



Board Agenda

Wednesday, April 18, 2018
Canyon of the Eagles
16942 Ranch Road 2341
Burnet, Texas 78611

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Legal Notice

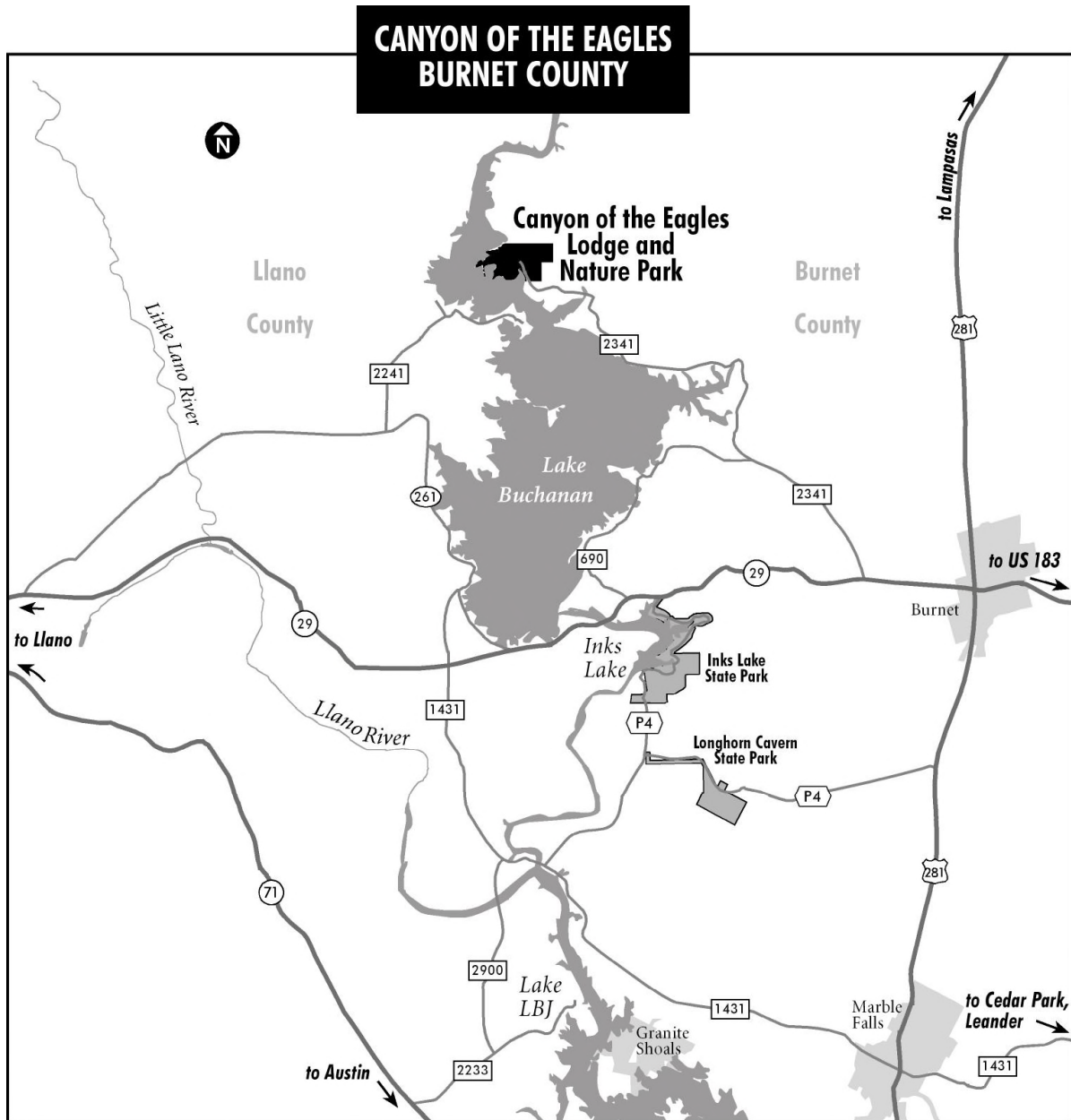
Although this is the expected agenda, the Board may discuss or take action on any item listed in the legal notice, which may include some items not currently on the Board agenda. Legal notices are available on the Texas Secretary of State website 72 hours prior to the meeting at www.sos.state.tx.us/open.

Executive Session

The Board may go into executive session for deliberation on the matters listed in the legal notice posted pursuant to Chapter 551 of the Texas Government Code.

The Board may take final action on any of the executive session matters upon reconvening in open session pursuant to Chapter 551 of the Texas Government Code. The Board may act in executive session on competitive electric matters pursuant to Section 551.086 of the Texas Government Code.

Canyon of the Eagles
16942 Ranch Road 2341
Burnet, Texas 78611



FOR ACTION (CONSENT)

1. Appointment of Director to GenTex Power Corporation

Proposed Motion

Appoint Julie Parsley to serve on the GenTex Power Corporation Board of Directors to complete an unexpired term ending Dec. 31, 2018.

Board Consideration

Section 2.01 of the GenTex bylaws requires that the LCRA Board of Directors appoint two directors representing LCRA's electric cooperative customers to serve two-year terms on the GenTex Board. Section 2.03 of the GenTex bylaws requires that the LCRA Board appoint successor directors to the GenTex Board to fill vacancies for unexpired terms on the GenTex Board.

Budget Status and Fiscal Impact

Approval of this item will have no budgetary or fiscal impact.

Summary

In February 2017, the LCRA Board appointed Ingmar Sterzing, then an employee of the Pedernales Electric Cooperative, to serve on the GenTex Board. He recently resigned his position at PEC, which resulted in a vacancy on the GenTex Board. PEC's CEO Julie Parsley will fill the vacant position on the GenTex Board, representing LCRA's electric cooperative customers. Parsley's appointment is effective immediately.

FOR ACTION (CONSENT)

2. Designation of LCRA Records Management Officer

Proposed Motion

Adopt the Records Management Program Order in Exhibit A.

Board Consideration

The Texas Local Government Records Act, chapters 201-205, requires that the governing body of a local government, such as LCRA, designate a records management officer.

Budget Status and Fiscal Impact

Approval of this item will have no direct budgetary or fiscal impact.

Summary

The Texas Local Government Records Act, chapters 201-205, Texas Local Government Code, requires that the governing body of a local government, such as LCRA, designate a records management officer either by designating an individual or an office or position, which will be the records management officer.

In September 2006, the LCRA Board passed an order designating the holder of the position of LCRA records compliance officer as the records management officer. That position no longer exists at LCRA. It is therefore necessary to designate a new individual or a new position to serve as the records management officer.

