

**RESOLUTION**

**FINANCIAL POLICY AND INVESTMENT POLICY UPDATES**

WHEREAS, the Board of Directors desires to safeguard James City Service Authority public funds through sound financial management and investment, balanced consideration of both short-term and long-term priorities, and concerns and maintenance of its credit ratings.

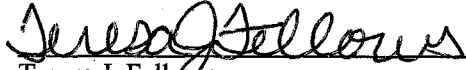
NOW, THEREFORE, BE IT RESOLVED that the Board of Directors of the James City Service Authority, James City County, Virginia, hereby adopts the attached updated Financial Policy and updated Investment Policy.



P. Sue Sadler

Chairman, Board of Directors

ATTEST:



Teresa J. Fellows

Deputy Secretary to the Board

VOTES

AYE   NAY   ABSTAIN

HIPPLE

☒

LARSON

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MCGLENNON

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ICENHOUR

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SADLER

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Absent

Adopted by the Board of Directors of the James City Service Authority, James City County, Virginia, this 13th day of August, 2019.

Fin-InvestPolUpd-res

## **JCSA Financial Policy**

- 1) **Purpose:** This Financial Policy is designed to protect the Authority's financial resources through sound financial management, balanced consideration of both short-term and long-term priorities and concerns, and maintenance of its credit ratings.
- 2) **Reserves-**At a minimum, unrestricted cash and liquid investment reserves will be maintained at the average of the last three fiscal years' operating and maintenance expenses less depreciation plus debt service. The target balance for the Authority's Repair and Replacement Reserve Fund is the annual depreciation expense from the most recent Comprehensive Annual Financial Report (CAFR).
- 3) **Budgeting**
  - a. **Rate Study-**A comprehensive rate study will be performed at least every five years.
  - b. **Annual Operating Budget**
    1. The Board of Directors will annually adopt a budget that: is balanced with planned revenues equal to planned expenses based on financial forecasts, considers the affordability of rates, has user fees and charges that fully support the total direct and indirect costs of the activity, provides for the adequate maintenance and operations of the water and wastewater systems, provides adequate funding of all adopted retirement benefit programs, maintains required reserves at least equal to the minimum balance as defined in this Policy, and enables the Authority to meet the debt service coverage target defined in this Policy.
    2. The Authority will work toward reducing reliance on facility charge revenue by increasing total operating revenues (which do not include facility charge revenue) to a level that will
      - a. fund total operating expenses and debt service costs by fiscal year 2022 and
      - b. maintain debt service coverage of at least 1.5 while excluding 10% of facility charge revenue from the calculation of net revenue available for debt service in fiscal year 2021. The amount of facility charge revenue excluded from the calculation of net revenue available for debt service shall increase by 10% each year until it reaches 100% in fiscal year 2030.
    3. The Authority will annually prepare a Comprehensive Annual Financial Report (CAFR) that is audited by an independent CPA firm. The annual report will meet Generally Accepted Accounting Principles (GAAP) and the Governmental Accounting Standards Board's (GASB) Statements.
    4. The Authority will follow applicable procurement laws and policies.
    5. The Authority will maintain internal controls to safeguard assets against

loss and insure the reliability of financial records.

6. The Authority will follow a risk management program to safeguard its assets, minimize financial liability and promote safety.

- c. **Capital Improvement Plan**-The Board of Directors will adopt a minimum five year Capital Improvement Plan (CIP) and update it annually. The Plan will identify projects to be undertaken to meet projected needs for infrastructure renewal, expansion or replacement and appropriate financing methods for the Plan. The Authority's goal is to fund at least 20% of the annual CIP budget with operating revenues. The Authority will maintain an asset management program to guide the maintenance and funding of its capital assets.

#### 4) Debt Management

- a. Growth in debt service will be balanced with projected growth of revenue so that debt service coverage of at least 1.5 will be maintained.
- b. Long term borrowing will not be used to finance current operations or expenses for normal maintenance.
- c. Debt will be refunded when it is in the best financial interest of the Authority.
- d. All trust indenture requirements and applicable laws will be met or exceeded.
- e. Full disclosure will be made on bond issue documents and in response to bond rating agency communications.
- f. Debt financing terms will be equal to or less than a project's useful life.
- g. A financial feasibility analysis will be prepared for each long-term financing which analyzes the impact on current and future budgets for debt service and operations. The analysis will also address the reliability of revenues to support debt service.

