segregated and managed separately.

Any new fund created by Metro shall be subject to this investment policy, unless specifically exempted from this investment policy by the Board or by applicable law.

Metro will consolidate cash balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

4.0 Investment Objectives

General

Metro shall manage and invest its cash with four primary objectives, listed in order of priority:

• Safety
• Liquidity
• Suitability
• Yield (expressed as optimization of interest earnings)

The safety of the principal invested always remains the primary objective. All investments shall be designed and managed in a manner responsive to the public trust and consistent with applicable law.

Metro shall maintain a comprehensive cash management program that includes collection of account receivables, vendor payments in accordance with invoice terms and prudent investment of available cash. Cash management is defined as the process of managing monies in order to insure maximum cash availability and maximum earnings on short-term investment of idle cash.

Safety

Safety is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit and interest rate risk.

Metro will minimize credit risk, the risk of loss due to the failure of the issuer or backer of the investment, by (i) limiting investments to the safest types of investments; (ii) pre-qualifying financial institutions and broker/dealers that Metro does business with; and (iii) diversifying the investment portfolio so that potential losses on individual issuers will be minimized.

Metro will minimize the risk that interest earnings and the market value of investments in the portfolio will fall due to changes in general interest rates by (i) structuring the investment portfolio so that investments mature to meet cash requirements for ongoing operations, thereby avoiding the need to liquidate investments prior to maturity; (ii) investing operating funds primarily in certificates of deposit, shorter-term securities, money market mutual funds or local government investment pools functioning as money market mutual funds; and (iii) diversifying maturities and staggering purchase dates to minimize the impact of market movements over time.
Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that investments mature concurrent with cash needs to meet anticipated demands. Because all possible cash demands cannot be anticipated, a portion of the portfolio will be invested in shares of money market mutual funds or local government investment pools that offer same-day liquidity. In addition, a portion of the portfolio will consist of securities with active secondary or resale markets.

Suitability

All investments shall be suitable for the type of fund invested, and the investment portfolio shall be designed with the objective of meeting all legal requirements including yield restrictions. All participants in Metro's investment process shall seek to act responsibly as custodians of the public trust. Investment officers shall avoid any transaction that might impair public confidence in Metro's ability to govern effectively.

Yield (Optimization of Earnings)

The investment portfolio shall be designed with the objective of attaining a market rate of return through budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above.

In order to minimize risk of loss due to interest rate fluctuations, investment maturities will not exceed the anticipated cash flow requirements of the funds. Investment guidelines by fund-type are as follows:

5.0 Investment Strategies for Funds

General and Operating Funds

Investment guidelines for Metro's general and operating funds are as follows:

Safety of Principal — All investments shall be in high quality securities with minimal default risk. Safety of principal shall be further ensured through diversification by issuer, maturity range and security type.

Liquidity — The general and operating funds will have high liquidity needs. Overnight repurchase agreements, local government investment pools and money market mutual funds can provide daily liquidity and may be utilized as competitive yield alternatives to fixed maturity investments.

Suitability — Any investment authorized by this investment policy having a final maturity not to exceed two years is suitable for general and operating funds.

Yield — Attaining a competitive market yield for comparable security types and portfolio restrictions is the desired objective. The minimum yield objective shall be the trailing three month average of the 3-month T-bill yield.

Capital Project Funds

Funds on deposit in capital project funds will pay for capital expenditures of Metro projects. Investment guidelines for such funds are as follows:

Safety — All investments shall be in high quality securities with minimal default risk. Maturities shall be placed to correspond with the anticipated capital spending or construction draw schedules. Safety of principal shall be further ensured through diversification by issuer, maturity range and security type.

Liquidity — Capital project funds require high short-term liquidity as the construction draw schedules are frequently uncertain. Overnight repurchase agreements, local government investment pools and money market mutual funds shall provide daily liquidity and may be utilized as competitive yield alternatives to fixed maturity investments.
Suitability — Any investments authorized by this investment policy not exceeding the expected construction draw schedule are suitable for the capital project funds.

