

**MINUTES OF THE
KERRVILLE PUBLIC UTILITY BOARD
ANNUAL SYSTEM USERS MEETING
WEDNESDAY, JANUARY 15, 2020 AT 8:30 A.M.
KPUB CONFERENCE ROOM
2250 MEMORIAL BLVD.
KERRVILLE, TEXAS**

TRUSTEES PRESENT:

Fred Gamble
Bill Thomas
Philip Stacy
Mark Cowden
Mayor Bill Blackburn

STAFF PRESENT:

Mike Wittler, General Manager and CEO
Jill Sadberry, Chief Financial Officer
Tommy Nylec, Chief Engineer
Gerald Bryla, Controller
Tammye Riley, HR Manager
Jo Anderson, Customer Service Manager
Allison Bueché, Marketing Manager
Howard Hall, Field Services Supervisor
Damon Richardson, Purchasing Agent
Lidia S. Goldthorn, Assistant Secretary to the Board

TRUSTEES ABSENT:

OTHERS PRESENT:

Stephen Schulte, Legal Counsel
David Copeland, BSGM, L.L.P.
Glenn Andrew
Pat Murray
Anne Overby, Arcadia Live

1. CALL TO ORDER:

Mr. Fred Gamble, Chairman, called the Annual System Users Meeting to order at 8:30 a.m.

2. PLEDGE OF ALLEGIANCE:

3. REPORT BY BSGM, L.L.P., CERTIFIED PUBLIC ACCOUNTANTS:

Mr. David Copeland addressed the Board of Trustees on behalf of BSGM, L.L.P. He presented a concise review of the Audited Financial Statements for the fiscal years ended September 30, 2019 and 2018, including an Independent Auditor's Report, and the Management Discussion and Analysis. Mr. Copeland then reviewed the financial statements along with the notes to the financial statements. He also went over the required supplementary information and advised there were no new GASB requirements.

Mr. Copeland stated that KPUB Management had presented fairly, in all material respects, the financial position of KPUB as of September 30, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended, in accordance with generally accepted accounting principles.

Chairman Gamble thanked the auditor for the report.

4. CONSIDERATION AND ACTION ON RESOLUTION NO. 20-01- JILL SADBERRY, CFO:

Ms. SADBERRY presented and recommended approval of Resolution No. 20-01; a Resolution of the Kerrville Public Utility Board accepting the Fiscal Year End Audit of 2018/2019 and the Public Funds Investment Act Agreed Upon Procedures Report. Chairman Gamble requested a motion from the Board. Philip Stacy, Secretary, motioned for approval of Resolution 20-01. Bill Thomas, Vice Chairman, seconded the motion. Vote by a show of hands. Motion carried 5 – 0.

5. ANNUAL GENERAL MANAGER'S REPORT – MIKE WITTLER

Mr. Wittler advised that KPUB's enabling authority, City of Kerrville Ordinance 87-45, states "at least annually the Board shall hold a meeting for all users of the System to discuss the general condition of the System and other such matters as the Board shall determine." He highlighted the continued financial stability of KPUB as reflected in the annual audit. Mr. Wittler indicated that the operating revenue for this fiscal year represented a decrease of \$212,554 or 0.5% less than the previous year. The decrease resulted from a decrease in power cost. He added that for the twelve months ending September 30th, the Debt Service Coverage was 14.57; which compares favorably to the Board's established ratio of 1.65x to 1. Mr. Wittler advised the power supply cost to KPUB customers has remained competitive. The average residential energy cost for Fiscal Year 2019 was \$89.37/1000kWh and \$87.50/1000 kWh in 2018, which compare very favorably with rate comparisons published by the Texas Public Power Association, Texas Public Utility Commission and American Public Power Association. Projected residential energy cost for the remainder of Fiscal Year 2020 is \$85.00/1000kWh.

Mr. Wittler advised that in 2018, KPUB executed agreements to have community solar systems installed locally. Those systems were eventually constructed by NextEra Energy Resources in the fall of 2018 and spring of 2019. The six systems have a combined capacity of 5.25 MW and are installed and interconnected with KPUB's distribution system at four locations across KPUB's service area. The systems reduce peak energy supply costs for all KPUB customers and also provide access to solar energy to the non-profit customers hosting the systems and low and moderate income households. The systems achieved commercial operations in May and June 2019. Mr. Wittler advised KPUB has continued to work on long term power supply portfolio with the goal of ensuring long term stable rates for customers. In late 2018 two long term agreements were executed with ENGIE for 25MW of capacity and OnPeak Power/Concho bluff for 50MW of capacity; which will begin operations in 2020 and 2021.

Mr. Wittler discussed major capital projects completed this year with overall costs at 57% of budget. Capital expenditures and construction projects included: (1) installation of material for fiber optic communication between substations; (2) replacement of existing standing seam metal roof for warehouse building; (3) extensions of and improvements to overhead and underground facilities to increase capacity and provide service to new customers and developments; (4) improvements to KPUB's substations for enhanced reliability; (5) improvements to KPUB's information and technology infrastructure including redundant equipment, SCADA equipment upgrade, and fiber optic network

equipment; (6) vehicle and equipment replacements; (7) building and facilities improvements including equipment replacement for energy efficiency and landscape improvements; (8) installation of equipment for new feeder tie line between Barker and Legion substations; (9) installation of equipment for standardization at Ingram substation; (10) acquisition of material and installation of AMI equipment; and (11) substation transformer replacement at Stadium substation. Costs associated with customer extensions decreased from \$737,012 in Fiscal Year 2018 to \$652,532 in Fiscal Year 2019. He advised the completion of the AMI Project is particularly notable. The entire project was completed over the course of two fiscal years with the majority of meter conversations being completed in seven months. The transition was smooth and seamless for customers, the billing system, and the employees. Mr. Wittler further advised that the electric system is in very good condition; although a significant uptick in customer outage time was experienced, with SAIDI (average annual outage time) going from 56 minutes in 2018 to 145 in 2019, the majority of that increase was caused by problems with a single transformer at the Hunt substation. Once identified, an emergency purchase was initiated and that transformer has now been replaced. There were no lost time injuries and one minor preventable vehicle accident.

Mr. Wittler advised that KPUB has continued to work to engage employees, conducting an employee satisfaction survey this year to establish a baseline and help guide future workforce efforts. He advised there are currently 53 full-time employees, two part-time employees and seven vacancies. An on-going annual Board and management workshop was initiated to provide updates to the Vision, goals and programs. He highlighted the Community Report compiled by Allison Bueche.

6. CITIZEN/CONSUMER OPEN FORUM:

There were no citizens/consumers to speak.

7. ADJOURNMENT

At 9:03 a.m., Chairman Gamble noted that there being no further business, the meeting was adjourned.

Date Approved: _____

Fred Gamble, Chairman

ATTEST

Lidia S. Goldthorn, Assistant Secretary to the Board

**MINUTES OF THE
KERRVILLE PUBLIC UTILITY BOARD
REGULAR MONTHLY MEETING
WEDNESDAY, JANUARY 15, 2020, AT 8:30 A.M.
KPUB CONFERENCE ROOM
KERRVILLE PUBLIC UTILITY BOARD OFFICES
2250 MEMORIAL BLVD.
KERRVILLE, TEXAS**

TRUSTEES PRESENT:

Fred Gamble
Bill Thomas
Philip Stacy
Mark Cowden
Mayor Bill Blackburn

STAFF PRESENT:

Mike Wittler, General Manager and CEO
Jill Sadberry, Chief Financial Officer
Tommy Nylec, Chief Engineer
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Tammye Riley, HR Manager
Jo Anderson, Customer Service Manager
Allison Bueché, Marketing Manager
Howard Hall, Field Services Supervisor
Damon Richardson, Purchasing Agent
Lidia S. Goldthorn, Assistant Secretary to the Board

TRUSTEES ABSENT:

OTHERS PRESENT:

Stephen Schulte, Legal Counsel
Glenn Andrew
Pat Murray
Anne Overby, Arcadia Live

1. CALL TO ORDER:

Mr. Fred Gamble, Chairman, called the Regular Monthly Meeting to order at 9:03 a.m.

2. APPROVAL OF MINUTES:

The Trustees reviewed the minutes of the December 18, 2019 Regular Monthly Board Meeting. Bill Thomas, Vice Chairman, motioned to approve the minutes as amended. Mark Cowden, Treasurer, seconded the motion. Vote was by a show of hands. Motion carried 5 – 0.

3. CITIZEN/CONSUMER OPEN FORUM:

There were no citizens/consumers to speak.

4. ANNOUNCEMENTS OF COMMUNITY INTEREST:

Mr. Wittler advised with regard to community involvement and volunteer activities, there will be a blood drive at KPUB on February 21st for employees and the public. Also, in the spirit of APPA's "Day of Service" scheduled for Monday, a couple of crew members will be moving a playground from the Children's Advocacy Place to the Hill Country Crisis Council. In March, there is a CAM event that we will be participating in. He also advised that Tommy Nylec has accepted a position with CoServ Electric as their Director of Engineering, and we wish him all the best. Mayor Blackburn expressed his appreciation for Mr. Nylec's work for KPUB.

**Mr. Wittler requested to proceed to item number 12 on the Agenda. The Board agreed and Chairman Gamble proceeded to item number 12. KPUB Counsel Steve Schulte recused himself from discussion.*

12. CONSIDERATION AND ACTION ON APPLICATION FOR ECONOMIC DEVELOPMENT SUPPORT FROM KERRVILLE'S FOURTH ON THE RIVER FOR ARCADIA THEATER – MIKE WITTLER, CEO:

Mr. Wittler advised the Arcadia Theater put in a request to be placed on KPUB's Economic Development Rate. He advised the Economic Development GO Team reviewed the request on January 8th and recommended approval. He also advised that the Arcadia Theater meets the eligibility criteria for KPUB's Economic Development Rate as long as the Board determines that it will have an impact equivalent or greater to the impact of a normal downtown business operating at least four days per week including at least one day on the weekend and until 8:00 pm each day the business is open. Staff recommended approval of the economic development support request from the Arcadia Theater. KPUB's Economic Development Rider was provided for the Board's reference.

Anne Overby gave the Board an overview of Arcadia Live's plans. A contractor is currently remodeling the theater and the soft opening is planned for July 3rd.

Mr. Cowden motioned for approval of the economic development support request from the Arcadia Theater. Mr. Stacy seconded the motion. Vote was by a show of hands. Motion carried 5 – 0.

5. CONSIDERATION AND ACTION ON RESOLUTION NO. 20-02 – JILL SADBERRY, CFO:

Ms. SADBERRY presented this month's wire transfers for operating expenses to the Board. Philip Stacy, Secretary, motioned for approval of Resolution No. 20-02. Mr. Cowden seconded the motion. Vote was by a show of hands. Motion carried 5 – 0.

6. FINANCIAL REPORT – JILL SADBERRY, CFO:

Ms. SADBERRY presented Financial Statements (unaudited) for the Fiscal Year 2020 through December 31, 2019. Ms. SADBERRY reviewed the Statements and Balance Sheets for the month. She stated at December 31, 2019, operating expenses, excluding power cost, were below budget by \$70,084.19 or by 2.43%. The balance in the over-collected power cost was \$2,521,229.00. Ms. SADBERRY noted the balance in the Rate Stabilization Fund was \$1,889,256.01. The Debt Service coverage was 14.09 for the month and 14.83 for the Fiscal Year.