Exhibit A designates the position of LCRA chief information officer as the records management officer for LCRA as required by provisions in the act.

Exhibit(s)

A - LCRA Records Management Program Order

EXHIBIT A

LOWER COLORADO RIVER AUTHORITY
DESIGNATION OF RECORDS MANAGEMENT OFFICER
April 18, 2018

WHEREAS, Title 6, Subtitle C, Local Government Code (Local Government Records Act), provides that a conservation and reclamation district, such as the Lower Colorado River Authority, must establish by order an active and continuing records management program to be administered by a records management officer; and

WHEREAS, the Lower Colorado River Authority desires to adopt an order for that purpose and to prescribe policies and procedures consistent with the Local Government Records Act and in the interests of cost-effective and efficient recordkeeping;

NOW, THEREFORE, Be It Ordered by the Board of Directors of the Lower Colorado River Authority (LCRA) that:

Section 1. RECORDS MANAGEMENT OFFICER. The person who holds the position of chief information officer at LCRA will serve as records management officer for LCRA as provided by law and will ensure, together with LCRA management and employees, the maintenance, destruction, electronic storage or other disposition of the records of this office are carried out in accordance with the requirements of the Local Government Records Act.

Section 2. The records management officer may delegate duties of that position for the administration of LCRA's records management program to LCRA records management staff.

AUTHORITY: LCRA enabling legislation, Chapter 8503, Special District Local Laws Code; Title 6, Subtitle C, Local Government Code, chapters 201-205; and LCRA Bylaws, Sec. 2.01 and 2.11.

EFFECTIVE: April 18, 2018.

FOR ACTION (CONSENT)

3. LCRA Board Policy 303 – Banking and Investments

Proposed Motion

Approve the proposed revisions to LCRA Board Policy 303 – Banking and Investments as attached in Exhibit A.

Board Consideration

Board of Directors approval is required for any changes to LCRA Board policies.

Budget Status and Fiscal Impact

Approval of this item will have no budgetary or fiscal impact.

Summary

Due to a change in personnel, staff recommends an update to the list of individuals authorized to purchase and sell securities in Appendix A to Board Policy 303.

Exhibit(s)

A – LCRA Board Policy 303 – Banking and Investments

EXHIBIT A

LCRA BOARD POLICY

303 – BANKING AND INVESTMENTS

April 18, 2018 ~~Oct. 18, 2017~~

303.10 PURPOSE

This policy establishes procedures for authorizing employees to disburse, transfer and invest LCRA funds in accordance with the LCRA enabling act, LCRA bylaws and other legal requirements. It states objectives and guidelines for investing LCRA funds and defines the types of investments in which LCRA may invest. The policy applies to activity involving LCRA funds, excluding the LCRA Retirement Benefits Plan and the LCRA 401(k) and Deferred Compensation Plans, which are not LCRA funds.

303.20 POLICY

LCRA will maintain reasonable internal control and approval procedures for the disbursement, transfer and investment of funds consistent with legal requirements.

LCRA's investments will be made in accordance with applicable laws, the LCRA enabling legislation, the LCRA bylaws, Board policies and current LCRA bond resolutions. Selection of securities firms or financial institutions must be approved by the LCRA Board of Directors. All such firms must provide certification forms asserting they have read and are familiar with the LCRA investment policy and reasonable procedures and controls have been implemented to preclude unauthorized transactions. Effective cash management is recognized as a foundation of this policy. The chief financial officer is responsible for implementing and ensuring compliance with this policy.

303.30 Banking Procedures

303.301 Signature Authority. In establishing any bank account, signature authority on the account must be provided to the bank in writing with a specimen signature for each officer and employee authorized. Any check, draft or other instrument that authorizes the disbursement or transfer of funds from any account may be signed without countersignature unless countersignatures are required by the GM/CEO and chief financial officer. Designation of positions with authority to countersign will be made in writing and approved by the GM/CEO and chief financial officer.

A complete file of authorized signatures pursuant to the requirements of this policy and facsimile signature impressions for each active demand account will be maintained by the treasurer at all times.

303.302 General Manager/Chief Executive Officer and Chief Financial Officer Designations for Disbursement and Transfer of Funds, and Check Signers. The GM/CEO and chief financial officer will designate the individuals authorized to disburse and transfer funds and to sign checks. Written authorization may be in the form of certificates of incumbency, signature cards or other bank documentation enabling designated individuals to perform fund movement activities. Designations will include limitations as to dollar amounts authorized to the designees to ensure reasonable controls over financial transactions.

303.303 Facsimile Signatures. The use of facsimile signatures, in lieu of manual signatures, for bank transactions is authorized for the chief financial officer and the treasurer without countersignature, except as otherwise required. An authorized copy of the manual signature and the facsimile signature will be furnished to each bank from which checks will be drawn.

303.40 Investment Procedures

303.401 Investment Objectives. The LCRA investment portfolio will be managed in compliance with Chapter 2256 of the Texas Government Code, as amended (the Public Funds Investment Act or TPFIA), primarily to be consistent with LCRA's responsibilities as a steward of the public trust and to take advantage of investment interest as a source of income for all funds.

LCRA will emphasize the following objectives, listed in order of importance:

Standard of care – LCRA will ensure that all LCRA personnel involved in the investment process act responsibly as custodians of the public trust in the preservation of LCRA capital. LCRA investments will be made with the exercise of judgment and care, under circumstances then prevailing, that persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation but for investment, considering the probable safety of principal as well as the probable income to be derived.

Suitability – LCRA will ensure the suitability of the investment to LCRA's financial requirements.

Safety – LCRA will give priority to ensuring the preservation and safety of principal.

Liquidity – LCRA will maintain sufficient liquidity to provide adequate and timely availability of funds necessary to pay obligations as they become due.

Marketability – LCRA will consider its ability to liquidate an investment prior to maturity.

Diversification – LCRA will diversify its investments on the basis of maturity, type of instruments, financial institutions and securities firms.

Return on investment – LCRA will optimize return on investments within the constraints of safety and liquidity.

Maturity – LCRA will invest its funds in maturities sufficiently diverse and, in consideration of maximum maturity limits, to achieve safety of principal and adequate liquidity.

303.402 Individuals Authorized to Invest Funds. The GM/CEO and chief financial officer will submit to the Board a list designating the individuals authorized to purchase and sell securities. The Board will approve the list of designated persons and their respective dollar limits. The approved list will be attached as Appendix A. Each investment transaction must be reviewed for compliance with this policy by a person other than the individual executing the trade. The investment transaction will be in accordance with specified dollar limits determined by the GM/CEO and chief financial officer.