Yield — The most desirable yield objective when investing Capital Project Funds is to achieve a positive spread to the arbitrage yield that corresponds to the specific bond issue. In market conditions in which this objective is not possible within safety constraints, attaining a competitive market yield for comparable security types and portfolio restrictions is the desired objective. In this case, the minimum yield objective shall be the trailing average of the yield on the Treasury security corresponding to the weighted average maturity of the capital project fund portfolio.

**Debt Service Funds**

Investment guidelines for Metro debt service funds are as follows:

Safety of Principal — All investments shall be in high quality securities with no perceived default risk. Market price fluctuations will however occur, by managing the debt service fund’s portfolio to not exceed the debt service payment schedule the market risk of the overall portfolio will be minimized. Market conditions influence the attractiveness of fully extending maturity to the next “unfunded” payment date. Generally, if investment rates are trending down, Metro is best served by locking in fixed rate securities. If interest rates are flat or trending up, concurrent market conditions will determine the attractiveness of extending maturity or investing in shorter alternatives. At no time shall the debt service schedule be exceeded in an attempt to bolster yield.

Liquidity — Debt service funds have predictable payment schedules. Therefore, investment maturities shall not exceed the anticipated cash flow requirements. Overnight repurchase agreements, local government investment pools and money market mutual funds shall provide competitive yield alternatives for short term fixed maturity investments.

Suitability — Any investment authorized by this investment policy is suitable for the debt service fund.

Yield — Attaining a competitive market yield for comparable security types and portfolio restrictions is the desired objective. The minimum yield objective shall be the trailing three month average of the 3-month T-bill yield.

**Special Revenue Funds**

Metro’s revenue funds are short term in nature and the investment guidelines are as follows:

Safety of Principal — All investments shall be in high quality short-term investments with no perceived default risk. Diversification is less of a concern since revenue funds will be highly liquid.

Liquidity — Revenue funds require high short-term liquidity. Overnight repurchase agreements, local government investment pools and money market mutual funds shall provide daily liquidity and may be utilized as competitive yield alternatives to fixed maturity investments.

Suitability — Eligible investments will be limited to overnight repurchase agreements, $1 NAV money market funds, $1 NAV local government investment pools, Treasury, agency and commercial paper issues with final maturities of less than 90 days.

Yield — Attaining a competitive market yield for comparable security types and portfolio restrictions is the desired objective. The minimum yield objective shall be the trailing one-month average of the four-week T-bill yield.

6.0 **Responsibility and Control**

**Delegation of Authority**

In accordance with the Public Funds Investment Act, the Board designates the officers or employees listed on Schedule 2 as Metro’s Investment Officers. An Investment Officer is authorized to execute investment transactions on behalf of Metro. No person may engage in an investment transaction or the management of Metro funds except...
as provided under the terms of this investment policy as approved by the Board. Such investment authority granted to the Investment Officers is effective until rescinded by the Board.

**Quality and Capability of Investment Management**

Metro shall provide periodic training in investments for the designated Investment Officers and other investment personnel through courses and seminars offered by professional organizations, associations, and other independent sources in order to insure the quality and capability of investment management in compliance with the Public Funds Investment Act.

**Training Requirement**

In accordance with the Public Funds Investment Act, the designated Investment Officers shall attend an investment training session no less often than once every two years and shall receive not less than 10 hours of instruction relating to investment responsibilities. A newly appointed Investment Officer must attend a training session of at least 10 hours of instruction within 12 months of the date the officer took office or assumed the officer’s duties. The investment training session shall be provided by an independent source approved by the Board. For purposes of this investment policy, an “independent source” from which investment training shall be obtained shall include a professional organization, an institution of higher education or any other sponsor other than a business organization with whom Metro may engage in an investment transaction.