7. **APPROVAL AND REPORTING OF PURCHASES AND SALES:**

A. Tree Trimming Contract (Howard Hall, Field Services Supervisor)

Staff recommended the approval of a blanket purchase order to Townsend Tree Service Company, LLC (formerly National Tree Expert Company) for an estimated \$650,737.14 for one year of tree trimming and right-of-way clearing services by three crews and equipment. Bids were requested for a one year contract with up to four one year extensions. This will be the first one year extension since the contract was approved last year. Townsend Tree Service Company, LLC has provided quality tree trimming services to KPUB since 2006. Services are invoiced weekly based on actual billable hours. Attached is the proposed rate schedule for 2020. There was no increase in equipment. The increase in labor is due to a spike in wages that Townsend has seen in the last year and they are wanting to stay competitive in the market to maintain the employees they currently have.

Mayor Bill Blackburn motioned for approval of item #7A. Mr. Cowden seconded the motion. Vote was by a show of hands. Motion carried 5 – 0.

B. Bid No. 2653 – 1000 MCM 15KV Primary Cable (Damon Richardson, Purchasing Agent)

Staff recommended approval of a purchase order to be issued to the lowest bidder, Anixer, Inc., in the amount of \$66,173.38, for 1000 MCM Cable for the underground portion of the Barker to Legion express feeder job, airport portion. The purchase included one reel for inventory purposes.

Mr. Cowden motioned for approval of item #7B. Mr. Stacy seconded the motion. Vote was by a show of hands. Motion carried 5 – 0.

C. Transmission Cost of Service Testimony Support (Tommy Nylec, Chief Engineer)

As an extension to the purchase order approved by the Board in June 2019, staff recommended a purchase order to be issued to GDS Associates for \$78,000.00. Mr. Nylec advised KPUB had filed in accordance with PUCT requirements for a full transmission cost of service. GDS Associates was awarded a purchase order for initial filing oversight and support. As mentioned in June 2019, additional support will be needed from GDS through the testimony in response to PUCT's data review process. The firm had provided a full testimony response based upon their experience for any level of inquiry posed by PUCT staff. However KPUB staff and GDS anticipate the extent of support needed to be greatly less than the amount in the attached quote. Again, the consulting and legal costs incurred to conduct the transmission cost of service study are recoverable through a separate rider, which will be addressed after the approval of KPUB's submittal by PUCT.

Mr. Thomas motioned for approval of item #7C. Mr. Cowden seconded the motion. Vote was by a show of hands. Motion carried 5 – 0.

8. **QUARTERLY REPORTS: ENGINEERING AND OPERATIONS PROJECTS, CAPITAL BUDGET SUMMAR, CUMULATIVE PURCHASING ACTIVITY, AND RELIABILITY – TOMMY NYLEC, CHIEF ENGINEER:**

Mr. Nylec presented a spreadsheet summarizing spending for the Capital Budget through the first quarter of fiscal year end 2020. Mr. Nylec also presented a spreadsheet summarizing disbursements by check with cumulative activity to payees above \$10,000.00 for the period January 1, 2019 through December 31, 2019 by month. He highlighted completion of the Hunt project. Also provided at the Board's

request was a quarterly check register of single payments over \$10,000.00 to accompany the cumulative report. Mr. Nylec also presented the quarterly reliability reports summarizing industry performance indices by substation, feeder, and entire system by month. In the monthly summary, total number of customers connected was also reflected. Service summary also identified common outage causes and Major Event Day threshold including the day the event occurred.

**At this time, Chairman Gamble elected to proceed to item number 10 on the Agenda. The Board agreed and Chairman Gamble proceeded to item number 10.*

10. CONSIDERATION AND ACTION ON MANAGEMENT INCENTIVE PLAN PAYMENTS FOR FY 2020 – MIKE WITTLER, CEO:

Mr. Wittler presented a draft of the Management Incentive Plan (MIP) for FY 2020. Proposed changes include: add/remove various individual goals and adjust percentages; adjust O&M goals to consider past performance, current budget, and APPA Financial Metrics Survey; and goals have been revised based on the goal attainment for the FY 2019 Incentive Plans and historical performance. He advised that all changes from the prior year's MIP are shown in red. He advised that several minor changes from the document that was in the December Board packet were highlighted in yellow, which were typically minor corrections and adjustments to dates. The Personnel Committee has reviewed the proposed revisions as outlined in the plan. With the Personnel Committee's recommendation, vote was by a show of hands. Motion carried 5 – 0.

**At this time, Chairman Gamble elected to proceed to item number 9 on the Agenda. The Board agreed and Chairman Gamble proceeded to item number 9.*

9. CONSIDERATION AND ACTION ON EMPLOYEE INCENTIVE PLAN PAYMENTS FOR FY 2020 – MIKE WITTLER, CEO:

Mr. Wittler presented a draft of the Employee Incentive Plan (EIP) for FY 2020. He advised if approved by the Board, this will be the seventh year of the EIP for non-management personnel. Each employee would again be eligible for up to 3.0% of their annual base salary depending on goal achievement. The goals have been revised based on department needs, the goal attainment for the FY 2019 EIP and historical performance. He advised that several minor changes from the document that was in the December Board packet were highlighted in yellow, which were typically minor corrections and adjustments to dates. The Personnel Committee has reviewed the draft EIP and recommended it for approval. With the Personnel Committee's recommendation, vote was by a show of hands. Motion carried 5 – 0.

11. CONSIDERATION AND ACTION ON POTENTIAL CANDIDATES FOR BOARD POSITION #2 – MIKE WITTLER, CEO:

Mr. Wittler went over the application process for potential candidates for Board Position #2. The media has received the Public Notice for publication and it has been posted at the KPUB office and at City Hall, as well as on KPUB's and the City's websites. As a refresher, Mr. Wittler summarized that the Board will need to nominate three names to send to the City Council. If the City Council rejects them, the process will need to start over again. Applicants are required to live or conduct business in Kerr County and use KPUB service for their home or business.

13. CONSIDERATION AND ACTION ON REVISION TO THE KPUB SCHOLARSHIP PROGRAM – ALLISON BUECHÉ, MARKETING MANAGER:

Mrs. Bueché advised that KPUB’s scholarship program was established in 2013 as a way for KPUB to give back to the community and to encourage local youth to work hard and follow their dreams. Since the program’s inception in 2013, each year KPUB has awarded two graduating high school senior \$1,000.00 scholarships, renewable for up to four years.

She advised that requests were received to revise the scholarship program and increase the award amounts annually from two \$1,000.00 renewable scholarship awards to two \$1,500.00 renewable scholarship awards. Additionally, requests have been made to offer a new scholarship annually that would be in addition to the two \$1,500.00 renewable scholarships KPUB awards; a one-time \$1,000.00 scholarship that is exclusively for tech/trade school students. Mrs. Bueché provided a revised scholarship program draft and application for the Board’s review. After discussion by the Board, Mr. Thomas motioned for approval of the revision to the KPUB Scholarship Program as presented. Mr. Stacy seconded the motion. Vote was by a show of hands. Motion carried 5 – 0.

14. ADJOURNMENT

Chairman Gamble adjourned the Regular Board Meeting at 9:56 a.m.

Date Approved: _____

Fred Gamble, Chairman

ATTEST

Lidia S. Goldthorn, Assistant Secretary to the Board

MEMORANDUM

TO: Fred Gamble
Bill Thomas
Philip Stacy
Mark Cowden
Mayor Bill Blackburn

FROM: Jill Sadberry

DATE: February 11, 2020

SUBJECT: Agenda Item #7 - Resolution No. 20-03

Presented for your review, wire transfers for operating expenses.

I. WIRE TRANSFERS - Operating Expense

| | |
|--|---------------|
| ERCOT-CRR Auction Invoice Paid January 29, 2020 Transfer from TexPool Investment Fund to ERCOT. | \$ 6,936.13 |
| LCRA - Power Cost Billing 12/01/2019 to 12/31/2019 Paid January 31, 2020 Transfer from TexPool Investment Fund to LCRA. | \$ 523,838.74 |
| CPS ENERGY - Power Cost Billing 12/01/2019 to 12/31/2019. Paid January 31, 2020 Transfer from TexPool Investment Fund to CPS ENERGY. | \$ 951,920.70 |
| NEXTERA - Power Cost Billing 12/01/2019 to 12/31/2019. Paid January 21, 2020 Transfer from TexPool Investment Fund to NEXTERA. | \$ 485,088.00 |
| CITY OF GARLAND - Power Cost Billing 12/01/2019 to 12/31/2019. Paid January 27, 2020 Transfer from TexPool Investment Fund to CITY OF GARLAND. | \$ 98,851.61 |

| | |
|--|--------------|
| DG TEXAS SOLAR, LLC - Power Cost Billing 10/01/2019 to 10/31/2019. Paid January 22, 2020 Transfer from TexPool Investment Fund to DG TEXAS SOLAR, LLC. | \$ 43,963.96 |
| DG TEXAS SOLAR, LLC - Power Cost Billing 11/01/2019 to 11/30/2019. Paid January 22, 2020 Transfer from TexPool Investment Fund to DG TEXAS SOLAR, LLC. | \$ 31,086.31 |
| DG TEXAS SOLAR, LLC - Power Cost Billing 12/01/2019 to 12/31/2019. Paid January 22, 2020 Transfer from TexPool Investment Fund to DG TEXAS SOLAR, LLC. | \$ 37,227.03 |

II. WIRE TRANSFERS – Investments

A. Transfer from Centennial Bank Revenue Fund to TexPool Investment Fund:

| <u>Date</u> | <u>Principal</u> |
|-------------------|------------------|
| January 10, 2020 | \$ 500,000.00 |
| January 13, 2020 | 200,000.00 |
| January 17, 2020 | 400,000.00 |
| January 21, 2020 | 400,000.00 |
| January 28, 2020 | 300,000.00 |
| January 31, 2020 | 200,000.00 |
| February 03, 2020 | 500,000.00 |
| February 07, 2020 | 600,000.00 |
| February 11, 2020 | 200,000.00 |

III. WIRE TRANSFERS - Payroll

Automated Clearing House for Pay Periods Ending:

| | |
|-------------------|---------------|
| January 10, 2020 | \$ 99,578.62 |
| January 24, 2020 | \$ 100,764.78 |
| February 07, 2020 | \$ 100,314.02 |

IV. WIRE TRANSFERS - Payroll - Federal Reserve Bank

Federal Withholding and FICA for Period Ending:

| | |
|-------------------|--------------|
| January 10, 2020 | \$ 36,048.02 |
| January 24, 2020 | \$ 36,047.60 |
| February 07, 2020 | \$ 35,922.47 |

V. WIRE TRANSFER - Comptroller of Public Accounts

| | |
|--|--------------|
| 2020 - Sales and Use Tax – Paid 01/31/2020 | \$ 74,159.17 |
|--|--------------|

VI. WIRE TRANSFER - TMRS and TML

| | |
|--|--------------|
| Texas Municipal Retirement System (TMRS) Retirement Plan Contribution for the month of January – Paid 02/07/2020 | \$ 62,576.40 |
| Texas Municipal League (TML) Monthly Premium - Medical, Dental, Vision and Life for the month of January – Paid 02/07/2020 | \$ 55,429.59 |

If you have any questions on the items presented for payment, I will be happy to answer them at your convenience.

Sincerely,



Jill Sadberry
Chief Financial Officer

RESOLUTION NO. 20-03

A RESOLUTION OF THE KERRVILLE PUBLIC UTILITY BOARD CONFIRMING AND AUTHORIZING THE PAYMENTS OF INVOICES AS APPROVED AND PRESENTED BY THE CHIEF FINANCIAL OFFICER AND GENERAL MANAGER / CEO.

WHEREAS, the providers of services or material have submitted invoices for payment;
and

WHEREAS, the Chief Financial Officer or General Manager/CEO has reviewed the invoices and approved payments for services rendered or material received.

WHEREAS, the items marked "Paid" have been previously approved by the Board and are included in this Resolution for information; now, therefore,

BE IT RESOLVED BY THE KERRVILLE PUBLIC UTILITY BOARD THAT:

Section 1. That the Kerrville Public Utility Board review payment of the items set forth on the preceding Schedule.