303.403 Authorized Instruments and Securities Firms. LCRA will purchase, from securities firms or financial institutions approved by the Board and listed in Appendix B, only those investment instruments authorized under this policy and listed in Appendix C, such list being from the TPFIA as periodically amended, with LCRA maximum maturities.

303.404 Designated Investment Officers. Responsibility for LCRA's investments and investing activity, as provided for in this policy, will be the responsibility of the designated investment officers: the chief financial officer and the treasurer of LCRA.

303.405 Officer Training. All designated investment officers, as well as all personnel responsible for executing investment transactions, must attend an investment training session not less than once each state fiscal biennium (the state fiscal year runs Sept. 1-Aug. 31), from an independent source approved by the Board and receive not less than 10 training hours as required in the TPFIA. LCRA employees must take training provided by the University of North Texas Center for Public Management, the Government Treasurers' Organization of Texas, the Government Finance Officers Association of Texas, Texas Municipal League or Texas State University.

303.406 Disclosure of Personal Business Relationships. All designated investment officers, as well as all personnel responsible for executing investment transactions, who have a personal business relationship, as defined in the TPFIA, or are related within the second degree by affinity (marriage) or by consanguinity (descended from the same ancestor), as defined in Texas Government Code Chapter 573, with any representative offering to engage in an investment transaction with LCRA, will file a statement disclosing that personal business interest or relationship with the Texas Ethics Commission and the Board.

303.407 Safekeeping of Investments. LCRA will maintain safekeeping procedures to protect against potential loss or misapplication of investments. The chief financial officer

or his or her designee will be responsible for procedures that secure LCRA assets. All investment activity will be accomplished on a “delivery-versus-payment” basis. Investment instruments will be held in the name of LCRA and the LCRA fund being invested.

303.408 Collateralization. To the extent not insured by federal agencies that secure deposits, LCRA funds must be secured by collateral securities as stated in the Texas Public Funds Collateral Act, as amended. The total market value of the collateral securities will be an amount at least equal to the amount of the deposits of public funds, increased by the amount of any accrued interest and reduced to the extent that the deposits are insured by an agency or instrumentality of the United States government. Notwithstanding the foregoing, securities described in Section 2256.009(b), Texas Government Code, may not be used to secure deposits of LCRA funds.

A collateral depository agreement will be executed by any bank anticipated to hold LCRA funds in excess of federal deposit insurance and by any collateral safekeeping bank. Safekeeping receipts will be furnished by the safekeeping bank indicating the pledge of the securities to LCRA.

303.409 Depository Restrictions and Security of Funds. Other than for paying agent purposes, LCRA will use as depositories for its funds and investments only federal- or state-chartered banks or trust companies with their main office or branch located in the state of Texas in which deposits up to the maximum allowable limit are insured by federal agencies. Such depositories will be approved by the Board.

303.410 Periodic Reporting. Investment reports will be made as required by the TPFIA and will be provided to the Board as follows:

<u>General Context of Report</u>	<u>Schedule</u>
Investment portfolio summary	Quarterly
Portfolio composition and performance (investment yield versus benchmarks)	Quarterly
External financial audit (investment holdings, compliance)	Annually

All designated investment officers must sign the quarterly reports.

A report on changes to the TPFIA that affect LCRA will be made to the Board within 180 days after the last day of the regular session of the Texas Legislature.

303.411 Investment Strategies. In addition to the above LCRA corporate investment objectives and guidelines, the following detailed investment strategies are provided to address various LCRA funds on issues, including the following:

Revenue Funds – The Revenue Funds will include investments suitable for funds requiring a high degree of liquidity, and will be limited to an average maturity no greater

than five years. Due to their short-term nature, involuntary investment liquidations are unlikely for the Revenue Fund; however, should they be necessary, the short-term nature of the instruments would make material losses highly unlikely. Revenue Funds investments will be compared against appropriately competitive and reasonable benchmarks, including money market funds of similar makeups and maturities.

Construction Funds – The Construction Funds will include investments suitable to meet construction payment requirements for which the related funds were acquired. Investment maturities will be structured to meet construction payment requirements and will comply with federal tax regulations on spending terms. These short-term investments are benchmarked by the same process as the Revenue Funds investments.

Debt Service Reserve Funds – The Debt Service Reserve Funds will include investments suitable to provide reserves to meet any shortfalls in funds available to make required debt service payments. As Debt Service Reserve Funds are not to be used except in the case of insufficient revenues, average maturities in these funds can range from six months to 10 years. However, in no instance should an investment maturity exceed the latest established debt service requirement/payment date. Debt Service Reserve Fund investments will be structured to achieve the most competitive yields attainable given appropriate diversification and safety requirements, and will be compared against appropriately competitive and reasonable benchmarks, considering limitations on yield provided by federal tax law.

303.412 Monitoring Market Prices. Monitoring will be done monthly and more often as economic conditions warrant by using appropriate reports, indices or benchmarks for the type of investment. Information sources may include financial/investment publications and electronic media, software for tracking investments, depository banks, investment banks, financial advisors, and representatives/advisors of investment pools or money market funds. Monitoring of credit ratings will be done on a regular, ongoing basis and as often as economic conditions, market news or credit rating agency news releases warrant review of any specific security, type of security or security issuer. If a credit rating for a security or security issuer falls below the minimum allowable rating set by the TPFIA, LCRA will take all prudent measures that are consistent with its investment policy and TPFIA Section 2256.021 to liquidate the security.

303.413 Required Policy Compliance Audits. A compliance audit of management controls and adherence to this policy as it relates to LCRA's investments and investing activity will be performed on an annual basis in conjunction with the organization's financial audit. The compliance audit also will cover LCRA's depository or custodian with respect to investment securities and records for pledged collateral, as required in Chapter 2257 of the Texas Government Code, as amended (the Public Funds Collateral Act).

303.414 Periodic Review and Approval of Policy. This investment policy and its investment strategies will be reviewed and approved by the Board on at least an annual

basis, as required by the TPFIA. The Board will record in writing its approval of existing policy and any changes to the LCRA investments policy and investment strategies.

303.50 AUTHORITY

LCRA enabling legislation, Chapter 8503, Special District Local Laws Code
Public Funds Investment Act, Chapter 2256, Texas Government Code
Public Funds Collateral Act, Chapter 2257, Texas Government Code

EFFECTIVE: December 1986. Amended March 19, 1987 (republished); Dec. 14, 1991; Oct. 22, 1992; Oct. 17, 1995; Oct. 23, 1997; Oct. 22, 1998; Aug. 18, 1999; Dec. 13, 2000; June 13, 2001; Nov. 20, 2002; Nov. 19, 2003; Oct. 20, 2004; Nov. 16, 2005; Nov. 15, 2006; Nov. 14, 2007; Dec. 17, 2008; Dec. 16, 2009; Dec. 15, 2010; Oct. 19, 2011; Nov. 14, 2012; Nov. 20, 2013; Nov. 19, 2014; and Dec. 16, 2015. Amended and combined with Board Policy 306 Sept. 21, 2016. Amended Nov. 16, 2016; ~~and~~ Oct. 18, 2017; and April 18, 2018.