**Internal Controls**

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

Accordingly, the Chief Financial Officer shall establish a process for annual independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following points:

- Control of collusion
- Separation of transaction authority from accounting and record keeping
- Custodial safekeeping
- Avoidance of physical delivery of securities
- Clear delegation of authority to subordinate staff members
- Written confirmation for telephone (voice) transactions for investments and wire transfers
- Development of a safekeeping agreement with a depository bank or third party custodian

**Prudence**

The standard of prudence to be applied by an Investment Officer shall be the “prudent investor” rule, which states that “investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital, as well as the probable income to be derived.” In determining whether an Investment Officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration the following:
• The investment of all funds over which the officer had responsibility rather than a consideration as to the prudence of a single investment;

• Whether the investment decision was consistent with this investment policy.

**Indemnification**

The Investment Officers, acting in accordance with written procedures and exercising due diligence, shall not be held personally responsible for a specific investment’s credit risk or market price changes, provided that these deviations are reported immediately and the appropriate action is taken to control adverse developments.

**Ethics and Conflicts of Interest**

Officers and employees involved in the investment process shall refrain from personal business activity that would conflict with the proper execution and management of the investment program, or that would impair their ability to make impartial decisions. Employees and Investment Officers shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with which business is conducted on behalf of Metro.

An Investment Officer who has a personal business relationship with an organization seeking to sell an investment to Metro shall file a statement disclosing that personal business interest. An Investment Officer who is related within the second degree by affinity or consanguinity to an individual seeking to sell an investment to Metro shall file a statement disclosing that relationship. A statement required under this subsection must be filed with the Texas Ethics Commission and the Board.

**7.0 Suitable and Authorized Investments**

**Portfolio Management**

Metro currently has a “buy and hold” portfolio strategy. Maturity dates are matched with cash flow requirements and investments are purchased with the intent to be held until maturity. However, investments may be liquidated prior to maturity for the following reasons:

• An investment with declining credit may be liquidated early to minimize loss of principal;

• Cash flow needs of Metro may require that the investment be liquidated;

• To improve the overall quality or maturity structure of the portfolio;

• To enhance the interest earnings of the portfolio.

**Authorized Investments**

Metro funds governed by this policy may be invested in the instruments described below, all of which are authorized by the Public Funds Investment Act. Investment of Metro funds in any instrument or security not authorized for investment under such act is prohibited. Metro will not be required to liquidate an investment that becomes unauthorized subsequent to its purchase.

(a) Obligations of the United States of America or its agencies and instrumentalities.

(b) Fully collateralized certificates of deposit issued by a state or national bank domiciled in the State of Texas or a savings and loan association domiciled in the State of Texas that are guaranteed or
insured by the FDIC or secured by Authorized Investments that have a market value of not less than the principal amount of the certificates;

(c) Direct obligations of the State of Texas or its agencies and instrumentalities;

(d) 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 of America or their respective agencies and instrumentalities;

(e) 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 AA or its equivalent;

(f) Fully collateralized repurchase agreements if Metro has obtained a signed BMA Master Repurchase Agreement with the company with which the agreement is entered, as authorized by the Public Funds Investment Act or other applicable law;

(g) Commercial Paper with a stated maturity of 270 days or fewer from the date of issuance, and is rated not less than A-1 or P-1 or an equivalent rating by at least two nationally recognized credit rating agencies, as authorized by the Public Funds Investment Act or other applicable law;

(h) No-load money market mutual funds registered and regulated by the Securities Exchange Commission, with a dollar-weighted average stated maturity of 90 days or fewer, which provides investing entities 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.) and which include in their investment objectives the maintenance of a stable net asset value of $1 for each share, as authorized by the Public Funds Investment Act.

(i) Guaranteed investment contracts and flexible repurchase agreements, as authorized by the Public Funds Investment Act or other applicable law.

(j) Local government investment pools that (i) meet the requirements of the Public Funds Investment Act, (ii) are rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service and (iii) seek to maintain a stable net asset value of $1 for each share, as authorized by the Public Funds Investment Act.

(k) Any other investment authorized by the Public Funds Investment Act.

Credit Downgrade Provision

An investment that requires a minimum rating under this policy does not qualify as an authorized investment during any period in which the investment does not have the minimum rating. All prudent measures consistent with this policy will be taken to liquidate an investment that is downgraded to less than the required minimum rating.