Section 2. That the Kerrville Public Utility Board instructs the General Manager/CEO or his designee to make said payments and ratifies the payment of the items marked "Paid."

Section 3. This Resolution shall take effect immediately from and after its passage.

PASSED, APPROVED AND ADOPTED on this 19th day of February, 2020

Fred Gamble, Chairman

ATTEST:

Philip Stacy, Secretary

MEMORANDUM

To: Fred Gamble
Bill Thomas
Philip Stacy
Mark Cowden
Mayor Bill Blackburn

From: Jill Sadberry

Date: February 13, 2020

Re: Agenda Item No. 8 — Financial Report

Operating income for the month of January is \$37,320.99, which is below budget by \$373,608.01. Net income for the month is \$77,130.24, which is below budget by \$381,069.76. Year to date operating income is below budget by \$10,083.31 and net income is below budget by \$31,586.14.

For the year, kWh sales are above budget by 8,960,054 kWhs, or by 5.73%.

At January 31, 2020, operating expenses, excluding power cost, are below budget by \$12,313.93 or by 0.32%.

The balance in the over collected power cost at January 31, 2020 was \$2,601,594.79.

The balance in the Rate Stabilization Fund is \$1,891,177.85.

Debt service coverage for January is 8.87. The coverage factor for the fiscal year is 13.35.

Sincerely,



Jill Sadberry
Chief Financial Officer

Kerrville Public Utility Board
Statement of Revenues, Expenses and Changes in Retained Earnings
January 31, 2020
(UNAUDITED)



| | Comparison to Budget | | | Comparison to Last Year | | | |
|--|----------------------|-----------------------------|---------------------|--------------------------------|--------------------------------|---------------------|--------------------------------|
| | Current Month | Current Month Budget Amount | Increase (Decrease) | Percentage Increase (Decrease) | Current Month Last Year Amount | Increase (Decrease) | Percentage Increase (Decrease) |
| OPERATING REVENUES: | | | | | | | |
| Residential | 1,971,474.36 | 2,328,660.00 | (357,185.64) | -15.34% | 2,357,757.22 | (386,282.86) | -16.38% |
| Commercial/Industrial | 1,204,539.57 | 1,469,989.00 | (265,449.43) | -18.06% | 1,246,708.87 | (42,169.30) | -3.38% |
| Sales to Public Authorities | 23,281.70 | 23,500.00 | (218.30) | -0.93% | 3,457.06 | 19,824.64 | 573.45% |
| Other | 35,166.39 | 46,950.00 | (11,783.61) | -25.10% | 26,666.37 | 8,500.02 | 31.88% |
| TOTAL OPERATING REVENUES | 3,234,462.02 | 3,869,099.00 | (634,636.98) | -16.40% | 3,634,589.52 | (400,127.50) | -11.01% |
| OPERATING EXPENSES: | | | | | | | |
| Purchased Power | 2,171,665.77 | 2,490,465.00 | (318,799.23) | -12.80% | 2,591,336.22 | (419,670.45) | -16.20% |
| Distribution | 368,849.36 | 263,005.00 | 105,844.36 | 40.24% | 251,221.53 | 117,627.83 | 46.82% |
| Customer Accounting | 48,086.69 | 63,700.00 | (15,613.31) | -24.51% | 68,117.95 | (20,031.26) | -29.41% |
| Customer Service & Info | 19,966.17 | 27,200.00 | (7,233.83) | -26.59% | 9,737.42 | 10,228.75 | 105.05% |
| Administrative Expenses | 301,506.42 | 324,700.00 | (23,193.58) | -7.14% | 274,342.08 | 27,164.34 | 9.90% |
| Franchise Fees - Ingram | 2,726.80 | 2,800.00 | (73.20) | -2.61% | 2,894.20 | (167.40) | -5.78% |
| Depreciation | 285,255.51 | 289,500.00 | (4,244.49) | -1.47% | 231,066.24 | 54,189.27 | 23.45% |
| Other | (915.69) | (3,200.00) | 2,284.31 | -71.38% | (3,611.86) | 2,696.17 | -74.65% |
| TOTAL OPERATING EXPENSES | 3,197,141.03 | 3,458,170.00 | (261,028.97) | -7.55% | 3,425,103.78 | (227,962.75) | -6.66% |
| OPERATING INCOME | 37,320.99 | 410,929.00 | (373,608.01) | -90.92% | 209,485.74 | (172,164.75) | (0.04) |
| NONOPERATING REVENUES (EXPENSES): | | | | | | | |
| Int Inc Revenue Fund, Constr, Emerg | 32,644.20 | 35,808.00 | (3,163.80) | -8.84% | 36,941.29 | (4,297.09) | -11.63% |
| Int Inc Interest & Sinking Fund | 191.03 | 479.00 | (287.97) | -60.12% | 251.18 | (60.15) | -23.95% |
| Int Inc Reserve Fund | - | - | - | 0.00% | - | - | 0.00% |
| Interest Inc-City of Kerrville | 15,000.00 | 15,000.00 | - | 0.00% | 15,000.00 | - | 0.00% |
| Interest Expense | (11,215.55) | (11,216.00) | 0.45 | 0.00% | (11,859.08) | 643.53 | -5.43% |
| AFUDC - Borrowed Funds | 2,845.97 | 2,500.00 | 345.97 | 13.84% | 2,571.98 | 273.99 | 10.65% |
| Other - net | 343.60 | 4,700.00 | (4,356.40) | -92.69% | 360.90 | (17.30) | -4.79% |
| TOTAL NONOPERATING REVENUES (EXPENSES): | 39,809.25 | 47,271.00 | (7,461.75) | -15.79% | 43,266.27 | (3,457.02) | -7.99% |
| NET INCOME | 77,130.24 | 458,200.00 | (381,069.76) | -83.17% | 252,752.01 | (175,621.77) | -69.48% |
| RETAINED EARNINGS AT BEGINNING OF MONTH | 68,654,874.29 | | | | 66,445,140.10 | | |
| Plus: Contributions in Aid of Constr | 27,888.35 | 9,000.00 | 18,888.35 | 209.87% | 4,721.76 | 23,166.59 | 490.63% |
| Less: General Fund Transfer - Reg | 104,821.53 | 11,720.00 | 93,101.53 | 794.38% | 105,608.99 | (787.46) | -0.75% |
| Less: General Fund Transfer - Spec | - | - | - | - | 24,500.00 | (24,500.00) | - |
| RETAINED EARNINGS AT END OF MONTH | 68,655,071.35 | | | | 66,572,504.88 | | |
| Percent of Net Income to Operating Rev | 2.38% | | | | 6.95% | | |

Kerrville Public Utility Board
Statement of Revenues, Expenses and Changes in Retained Earnings
January 31, 2020
(UNAUDITED)

| | Comparison to Budget | | | Comparison to Last Year | | |
|--|----------------------|---------------|--------------------------------|-------------------------|---------------------|--------------------------------|
| | Year to Date | Year to Date | Percentage Increase (Decrease) | Last Year Amount | Increase (Decrease) | Percentage Increase (Decrease) |
| | Year to Date | Budget Amount | Increase (Decrease) | Amount | Amount | Amount |
| OPERATING REVENUES: | | | | | | |
| Residential | 7,681,226.60 | 7,525,689.00 | 155,537.60 | 8,417,837.99 | (736,611.39) | -8.75% |
| Commercial/Industrial | 5,608,124.82 | 6,016,323.00 | (408,198.18) | 6,186,238.74 | (578,113.92) | -9.35% |
| Sales to Public Authorities | 92,990.37 | 94,000.00 | (1,009.63) | 13,557.00 | 79,433.37 | 585.92% |
| Other | 27,907.94 | 161,600.00 | (133,692.06) | 138,155.35 | (110,247.41) | -79.80% |
| | 13,410,249.73 | 13,797,612.00 | (387,362.27) | 14,755,789.08 | (1,345,539.35) | |
| OPERATING EXPENSES: | | | | | | |
| Purchased Power | 8,667,103.97 | 9,032,069.00 | (364,965.03) | 9,652,632.68 | (985,528.71) | -10.21% |
| Distribution | 1,227,298.56 | 1,046,511.00 | 180,787.56 | 909,002.67 | 318,295.89 | 35.02% |
| Customer Accounting | 194,496.05 | 254,200.00 | (59,703.95) | 281,221.24 | (86,725.19) | -30.84% |
| Customer Service & Informational | 70,205.57 | 108,500.00 | (38,294.43) | 45,255.69 | 24,949.88 | 55.13% |
| Administrative Expenses | 1,215,710.59 | 1,291,200.00 | (75,489.41) | 1,096,202.18 | 119,508.41 | 10.90% |
| Franchise Fees - Ingram | 9,968.68 | 10,100.00 | (131.32) | 9,998.75 | (30.07) | -0.30% |
| Depreciation | 1,133,959.89 | 1,155,000.00 | (21,040.11) | 916,765.83 | 217,194.06 | 23.69% |
| Other | (11,242.27) | (12,800.00) | 1,557.73 | (4,901.86) | (6,340.41) | 129.35% |
| | 12,507,501.04 | 12,884,780.00 | (377,278.96) | 12,906,177.18 | (398,676.14) | -3.09% |
| TOTAL OPERATING EXPENSES | | | | | | |
| | 902,748.69 | 912,832.00 | (10,083.31) | 1,849,611.90 | (946,863.21) | 0.03 |
| NONOPERATING REVENUES (EXPENSES): | | | | | | |
| Revenue Fund | 139,034.84 | 143,232.00 | (4,197.16) | 149,169.25 | (10,134.41) | -6.79% |
| Interest & Sinking Fund | 1,090.00 | 1,916.00 | (826.00) | 1,137.19 | (47.19) | -4.15% |
| Reserve Fund | - | - | - | - | - | 0.00% |
| Interest Inc-City of Kerrville | 60,000.00 | 60,000.00 | - | 60,000.00 | - | 0.00% |
| Interest Expense | (45,505.73) | (45,507.00) | 1.27 | (47,762.01) | 2,256.28 | -4.72% |
| AFUDC - Borrowed Funds | 10,700.80 | 10,000.00 | 700.80 | 10,116.42 | 584.38 | 5.78% |
| Other - net | 1,618.26 | 18,800.00 | (17,181.74) | (1,282.02) | 2,900.28 | -226.23% |
| | 166,938.17 | 188,441.00 | (21,502.83) | 171,378.83 | (4,440.66) | -2.59% |
| TOTAL NONOPERATING REVENUES (EXPENSES): | | | | | | |
| | 1,069,686.86 | 1,101,273.00 | (31,586.14) | 2,020,990.73 | (951,303.87) | -47.07% |
| RETAINED EARNINGS AT BEGINNING OF YEAR | 67,949,781.81 | | | 64,988,632.92 | | |
| Plus: Contributions in Aid of Constr | 114,938.79 | 36,000.00 | 78,938.79 | 47,186.78 | 67,752.01 | 143.58% |
| Less: General Fund Transfer - Reg | 429,336.11 | 312,920.00 | 116,416.11 | 459,805.55 | (30,469.44) | -6.63% |
| Less: General Fund Transfer - Spec | 50,000.00 | 45,920.00 | 4,080.00 | 24,500.00 | 25,500.00 | |
| RETAINED EARNINGS AT END OF YEAR | 68,655,071.35 | | | 66,572,504.88 | | |
| Percent of Net Income to Operating Rev | 7.98% | | | 13.70% | | |



Kerrville Public Utility Board
Balance Sheets
January 31, 2020

January 31, 2020 October 1, 2019
(Unaudited)