- 5) **Investments**-The JCSA Investment Policy previously adopted by the Board of Directors is incorporated into this Financial Policy.

- 6) **Reporting**-A 5 year financial forecast of anticipated revenues and expenses shall be produced each fiscal year as part of the annual proposed budget.

- 7) **Review**-This Policy shall be reviewed annually for possible updates.

# **James City Service Authority**

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## ***Statement of Investment Policy***

Revised August 13, 2019

# **James City Service Authority**

## *Statement of Investment Policy*

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# **James City Service Authority**

## ***Statement of Investment Policy***

### ***Purpose***

The James City Service Authority ("the JCSA") is a public body politic and corporate of the Commonwealth of Virginia. The JCSA was created in 1969 by the James City County Board of Supervisors pursuant to the Virginia Water and Sewer Authorities Act (Code of Virginia, 1950, as amended). The JCSA's Board of Directors is appointed by the Board of Supervisors.

The purpose of this policy is to set forth the investment and operational policies for the management of public funds of the JCSA. These policies have been adopted by, and can be changed only by, the JCSA Board of Directors.

These policies are designed to ensure the prudent management of public funds, the availability of operating and capital funds when needed, and an investment return competitive with comparable funds and financial market indices.

It shall be the policy of the JCSA that all investments and investment practices meet or exceed all statutes governing the investment of public funds in Virginia and any investment restrictions imposed by bond covenants. Further, accounting for the JCSA Portfolio shall be consistent with guidelines of the Governmental Accounting Standards Board (GASB).

### ***Scope of the Investment Policy***

This investment policy is a comprehensive one that governs the overall administration and investment management of those funds held in the JCSA's investment portfolio. This policy shall apply to such funds from the time of receipt until the time the funds ultimately leave the JCSA's accounts. These funds include, but are not limited to, all operating funds, debt service funds, and capital project funds ("the JCSA's Portfolio").

The monies of individual funds may be commingled for investment purposes. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

The guidance set forth herein is to be strictly followed by all those responsible for any aspect of the management or administration of these funds.

### ***Investment Objectives***

All investments will be in accordance with the Code of Virginia Sections §2.2-4400 et seq. and §2.2-4500 et seq. and applicable Indentures of Trust.

The JCSA's Portfolio shall be managed to accomplish the following hierarchy of objectives:

- 1 - Preservation of Principal*** - The single most important objective of the JCSA's investment program is the preservation of principal of those funds within the portfolio.

**2 - Maintenance of Liquidity** - The portfolio shall be managed in such a manner that assures that funds are available as needed to meet those immediate and/or future operating requirements of the JCSA, including but not limited to payroll, accounts payable, capital projects, debt service and any other payments.

**3 - Maximize Return** - The portfolio shall be managed with the objective of obtaining a market rate of return over the course of budgetary and economic cycle within the context and parameters set forth by objectives 1 and 2 above.

### **Delegation of Authority**

The Board of Directors is responsible for the adoption of the investment policy, and must approve any revisions or alterations made to the policy.

The JCSA Assistant General Manager (the "Treasurer") shall have responsibility for the operation of the investment program. The Treasurer shall establish written procedures for the operation of the investment program consistent with this investment policy. Procedures should include references to safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, collateral/depository agreements and banking services contracts. The Treasurer is supported by an Assistant Treasurer who is assigned to the Department of Financial and Management Services, James City County.

The Treasurer may employ an Investment Manager as defined in this Policy under Engagement of Investment Managers to assist in managing some or all of JCSA's Portfolio.

No other person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Treasurer.

### **Standard of Prudence**

The standard of prudence to be applied to the investment of the JCSA's Portfolio shall be the "Prudent Investor" rule that states:

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

The Treasurer and other JCSA employees and officials involved in the investment process acting in accordance with the Code of Virginia §2.2-4516, this policy and any other written procedures pertaining to the administration and management of the JCSA's Portfolio and who exercise the proper due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that any negative deviations are reported in a timely fashion to the JCSA General Manager and that reasonable and prudent action is taken to control and prevent any further adverse developments. Furthermore, in accordance with Section §2.2-4410 et seq. of the Code of Virginia, the Treasurer shall not be liable for loss of public money due to the default, failure or insolvency of a depository.