Securities Lending

Metro may enter into a securities lending program with an authorized broker/dealer or financial institution in order to enhance investment return. Metro may administer a securities lending program directly or, if conditions warrant, use an outside agent. Should an agent be used, one will be selected by the Board using appropriate criteria. Securities lending will only be transacted with a written agreement, approved by legal counsel, which details: (i) acceptable types of collateral; (ii) standards for collateral custody and control; (iii) collateral valuation and initial margin, accrued interest, marking to market, and margin calls; (iv) method for transmitting security income; and (v) acceptable methods for delivery of securities and collateral.
Approved List of Money Market Mutual Funds and Investment Pools and Federal Agencies

An approved list of money market mutual funds and investment pools is attached to this investment policy as Schedule 3. An approved list of federal agencies is attached to this investment policy as Schedule 4.

Not Authorized

The following types of investments are strictly prohibited.

(a) Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal. (Commonly referred to as “IDs”)

(b) Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest. (Commonly referred to as “POs”)

(c) Collateralized mortgage obligations that have a stated final maturity date of greater than 10 years.

(d) Collateralized mortgage obligations, the interest rate of which is determined by an index that adjusts opposite to the changes in a market index (Commonly referred to as “Inverse Floaters”).

Maximum Maturities

The longer the maturity of investments, the greater their price volatility. It is Metro’s policy to concentrate its investment portfolio in shorter-term securities in order to limit principal risk caused by changes in interest rates.

Metro will attempt to match its investments with anticipated cash flow requirements. With the exception of investments made for Capital Projects Funds, Metro will not directly invest in securities maturing more than two (2) years from the date of purchase; however, the above described obligations, certificates or agreements may be collateralized using longer dated investments.

Because no secondary market exists for repurchase agreements, the maximum maturity shall be 120 days, except in the case of a guaranteed investment contract or flexible repurchase agreement for bond proceeds. The maximum maturity for such an investment shall be determined in accordance with project cash flow projections and the requirements of the governing bond order or resolution.

Diversification

It is the policy of Metro to diversify its investment portfolio. Metro recognizes that investment risks can result from issuer defaults, market price changes or various technical complications leading to temporary illiquidity. All funds shall be diversified to eliminate the risk of loss resulting from over-concentration of assets in a specific maturity, a specific issuer or a specific class of securities. In establishing specific diversification strategies, the following general policies and constraints shall apply:

(a) Limiting investments to avoid over-concentration in investments from a specific issuer or security type, excluding U.S. Treasury securities and other investments backed by the full faith and credit of the United States.

(b) Limiting investments that have higher credit risks (example: commercial paper).

(c) Investing in investments with varying maturities. Portfolio maturities shall be staggered in a way that avoids undue concentration of assets in a specific sector. Maturities shall be selected that provide for stability of income and reasonable liquidity.

(d) Continuously investing a portion of the portfolio in readily available funds such as local government investment pools (LGIPs), money-market funds or overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.
The following maximum limits, by instrument, are established for Metro’s total portfolio:

1. U.S. Treasury Securities 100%
2. Agencies and Instrumentalities 85%
3. Certificates of Deposit 25%
4. Commercial Paper 50%
5. Municipals 25%
6. Repurchase Agreements* 20%
7. Money Market Mutual Funds 50%
8. Authorized Investment Pools 50%

*Excluding flexible repurchase agreements for bond proceeds investments.

8.0 Selection of Banks and Broker/Dealers

Banks

Metro will maintain a list of qualified public depositories approved by the Board that are authorized to hold Metro funds. Deposits will only be placed with those institutions that have:

(a) Provided audited financial statements;
(b) Submitted a written request or completed an application to be an authorized depository;
(c) Been designated by the Board as an authorized depository;
(d) Signed an appropriate form of security or collateral agreement; and
(e) Provided collateral as required by applicable law.

An annual review of the financial condition of each depository holding Metro funds will be conducted by Metro. A current audited financial statement is required to be on file for each broker/dealer and financial institution that transacts any investment activities with Metro.