Assets

| | January 31, 2020 (Unaudited) | October 1, 2019 |
|--|---------------------------------|---------------------|
| Utility Plant: | | |
| Electric Plant in Service | 82,217,362.48 | 80,570,016.90 |
| Less: Accumulated Depreciation | (39,553,215.92) | (38,511,913.89) |
| | 42,664,146.56 | 42,058,103.01 |
| Construction Work in Progress | 4,150,687.75 | 4,204,554.83 |
| Net Utility Plant | 46,814,834.31 | 46,262,657.84 |
| Restricted Assets: | | |
| Cash and Cash Equivalents: | | |
| Customer Deposits | 552,101.01 | 538,441.01 |
| Total Cash and Cash Equivalents | 552,101.01 | 538,441.01 |
| Investments: | | |
| 2013 Bond Construction Fund | - | - |
| Interest and Sinking Fund | 134,087.68 | 443,403.47 |
| Emergency, Repair, Replace, Conting Fund | 3,523,814.56 | 3,513,053.00 |
| L.T. Rate Stabilization Fund: | | |
| Total Investments | 631,657.12 | 540,000.00 |
| | 4,289,559.36 | 4,496,456.47 |
| Total Restricted Assets | 4,841,660.37 | 5,034,897.48 |

| | | |
|---------------------------------------|---------------|---------------|
| Current Assets: | | |
| Revenue Fund: | | |
| Cash and Cash Equivalents | 850,728.74 | 374,685.93 |
| Investments - Less: Customer Deposits | 10,764,941.97 | 11,408,481.71 |
| Total Revenue Fund | 11,615,670.71 | 11,783,167.64 |
| Construction Fund: | | |
| Cash and Cash Equivalents | 5,049.02 | 5,020.01 |
| Investments | 2,756,413.93 | 1,666,500.10 |
| Total Construction Fund | 2,761,462.95 | 1,671,520.11 |
| Rate Stabilization Fund: | | |
| Cash and Cash Equivalents | 1,891,177.85 | 1,885,402.35 |
| Investments | 1,891,177.85 | 1,885,402.35 |
| Total Rate Stabilization Fund | 3,782,355.70 | 3,770,804.70 |

| | | |
|--|----------------------|----------------------|
| ERCOT CRR Auction Funds | 157,536.99 | 157,536.99 |
| Customer Accounts Receivable, Net of Allowances | 3,267,128.64 | 4,279,221.69 |
| Materials and Supplies | 1,012,565.10 | 1,151,297.03 |
| Other | 967,390.04 | 891,047.50 |
| Total Current Assets | 21,672,932.28 | 21,819,193.31 |
| Deferred Debits | | |
| Deferred Outflow of Resources | 2,735,450.53 | 2,735,450.53 |
| Advance to City of Kerrville | 7,500,000.00 | 7,500,000.00 |
| Total | 83,564,877.49 | 83,352,199.16 |

| | January 31, 2020 (Unaudited) | October 1, 2019 |
|--|---------------------------------|----------------------|
| Equity: | | |
| Retained Earnings - Unreserved | 68,655,071.15 | 67,949,781.81 |
| Total Equity | 68,655,071.15 | 67,949,781.81 |
| Liabilities: | | |
| Long-Term Debt: | | |
| 2013 Revenue Bonds | 3,680,000.00 | 4,081,000.00 |
| Plus: Unamortized Premium | - | - |
| Less: Unamortized Refunding Charge | - | - |
| Pension Liability | 3,534,559.00 | 3,534,559.00 |
| Total Long-Term Debt | 7,214,559.00 | 7,615,559.00 |
| Current Liabilities Payable | | |
| from Restricted Assets: | | |
| Current Portion of 2013 Revenue Bonds | 401,000.00 | 392,000.00 |
| Accrued Interest Payable | 33,646.65 | 59,295.42 |
| Accounts Payable 2013 Bond Fund | - | - |
| Customer Deposits | 552,101.01 | 532,451.01 |
| | 986,747.66 | 983,746.43 |
| Current Liabilities: | | |
| Accounts Payable - Power Suppliers | 2,229,951.88 | 2,009,744.93 |
| Accounts Payable and Accrued Liab's | 623,519.01 | 1,199,839.07 |
| Over Collection of Power Cost Adj Revs | 2,601,594.79 | 2,340,093.92 |
| | 5,455,065.68 | 5,549,677.92 |
| Total Liabilities | 13,656,372.34 | 14,148,983.35 |
| Deferred Credits | | |
| Deferred Inflows of Resources-Pension | 1,253,434.00 | 1,253,434.00 |
| Total | 83,564,877.49 | 83,352,199.16 |

Kerrville Public Utility Board
 Detail of Fund Balances from Funds Invested in Government Securities For the Month Of
 January 31, 2020

| | Revenue Fund | Construction Fund | Stabilization Fund | Rate Fund | Long Term Rate Stabil. Fund | Debt Reserve Fund | Restricted | | Total Funds Invested |
|--|---------------|-------------------|--------------------|------------|-----------------------------|-------------------|---------------|---|----------------------|
| | | | | | | | Interest Fund | Emergency, Repair, Replace & Contingency Fund | |
| Beginning of the Month Balance | 11,130,885.28 | 2,895,813.61 | 1,889,256.01 | 541,103.73 | - | 177,745.10 | 3,520,233.50 | 20,155,037.23 | |
| Maturities and/or Withdrawals: | | | | | | | | | |
| TEXPOOL-TML Insurance | (55,773.55) | | | | | | | (55,773.55) | |
| TEXPOOL-TMRS (employer) | (42,090.88) | | | | | | | (42,090.88) | |
| TEXPOOL-TMRS (employee) | (21,045.44) | | | | | | | (21,045.44) | |
| TEXPOOL-LCRA | (523,838.74) | | | | | | | (523,838.74) | |
| TEXPOOL-CPS Energy | (951,920.70) | | | | | | | (951,920.70) | |
| TEXPOOL-NextEra | (485,088.00) | | | | | | | (485,088.00) | |
| TEXPOOL-ERCOT | (135,486.73) | | | | | | | (135,486.73) | |
| TEXPOOL-ERCOT | (6,936.13) | | | | | | | (6,936.13) | |
| TEXPOOL-City of Garland | (98,851.61) | | | | | | | (98,851.61) | |
| TEXPOOL-DG Southwest Solar LLC | (43,963.96) | | | | | | | (43,963.96) | |
| TEXPOOL-DG Southwest Solar LLC | (31,086.31) | | | | | | | (31,086.31) | |
| TEXPOOL-DG Southwest Solar LLC | (37,227.03) | | | | | | | (37,227.03) | |
| Stadium Equipment Upgrade | 13,650.00 | (13,650.00) | | | | | | - | |
| Ingram Equipment Upgrade | | | | | | | | - | |
| Hunt Emergency Transformer Replac | 126,369.42 | (126,369.42) | | | | | | - | |
| Investments: | | | | | | | | | |
| TEXPOOL | 500,000.00 | | | | | | | 500,000.00 | |
| TEXPOOL | 500,000.00 | | | | | | | 500,000.00 | |
| TEXPOOL | 200,000.00 | | | | | | | 200,000.00 | |
| TEXPOOL | 400,000.00 | | | | | | | 400,000.00 | |
| TEXPOOL | 400,000.00 | | | | | | | 400,000.00 | |
| TEXPOOL | 300,000.00 | | | | | | | 300,000.00 | |
| TEXPOOL | 200,000.00 | | | | | | | 200,000.00 | |
| Transfer City Interest Payment | (90,000.00) | | | | 90,000.00 | | | - | |
| | 11,247,595.62 | 2,755,794.19 | 1,889,256.01 | 631,103.73 | - | 177,745.10 | 3,520,233.50 | 20,221,728.15 | |
| Allocation of: | | | | | | | | | |
| mo int earned to the separate funds | 11,857.55 | 2,941.16 | 1,921.84 | 553.39 | - | 191.03 | 3,581.06 | 21,046.03 | |
| Interest Receivable (accrued on CD) | 7,843.43 | | | | | | 3,482.19 | 11,325.62 | |
| Interest Receivable (accrued on CD) | | | | | | | | - | |
| Tot Fund Bal after int allocation & Xfer | 11,267,496.60 | 2,758,735.35 | 1,891,177.85 | 631,657.12 | - | 177,936.13 | 3,527,296.75 | 20,254,099.80 | |
| Interfund transfers | (44,485.72) | | | | | 44,485.72 | | - | |
| Total Fund Balance at End of Month | 11,222,810.88 | 2,758,735.35 | 1,891,177.85 | 631,657.12 | - | 222,421.85 | 3,527,296.75 | 20,254,099.80 | |

Kerrville Public Utility Board
 Computation of the Monthly and Year to Date Debt Service Coverage
 For the Month Ended
 January 31, 2020

| Description | Current Month | Fiscal Year | Previous Twelve Months |
|--|-------------------|---------------------|---------------------------|
| Net Income | 77,130.24 | 1,069,686.86 | 4,408,835.85 |
| Plus: | | | |
| Interest Expense (net of afudc) | 8,369.58 | 34,804.93 | 110,138.15 |
| Depreciation Expense | 285,255.51 | 1,133,959.89 | 3,458,207.55 |
| Miscellaneous Amortizations | - | - | - |
| Numerator | 370,755.33 | 2,238,451.68 | 7,977,181.55 |
| DIVIDED BY: | | | |
| Interest Expense (net of amortizations) | 8,369.58 | 34,804.93 | 110,138.15 |
| Principal Payment Due | 33,416.67 | 132,916.67 | 394,250.00 |
| Denominator | 41,786.25 | 167,721.60 | 504,388.15 |
| Debt Service Coverage Ratio | 8.87 | 13.35 | 15.82 |
| Minimum Requirement per Bond Covenant | | | 1.10 times Debt Service |
| Minimum Requirement Established by KPUB Board for Good Business Practices | | | 1.65 times Debt Service |

Schedule of Average Daily Balance of Fund
For Reporting Compliance as Required by the
Texas Public Funds Investment Act
For the Quarter Ended December 31, 2019

Total Funds Invested

| Day of the Month | October 2019 | November 2019 | December 2019 | Totals |
|-----------------------------------|-----------------------|-----------------------|-----------------------|----------------------|
| 1 | 20,414,989.39 | 21,167,710.01 | 20,062,291.45 | |
| 2 | 20,525,443.83 | 21,167,710.01 | 20,085,756.68 | |
| 3 | 20,749,602.24 | 21,167,710.01 | 20,149,279.55 | |
| 4 | 21,074,517.99 | 21,543,334.53 | 20,328,437.20 | |
| 5 | 21,074,517.99 | 21,595,274.84 | 20,364,342.55 | |
| 6 | 21,074,517.99 | 21,480,635.33 | 20,541,863.29 | |
| 7 | 21,435,487.72 | 21,515,153.11 | 20,541,863.29 | |
| 8 | 21,513,905.89 | 21,829,429.64 | 20,541,863.29 | |
| 9 | 21,569,231.73 | 21,829,429.64 | 20,711,980.77 | |
| 10 | 21,438,607.70 | 21,829,429.64 | 20,765,634.62 | |
| 11 | 21,553,650.65 | 21,829,429.64 | 20,818,898.53 | |
| 12 | 21,553,650.65 | 22,135,195.67 | 20,649,549.40 | |
| 13 | 21,553,650.65 | 22,174,646.13 | 20,916,264.27 | |
| 14 | 21,553,650.65 | 21,973,323.93 | 20,916,264.27 | |
| 15 | 21,869,943.65 | 22,018,000.84 | 20,916,264.27 | |
| 16 | 21,992,463.16 | 22,018,000.84 | 21,275,577.65 | |
| 17 | 21,998,793.53 | 22,018,000.84 | 21,338,485.54 | |
| 18 | 22,283,230.93 | 22,193,800.00 | 21,435,394.02 | |
| 19 | 22,283,230.93 | 22,245,848.36 | 21,332,221.66 | |
| 20 | 22,283,230.93 | 21,877,718.01 | 21,089,212.22 | |
| 21 | 21,115,846.84 | 21,831,473.62 | 21,089,212.22 | |
| 22 | 21,153,178.08 | 21,102,279.21 | 21,089,212.22 | |
| 23 | 21,246,025.96 | 21,102,279.21 | 20,618,902.28 | |
| 24 | 21,322,541.19 | 21,102,279.21 | 20,639,632.81 | |
| 25 | 21,619,447.48 | 20,719,409.70 | 20,639,632.81 | |
| 26 | 21,619,447.48 | 20,680,408.20 | 20,660,221.35 | |
| 27 | 21,619,447.48 | 20,676,093.94 | 20,656,245.93 | |
| 28 | 21,994,418.91 | 20,676,093.94 | 20,656,245.93 | |
| 29 | 22,069,554.65 | 20,078,260.39 | 20,656,245.93 | |
| 30 | 22,180,661.96 | 20,062,291.45 | 20,997,167.98 | |
| 31 | 21,491,770.39 | | 20,546,550.28 | |
| Total of daily balance | 667,228,658.62 | 643,640,649.89 | 643,030,714.26 | |
| Average daily balance | 21,523,505.12 | 21,454,688.33 | 20,742,926.27 | 21,238,043.73 |
| Interest earnings | 41,821.09 | 33,164.31 | 34,097.91 | 109,083.31 |
| APR -----> | 2.26% | 1.85% | 1.91% | 2.01% |

