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JAMES CITY COUNTY BOARD OF SUPERVISORS

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March 26, 2013

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James City Service Authority

Statement of Investment Policy

Revised March 26, 2013

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 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, 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 Section § 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. The final maturity shall not exceed a period of five (5) years from the time of purchase.
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. The final maturity shall not exceed a period of five (5) years from the time of purchase.
3. **Municipal Obligations.** Bonds, notes and other general obligations of the Commonwealth of Virginia and its agencies, authorities, and political subdivisions upon which there is no default, has a rating of at least AA by Standard & Poors and Aa by Moody's Investor Services, matures within five (5) years of the date of purchase, and otherwise meets the requirements of Code of Virginia §2.2-4501.
4. **Commercial Paper.** "Prime quality" commercial paper, with a maturity of 270 days or less, issued by domestic corporations (corporations organized and operating under the laws of the United States or any state thereof) provided that the issuing corporation, or its guarantor, has a short-term debt rating of no less than "A-1" (or its equivalent) by at least two of the Nationally Recognized Statistical Rating Organization ("NRSROs" see Glossary for more information).

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 with a maturity of 180 days or less. The issuing corporation, or its guarantor, must have a short-term debt rating of no less than “A-1” (or its equivalent) by at least two of the NRSROs.
6. **Corporate Notes.** High quality corporate notes with a rating of at least “AA” (or its equivalent) by Moody’s Investors Service, Inc. and Standard & Poors, Inc. The final maturity shall not exceed a period of five (5) years from the time of purchase.
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 with a rating of at least A-1 by Standard & Poor’s, Inc., and P-1 by Moody’s Investor Service, Inc., for maturities of one year or less, and a rating of at least AA by Standard & Poor’s and Aa by Moody’s Investor Service, Inc., for maturities over one (1) year. The final maturity may not exceed a period of five (5) years from the time of purchase.
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, provided that the fund is rated at least “AAAm” or the equivalent by an NRSRO. 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.
9. **Local Government Investment Pool (LGIP).** A specialized money market-like fund created in the 1980 session of the General Assembly designed to offer a convenient and cost-effective investment vehicle for public entities. The Fund is administered by the Treasury Board of the Commonwealth of Virginia and is rated AAAM by Standard & Poors, Inc.
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 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 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 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 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.
- h. For term repurchase agreements, maximum maturity shall be 30 days or less.

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.

Portfolio Diversification

The JCSA’s Portfolio shall be diversified by security type and institution. The maximum percentage of the portfolio (book value at the date of acquisition) permitted in each eligible security is as follows:

Permitted Investment	Sector Limit	Issuer Limit*
U.S. Treasury Obligations	100%	100%
Federal Agency Obligations	100	35
Federal Agency Mortgage-Backed Securities	10	10
Municipal Obligations	20	5
Commercial Paper	35	5
Bankers’ Acceptances	35	5
Corporate Notes	20	5
Negotiable Certificates of Deposit and Bank Deposit Notes	20	5
Money Market Mutual Funds	50	50
LGIP	50	50
Repurchase Agreements	50	25
Collateralized Bank Deposits	35	35

*Issuer Limit refers to the allowable percentage of the entire Portfolio.

The combined amount of bankers' acceptances, commercial paper and corporate notes shall not exceed fifty percent (50%) of the total book value of the portfolio at the date of acquisition.

Maximum Maturity

Maintenance of adequate liquidity to meet the cash flow needs of the JCSA is essential. Accordingly, the portfolio will be structured in a manner that ensures sufficient cash is available to meet anticipated liquidity needs. 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.

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 date of purchase. 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.

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 deleveraged 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; and
- 4) 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").

The Treasurer shall require potential firms to supply 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:

- 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.

All brokers, dealers and other financial institutions deemed to be Qualified Institutions shall be provided with current copies of the JCSA’s Investment Policy. A current audited financial statement is required to be on file for each financial institution and broker/dealer with which the JCSA transacts business.

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

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 26th day of March 2013.

Approved by:

James City Service Authority