## ***Ethics and Conflict of Interest***

The State and Local Government Conflict of Interests Act governs officers and employees, including those involved in the JCSA's investment process. Specifically, Code of Virginia §2.2-3103 (5) and (6) of the Act provide that no officer or employee shall:

- 1) Accept any money, loan, gift, favor, service, or business or professional opportunity that reasonably tends to influence him in the performance of his official duties; or
- 2) Accept any business or professional opportunity when he knows there is a reasonable likelihood that the opportunity is being afforded to influence him in the performance of his official duties.

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

## ***Authorized Investments***

In accordance with Section §2.2-4500 et seq. of the Code of Virginia and other applicable law, the JCSA shall be permitted to invest in any of the following securities. The Treasurer may impose additional requirements and restrictions to ensure JCSA's goals are met.

1. **U.S. Treasury Obligations.** Bills, notes and any other obligation or security issued by or backed by the full faith and credit of the United States Treasury, as described by Code of Virginia §2.2-4501.
2. **Federal Agency Obligations.** Bonds, notes and other obligations of the United States, and securities issued by any rated federal government agency or instrumentality or government sponsored enterprise as described by Code of Virginia §2.2-4501.
3. **Municipal Obligations.** Bonds, notes and other general obligations of the any state and its agencies, authorities, and political subdivisions upon which there is no default, and otherwise meets the requirements of Code of Virginia §2.2-4501.
4. **Commercial Paper.** "Prime quality" commercial paper issued by domestic corporations (corporations organized and operating under the laws of the United States or any state thereof) which otherwise meets the requirements of Code of Virginia §2.2-4502.
5. **Bankers' Acceptance.** Issued by domestic banks or a federally chartered office of a foreign bank, which are eligible for purchase by the Federal Reserve System as described by Code of Virginia §2.2-4504.
6. **Corporate Notes.** Unsecured promissory notes issued by corporations, and otherwise meeting the requirements of Code of Virginia §2.2-4510.
7. **Negotiable Certificates of Deposit and Bank Deposit Notes.** Negotiable certificates of deposit and negotiable bank deposit notes of domestic banks and domestic offices of foreign banks and otherwise meeting the requirements of Code of Virginia §2.2-4509.



8. **Money Market Mutual Funds (Open-Ended Investment Funds).** Shares in open-end, no-load investment funds provided such funds are registered under the Federal Investment Company Act of 1940. The mutual fund must comply with all requirements of Rule 2(a)-7, or any successor rule, of the United States Securities and Exchange Commission, provided the investments by such funds are restricted to investments otherwise permitted by the Code of Virginia for political sub-divisions as described in the Code of Virginia §2.2-4500 et seq.
9. **Pools.** Pooled investment programs provided that the underlying investments by such funds are restricted to investments otherwise permitted by the Code of Virginia for political sub-divisions, as described by Code of Virginia §2.2-4513.1, §2.2-4600 et seq., and §2.2-4700 et seq. The JCSA can invest in two different types of Pools:
  - a. **Principal Stability Pools** that operate in compliance with the Government Accounting Standards Board's Statement 79 ("GASB 79"), which maintain a weighted average maturity of less than 60 days and whose primary objective is to maintain a stable net asset value; and
  - b. **Short-Term Bond Pools** that may have a longer average maturity than principal stability pools and a fluctuating net asset value. Bond Pools are designed to generate a higher rate of return than Principal Stability Pools.
10. **Repurchase Agreements.** An agreement under which the holder of securities sells these securities to an investor with a contract to repurchase the securities at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement and the terms of the agreement are structured to compensate him for this. In overnight, term and open repurchase agreements provided that the following conditions are met:
  - a. The contract is fully secured by deliverable U.S. Treasury and Federal Agency obligations as described in paragraph 1 above, having a market value at all times of at least one hundred and two percent (102%) of the amount of the contract;
  - b. A Master Repurchase Agreement or specific written Repurchase Agreement governs the transaction;
  - c. The securities are free and clear of any lien and held by an independent third party
    - i. custodian acting solely as agent for the JCSA, provided such third party is not the seller under the repurchase agreement;
  - d. A perfected first security interest under the Uniform Commercial Code in accordance
    - i. with book entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. in such securities is created for the benefit of the JCSA;
  - e. For repurchase agreements with terms to maturity of greater than one (1) day, the JCSA will value the collateral securities daily and require that if additional collateral is required then that collateral must be delivered within one business day (if a
    - i. collateral deficiency is not corrected within this time frame, the collateral securities will be liquidated);
  - f. The counterparty is a:
    - i. Primary government securities dealer who reports daily to the Federal Reserve Bank of New York, or
    - ii. A bank, savings and loan association, or diversified securities broker-dealer
    - iii. having at least \$5 billion in assets and \$500 million in capital and subject to regulation of capital standards by any state or federal regulatory agency; and
  - g. The counterparty meets the following criteria:

- i. A long-term credit rating of at least 'AA' or the equivalent from an NRSRO.
- ii. Has been in operation for at least 5 years, and
- iii. Is reputable among market participants.

### **Bank Deposits**

Certificates of deposit and other evidences of deposit in any national banking association, Federal Savings and Loan Association or Federal Savings Bank located in Virginia and any bank, trust company or savings institutions organized under Virginia law are permitted by and shall be made in accordance with Section §2.2-4400 et seq. of the Code of Virginia. The JCSA will maintain bank deposits meeting the following requirements:

- 1) The maturity is no greater than one (1) year at the time of purchase;
- 2) Certificates of deposit will be placed directly with depository institutions (no third parties or money brokers will be used);
- 3) Deposits will be secured in accordance with the Virginia Security for Public Deposits Act, (Section §2.2-4400 et seq.) of the Code of Virginia.

### **Investment Parameters**

#### **Mitigating Credit Risk in the Portfolio**

Credit risk is the risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. It is the policy of the JCSA to diversify its investment portfolios to minimize risk of loss resulting from the over-concentration of assets in a specific maturity, issuer, or class of securities.

#### **Mitigating Market Risk in the Portfolio**

Market risk is the risk that the portfolio value will fluctuate due to changes in the general level of interest rates. The JCSA recognizes that, over time, longer-term/core portfolios have the potential to achieve higher returns. On the other hand, longer-term portfolios have higher volatility of return. The JCSA shall mitigate market risk by providing adequate liquidity for short-term cash needs, and by making longer-term investments only with funds that are not needed for current cash flow purposes.

Maturity scheduling shall be timed according to anticipated need. Investment maturities for operating funds shall be scheduled to coincide with projected cash flow needs, taking into account large routine expenditures as well as considering sizable blocks of anticipated revenue. Selection of investment maturities must be consistent with the cash requirements of the JCSA in order to avoid the forced sale of securities prior to maturity.

Investment of capital project funds shall be timed to meet contractor's payments.

#### **Maximum Maturity**

For purposes of this Investment Policy, assets of the JCSA shall be segregated into three categories based on expected liquidity needs and purposes: short-term operating funds, the core portfolio and bond proceeds.

**Short-Term Operating Funds.** Assets categorized as short-term funds will be invested in permitted investments maturing in twelve (12) months or less. The average weighted maturity of the short-term assets will not exceed 180 days. Because of inherent difficulties in accurately forecasting

cash flow requirements, a portion of the portfolio will be continuously invested in readily available funds such as money market mutual funds or overnight repurchase agreements to ensure that appropriate liquidity is maintained to meet ongoing obligations.

**Core Portfolio.** The operating fund core portfolio will be invested in permitted investments with a stated maturity of no more than 5 years from the transaction settlement date (with the exception of Agency Mortgage-Backed Securities ("MBS") which must have a weighted average life ("WAL") of no more than 5 years). To control the volatility of the core portfolio, the Treasurer will determine a duration target, not to exceed three years.

**Bond Proceeds.** Proceeds from the sale of bonds will be invested in compliance with the specific requirements of the bond covenants without further restriction as to the maximum term to maturity of securities purchased. However, in no case will bond proceeds be invested in securities with a term to maturity that exceeds the expected disbursement date of those funds.

Reserve funds and other funds with longer-term investment horizons may be invested in securities exceeding five (5) years if the maturity of such investment is made to coincide as nearly as practicable with the expected use of funds. The intent to invest in securities with longer maturities shall be disclosed in writing to the Board of Directors.