**Kerrville Public Utility Board
Schedule of Other Investment Facts
For Reporting Compliance as Required by the
Texas Public Funds Investment Act
For the Quarter Ended December 31, 2019**

Total Funds Invested by Fund

| Fund | Market Value and Carrying Amount | Actual Interest Earnings | Budgeted Interest Earnings |
|--------------------------------|---|---|---|
| Revenue | 11,130,885.28 | 79,294.13 | \$59,019 |
| Construction | 2,895,813.61 | 7,969.81 | \$15,354 |
| Rate Stabilization | 1,889,256.01 | 6,072.54 | \$10,017 |
| Long Term Rate Stabilization | \$541,103.73 | 1,739.24 | \$2,869 |
| Debt Reserve | 0 | 0 | - |
| Interest & Sinking | 177,745.10 | 898.97 | \$1,438 |
| Emergency Repair & Contingency | 3,520,233.50 | 11,314.92 | \$18,665 |
| Revenue Fund - Checking | 391,513.05 | 1,793.70 | \$1,500 |
| Totals | 20,546,550.28 | 109,083.31 | \$108,862 |

Total Funds Invested by Security

| Type of Security | | Market Value and Carrying Amount | Actual Interest Earnings | Budgeted Interest Earnings |
|----------------------------------|-------------|---|---|---|
| FHLB | | 0 | 0 | 0 |
| FFCB | | 0 | 0 | 0 |
| FREDDIE MAC | | 0 | 0 | 0 |
| FARMER MAC | | 0 | 0 | 0 |
| Certificate of Deposit | 32% | 6,552,199.85 | 40,231.83 | 34,715.59 |
| TEXPOOL | 12% | 2,480,122.47 | 15,761.87 | 13,140.46 |
| LOGIC | 54% | 11,122,714.91 | 51,295.91 | 57,431.60 |
| Other-Misc checking accounts, et | 2% | 391,513.05 | 1,793.70 | 1,500.00 |
| Totals | 100% | 20,546,550.28 | 109,083.31 | \$108,862.00 |

MEMORANDUM

TO: Fred Gamble
Bill Thomas
Philip Stacy
Mark Cowden
Mayor Bill Blackburn

FROM: Jill Sadberry

DATE: February 11, 2020

SUBJECT: Agenda Item No. 10 - Board Policy 44 - Investment Policy- Resolution No. 20-04

Resolution No. 20-04 and the Board Policy 44 - Investment Policy are presented for your consideration.

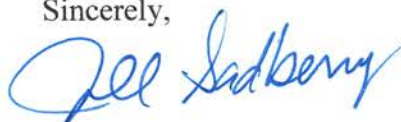
The Public Funds Investment Act requires that the governing body adopt a written instrument stating that it has considered the Policy and Investment Strategy on an annual basis.

Jeffrey Kuhn, Partner at Norton Rose Fulbright, KPUB's Bond Counsel, has reviewed the Investment Policy and current applicable Texas Statutes with minor recommended changes. A copy of Mr. Kuhn's review letters are attached.

Staff recommends approval of Resolution No. 20-04: A Resolution accepting and approving Board Policy 44 - Investment Policy.

I will be happy to answer any questions you might have at this time.

Sincerely,



Jill Sadberry

RESOLUTION NO. 20-04

RESOLUTION BY THE BOARD OF TRUSTEES OF THE KERRVILLE PUBLIC UTILITY BOARD RELATING TO ITS ANNUAL REVIEW OF THE BOARD'S INVESTMENT POLICY AND INVESTMENT STRATEGIES AS REQUIRED BY THE PROVISIONS OF CHAPTER 2256, AS AMENDED, TEXAS GOVERNMENT CODE; APPROVING THE BOARD'S INVESTMENT POLICY AND INVESTMENT STRATEGIES; AND OTHER MATTERS IN CONNECTION THEREWITH.

WHEREAS, the Board of Trustees (the "Board") of the Kerrville Public Utility Board (the "KPUB") has previously adopted an investment policy (the "Policy") and certain investment strategies that are attached as Exhibit A to this Resolution and incorporated by reference herein for all purposes;

WHEREAS, the Board is required by the provisions of Chapter 2256, as amended, Texas Government Code (the "Act") to annually review and approve the Policy;

WHEREAS, pursuant to Section 2256.005(e) of the Act, the Board shall record any substantive changes made to either the Policy or its investment strategies;

WHEREAS, the Board hereby finds and determines that the Policy and investment strategies are adopted for the fiscal year ending September 30, 2020; and

WHEREAS, the Board hereby finds and determines that these actions are in the best interest of the citizens of the KPUB; now, therefore;

BE IT RESOLVED BY THE TRUSTEES OF THE KERRVILLE PUBLIC UTILITY BOARD THAT:

Section 1. The Policy and investment strategies attached hereto as Exhibit A are incorporated by reference for all purposes into this Resolution and no changes are recommended to the Policy.

Section 2. The Investment Officer (as defined in the Policy) is authorized to implement the Policy in accordance with the provisions of the Policy and applicable law.

Section 3. The recitals contained in the preamble hereof are hereby found to be true, and such recitals are hereby made a part of this Resolution for all purposes and are adopted as a part of the judgment and findings of the Board.

Section 4. All orders and resolutions, or parts thereof, which are in conflict or inconsistent with any provision of this Resolution are hereby repealed to the extent of such conflict, and the provisions of this Resolution shall be and remain controlling as to the matters resolved herein.

Section 5. This Resolution shall be construed and enforced in accordance with the laws of the State of Texas and the United States of America.

Section 6. If any provision of this Resolution or the application thereof to any person or circumstance shall be held to be invalid, the remainder of this Resolution and the application of such provision to other persons and circumstances shall nevertheless be valid, and the Board hereby declares that this Resolution would have been enacted without such invalid provision.

Section 7. It is officially found, determined, and declared that the meeting at which this Resolution is adopted was open to the public and public notice of the time, place, and subject matter of the public business to be considered at such meeting, including this Resolution, was given, all as required by Chapter 551, as amended, Texas Government Code.

Section 8. This Resolution shall be in force and effect from and after the date of its adoption, and it is so resolved.

PASSED, APPROVED AND ADOPTED on this 19th day of February, 2020

Fred Gamble, Chairman

ATTEST:

Philip Stacy, Secretary

KERRVILLE PUBLIC UTILITY BOARD

BOARD POLICY 44

Title: Investment Policy

Effective Date: February 19, 2020

Replaces: March 27, 2019

Resolution No. 20-04

Resolution No. 19-06

44.00 SCOPE

This investment policy (the “Policy”) applies to all the financial assets of Kerrville Public Utility Board (“KPUB”), its investment activities and bank depository agreements. All funds shall be administered in accordance with the provision of this Policy. All other funds which may be created are included under this Policy unless specifically excluded by the Board of Trustees (the “Board”). This Policy does not apply to funds managed under separate pension investment programs.

44.10 POLICY STATEMENT

The KPUB’s investments will be made in accordance with applicable laws, Board policies, this Policy, and the restrictions in current KPUB bond ordinances and resolutions. Selection of securities firms must be approved by the Board. Local investment pools in which the KPUB participates shall be approved by action of the Board. Investment of KPUB funds will be transacted in accordance with the Texas Public Funds Investment Act Chapter 2256, as amended, Texas Government Code (the “Act”). Depository collateral shall be controlled under the terms of the Texas Public Funds Collateral Act Chapter 2257, as amended, Texas Government Code. Effective cash management is recognized as a foundation of this Policy. The Chief Financial Officer (“CFO”) is responsible for implementing this Policy.

44.20 OBJECTIVES

The primary objective of KPUB's investment activity is the preservation and safety of principal and maintenance of sufficient liquidity to meet anticipated expenditures. The objectives shall also include diversification and attainment of reasonable yield subject to compliance with the Internal Revenue Code of 1986, as amended, within the cash flow constraints of KPUB.

Each investment transaction shall seek to first ensure that capital losses are avoided, whether they be from securities defaults or erosion of market value. KPUB's investment portfolio will remain sufficiently liquid to meet KPUB's operating requirements that might be reasonably anticipated. Liquidity shall be achieved by matching investment maturities with forecasted cash flow requirements and by investing the securities with active secondary markets as well as maintaining a minimum one-month liquidity buffer.

44.21 KPUB's portfolio shall be invested in high-credit quality securities. Funds shall be diversified to manage market price risks and default risks that would jeopardize the assets available to accomplish their stated objective. Funds should never be invested in a manner inconsistent with this Policy and applicable federal and state laws and regulations.

44.22 All participants in the investment process shall seek to act responsibly as custodians of the public trust. Investment officials shall avoid any transaction that might impair public confidence in KPUB. The Board recognizes that in a diversified portfolio, occasional measured unrealized losses due to market volatility are inevitable and must be considered within the context of the overall portfolio's investment market value, provided that adequate diversification has been implemented. Strict adherence to provisions of Bond Ordinance No. 2013-21, or to any subsequent revenue bond ordinance, shall always apply.

44.30 **ASSIGNMENT OF RESPONSIBILITIES**

44.31 **KPUB Board**

The KPUB Board retains the ultimate fiduciary responsibility for the investment of its funds. (Section 2256.005(f) of the Act) The Board will:

- adopt a written investment policy and strategy statement at least annually,
- designate investment officers,
- designate an investment committee, and
- accept quarterly investment reports.

44.32 **Investment Committee**

There is hereby created an Investment Committee, consisting of the General Manager and Chief Executive Officer, CFO and two KPUB Trustees. The CFO is designated as the Investment Officer for KPUB.

The Investment Committee shall meet at least quarterly to determine general strategies and to monitor results. The Investment Committee shall include in its deliberations such topics as: economic outlook, portfolio diversification, maturity structure, potential risk to KPUB's funds, authorized municipal advisors and broker/dealers, and appropriate competitive and reasonable benchmarks for the investment

portfolio. The Investment Committee shall report to the Board after each quarterly meeting and submit the Investment Officer's report on investment activities for the past quarter. The Investment Committee shall establish its own rules or procedures, compliant with this Policy and schedule additional meetings when deemed necessary.