APPENDIX A

**Authorization to Purchase and Sell Securities
Individuals in Authorized Positions**

**Staff Authorized to Purchase and Sell Securities:
Amended ~~Aug. 17, 2016~~ April 18, 2018**

Chief Financial Officer (Unlimited)	Richard Williams
Chief Financial Officer Treasurer (Unlimited)	James D. Travis
Director, Treasury (\$75 million per day)	David Smith
Treasury Analyst (\$50 million per day)	Keri J. Whipple
Treasury Analyst (\$50 million per day)	Michael Prins

**APPENDIX B
APPROVED BROKER/DEALERS**

<u>Name of Firm</u>	<u>Headquarters</u>	<u>LCRA Trading Office</u>
Stifel Nicolaus & Company, Inc.	St. Louis	Houston
RBC Capital Markets	Minneapolis	Dallas
Merrill Lynch, Pierce, Fenner & Smith Inc.	Charlotte, N.C.	Dallas
Raymond James & Associates	Memphis	Austin
Wells Fargo Securities, LLC	San Francisco	Dallas
Cantor Fitzgerald & Co.	New York	Dallas
U.S. Bank N.A.	Minneapolis	Minneapolis
Jefferies LLC	New York	Los Angeles

APPENDIX C
APPROVED INVESTMENTS OF PUBLIC FUNDS
AS OF ~~OCT. 18, 2017~~ APRIL 18, 2018
(SECTION 2256, PUBLIC FUNDS INVESTMENT ACT OF 1987, AMENDED)

DESCRIPTION

1. Obligations of, or guaranteed by, Governmental Entities (Section 2256.009 of the Texas Public Funds Investment Act) Maturity Limit: 30 years
2. Certificates of Deposit and Share Certificates (Section 2256.010 of the Texas Public Funds Investment Act) Maturity Limit: three years
3. Repurchase and/or Reverse Repurchase Agreements (Section 2256.011 of the Texas Public Funds Investment Act) Maturity Limit: one year
4. Securities Lending Program (Section 2256.0115 of the Texas Public Funds Investment Act) Maturity Limit: one year
5. Banker's Acceptances – Rating/Definition (Section 2256.012 of the Texas Public Funds Investment Act) Maturity Limit: 270 days
6. Commercial Paper – Rating/Definition (Section 2256.013 of the Texas Public Funds Investment Act) Maturity Limit: 270 days
7. Money Market Mutual Funds – Permissions/Restrictions (Section 2256.014 (a) of the Texas Public Funds Investment Act) Maturity Limit: 60 days
8. Guaranteed Investment Contracts (GICs) (Section 2256.015 of the Texas Public Funds Investment Act) Maturity Limit: three years
9. Investment Pools (Section 2256.016 of the Texas Public Funds Investment Act) Maturity Limit: 90 days

FOR ACTION

4. LCRA Board Policy 301 – Finance

Proposed Motion

Approve revisions to LCRA Board Policy 301 – Finance as attached in Exhibit A.

Board Consideration

Board of Directors approval is required for any changes to LCRA Board policies.

Budget Status and Fiscal Impact

Approval of this item will have no budgetary or fiscal impact.

Summary

Staff recommends changes to LCRA Board Policy 301 – Finance to add Section 301.608 regarding the creation of a new reserve fund called the Liability Reduction Fund. Deposits to this fund and expenditures from it will be authorized by the Board to provide funds for liability reduction that reduces LCRA's long-term costs while improving LCRA's flexibility and its ability to meet its customers' future needs.

Presenter(s)

Jim Travis
Chief Financial Officer

Exhibit(s)

A – Proposed Revisions to LCRA Board Policy 301 – Finance

EXHIBIT A

LCRA BOARD POLICY

301 – FINANCE

~~Sept. 21, 2016~~ April 18, 2018

301.10 PURPOSE

This policy provides a framework from which LCRA's financial integrity will be maintained while serving the long-term interests of its customers and other constituencies. LCRA recognizes that maintaining financial integrity is critical to accomplishing its goals and discharging LCRA's primary customer and public service responsibilities. This policy establishes processes to be used by the LCRA Board of Directors to define the strategic plan for LCRA and to approve specific program goals, objectives and associated budgets.

301.20 DEFINITIONS

Business Plan – The business plan is the document approved by the Board annually that establishes the Board's goals and priorities. The business plan includes operating and capital budgets as well as projections of LCRA's overall financial performance and capital financing plans. It describes the projects, products and services that support the associated revenues and expenditures over a five-year period.

Debt Service Coverage (Coverage) – Debt service coverage is the ratio of the fiscal year's ending total revenues minus total operating and maintenance expenses (net of depreciation, amortization, and other revenue and expense exclusions resulting from prior period funding), divided by scheduled debt service on all obligations as approved in the business plan.

Equity Ratio (Ratio) – The calculation is the ratio of total equity divided by total assets.

Fixed-Rate Debt – Fixed-rate debt consists of coupon securities that have a scheduled maturity or mandatory sinking fund redemption date. Fixed-rate debt that has been synthetically converted to variable rate debt via a derivative instrument will be classified as variable-rate debt for the term of the derivative instrument.

Long-Term Liabilities – Long-term liabilities are (1) principal amounts on long-term debt instruments, (2) pension liabilities, and (3) amounts owed on long-term obligations.

Operating and Maintenance Expenses – Operating and maintenance expenses consist of all reasonable and necessary costs and expenses incurred in the operation and maintenance of the LCRA system.

Variable-Rate Debt – Variable-rate debt consists of securities on which the interest rate varies over time (a) based on an index or formula such as variable-rate demand notes or auction-rate bonds, or (b) because the securities are sold in the short-term market (with a maturity not exceeding 270 days), such as commercial paper.

301.30 FINANCIAL OBJECTIVES

In seeking to fulfill its customer and public service objectives, LCRA will maintain a high level of financial stability and will not compromise long-term financial integrity to achieve short-term benefits.

The GM/CEO is authorized to engage financial service providers and other related professional service providers if deemed necessary and appropriate by the GM/CEO in consultation with the chief financial officer, considering the expertise and cost of any such service provider. The GM/CEO will provide an annual report to the Board listing all contracts into which LCRA entered pursuant to this paragraph.