Permitted Investment	Sector Limit	Issuer Limit <sup>1</sup>	Ratings Requirement <sup>2,3</sup>	Max Maturity <sup>4</sup>
U.S. Treasury Obligations	100%	100%	N/A	5 Years
Federal Agency Obligations	100%	35%	AA or equivalent by at least two NRSROs, which of which will either be Moody's or S&P	5 Years
Federal Agency Mortgage-Backed Securities	25%	25%	AA or equivalent by at least two NRSROs, which of which will either be Moody's or S&P	5 Years WAL
Municipal Obligations	20%	5%	AA (S&P) and Aa (Moody's)	5 Years
Commercial Paper	35%	5%	A-1 or equivalent by at least two NRSROs	270 Days
Bankers' Acceptances	35%	5%	A-1 or equivalent by at least two NRSROs	180 Days
Corporate Notes	30%	5%	AA (S&P) and Aa (Moody's)	5 Years
Negotiable Certificates of Deposit and Bank Deposit Notes	30%	5%	A-1 (S&P) & P-1 (Moody's) if less than one year to maturity; AA (S&P) and Aa (Moody's) if greater than one year to maturity	5 Years
Money Market Mutual Funds	50%	50%	AAAm or equivalent by an NRSRO	N/A
Principal Stability Pools	50%	50%	AAAm or equivalent by an NRSRO	N/A
Short-term Bond Pools	50%	50%	AAf or equivalent by an NRSRO	Maximum duration of 3 years

Repurchase Agreements	50%	25%	Counterparty: AA or the equivalent from an NRSRO	30 days
Collateralized Bank Deposits	100%	100%	Collateralized in accordance with the Security for Public Deposits Act	N/A

1. *Issuer Limit refers to the allowable percentage of the entire Portfolio*
2. *Ratings by Nationally Recognized Statistical Ratings Organizations ("NRSROs") as designated by the Securities and Exchange Commission*
3. *At time of purchase*
4. *From transaction settlement date*

The combined amount of bankers' acceptances, commercial paper, negotiable certificates of deposit, and corporate notes shall not exceed forty percent (40%) of the total book value of the portfolio at the date of acquisition.

When investing in a Pool, the JCSA shall limit its investment to ten (10) percent of the total assets of the Pool.

### ***Prohibited Investments and Investment Practices***

The JCSA is prohibited from:

- 1) Investment in reverse repurchase agreements;
- 2) Short sales (selling a specific security before it has been legally purchased);
- 3) Borrowing funds for the sole purpose of reinvesting the proceeds of such borrowing;
- 4) Investment in complex derivatives such as range notes, dual index notes, inverse floating rate notes and leveraged notes, or notes linked to lagging indices or to long-term indices;
- 5) Investing in any security not specifically permitted by this Policy.

### ***Engagement of Investment Managers***

The Treasurer may engage one or more qualified firms to provide investment management services for JCSA. All investment management firms who desire to provide investment services to JCSA will be provided with current copies of the JCSA's Investment Policy. Before an organization can provide investment services to the JCSA, it must confirm in writing that it has received and reviewed the JCSA's Investment Policy.

Only firms meeting the following requirements will be eligible to serve as investment manager for the JCSA:

- 1) Registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940;
- 2) Must provide to JCSA an annual updated copy of Form ADV, Part II;
- 3) Must be registered to conduct business in the Commonwealth of Virginia; and
- 4) Must have proven experience in providing investment management services under Code of Virginia §2.2-4500 et seq.

Any firm engaged by JCSA to provide investment services shall:

- 1) Maintain a list of approved security brokers/dealers selected by creditworthiness who are authorized to provide investment services in the Commonwealth of Virginia; maintenance of this list shall relieve the firm of the requirements below in ***Selection, Approval of Brokers, Qualified Financial Institutions*** to provide a copy of the JCSA Investment Policy and maintain a current audited financial statement on file for each qualified entity;
- 2) Provide monthly reports of transactions and holdings to the Treasurer;
- 3) Provide quarterly performance reports that display investment performance in comparison to JCSA's investment benchmarks and which show that the manager has solicited at least three bids for any security purchased or sold on behalf of JCSA
- 4) Solicit at least three bids for any security purchased or sold on behalf of JCSA; and
- 5) Not collect any soft dollar fees from any broker/dealer or other financial firm in relation to services provided to JCSA.