Broker/Dealers

Metro will maintain a list of approved broker/dealers and financial institutions that have been approved by the Board and are authorized to provide investment services in the State of Texas. Investments shall only be made with those firms who qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule) and who have:

(a) Provided audited financial statements;
(b) Completed a response to all requested information in any Metro questionnaire relating to creditworthiness, experience and reputation;
(c) Acknowledged, in writing, that the policy has been thoroughly reviewed by qualified representatives dealing directly with Metro’s account and that the organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between Metro and the organization that are not authorized by Metro’s investment policy, except to the extent that this authorization depends on an analysis of the makeup of Metro’s entire portfolio or requires an interpretation of subjective investment standards; and
(d) Met any qualifications and standards recommended and approved by the Board.
An annual review of the financial condition and registrations of authorized broker/dealers and financial institutions providing investment services will be conducted by Metro. In addition, the quantity of transactions conducted with each approved broker/dealer will be reviewed at least annually. The results of this review and the related recommendations shall be submitted to the Board. The Board shall, at least annually, review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with Metro.

Securities shall be purchased using the delivery vs. payment method with the exception of investment pools and mutual funds. Funds will be released after notification that the purchased security has been received.

Approved List

An approved list of banks and broker/dealers is attached to this investment policy as Schedule 5.

Competitive Quotes

Each investment transaction shall be based upon competitive quotations received from at least three (3) broker/dealers approved by Metro. Competitive quotes shall be documented and retained as part of the transaction record.

Investment Advisors

Metro may contract with an investment advisor, who shall adhere to the spirit, philosophy and specific terms of this Policy and shall invest within the same “Standard of Care.” The investment advisor must be registered with the Securities and Exchange Commission (SEC) under the Investment Advisor’s Act of 1940 as well as with the Texas State Securities Board. Advisors may assist Metro with the management of its funds and other responsibilities including but not limited to, broker compliance, competitive bidding, reporting and security documentation.

An appointed Investment Advisor shall act solely in an advisory and administrative capacity, within the guidelines of this Investment Policy. At no time shall the advisor take possession of securities or funds or otherwise be granted discretionary authority to transact business on behalf of Metro.

9.0 Safekeeping of Securities and Collateral

To protect against potential fraud and embezzlement, the financial assets of Metro shall be secured through safekeeping procedures. The Investment Officers shall be bonded to protect the public against possible embezzlement and malfeasance.

Securing Deposits of Authority Funds

Metro shall contract with a bank or banks for the safekeeping of securities either owned by Metro as part of its investment portfolio or held as collateral to secure demand or time deposits. Securities owned by Metro shall be held in Metro’s name as evidenced by safekeeping receipts of the institution holding the securities.

Collateral for deposits will be held by a third party custodian designated by the entity and pledged to Metro as evidenced by safekeeping receipts of the institution with which the collateral is deposited. Original safekeeping receipts shall be obtained. Collateral may be held by the depository bank’s trust department, a Federal Reserve Bank or branch of a Federal Reserve Bank, a Federal Home Loan Bank, or a third-party bank approved by Metro.

Collateral Policy

Consistent with the requirements of the Public Funds Collateral Act, it is the policy of Metro to require full collateralization of all Metro funds on deposit with a depository bank. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 102% of market value of principal and accrued interest on the deposits less the amount insured by the FDIC. At its discretion, Metro may require a higher level of collateralization for certain security types. Securities pledged as collateral shall be held by an independent third party with which Metro has a current custodial agreement. Metro’s Chief Financial Officer is responsible for entering into collateralization agreements with third-party custodians in compliance with this investment policy. The agreements are to specify the acceptable security types for collateral, including provisions relating to possession
of the collateral, the substitution or release of collateral, ownership of collateral, and the method of collateral valuation. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to Metro and retained in file. Collateral shall be reviewed at least monthly to assure that the market value of the pledged securities is adequate.