301.301 Debt Service Coverage. To provide a margin of safety in LCRA's financial affairs, revenue levels will be set to target a debt service coverage ratio of 1.25x on the total debt service for all debt obligations. In the event overall debt service coverage is projected to be below 1.25x for any fiscal year, the Board will promptly implement a plan, to be recommended by staff, which could include rate increases, cost reductions or other means to achieve a debt service coverage ratio of 1.25x.

In the event actual LCRA system fiscal year debt service coverage ratio exceeds 1.25x, the financial performance of the wholesale power business will be evaluated to determine if actual wholesale power debt service coverage ratio exceeds 1.25x for the fiscal year. If such excess exists, staff will submit to the Board a plan to provide the existing long-term wholesale electric customers with appropriate credits or other rate relief in an amount equal to the excess, provided that after such credit or rate relief, LCRA will achieve an actual system debt service coverage ratio of 1.25x and be in compliance with any covenant requirement in any bond resolution or policy of LCRA. This policy will be applicable except in periods when funds are needed to provide equity for the generation capital program and meet operating reserve requirements.

Upon completion of the annual audit of fiscal year-end financial statements, the existing long-term wholesale electric customers will be provided an analysis of LCRA's financial performance for that period in order to provide a complete accounting of funds above a 1.25x debt service coverage ratio.

301.302 Rates and Prices. LCRA will design rates and prices that are intended to ensure LCRA meets its financial obligations, recover reasonable costs in a timely fashion, and maintain financial integrity as required by regulatory and contractual requirements. These rates will provide a stable and predictable flow of revenues to maintain appropriate levels of revenue to achieve LCRA's goals. Revenue levels will

be evaluated in consideration of, but not limited to, bond ratings, capital funding requirements, current business conditions, economic projections and load-growth assumptions, delays inherent in the regulatory process, and the projected size and frequency of necessary rate adjustments. These revenues will be adequate to cover operating and maintenance expenses, debt service, covenanted debt service reserves, liquidity requirements, and equity funding for the capital program.

Rates and prices for wholesale power services to existing long-term wholesale electric customers will be consistent with contractual commitments regarding rates and prices. Revenue collected from wholesale power rates, with the exception of contributions to the Public Service Fund (PSF), will be used for the benefit of the generation system. Rates and prices for service to other electric customers will be set, at a minimum, to recover the cost of providing the services.

Rates and prices for LCRA's raw water services will be based on criteria as specified in LCRA Board Policy 501 – Water Resources.

For other LCRA services for which rates are charged, LCRA may employ other appropriate pricing methods as approved by the GM/CEO.

301.303 Sources of Financing. LCRA will use a combination of equity and debt to finance capital additions to the system such that both current and future customers are allocated an equitable portion of the costs. LCRA may borrow for capital projects when it is appropriate to spread the cost of capital assets over their useful lives.

The issuance of debt requires an affirmative vote of three-fourths of the Board. LCRA will not issue debt for working capital items.

Capital market considerations require an equity base to support financing. LCRA will build equity during those periods when major capital projects are not being undertaken by financing capital projects from revenues. In this way, LCRA will build equity sufficient to maintain financial integrity, ensure access to the debt markets and provide for the growing needs of customers.

As appropriate, LCRA will evaluate mechanisms to restructure or refinance debt. LCRA will continually evaluate alternatives to conventional financing to lower the overall cost of capital for ratepayers. Separate system financing also will be considered.

LCRA may structure debt issues such that the average maturity of the debt funding the assets approximates the average life of the assets financed; however, debt issues may be structured with a shorter average maturity if economically justified. LCRA will attempt to maintain a long-term average 30 percent equity ratio. At no time will the equity ratio fall below 20 percent without specific Board approval in the business plan. Equity funding of the capital program will be approved in the business plan in compliance with this policy and taking into consideration the extent of contractual obligations of customers to provide the sources of revenue that will support the financing program.

301.304 Variable-Rate Financing. LCRA may use variable-rate debt to provide flexibility in its overall capital program and to manage its overall interest rate exposure.

The variable-rate limit is 25 percent of total capitalization, long-term debt plus capital employed as presented periodically in LCRA's financial statements.

301.305 Debt Service Reserves. LCRA will covenant debt service reserves in the amount of six months of average annual debt service requirements on outstanding debt.

Debt service reserves may be collected through nonfuel rates or met with proceeds from additional debt or through the use of a surety to mitigate rate impacts.

301.306 Operating Reserves. LCRA will target three months of average operating and maintenance expense for purposes of operating liquidity and maintain reserves for liquidity of two to three months. Compliance will be evaluated at the end of each fiscal year.

These reserves will be collected through nonfuel rates.

If at any time the level of the operating reserves are projected to fall below the minimum two months established by this policy, the Board will promptly implement a plan, to be recommended by staff, to increase rates, reduce costs or otherwise cause there to be sufficient revenues to replenish the level of operating reserves to such target levels within 12 months.

301.307 Management Reserves. The GM/CEO may establish reserves from time to time for management activities.

301.40 PLANNING

301.401 Business Plan. LCRA will prepare a business plan to be submitted for Board approval before the start of each fiscal year. The business plan will include the organization's goals and objectives and will describe the projects, products and services that comprise a five-year forecast for:

- Operating and maintenance expenses.
- Capital expenditures.
- Capital funding sources.
- Operating and other reserve requirements.
- Debt service requirements.

This information will be provided in appropriate detail for LCRA's lines of business, affiliated corporations and for LCRA as a whole.

Adoption of the business plan authorizes the GM/CEO to complete work plans and make associated expenditures within budgets as provided for in accordance with Board policies. The resolution adopting the business plan will establish the capital and operating budgets for the upcoming fiscal year. Such amounts may not be exceeded without Board approval. Approval of the business plan constitutes authorization to proceed with capital projects included in year one of the plan and establishes the projects' respective lifetime budgets. The resolution adopting the business plan also will include guidelines for authorizing capital spending and reporting requirements for business plan results.

If annual expenditures for operations or capital are expected to exceed Board-authorized levels, additional approval from the Board will be required. Staff will provide sufficient support for the additional funding request and provide analysis for impacts on current and future rates.

For any project not previously authorized by the Board in the capital plan, authority is delegated to the GM/CEO to approve any capital project with a lifetime budget not to exceed \$1.5 million. Such approval by the GM/CEO will meet the official intent requirements set forth in Section 1.150-2 of the IRS Treasury Regulations. This delegation will apply only when such approval does not cause total capital expenditures to exceed the approved capital plan or materially adversely impact business planning assumptions. In such a situation, Board approval will be required. Staff will communicate any GM/CEO-approved projects to the Board on a quarterly basis. If Board approval is required, staff will communicate to the Board the funding source and rate impact of any new project when Board approval is requested. A new project may require an amendment to the existing capital plan or be managed within the previously authorized annual spending limits.