### ***Selection, Approval of Brokers, Qualified Financial Institutions***

The Treasurer and/or the JCSA's Investment Manager shall maintain a list of financial institutions and broker/dealers that are approved for investment purposes ("Qualified Institutions"). All broker/dealers who desire to provide investment services to the JCSA will be provided with current copies of the Investment Policy.

At the request of the Treasurer, broker/dealers will supply the JCSA with information sufficient to adequately evaluate their financial capacity and creditworthiness. The following information shall be provided:

- 1) Audited financial statements;
- 2) Regulatory reports on financial condition;
- 3) Proof of Financial Institution Regulatory Authority (FINRA) certification and of state registration;
- 4) A sworn statement by an authorized representative of the firm pledging to adhere to Capital Adequacy Standards established by the Federal Reserve Bank and acknowledging the firm understands that JCSA has relied upon this pledge; and
- 5) Any additional information requested by the Treasurer in evaluating the financial capacity and creditworthiness of the firm.

Only firms meeting the following requirements will be eligible to serve as Qualified Institutions or broker/dealers for the Authority:

- 1) "Primary" dealers and regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule);
- 2) Capital of no less than \$10,000,000;
- 3) Registered as a dealer under the Securities Exchange Act of 1934;
- 4) Member of the Financial Industry Regulatory Authority (FINRA);
- 5) Registered to sell securities in Virginia; and
- 6) The firm and assigned broker have been engaged in the business of effecting transactions in U.S. government and agency obligations for at least five (5) consecutive years.

The JCSA shall designate broker/dealers on an annual basis. If an external third-party Investment Manager is engaged, the JCSA is not responsible for maintaining a list of approved broker/dealers.

### ***Competitive Selection of Investment Instruments***

It will be the policy of the JCSA to transact all securities purchase/sales only with Qualified Institutions through a formal and competitive process requiring the solicitation and evaluation of at least three bids/offers, taking into consideration current market conditions. Electronic bids will be accepted. The JCSA will accept the offer which, in the sole judgment of the Treasurer or his/her designee that: (a) offers the highest rate of return within the maturity required; and (b) optimizes the investment objective of the overall portfolio, including diversification requirements. When selling a security, the JCSA will select the bid that generates the highest sale price, consistent with the diversification requirements.

Primary fixed price federal agency offerings may be purchased from the list of Qualified Institutions without competitive solicitation if it is determined that no agency obligations meeting the JCSA's requirements are available in the secondary market at a higher yield.

### ***Security Downgrades***

In the event that any security held in the JCSA's Portfolio is downgraded below the minimum ratings specified in the section entitled "Authorized Investments," the Treasurer shall be notified immediately and shall make a determination on the security's disposition. The Investment Manager's downgrade notification to the Treasurer shall include a recommendation for the security's disposition.

### ***Investment of Bond Proceeds***

The JCSA intends to comply with all applicable sections of the Internal Revenue Code of 1986, Arbitrage Rebate Regulations and bond covenants with regard to the investment of bond proceeds. Accounting records will be maintained in a form and for a period of time sufficient to document compliance with these regulations.

Sinking fund investments will be limited to those securities authorized by Section 2.2-4500 et seq. of the Code of Virginia.

### ***Safekeeping and Custody***

In accordance with Code of Virginia §2.2-4515, all investment securities purchased by the JCSA or held as collateral on deposits or investments shall be held by the JCSA or by a third-party custodial agent who may not otherwise be counterparty to the investment transaction.

All securities in the JCSA's Portfolio shall be held in the name of the JCSA and will be free and clear of any lien. Further, all investment transactions will be conducted on a delivery-vs.-payment basis. The custodial agent shall issue a safekeeping receipt to the JCSA listing the specific instrument, rate, maturity and other pertinent information. On a monthly basis, the custodial agent will also provide reports that list all securities held for the JCSA, the book value of holdings and the market value as of month-end.

Appropriate JCSA officials and representatives of the custodial agent responsible for, or in any manner involved with, the safekeeping and custody process of the JCSA shall be bonded in such a

fashion as to protect the JCSA from losses from malfeasance and misfeasance.

### ***Performance Standards***

The investment portfolio shall be designed and managed with the objective of obtaining a market rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and cash flow needs of the JCSA. Short-term funds and other funds that must maintain a high degree of liquidity will be compared to the return on the three-month U. S. Treasury Bill. Medium term investments and other funds that have a longer-term investment horizon will be compared to an index of U. S. Treasury securities having a similar duration or other appropriate benchmark.