**Collateral Defined**

Metro shall accept only the following types of collateral:

- Obligations of the United States or its agencies and instrumentalities.
- Direct obligations of the State of Texas or its agencies and instrumentalities.
- 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 these CMO's do not fall under the Not Authorized section listed above.
- Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized rating firm not less than AA or its equivalent with a remaining maturity of ten (10) years or less.
- A surety bond issued by an insurance company rated as to investment quality by a nationally recognized rating firm not less than A.
- A letter of credit issued to the entity by the Federal Home Loan Bank.

**Subject to Audit**

All collateral shall be subject to inspection and audit by a Metro representative or Metro's independent auditors.

**10.0 Performance**

**Performance Standards**

Metro’s investment portfolio will be managed in accordance with the parameters specified within this investment policy. The portfolio shall be designed with the objective of obtaining a reasonable market yield through budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow requirements of Metro.

**Performance Benchmark**

It is the policy of Metro to purchase investments with maturity dates coinciding with cash flow needs. Through this strategy, Metro shall seek to optimize interest earnings utilizing allowable investments available on the market at that time. Market value will be calculated on a quarterly basis on all securities owned and compared to current book value. Metro’s portfolio shall be designed with the objective of attempting to meet or exceed the average yield on U.S. Treasury securities at a maturity level comparable to Metro’s weighted average maturity in days.

**11.0 Reporting**

**Methods**

The Investment Officer shall prepare an investment report on a quarterly basis that summarizes investment strategies employed in the most recent quarter and describes the portfolio in terms of investment securities, maturities, and yield to maturity.

The quarterly investment report shall include a summary statement of investment activity prepared in compliance with generally accepted accounting principles. This summary will be prepared in a manner that will allow Metro to ascertain whether investment activities during the reporting period have conformed to this investment policy. The report will be provided to the Board. The report must:
• Describe in detail the investment position;
• Be prepared jointly by all Metro investment officers;
• Be signed by each investment officer;
• Contain a summary statement prepared in compliance with generally accepted accounting principles of each pooled fund group that states the: beginning market value for the reporting period; additions and changes to the market value during the period; ending market value for the period; fully accrued interest for the reporting period;
• State the book value and market value of each separately invested asset at the beginning and end of the reporting period by the type of asset and fund type invested;
• State the maturity date of each separately invested asset that has a maturity date;
• State the fund for which each individual investment was acquired;
• Include a statement of compliance of Metro’s investment portfolio with state law and the investment strategy and policy approved by the Board.

An independent auditor will perform a formal annual review of the quarterly reports with the results reported to the governing body.

Monitoring Market Value

Market value of all securities in the portfolio will be determined on a quarterly basis. Such values will be obtained from a reputable and independent source and disclosed to the Board quarterly in a written report.

12.0 Investment Policy Adoption

Metro’s investment policy shall be adopted by resolution of the Board. It is Metro’s intent to comply with all applicable state laws and regulations. Metro’s investment policy shall be subject to revisions consistent with changing laws, regulations, and needs of Metro. Metro shall adopt a resolution stating that it has reviewed the policy and investment strategies annually, approving any changes or modifications.

SCHEDULES

Schedule 1 — Metro Funds Specifically Exempted From Investment Policy

Schedule 2 — List of Investment Officers

Schedule 3 — Approved List of Money Market Mutual Funds and Investment Pools

Schedule 4 — Approved List of Federal Agencies

Schedule 5 — Approved List of Banks and Broker/Dealers
Schedule 1 — Metro Funds Specifically Exempted From Investment Policy

<p>| None |</p>
<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Francis M. Britton</td>
<td>Vice President and Chief Financial Officer</td>
</tr>
<tr>
<td>Phil F. Nguyen</td>
<td>Director of Treasury Services</td>
</tr>
<tr>
<td>Lisa W. Oliver</td>
<td>Manager of Investments and Banking</td>
</tr>
<tr>
<td>Michael J. Curran</td>
<td>Manager of Pensions, Trust and Sales Tax Revenue</td>
</tr>
</tbody>
</table>
Schedule 3 — Approved List of Money Market Mutual Funds and Investment Pools

Money Market Mutual Funds:
AIM Investments
SEI Liquidity Management
JP Morgan U.S. Government Money Market Fund (Sweep)

Investment Pools:
None
Schedule 4 — Approved List of Federal Agencies

All indirect obligations of the U.S. "such as":

- Federal Farm Credit Bank
- Federal Home Loan Bank
- Federal Home Loan Mortgage Corporation
- Federal National Mortgage Corporation
- Student Loan Marketing Association

"and other federal agency obligations, the principal and interest of which are unconditionally guaranteed or insured by or backed by the full faith and credit of the United States, its agencies or instrumentalities."