44.33

Investment Officers

Management responsibility for the investment program is hereby delegated to the CFO, who shall establish written procedures for the operation of the investment program, consistent with this Policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No persons may engage in an investment transaction except as provided under the terms of this Policy and the procedures established by the CFO. The CFO shall be responsible for all transactions undertaken, and shall establish a system of controls to regulate the activities of subordinate staff. The Investment Officer shall disclose relationships by blood or marriage and any "personal business relationship" with sellers of investments to both the Board as determined by Chapter 573, Texas Government Code, and to the Texas Ethics Commission as defined in the Act (Section 2256.005(i)). The Investment Officer shall also file a conflict disclosure statement with respect to a vendor, as applicable and pursuant to Chapter 176, Texas Government Code, as amended, and any conflict disclosure statement required by the Board.

44.34

Standard of Care

Investments shall be made with exercise of judgment and due care under prevailing circumstances that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs. Investments shall not be speculative, but for investment, and will consider the probable safety of their capital as well as the probable income to be derived. Investment of funds shall be governed by the following principles, in order of priority:

- (1) Preservation and safety of capital,
- (2) Liquidity, and
- (3) Yield.

44.35

Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict (or have the appearance of conflict) with proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

44.36

Officer Training

All designated Investment Committee members must attend at least one investment training session as required by the Act.

- (a) All persons who are named as, carry the titles of, or otherwise perform the functions of Treasurer, Chief Financial Officer, or Investment Officer shall receive a training session from an independent source, approved by the Investment Committee, within one year of assuming duties containing at least 10 hours of instruction relating to officer responsibilities.
- (b) At least once every succeeding two fiscal years, all persons who are named as, carry the title of, or perform the functions of Treasurer, Chief Financial Officer or Investment Officer must receive additional training sessions of not less than 8 hours of instruction relating to investment responsibilities from an independent source approved by the Investment Committee. Such session must include education in investment controls, security risk, strategy risk, market risks, diversification of investment portfolio, and compliance with the Public Funds Investment Act.
- (c) An individual's reporting requirements are satisfied by a report of the training sponsor, or training program organizing entity.

44.40 REPORTING

The CFO, as the Investment Officer, shall submit quarterly, or more often as directed by the Board, an investment report to the General Manager and Chief Executive Officer, and the Board. The report shall include all items required by the Act (Section 2256.023) and shall summarize the investment strategies employed in the most recent quarter. The report shall represent that all investments made in the quarter complied with this Investment Policy and the Act. The report shall detail total earnings and compare the return with the risk benchmark and budgetary expectations. The report shall include detail for all transactions during the past quarter.

44.41 Annual Report

Within 90 days of the end of each fiscal year, the CFO shall present an annual report to the Board on the investment program and investment activity. The annual report shall include a 12-month comparison of the allocation of assets, yields, and earnings.

44.42 Audits

Yearly audits must be made of compliance with the management controls on investments and with the Act. The quarterly investment reports must be formally reviewed annually by an independent auditor for compliance with the Act and the results of the review reported to the Board. An internal compliance audit conducted by the Investment Officer(s) shall be performed annually for compliance with this Policy and the Act. (Section 2256.005(m)).

AUTHORIZED INVESTMENTS

Assets or funds of KPUB may be invested only in the following investments. New investment types authorized by Texas law will not be authorized for KPUB until this Policy is reviewed, amended, and adopted by the Board. All investment transactions will be made on a competitive basis and all securities shall be delivered versus payment (“DVP”) to the KPUB contracted safekeeping institution.

- (a) Obligations of the United States or its agencies and instrumentalities excluding mortgage backed securities with a maximum maturity of three (3) years, as permitted by the Act (Section 2256.009);
- (b) Depository certificates of deposit issued by a depository institution that has its main office or a branch office in the State of Texas with a maximum maturity of two (2) years, which are fully FDIC insured or collateralized in accordance with this policy and meet all further requirements as set forth in the Act (Section 2256.010(a)). This is to include those deposits placed through the Certificate of Deposit Account Registry Service (CDARS) and meeting all further requirements as set forth in the Act (Section 2256.010(b));
- (c) Fully NCUSIF insured share certificates from credit unions domiciled in the State of Texas meeting all other requirements set forth in the Act (Section 2256.010) with a maximum maturity of two (2) years;
- (d) Repurchase agreements collateralized only by cash and obligations of the United States or its agencies and meeting all other requirements set forth in the Act (Section 2256.011);
- (e) Local government investment pools rated not less than AAA, or an equivalent rating by at least one nationally recognized rating service which strive to maintain a \$1 net asset value and meeting all other requirements of the Act (Section 2256.016). The Board must approve by resolution, participation in any pool;
- (f) Fully insured brokered certificate of deposit securities from any US state, delivered versus payment to KPUB safekeeping. The broker must have its main office or a branch office in Texas and be selected from a list of brokers previously approved by the Board. Before purchase the investment officer must verify the FDIC status of the bank or banks;
- (g) Fully FDIC or NCUSIF insured or collateralized interest bearing accounts of any bank doing business in Texas;

- (h) A1/P1 or equivalent rated domestic commercial paper with a maximum maturity of 90 days and meeting all other requirements of the Act (Section 2256.013); and
- (i) AAA rated no-load money market mutual funds which strive to maintain a \$1 net asset value.

The maximum allowable stated maturity of any individual investment owned by KPUB shall be not more than ten years.

44.60 HEDGING:

In accordance with the Act (Sections 2256.0206) KPUB may enter into hedging contracts if it meets the requirements as an "eligible entity." The Board must adopt a separate hedging policy prior to any hedging transaction, and such transaction must be made in accordance with the CFTC and SEC requirements.

44.61 The individual securities shall be marked to market as of the close of business on the last day of each month. Market prices are to be from an independent source or party.

The net asset value of all investment pools shall be reported as of the close of each month.

44.62 KPUB requires that all securities shall be purchased using DVP so that no funds are released prior to receiving the security into safekeeping. The securities shall be delivered to KPUB's depository bank and held on behalf of KPUB. Safekeeping receipts shall be delivered to KPUB. The depository should provide a monthly report of KPUB holdings.

44.70 INVESTMENT STRATEGIES

Investments may be commingled for investment purposes while still addressing the particular needs of each fund. A pro-active ladder portfolio structure, based on anticipated cash flow needs, will be used to fund anticipated liabilities. The KPUB portfolio is designed as a buy-and-hold portfolio with minimal anticipated trading.

In accordance with this Policy's objectives, the following detailed investment strategies are provided for specific KPUB funds to include the following:

- 1) Suitability of investments,
- 2) Preservation and safety of principal,
- 2) Liquidity,
- 3) Potential marketability of investments in case of required liquidation, and
- 4) Diversification and yield considerations.

All designated fund investments must meet credit and safety criteria as required by the Act. Due to the overall short-term nature of the portfolio, involuntary investment liquidations are unlikely for any of the funds; however, should liquidations be necessary, the limited maturity of the securities should make material losses unlikely.

The various funds' investments will be structured to achieve competitive yields, given the pertinent liquidity requirements, and they will be compared against appropriately competitive and reasonable benchmarks. The overall portfolio shall not exceed a maximum weighted average maturity (WAM) of two years.

44.71 OVERVIEW OF FUNDS

The Bond Ordinance requires a System Fund, a Bond (Interest and Sinking) Fund, and a Reserve (Debt Reserve) Fund. The Bond Ordinance requirements for amounts set aside in the Reserve Fund are suspended as long as the Pledged Revenues for each Fiscal Year are equal to at least 135% of the Average Annual Debt Service Requirements. The Board has divided the System Fund into the following funds for operational, emergency and long term planning needs: Revenue Fund; Construction Fund; Emergency Repair, Replacement, and Contingency Fund; Rate Stabilization Fund; and Long Term Rate Stabilization Fund.

44.72 Revenue Fund

The Revenue Fund requires a high degree of liquidity to meet ongoing operational needs. Investments shall have a maximum maturity of two years and a maximum WAM of one (1) year. The Revenue Fund will be compared against appropriately competitive and reasonable benchmarks. The use of this fund will be initiated by the CFO and or the General Manager/Chief Executive Officer.

44.73 Construction Fund

The Construction Fund is to be structured to meet construction payment requirements for which the related funds are acquired. Due to long construction periods the maximum maturity for these funds shall be ten (10) years and the maximum WAM shall be three (3) years. The Construction Fund will be compared against appropriately competitive and reasonable benchmarks. The use of this fund will be initiated by the CFO and or the General Manager/Chief Executive Officer

44.74 Debt Reserve Fund

The Debt Reserve Fund is created to provide reserves to meet any shortfalls in the Interest and Sinking Fund. As Debt Reserve Funds are not anticipated to be utilized except to support the semi-annual debt service payments, the maximum maturity shall be six (6) months and a maximum WAM of one (1) year. The funds will be compared against appropriately competitive and reasonable benchmarks. The use of this fund will be initiated by the CFO and or the General Manager/Chief Executive Officer.

44.75 Interest and Sinking Fund

The Interest and Sinking Fund amounts shall include investments appropriate to meet the twice yearly bond payment requirements for which the funds are accumulated. Investments will be structured to meet the current debt payment date and no extension shall be made until the preceding payments have been funded. Investments shall strive to achieve competitive yields. The maximum maturity shall be one (1) year and the maximum WAM shall be six (6) months. The use of this fund will be initiated by the CFO and or the General Manager/Chief Executive Officer.

44.76 Emergency Repair, Replacement, and Contingency Fund

The Emergency Repair, Replacement, and Contingency Fund was established to provide for emergency repairs and/or replacement of capital assets damaged by catastrophes, acts of God, or other disasters, and to fund unforeseen projects of the Board in excess of \$100,000 (so as to level the impact on electric tariffs from those unbudgeted projects). Investments in the Emergency Repair, Replacement, and Contingency Fund shall be limited to a maximum maturity of three (3) years, and a maximum WAM of eighteen (18) months. The Emergency Repair, Replacement, and Contingency Fund will be compared against appropriately competitive and reasonable benchmarks. The use of this fund will be initiated by Board action.

44.77 Rate Stabilization Fund

The Rate Stabilization Fund was established to minimize the exposure of the KPUB consumers to extreme or significant power supply volatility. The use of this fund will be initiated by the CFO and or the General Manager/Chief Executive Officer recommending transfers from the Rate Stabilization Fund to the Revenue Fund to fund expenses or charges for significant increases in purchase power, fuel or other expenses as deemed appropriate and to minimize the exposure of KPUB's consumers to extreme or significant power supply volatility.

The Rate Stabilization Fund shall include investments suitable for a fund requiring a high degree of liquidity. As such, investments in this fund shall be limited to a maximum maturity no greater than six (6) months and a maximum WAM of three (3) months. The Rate Stabilization Fund will be compared to appropriately competitive and reasonable benchmarks.

44.78 Long Term Rate Stabilization Fund

The Long Term Rate Stabilization Fund was established to minimize the exposure of KPUB customers to long term power supply volatility. The use of this fund will be initiated by Board action to fund acquisition of equity positions in generation resources, pre-purchase fuel agreements, investment in infrastructure, and other actions to limit long term exposure to ERCOT market volatility.

The Long Term Rate Stabilization Fund shall include investments suitable for a fund requiring a moderate degree of liquidity. As such, investments in this fund shall have a maximum maturity of ten (10) years and a maximum WAM of three (3) years. The length of these investments should be coordinated to support KPUB's Integrated Resource Plan. Other criteria may be used in making this investment maturity decision such as arbitrage considerations, flexibility, and marketability. The Long Term Rate Stabilization Fund will be compared to appropriately competitive and reasonable benchmarks.