### ***Reporting***

The Treasurer or Investment Manager shall prepare an investment report not less than monthly. This report shall include: (i) a listing of the existing portfolio in terms of investment securities, amortized book value, maturity date, yield-on-cost, market value and other features deemed relevant and (ii) a listing of all transactions executed during the month.

The Treasurer or Investment Manager shall prepare a "Quarterly Investment Report" that summarizes (i) recent market conditions, economic developments and anticipated investment conditions, (ii) the investment strategies employed in the most recent quarter, (iii) a description of all securities held in investment portfolios at month-end, (iv) the total rate of return for the quarter and year-to-date versus appropriate benchmarks, and (v) any areas of policy concern warranting possible revisions to current or planned investment strategies. The market values presented in these reports will be consistent with accounting guidelines in GASB Statements 31 and 40 pertaining to the valuation of investments and the treatment of unrealized gains/losses.

The quarterly report will also include a statement that the investment of the JCSA's Portfolio is in compliance with this Policy and any applicable bond resolutions.

### ***Investment Policy Adoption***

This policy is adopted by the Board of Directors of the James City Service Authority this 13th day of August 2019.

Approved by:

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James City Service Authority

## **Glossary**

**Bankers' Acceptance (BA)** – A draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

**Benchmark** – A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

**Bid** – The price offered by a buyer of securities.

**Broker** – Brings buyers and sellers together for a commission.

**Certificate of Deposit (CD)** – A time deposit with a specific maturity evidenced by a Certificate. Large-denomination CD's are typically negotiable.

**Collateral** – Securities, evidence of deposit or other property, which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

**Commercial Paper** – An unsecured promissory note with a fixed maturity no longer than 270 days. Public offerings are exempt from SEC regulation.

**Corporate Notes** – Unsecured promissory note issued by corporations to raise capital.

**Dealer** – A dealer, as opposed to broker, acts as a principal in all transactions, buying and selling for his own account.

**Delivery versus Payment** – A delivery of securities with an exchange of money for the securities.

**Discount** – The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

**Diversification** – Dividing investment funds among a variety of securities offering independent returns.

**Federal Agency** – Government sponsored/owned entity created by the U.S. Congress, generally for the purpose of acting as a financial intermediary by borrowing in the marketplace and directing proceeds to specific areas of the economy considered to otherwise have restricted access to credit markets, also referred to as Government Sponsored Enterprises or GSEs. The largest are Ginnie Mae, Fannie Mae, Freddie Mac, Federal Home Loan Banks, and Federal Farm Credit Bank.

**Federal Reserve System** – The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., 12 regional banks and about 5,700 commercial banks that are members of the system.

**Liquidity** – The ability of ease with which an asset can be converted into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable.

**Market Value** – The price at which a security is trading and could presumably be purchased or sold.



**Master Repurchase Agreement** – A written contract covering all future transactions between the parties to repurchase – reverse repurchase agreements establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right the buyer-lender has to liquidate the underlying securities in the event of default by the seller-borrower.

**Maturity** – The date upon which the principal or stated value of an investment becomes due and payable.

**Money Market** – The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

**Nationally Recognized Statistical Rating Organization ("NRSRO")** – A credit rating agency which issues credit ratings that the U.S. Securities and Exchange Commission (SEC) permits other financial firms to use for certain regulatory purposes. Several examples include Moody's Investor Services, Standard & Poor's and Fitch Ratings.

**Offer** – The price asked by a seller of securities.

**Portfolio** – Collection of securities held by an investor.

**Qualified Public Depositories** – A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of Virginia, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

**Rate of Return** – The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

**Repurchase Agreements (RP or REPO)** – A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this.

**Safekeeping** – A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

**Secondary Market** – A market made for the purchase and sale of outstanding issues following the initial distribution.

**Securities & Exchange Commission ("SEC")** – Agency created by Congress to protect investors in securities transactions by administering securities legislation.

**Uniform Net Capital Rule (SEC Rule 15C3-1)** – Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

**Yield** – The rate of annual income return on an investment, expressed as a percentage. Income/Current yield is obtained by dividing the current dollar income by the current market price

for the security. Net yield or yield to maturity is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.