Direct Obligations of the State of Texas or any county, city, school district or other political subdivision of the State of Texas are also approved investments.
Schedule 5 — Approved List of Banks and Broker/Dealers

Approved Depository Banks:
JPMorgan Chase
Guaranty Federal Savings

Currently Approved Broker / Dealers:
APS Financial
CIBC World Markets
Coastal Securities
Dain Rauscher
Deutsche Bank Securities
JPMorgan Securities, Inc.
Merrill Lynch
Morgan Keegan
Morgan Stanley
NBC Capital Markets
Raymond James Financial
Robert Van Securities
UBSPaine Webber
Vining Sparks
Walton Johnson

Proposed Broker/Dealers to be added as of June 16, 2005:
Citigroup Global Securities
Wachovia Securities
CERTIFICATE FOR RESOLUTION

STATE OF TEXAS

METROPOLITAN TRANSIT AUTHORITY
OF HARRIS COUNTY, TEXAS

I, the undersigned officer of the Board of Directors of the Metropolitan Transit Authority of Harris County, Texas, hereby certify as follows:

1. The Board of Directors (the "Board") of the Metropolitan Transit Authority of Harris County, Texas (the "Authority") convened in a regular meeting on June 16, 2005, at the regular meeting place thereof within said Authority (the "Meeting"), and the roll was called of the duly constituted officers and members of the Board, to wit:

   Mr. David S. Wolff  Chairman
   Mr. Gerald B. Smith  Vice Chairman
   Mr. Jackie Freeman  Secretary
   Mr. George A. Demontrond, III  Director
   Bishop James Dixon, II  Director
   Ms. Carmen Orta  Director
   Mr. Rafael Ortega  Director
   Ms. Louise T. Richman  Director
   Mr. C. Jim Stewart, III  Director

   and all of such persons were present at the meeting, except Mr. Rafael Ortega, thus constituting a quorum. Whereupon, the following was transacted at such meeting:

   RESOLUTION APPROVING INVESTMENT POLICY OTHER MATTERS RELATING THERETO

was duly introduced for the consideration of said Board and read in full. It was then duly moved and seconded that this resolution be adopted; and, after due discussion, said motion, carrying with it the adoption of this resolution, prevailed and carried by the following vote:

   AYES: 9  NOES: 0  ABSTENTIONS: 0

2. That a true, full and correct copy of the aforesaid resolution adopted at the meeting described in the above and foregoing paragraph is attached to and follows this certificate; that such true, full and correct copy of the aforesaid resolution is thereby included among the public records of the Authority; that this resolution has been duly recorded in said Board's minutes of the Meeting; that the above and foregoing paragraph is a true, full and correct excerpt from said Board's minutes of the Meeting pertaining to the adoption of this resolution; that the persons named in the above and foregoing paragraph are the duly chosen, qualified and acting officers and members of said Board as indicated therein; that each of the officers and members of said Board was duly and sufficiently notified officially and personally, in advance, of the date, hour, place and purpose of the aforesaid Meeting, and that this resolution would be
introduced and considered for adoption at said Meeting, and each of said officers and members consented, in advance, to the holding of said Meeting for such purpose; that the Meeting was open to the public as required by law; and that public notice of the date, hour, place and subject of the Meeting was given as required by Chapter 551, Texas Government Code, as amended.

SIGNED AND SEALED this June 16, 2005.

[Signature]
Secretary, Board of Directors

(AUTHORITY SEAL)