44.79 Federal Income Tax Limitations on Investments

The Board recognizes that the provisions of Bond Ordinance No. 2013-21 and the Internal Revenue Code of 1986, as amended (the "Code") impose certain restrictions upon the investment of KPUB funds. While the investment strategies of the Board include goals to maximize the yield on any investments, the Board recognizes that certain investments must be made at yields at or below the yields on KPUB's outstanding revenue bonds to comply with the provisions of the aforementioned ordinance and the Code.

44.80 BANKS AND BROKER/DEALERS

A banking services depository shall be selected through KPUB's procurement process, which shall include a formal request for proposals issued at least every three years. Other financial institutions may be designated as depositories for other time and demand deposits. In selecting the banking services depository, the credit worthiness of institutions, earnings potential and service costs shall be considered, and the CFO shall conduct a comprehensive review of prospective depositories' credit characteristics and financial history along with the estimated cost of the banking services to be provided to KPUB.

44.81 Banks: Banks and savings banks seeking to establish eligibility for KPUB's time or demand deposits shall submit financial statements, evidence of Federal insurance and other information as required by the CFO.

44.82 Broker/dealers: The Investment Committee or Board shall approve a list of authorized broker/dealers/advisors recommended by the Investment Officer no less than annually.

Broker/dealers shall provide to the Investment Officer the following:

- Annual financial statements (required annually),
- Registration with FINRA and the firm's FINRA CRD number, and
- Registration with the Texas State Securities Board.

Each broker/dealer will be provided the current Policy.

Investment Officers in their dealing with KPUB funds shall not conduct business with any securities dealer with whom or through whom public entities have sustained losses on investments.

44.83 Local Government Investment Pools: Pools must provide a policy certification to certify that they have received and reviewed the KPUB investment policy. Investment pools or investment management firms offering to engage in an investment transaction with KPUB must comply with the requirements of Section 44.10 of this Policy.

44.90 COLLATERAL

Collateral Pledged to KPUB:

All time and demand deposits shall be secured by authorized collateral with a market value equal to at least 102 percent of the deposits daily, plus any accrued interest, less an amount insured by FDIC. Evidence of the pledged collateral shall be maintained by the CFO and held by an independent third party financial institution approved by KPUB. The pledging institution or the custodian shall provide a monthly listing of the collateral. The collateral report will be reviewed monthly by the CFO to assure the market value of the securities pledged equals or exceeds the related bank collected balances. The custodian of these pledged securities must be:

- 1) A state or national bank that:
 - a) Is designated by the Comptroller as a state depository
 - b) Has its main office or a branch office in this state, and
 - c) Has capital stock and permanent surplus of \$5 million or more;
- 2) A Federal Reserve Bank or a branch of a Federal Reserve Bank; or
- 3) A Federal Home Loan Bank.

Only securities allowed by the Public Funds Collateral Act, Chapter 2257, as amended, Texas Government Code shall be eligible to be pledged as collateral. KPUB will authorize letters of credit as collateral but will give preference to pledged securities.

KPUB's designated custodian shall provide a current list of all pledged investment securities monthly. The list must include (for each pledged investment security): KPUB's name; the CUSIP number of the security; par amount and maturity date of the security.

Collateral Owned by KPUB

Collateral underlying repurchase agreements are owned by KPUB and must have a market value equal to at least 102 percent daily monitored and reported daily by the counter-party. Collateral shall be held by an independent third party financial institution approved by KPUB using a DVP settlement.

Authorized collateral for repurchase agreements shall include only:

- (a) cash, and
- (b) obligations of the US Government, its agencies and instrumentalities including the Federal Home Loan Banks.

44.100 INTERNAL CONTROLS

The Investment Officer shall establish a system of controls to regulate the activities of the investment program and subordinate staff. The controls will be reviewed annually with the independent auditor. The controls shall be designed to prevent loss of public funds due to fraud, employee error, misrepresentation by third parties, unanticipated market changes, or imprudent actions by employees of KPUB. Controls deemed most important would include: control of collusion, separation of duties, custody and safekeeping, delegation of authority, securities losses and remedial actions, and documentation on all transactions.

Cash Flow Forecasting

Cash flow forecasting is a control designed to protect and sustain cash flow requirements. The Investment Officer will maintain a cash flow forecasting process designed to monitor and forecast cash positions for investment purposes.

Loss of Rating

The Investment Officer shall monitor, on no less than a weekly basis, the credit rating on all authorized investments in the portfolio requiring ratings based upon independent information from a nationally recognized rating agency. If any security falls below the minimum rating required by this Policy, the Investment Officer shall notify the Committee of the loss of rating, conditions affecting the rating and possible loss of principal with liquidation options available.

Monitoring FDIC Coverage

The Investment Officer shall monitor the status and ownership of all banks issuing brokered CDs owned by KPUB based upon information from the FDIC. If any bank has been acquired or merged with another bank in which brokered CDs are owned, the Investment Officer shall immediately liquidate any brokered CD which places KPUB above the FDIC insurance level.

44.110 INVESTMENT POLICY ADOPTION

The Investment Committee may suggest Policy changes to the Board at any time. The Board shall review and adopt, by resolution, its investment strategies and any changes to the Policy not less than annually and the approving resolution shall designate any changes made to the Policy.

Approved as to Form

Stephen Schulte, General Counsel

Approved as to Legality and Content

W. Jeffrey Kuhn, Bond Counsel

Recommended for Board Approval

General Manager and Chief Executive Officer

Passed, Approved and Adopted this ____ day of _____, 2020

Fred Gamble, Chairman

NORTON ROSE FULBRIGHT

January 14, 2020

Via E-Mail

Ms. Jill Sadberry
Kerrville Public Utility Board
2250 Memorial Boulevard
Kerrville, Texas 78028

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Frost Tower
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Tel +1 210 224 5575
Fax +1 210 270 7205
nortonrosefulbright.com

Re: Kerrville Public Utility Board – Investment Policy No. 44 (2019-2020)

Dear Jill:

I have attached my Firm's comments to the Investment Policy pertaining to the captioned matter. Once you have reviewed these suggested comments, please do not hesitate to contact me if we need to discuss this matter further.

Thank you, in advance, for your prompt attention to this matter. If I can provide any additional assistance concerning this matter, please do not hesitate to contact me.

Very truly yours,



W. Jeffrey Kuhn

WJK/jcq
Enclosures

cc: Mr. Mike Wittler (Kerrville Public Utility Board)
Mr. John Davidson (Davidson, Troilo, Ream & Garza P.C.)
Mr. Steven Adams (Specialized Public Finance, Inc.)
Mr. Clay Binford (Firm)
Ms. Stephanie V. Leibe (Firm)
Ms. Lauren N. Ferrero (Firm)
Mr. Arnold Cantu III (Firm)
Mr. Matthew A. Lee (Firm)
Mr. John D. Hall (Firm)

Norton Rose Fulbright US LLP is a limited liability partnership registered under the laws of Texas.

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NLF
1/14/2020

| | |
|---|---------------------------------------|
| KERRVILLE PUBLIC UTILITY BOARD | |
| BOARD POLICY 44 | |
| Title: Investment Policy | |
| Effective Date: March 27, 2019 | Resolution No. 19-06 20-__ |
| Replaces: February 21, 2018 | Resolution No. 18-03 19-06 |

February 19, 2020

March 27, 2019

44.00

SCOPE

(1)

This investment policy (the "Policy") applies to all the financial assets of Kerrville Public Utility Board ("KPUB"), its investment activities and bank depository agreements. All funds shall be administered in accordance with the provision of this Policy. All other funds which may be created are included under this Policy unless specifically excluded by the Board of Trustees (the "Board"). This Policy does not apply to funds managed under separate pension investment programs.

44.10

POLICY STATEMENT

The KPUB's investments will be made in accordance with applicable laws, Board policies, this Policy, and the restrictions in current KPUB bond ordinances and resolutions. Selection of securities firms must be approved by the Board. Local investment pools in which the KPUB participates shall be approved by action of the Board. Investment of KPUB funds will be transacted in accordance with the Texas Public Funds Investment Act Chapter 2256, as amended, Texas Government Code (the "Act"). Depository collateral shall be controlled under the terms of the Texas Public Funds Collateral Act Chapter 2257, as amended, Texas Government Code. Effective cash management is recognized as a foundation of this Policy. The Chief Financial Officer ("CFO") is responsible for implementing this Policy.

44.20

OBJECTIVES

The primary objective of KPUB's investment activity is the preservation and safety of principal and maintenance of sufficient liquidity to meet anticipated expenditures. The objectives shall also include diversification and attainment of reasonable yield subject to compliance with the Internal Revenue Code of 1986, as amended, within the cash flow constraints of KPUB.

AUTHORIZED INVESTMENTS

Assets or funds of KPUB may be invested only in the following investments. New investment types authorized by Texas law will not be authorized for KPUB until this Policy is reviewed, amended, and adopted by the Board. All investment transactions will be made on a competitive basis and all securities shall be delivered versus payment ("DVP") to the KPUB contracted safekeeping institution.

- (a) Obligations of the United States or its agencies and instrumentalities excluding mortgage backed securities with a maximum maturity of three (3) years, as permitted by the Act (Section 2256.009);
- (b) Depository certificates of deposit issued by a depository institution that has its main office or a branch office in the State of Texas with a maximum maturity of two (2) years, which are fully FDIC insured or collateralized in accordance with this policy and meet all further requirements as set forth in the Act (Section 2256.010(a)). This is to include those deposits placed through the Certificate of Deposit Account Registry Service (CDARS) and *meeting* all further requirements as set forth in the Act (Section 2256.010(b));
- (c) Fully NCUSIF insured share certificates from credit unions domiciled in the State of Texas meeting all other requirements set forth in the Act (Section 2256.010) with a maximum maturity of *one (2)* years;
- (d) Repurchase agreements collateralized by obligations of the United States or its agencies and meeting all other requirements set forth in the Act (Section 2256.011);
- (e) Local government investment pools rated not less than AAA, or an equivalent rating by at least one nationally recognized rating service which strive to maintain a \$1 net asset value and meeting all other requirements of the Act (Section 2256.016). The Board must approve by resolution, participation in any pool;
- (f) Fully insured brokered certificate of deposit securities from any US state, delivered versus payment to KPUB safekeeping. The broker must have its main office or a branch office in Texas and be selected from a list of brokers previously approved by the Board. Before purchase the investment officer must verify the FDIC status of the bank or banks;
- (g) Fully FDIC or NCUSIF insured or collateralized interest bearing accounts of any bank doing business in Texas;

note:
 this section was recently amended to include, in addition to U.S. obligations, A-1/P-1 commercial paper w/ a term up to 1 year

only?

please confirm

cash and

Sec 44.090 - "collateral owned by KPUB"

this limit is at your discretion but note that maximum term was amended to 365 days in the 1960s leg.

keep 90

- (h) A1/P1 or equivalent rated domestic commercial paper with a maximum maturity of 90 days and meeting all other requirements of the Act (Section 2256.013); and
- (i) AAA rated no-load money market mutual funds which strive to maintain a \$1 net asset value.

The maximum allowable stated maturity of any individual investment owned by KPUB shall be not more than ten years.

44.60 HEDGING:

In accordance with the Act (Sections 2256.0206) KPUB may enter into hedging contracts if it meets the requirements as an "eligible entity." The Board must adopt a separate hedging policy prior to any hedging transaction, and such transaction must be made in accordance with the CFTC and SEC requirements.

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The net asset value of all investment pools shall be reported as of the close of each month.

44.62 KPUB requires that all securities shall be purchased using DVP so that no funds are released prior to receiving the security into safekeeping. The securities shall be delivered to KPUB's depository bank and held on behalf of KPUB. Safekeeping receipts shall be delivered to KPUB. The depository should provide a monthly report of KPUB holdings.