If an approved capital project is expected to exceed its lifetime budget by 10 percent and \$300,000, additional funding approval from the Board will be required. Approval of a new capital plan may reset the project's lifetime budget.

301.402 Quarterly Business Plan Update. The GM/CEO will provide quarterly updates that include indicators of year-to-date operational and financial performance, progress toward key goals, and financial performance projections.

301.403 Customer Involvement. LCRA will seek appropriate input from its customers before the Board's approval of the business plan.

301.50 AFFILIATED CORPORATIONS

Each LCRA affiliated corporation will implement a planning process similar to the process used by LCRA. However, each affiliated corporation should use a process appropriate for its level of activity. The business plan of the affiliated corporation submitted for Board approval will include the following components:

- A description of the affiliated corporation's major programs.

- Operating and capital budgets for the upcoming fiscal year.
- A summary of its annual goals and objectives.
- Five-year forecasts of operating and capital budgets.
- A summary of its rate plan, if applicable.

301.60 SPECIAL FUNDS

~~In seeking to provide funding for its mission-based activities,~~ LCRA will establish a process to transfer a portion of its revenues derived from its various product lines into special funds to be used to support such mission-based activities, ~~and to support~~ long-term resource development, and other activities.

The Board may establish special funds with appropriate implementation policies and program guidelines in order to set aside funds for these various special purposes.

In the event LCRA's financial performance from non-electric operations exceeds the budget targets set forth in the business plan, the Board may approve the supplemental transfer of funds to the established special funds. Any funds approved for transfer by the Board will be subject to compliance with LCRA's bond resolutions.

To the extent established special funds, including accumulated interest earnings, are not disbursed for the special purposes described in the separate policy and program guidelines, LCRA may use the funds for any lawful purpose. In the event that LCRA net revenues are insufficient to satisfy bond obligations, the monies from the Public Service Fund (PSF), Infrastructure Reserve Fund, Resource Development Fund, Liability Reduction Fund or Public Recreation and Conservation Land Acquisition Fund (PRCLA Fund) – with the exception of any loans, grants or gifts comprising a portion of the PRCLA Fund – may be applied to such deficiencies.

301.601 LCRA Public Service Fund. The LCRA enabling legislation, as amended, and other applicable state laws provide that LCRA has certain statutory duties in the area of community services. While these service activities produce some revenues, the level of their revenue potential is insufficient to provide LCRA the means of implementing effective service programs. LCRA will maintain the PSF to support those activities. The LCRA enabling legislation contemplates the use of revenues derived from LCRA's wholesale power, transmission and water operations for service activities as described in the business plan. Wholesale power, transmission and water rate tariffs will include, as an element of the cost of service, revenue transfers to community service activities.

The amount available to annually fund service activities through the PSF and the Resource Development Fund will equal a total of 5 percent of budgeted gross revenues of the LCRA transmission activities, accomplished through LCRA Transmission Services Corporation or LCRA's unregulated transmission product line, with the specific allocation of such funds between the two funds to be established by the Board in the LCRA business plan. Amounts available to fund service activities through the PSF from LCRA's raw water business activities will be 3 percent. Three percent of budgeted gross revenues of

GenTex 1, the portion of Lost Pines 1 Power Project that is owned by GenTex Power Corporation and from which electricity is sold to LCRA and wholesale customers, also will be available to fund PSF-supported activities. Hydroelectric activity does not contribute to the PSF because it is a component of electric generation rates and covered through the electric generation customer's contribution, described below.

Wholesale power customers will pay as a portion of the operation and maintenance component of the electric rates an amount established under the terms of wholesale power customer agreements, or as otherwise agreed by the parties. Such payments will be for the benefit of the PSF and will be used for the purposes described in this section.

301.602 Flood Recovery and Disaster Fund. LCRA will maintain a Flood Recovery and Disaster Fund (FRD Fund) of up to \$500,000 to aid in the response to a natural flood disaster that causes structural, environmental or navigational damage or creates a hazard to public health and safety along the Highland Lakes and Colorado River within LCRA's 10-county statutory district. LCRA intends the fund to be used to assist cities, counties and local communities in restoring essential services, mitigating public health hazards and ensuring public safety. LCRA expects that LCRA's assistance using this fund will be in support of the affected communities' self-help response to the disaster. Unless otherwise approved by the Board, expenditures from this fund for any single flood event will be limited to \$200,000 and will not extend past the expiration date of a state disaster declaration.

The types of activities that qualify under the FRD Fund are related to public health and safety and may include some or all of the following activities:

- (1) Inspection of septic systems.
- (2) Water quality assessments.
- (3) Emergency repair of water and wastewater treatment plants.
- (4) Removal of major navigational hazards within LCRA lakes and the Colorado River.
- (5) Use of heavy equipment to clear roadways and shorelines of major flood debris.
- (6) Assistance of LCRA personnel in public safety activities.

The following types of activities do not qualify under the FRD Fund:

- (1) The repair or improvement of private property.
- (2) The repair or improvement of LCRA facilities except those facilities that are for public use and enjoyment.

As monies in the FRD fund are used for eligible expenditures, the Board may approve additional transfers to replenish the fund.

301.603 Agricultural Water Conservation Fund. Section 8503.029, Texas Special District Local Laws Code (Section 8503.029), requires that a separate charge of at least 10 percent of LCRA's applicable water rates be applied for any new surface water

transfers to the Brazos River watershed in Williamson County. LCRA may use money from this fund only for the development of water resources or other water use strategies to replace or offset the amount of surface water to be transferred to Williamson County. The water development or water use strategies must take into consideration the surface water and groundwater needs of the affected Colorado River basin users and will benefit the water service areas of LCRA's irrigation operations. The Board may deposit other monies within its discretion in the Agricultural Water Conservation Fund.

The staff will consult, as required by Section 8503.029, with an advisory committee representing agricultural irrigation interests before using money from the Agricultural Water Conservation Fund. The Board must approve all expenditures from the Agricultural Water Conservation Fund, but will not consider using the funds to buy out the production of a second crop.

On or before the April Board meeting of each year, the general manager will submit to the Board a report summarizing activities related to the implementation of Section 8503.029, including management and use of the Agricultural Water Conservation Fund, the sufficiency of the separate charge to implement the requirements of Section 8503.029, and updated projections of anticipated water demands for customers subject to the requirements of Section 8503.029.

301.604 Infrastructure Reserve Fund. LCRA will maintain a fund in which the Board may set aside proceeds from above-budget performance from water, park and strategic services activities. Availability of these funds, if any, will be determined after completion of the annual financial audit. Additionally, PSF monies not identified for a specific purpose during the preparation of the annual business plan also may be set aside in this fund. The Board may use these funds at its discretion for purposes of improving existing or developing new infrastructure or any other lawful purpose. The Board must approve all expenditures from the Infrastructure Reserve Fund. The Infrastructure Reserve Fund is part of the revenue fund and accounted for separately.

301.605 Resource Development Fund. LCRA will maintain a fund to specifically support investment in and payment of debt service on borrowings that have been used to construct long-term capital assets that (i) provide for the development of water supply resources for the Colorado River basin, or (ii) otherwise support LCRA's mission activities. The deposit of monies into this fund will be pursuant to Board action authorizing a one-time transfer of funds or creating a program that creates periodic transfers from sources described in this policy. The Board must approve all expenditures from the Resource Development Fund. The Resource Development Fund is part of the revenue fund and accounted for separately.

301.606 Public Recreation and Conservation Land Acquisition Fund. LCRA has established a Public Recreation and Conservation Land Acquisition Fund (PRCLA Fund) to be used for non-utility land acquisition and/or the development of any project included in LCRA's Public Services or Enterprise Capital Improvement Plan. The PRCLA Fund is part of the revenue fund and accounted for separately.

LCRA intends to maintain a minimum balance in the PRCLA Fund of at least \$1 million. If the PRCLA Fund is drawn down below this level, the Board may direct staff to replenish it with an equal or greater amount from the approved sources within a reasonable time frame. At any time that it is anticipated that an expenditure will draw the balance below the \$1 million level, the source of funds, the process and the time period for replenishing the PRCLA Fund will be subject to approval by the Board.

The Board must approve all expenditures from the PRCLA Fund. The monies for the PRCLA Fund may come from the following sources:

- Proceeds from the sale of nonessential non-utility lands.
- Loans, grants or gifts allocated to the acquisition of non-utility lands.
- Revenues resulting from LCRA's agreements with the private sector for managing and operating park, recreation and natural science projects.
- Other sources as approved by the Board.

301.607 Community Assistance Fund. A Community Assistance Fund will be established to provide money for LCRA's Community Development Partnership Program (CDPP). The LCRA PSF will be the source of funds for the Community Assistance Fund. The Community Assistance Fund is part of the revenue fund and is accounted for separately.

The CDPP program operates as a grants program, and LCRA intends the CDPP program to support communities and economic growth by contributing to education, transportation, public safety, recreation, health care, training, community planning or employment efforts in LCRA's service area. Specific program guidelines governing the process, criteria and procedures for disbursements made from the Community Assistance Fund and PSF will be approved by the Board.

301.608 Liability Reduction Fund. LCRA will establish a fund specifically for the reduction of long-term liabilities. The purpose of this fund is to reduce LCRA's long-term cost structure by paying for liabilities when appropriate and funds are available. The Board will approve the source of funds for the Liability Reduction Fund and the disbursements from the Liability Reduction Fund.

The Liability Reduction Fund is part of the revenue fund and accounted for separately. Interest income attributable to the Liability Reduction Fund may be deposited into the fund periodically and no less frequently than once per fiscal year.

301.70 RESPONSIBILITIES

An annual report will be submitted to the Board on the activities of the Flood Recovery and Disaster Fund and the Agricultural Water Conservation Fund. It is the responsibility of the GM/CEO, chief financial officer and the Board to review this policy statement periodically and make recommendations for necessary revisions to ensure that LCRA maintains a high level of financial integrity.

301.80 AUTHORITY

LCRA enabling legislation, Chapter 8503, Texas Special District Local Laws Code
Texas Water Code, Chapter 152
Public Funds Investment Act, Chapter 2256, Texas Government Code
Treas. Reg. Sec. 1.150-2

EFFECTIVE: March 1984. Amended December 1988; Dec. 13, 1990; Aug. 20, 1992; March 19, 1998; Feb. 24, 1999; Aug. 18, 1999; Oct. 20, 1999; June 21, 2000; Dec. 13, 2000; Dec. 17, 2003; Nov. 17, 2004; Dec 13, 2006; June 3, 2009; March 31, 2010; Dec. 15, 2010; May 16, 2012; and May 21, 2014. Amended and combined with Board Policy 304 Sept. 21, 2016. [Amended April 18, 2018.](#)

FOR ACTION

5. Authorize the FY 2018 Extraordinary LCRA Optional Purchase Price Payment from LCRA TSC

Proposed Motion

Adopt the attached resolution making determinations regarding the payment from LCRA Transmission Services Corporation (LCRA TSC) of an Extraordinary LCRA Optional Purchase Price Payment (ELOPPP) for FY 2018 and, when such payment is made, reserve those funds in the LCRA Strategic Reserve.

Board Consideration

Section 4.02 of the LCRA-LCRA TSC Electric Transmission Facilities Contract (the Contractual Commitment) requires the LCRA Board to determine if an ELOPPP payment is due for any given fiscal year and to determine the amount of any ELOPPP payment at least 30 days before approving LCRA TSC's annual budget for the next fiscal year.

Budget Status and Fiscal Impact

The transfer to LCRA was contemplated in the FY 2018 business plan. The initiation of this transfer is being made after ensuring that LCRA TSC will meet all financial commitments, including annual expenses for operations and maintenance, debt service and any other payments required under its financial policies.

Summary

As part of the formation of LCRA TSC and the transfer of LCRA's transmission assets to LCRA TSC, LCRA and LCRA TSC executed the Contractual Commitment to govern that transfer and to obligate LCRA TSC to pay a purchase price for those assets. As required by the Contractual Commitment, LCRA TSC has made, each year since its inception, purchase price payments equal to the LCRA debt service obligation associated with the assets transferred to LCRA TSC. Under Section 4.02 of the Contractual Commitment, the LCRA Board has sole discretion to determine each fiscal year if an annual ELOPPP will be made to LCRA. This determination must be made at least 30 days prior to the LCRA Board's approval of LCRA TSC's annual budget for the following year. The amount of any ELOPPP is capped at 25 percent of the amount of LCRA TSC's Contractual Commitment purchase price payments and guarantee reimbursement payments, and is only payable if all other financial commitments of LCRA TSC have been met, including debt, debt service, operations and maintenance, and coverage ratios and reserve funds required by LCRA TSC's financial policies.

Staff determined LCRA TSC has to date met, and is expected to meet, all financial obligations required by any agreement or the financial policies of LCRA TSC for FY 2018.

The amount to be transferred to LCRA will be reserved in the LCRA Strategic Reserve for use in accordance with Board Policy 301 – Finance.