44.70 INVESTMENT STRATEGIES

Investments may be commingled for investment purposes while still addressing the particular needs of each fund. A pro-active laddered portfolio structure, based on anticipated cash flow needs, will be used to fund anticipated liabilities. The KPUB portfolio is designed as a buy-and-hold portfolio with minimal anticipated trading.

In accordance with this Policy objectives, the following detailed investment strategies are provided for specific KPUB funds to include the following:

- 1) Suitability of investments,
- 2) Preservation and safety of principal,
- 2) Liquidity,
- 3) Potential marketability of investments in case of required liquidation, and
- 4) Diversification and yield considerations.

All designated fund investments must meet credit and safety criteria as required by the Act. Due to the overall short-term nature of the portfolio, involuntary investment liquidations are unlikely for any of the funds; however, should liquidations be necessary, the limited maturity of the securities should make material losses unlikely.

The various funds' investments will be structured to achieve competitive yields, given the pertinent liquidity requirements, and they will be compared against appropriately competitive and reasonable benchmarks. The overall portfolio shall not exceed a maximum weighted average maturity (WAM) of two years.

44.71 OVERVIEW OF FUNDS

The Bond Ordinance requires a System Fund, a Bond (Interest and Sinking) Fund, and a Reserve (Debt Reserve) Fund. The Bond Ordinance requirements for amounts set aside in the Reserve Fund are suspended as long as the Pledged Revenues for each Fiscal Year are equal to at least 135% of the Average Annual Debt Service Requirements. The Board has divided the System Fund into the following funds for operational, emergency and long term planning needs: Revenue Fund; Construction Fund; Emergency Repair, Replacement, and Contingency Fund; Rate Stabilization Fund; and Long Term Rate Stabilization Fund.

44.72

Revenue Fund

The Revenue Fund requires a high degree of liquidity to meet ongoing operational needs. Investments shall have a maximum maturity of two years and a maximum ~~weighted average maturity (WAM)~~ of one year. The Revenue Fund will be compared against appropriately competitive and reasonable benchmarks. The use of this fund will be initiated by the CFO and or the General Manager/Chief Executive Officer. ^{previously defined} (1)

44.73

Construction Fund

The Construction Fund is to be structured to meet construction payment requirements for which the related funds are acquired. Due to long construction periods the maximum maturity for these funds shall be ten (10) years and the maximum WAM shall be three (3) years. The Construction Fund will be compared against appropriately competitive and reasonable benchmarks. The use of this fund will be initiated by the CFO and or the General Manager/Chief Executive Officer

44.74

Debt Reserve Fund

The Debt Reserve Fund is created to provide reserves to meet any shortfalls in the Interest and Sinking Fund. As Debt Reserve Funds are not anticipated to be utilized except to support the semi-annual debt service payments, the maximum maturity shall be six months and a maximum WAM of one year. The funds will be compared against appropriately competitive and reasonable benchmarks. The use of this fund will be initiated by the CFO and or the General Manager/Chief Executive Officer. (1)

(6)

44.75

Interest and Sinking Fund

The Interest and Sinking Fund amounts shall include investments appropriate to meet the twice yearly bond payment requirements for which the funds are accumulated. Investments will be structured to meet the current debt payment date and no extension shall be made until the preceding payments have been funded. Investments shall strive to achieve competitive yields. The maximum maturity shall be one year and the maximum WAM shall be six months. The use of this fund will be initiated by the CFO and or the General Manager/Chief Executive Officer.

(1)

(6)

44.76

Emergency Repair, Replacement, and Contingency Fund

The Emergency Repair, Replacement, and Contingency Fund was established to provide for emergency repairs and/or replacement of capital assets damaged by catastrophes, acts of God, or other disasters, and to fund unforeseen projects of the Board in excess of \$100,000 (so as to level the impact on electric tariffs from those unbudgeted projects). Investments in the Emergency Repair, Replacement, and Contingency Fund shall be limited to a maximum maturity of (3) years, and a maximum WAM of (18) months. The Emergency Repair, Replacement, and Contingency Fund will be compared against appropriately competitive and reasonable benchmarks. The use of this fund will be initiated by Board action.

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three

44.77

Rate Stabilization Fund

The Rate Stabilization Fund was established to minimize the exposure of the KPUB consumers to extreme or significant power supply volatility. The use of this fund will be initiated by the CFO and or the General Manager/Chief Executive Officer recommending transfers from the Rate Stabilization Fund to the Revenue Fund to fund expenses or charges for significant increases in purchase power, fuel or other expenses as deemed appropriate and to minimize the exposure of KPUB's consumers to extreme or significant power supply volatility.

The Rate Stabilization Fund shall include investments suitable for a fund requiring a high degree of liquidity. As such, investments in this fund shall be limited to a maximum maturity no greater than six months and a maximum WAM of (3) months. The Rate Stabilization Fund will be compared to appropriately competitive and reasonable benchmarks.

(6)

three

44.78

Long Term Rate Stabilization Fund

The Long Term Rate Stabilization Fund was established to minimize the exposure of KPUB customers to long term power supply volatility. The use of this fund will be initiated by Board action to fund acquisition of equity positions in generation resources, pre-purchase fuel agreements, investment in infrastructure, and other actions to limit long term exposure to ERCOT market volatility.

Investment officers in their dealing with KPUB funds shall not conduct business with any securities dealer with whom or through whom public entities have sustained losses on investments.

44.83 Local Government Investment Pools: Pools must provide a policy certification to certify that they have received and reviewed the KPUB investment policy. Investment pools or investment management firms offering to engage in an investment transaction with KPUB must comply with the requirements of Section 44.10 of this Policy.

44.90 **COLLATERAL**

Collateral Pledged to KPUB:

All time and demand deposits shall be secured by authorized collateral with a market value equal to at least 102 percent of the deposits daily, plus any accrued interest, less an amount insured by FDIC. Evidence of the pledged collateral shall be maintained by the CFO and held by an independent third party financial institution approved by KPUB. The pledging institution or the custodian shall provide a monthly listing of the collateral. The collateral report will be reviewed monthly by the CFO to assure the market value of the securities pledged equals or exceeds the related bank collected balances. The custodian of these pledged securities must be:

- 1) A state or national bank that:
 - a) Is designated by the Comptroller as a state depository
 - b) Has its main office or a branch office in this state, and
 - c) Has capital stock and permanent surplus of \$5 million or more;
- 2) A Federal Reserve Bank or a branch of a Federal Reserve Bank; or
- 3) A Federal Home Loan Bank.

Only securities allowed by the Public Funds Collateral Act, Chapter 2257, as amended, Texas Government Code shall be eligible to be pledged as collateral. KPUB will authorize letters of credit as collateral but will give preference to pledged securities.

KPUB's designated custodian shall provide a current list of all pledged investment securities monthly. The list must include (for each pledged investment security): KPUB's name; the CUSIP number of the security; par amount and maturity date of the security.

Collateral Owned by KPUB

Collateral underlying repurchase agreements are owned by KPUB and must have a market value equal to at least 102 percent daily monitored and reported daily by the counter-party. Collateral shall be held by an independent third party financial institution approved by KPUB using a DVP settlement.

Authorized collateral for repurchase agreements shall include only:

(a) cash, and

(b) obligations of the US Government, its agencies and instrumentalities including the Federal Home Loan Banks.

See comment
to 44.050
→



44.100

INTERNAL CONTROLS

The Investment Officer shall establish a system of controls to regulate the activities of the investment program and subordinate staff. The controls will be reviewed annually with the independent auditor. The controls shall be designed to prevent loss of public funds due to fraud, employee error, misrepresentation by third parties, unanticipated market changes, or imprudent actions by employees of KPUB. Controls deemed most important would include: control of collusion, separation of duties, custody and safekeeping, delegation of authority, securities losses and remedial actions, and documentation on all transactions.

Cash Flow Forecasting

Cash flow forecasting is a control designed to protect and sustain cash flow requirements. The Investment Officer will maintain a cash flow forecasting process designed to monitor and forecast cash positions for investment purposes.

Loss of Rating

The Investment Officer shall monitor, on no less than a weekly basis, the credit rating on all authorized investments in the portfolio requiring ratings based upon independent information from a nationally recognized rating agency. If any security falls below the minimum rating required by this Policy, the Investment Officer shall notify the Committee of the loss of rating, conditions affecting the rating and possible loss of principal with liquidation options available.

Monitoring FDIC Coverage

The Investment Officer shall monitor the status and ownership of all banks issuing brokered CDs owned by KPUB based upon information from the FDIC. If any bank has been acquired or merged with another bank in which brokered CDs are owned, the Investment Officer shall immediately liquidate any brokered CD which places KPUB above the FDIC insurance level.

MEMORANDUM

To: Fred Gamble
Bill Thomas
Philip Stacy
Mark Cowden
Mayor Bill Blackburn

From: Jo Anderson

Date: February 10, 2020

Re: Agenda Item No.11A – Approval and Reporting of Purchases and Sales

Presented for your consideration and review are the recommendations for purchase and/or sale of goods or services.

Neopost Postage Meter and Letter Opener. Staff recommends approval of a blanket purchase order to continue lease number N17032592 with Neopost USA (soon to be Quadiant) in the amount of \$6,011.64 for a three year lease on the postage meter and letter opener. The lease is \$166.99 each month for 36 months, paid quarterly, beginning in March, 2020 and covers an update to the equipment currently being utilized. This is an increase of \$18.26 monthly over what we have paid for the last three years and is comparable to the quote received from Pitney Bowes for similar equipment.

Please let me know if you have any questions or concerns.

Sincerely,



Jo Anderson

Financial Considerations



Product Summary

- IX3 Mail Machine with 5lb Scale
- IM16 Letter Opener

- Current rate is \$148.73 per month

- Texas Smartbuy Pricing

Cost Summary

Valid Until: 01/04/20

| | | |
|----|---------------------|----------|
| 01 | Lease Term (months) | 36 |
| 02 | Monthly Amount | \$166.99 |

Notes

- Offer includes equipment, meter rental, maintenance, rate updates, shipping, installation and user training

Solution Overview



iX-3 Series Mailing System

- Intuitive control panel with shortcut keys for your most-used rates and imprints
- Small form factor and quiet inkjet printing that's ideal for any office environment
- Prints postage directly onto postcards, letters or large envelopes up to 3/8" thick
- Built-in envelope moistener with easy-access reservoir produces securely sealed mail
- Weigh platform auto-adjusts the postage amount for extra-thick envelopes or boxed packages
- Prints peel-and-stick postage labels for easy processing of bulky letters and large envelopes
- Power-assisted hand feeding for accelerated metering of up to 45 letters per minute
- IMI meter that prints the new Intelligent Mail Indicia to meet the latest USPS® requirements
- Safeguard your stored postage with PIN code access control
- Track pieces processed and postage used for 30 or more accounts/departments
- LAN or wireless connection to refill postage instantly and update postal rates automatically
- Download artwork to print onto your mail pieces - use our free library or create your own
- Uploads postage usage data to your MyNeopost online account for quick and easy analysis
- Download the postage you need now and pay later using NeoFunds® bill-for-postage service

A powerful semi-automatic mail processing solution with a compact design

Solution Overview



IM-16C Mail Opener

- Ergonomic design with a compact footprint that fits on almost any desk
- Vertical envelope transport for easy loading and reliable feeding
- Slits the envelope, safeguarding its contents while leaving no sharp edges or paper scraps
- Operational efficiency of up to 300 opened envelopes per minute
- Expedites the handling process of incoming remittances and business-critical documents
- Process various envelope types and sizes without sorting, including flats
- Quiet operation with a noise level less than 63 dBA
- Catch tray holds up to 80 #10 envelopes
- Easy-to-view digital counter keeps a running track of pieces processed
- Weighs less than 20 pounds, and is easy to move and store

An automated mail opening solution that's secure and simple to use