Presenter(s)

Jim Travis
Chief Financial Officer

Exhibit(s)

A - Board Resolution Extraordinary LCRA Optional Purchase Price Payment

EXHIBIT A

RESOLUTION

WHEREAS, the Lower Colorado River Authority (LCRA), and the LCRA Transmission Services Corporation (LCRA TSC) entered into the certain Electric Transmission Facilities Contract (the Contractual Commitment) as of Oct. 1, 2001, as amended; and

WHEREAS, in the Contractual Commitment, LCRA TSC agreed, under certain circumstances, to make an annual payment to LCRA, which is referred to as the Extraordinary LCRA Optional Purchase Price Payment (ELOPPP); and

WHEREAS, the Contractual Commitment provides that the LCRA Board of Directors shall determine if an ELOPPP payment is due and payable for any fiscal year and the amount of such payment; and

WHEREAS, such determinations must be made at least 30 days prior to the Board's approval of LCRA TSC's annual budget for the following fiscal year; and

WHEREAS, such ELOPPP payment is permitted under the Final Order issued by the Public Utility Commission of Texas in Docket No. 25829 and the stipulation incorporated therein;

NOW, THEREFORE, BE IT RESOLVED that the Board hereby determines that pursuant to Section 4.02 of the Contractual Commitment, an ELOPPP payment is due from LCRA TSC for FY 2018, and the amount of the ELOPPP payment due and payable by LCRA TSC in FY 2018 is \$4.1 million.

FOR ACTION

6. Capital Improvement Project – Gulf Coast Canal Easements Acquisition

Proposed Motion

Approve the Capital Improvement Project Authorization Request for the Gulf Coast Canal Easements Acquisition Project and ratify the commitment of funds in excess of the previously approved capital budget.

Board Consideration

LCRA Board Policy 301 – Finance requires LCRA Board approval if an approved capital project is expected to exceed its lifetime budget by 10 percent and \$300,000.

Budget Status and Fiscal Impact

- This project previously was added to the LCRA FY 2018 capital plan by general manager approval in accordance with LCRA Board Policy 301, which authorizes the GM to approve a capital project with a lifetime budget of up to \$1.5 million.
- Approval is sought to increase the approved lifetime budget for this specific project from \$948,720 to \$1,600,000 with all funds expected to be spent in FY 2018.
- Staff believes the additional spending can be managed within the existing fiscal year 2018 business and capital plans, and staff currently is not requesting additional fiscal year capital budget authorization.

Summary

The scope of this project is the acquisition of two canal easements in Matagorda County to replace two older easements that will expire this year. The existing LCRA canal situated within the easements are necessary for the delivery of water to LCRA water customers. One of the easements was purchased from the landowner. An agreement could not be reached to acquire the second easement, and staff proceeded with condemnation as previously authorized by the Board. In a March 2018 hearing in Matagorda County, the special commissioners awarded the landowner an amount that far exceeded LCRA's appraised value. In order to secure continued use of the irrigation canals contained within the easement, it was necessary for LCRA to pay the compensation amount prior to LCRA Board approval of the requested lifetime budget increase.

LCRA currently is proceeding through an appeal process. Due to the increase in easement acquisition cost and the expected legal cost of an appeal, the budget forecast has exceeded the project budget previously authorized. The requested lifetime budget includes the amount of the special commissioners' award and the anticipated legal cost through the appeal's process. If the compensation amount is lowered in the appeal process, LCRA would be reimbursed the amount of the overpayment. The project budget does not include or reflect a potential reduction in compensation amount since the outcome of the appeal is unknown at this time.

Project Recap

Total Project Estimated Cost:	<u>\$1,600,000</u>
Previous Project Lifetime Budget:	\$ 948,720
Additional Lifetime Budget Approval Sought:	<u>\$ 651,280</u>
FY 2018	\$1,600,000
Total:	<u>\$1,600,000</u>

Presenter(s)

John Hofmann
Executive Vice President, Water

FOR ACTION

7. LCRA Agricultural Interruptible Water Service Contract Rules and Drought Contingency Plan for Interruptible Agricultural Customers

Proposed Motion

Approve the updated agricultural interruptible water service contract rules and drought contingency plan for interruptible agricultural customers.

Board Consideration

Consistent with LCRA Board Policy 501 – Water Resources and Special District Local Laws Code § 8503.011, the LCRA Board of Directors is required to approve terms and conditions for water contracts and any changes thereto. The Texas Commission on Environmental Quality requires that drought contingency plans be approved by the governing board.

Budget Status and Fiscal Impact

The proposed changes have no impact on the fiscal year 2018 budget.

Summary

LCRA staff proposes updates to the agricultural interruptible water service contract rules and drought contingency plan to allow customers in the Gulf Coast and Lakeside agricultural divisions to assign a second irrigation season allocation of interruptible stored water to another customer within the same division.

Specifically, the drought contingency plan would be amended to no longer state that trading of allocations is not allowed. The rules would be amended as shown in Exhibit A.

LCRA emailed customers in the Gulf Coast and Lakeside divisions regarding the proposed changes, and the proposed changes were available for customer comment through the LCRA website.

Presenter(s)

John Hofmann
Executive Vice President, Water

Exhibit(s)

A – Proposed Changes to Agricultural Interruptible Water Service Contract Rules

EXHIBIT A

[Excerpt from Agricultural Interruptible Water Service Contract Rules]

III. CONTRACTING RULES

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C. SECOND IRRIGATION SEASON

1. In the event Customer has used all or part of its allocation of Second Irrigation Season interruptible stored water to finish First Irrigation Season, the portion of the Second Irrigation Season allocation used in the First Irrigation Season will be deducted from the amount available during the Second Irrigation Season.
2. A Customer for rice will not receive an allocation of interruptible stored water for second crop if Customer has not taken delivery of water on any fields for first crop by June 30.
3. Interruptible stored water will be allocated to rice and turf customers that are being serviced with water as of June 30, pro rata, based on the number of acres being serviced during the First Irrigation Season. A customer may assign all or part of the Second Irrigation Season interruptible stored water allocation to another customer within the same division by providing the LCRA agricultural division office with documentation of the assignment on a form acceptable to LCRA by no later than July 31. The party receiving the assignment will be responsible for entering into a contract that includes the assigned allocation; however, the total allocation under the contract will continue to be limited consistent with these rules, including the acre-foot per acre limits in Section III.C.7. All contracts for rice and turf customers, or contracts for customers for Supplemental Purposes that received an assignment of an interruptible stored water allocation must be signed and returned by Customer to LCRA by August 15. In the event such contracts are not signed by August 15, the interruptible stored water allocation will be made available to other customers. LCRA reserves the right to not enter into any such contracts which have not been executed and returned within that timeframe.

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