

COUNTY OF ROANOKE, VIRGINIA

**I. INVESTMENT AND PORTFOLIO POLICY**

**A. IDENTIFICATION:**

1. Purpose and Scope

This policy shall establish guidelines for the efficient management of County funds and shall apply to activities with regard to the investment of the financial assets of the County. The goal of the policy is to allow the County to obtain the highest possible yield on available County financial assets, consistent with constraints imposed by its safety objectives, cash flow considerations and Virginia state laws that restrict the placement of public funds.

2. General Guidelines

The Treasurer of the County of Roanoke is an Elected Constitutional Officer whose responsible in part is receiving, collecting, safeguarding and disbursing County funds from all sources. It shall be the responsibility of the Treasurer, however he may designate a deputy to manage the day-to-day operations of the investment portfolio and place the actual purchase/sell orders with brokers. The Treasurer shall advise the County Finance Board, which is the Board of Supervisors, when the investment policy is altered and at the end of each month report to them the amount of money on deposit with each depository. Specifically excluded from these guidelines are funds that by statute or ordinance require specific investments.

3. Authorized Investments

As a unit of local government in the State of Virginia, the County of Roanoke is restricted by the Virginia Security for Public Deposits Act, Section 2.1-359 through 2.1-370 and the Code of Virginia, Title 2 Investment of Public Funds to the following types of securities as described in Section 2.1-327 through 2.1-329:

a. Bonds, notes and other evidence of indebtedness of the State of Virginia.

b. Bonds, notes and other direct obligations of the United States and securities unconditionally guaranteed as to the payment of principal and interest by the United States or any agency thereof.

c. Bonds, notes and other evidence of indebtedness of any county, city, town, district, authority or other public body of the State of Virginia.

d. Bonds and other obligations issued, guaranteed or assumed by the International Bank for Reconstruction and Development and the Asian Development Bank.

e. Certificates of deposit in commercial banks up to their net worth provided they are approved by the State Treasury Board in the State's Collateral protection pool in accordance with the Virginia Public Deposits Act.

f. Certificates of deposit in commercial banks, savings and loan associations and mutual savings bank doing business in this State up to FDIC and FSLIC insurance coverage.

g. Bankers' Acceptances.

h. Repurchase Agreements provided the securities for the agreement are written against specific government securities as authorized under Section 2.1-328. As a matter of policy, the County must take delivery of the securities purchased through a repurchase agreement if the term of the agreement is greater than four (4) days. If the term is less than four (4) days, the securities may be held in safekeeping by the bank for the account of the County. Pledged securities under repurchase agreements must be based on market value, not face value. When entering a repurchase agreement where delivery is not required, the County shall obtain a safekeeping receipt for specific securities. Refer to Part II Repurchase Agreements for complete details.

i. Money Market Funds.

Deposit-type securities shall be collateralized through the State Collateral Pool as required by Virginia Public Deposits Acts for any amount exceeding FDIC or FSLIC coverage. Other investments shall be collateralized by the actual security held in safekeeping by the primary agent.

All investments will be in the name of the County of Roanoke and will name the specific fund from which the instrument was purchased. Safekeeping account receipts will be held by the Treasurer's Office.

The Treasurer will continually monitor the contents of the portfolio, the available markets and the relative values of competing instruments, and will adjust the portfolio accordingly.

CMO's, inverse floating rate securities, floating rate securities tied to a non-money market instrument, IO's, PO's, Z-tranche securities, residuals, and other securities having unusual features are expressly prohibited. Transactions in option, futures, options on futures, margin buying and commodities are prohibited. Any other security not specifically authorized in this document is expressly prohibited.

#### **4. Maturities**

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 revenues.

Investment of capital project funds shall be timed to meet contractors payments.

Short Term versus Long Term Portfolio – Limitation on instruments, diversification and maturity scheduling shall depend upon whether the funds being invested are considered short term or long term funds. All funds shall be considered short term except those reserved for capital projects and prepayments funds being held for debt retirement.

#### **5. Risk/Liquidity/Bidding**

The primary goal of the investment policy is to maximize return on investment while minimizing risk to the investment.

The Treasurer will diversify use of investment instruments to avoid incurring unreasonable risks inherent in overinvesting in specific instruments, individual financial institutions or maturities. The Treasurer's office shall maintain a listing of financial institutions which are approved by the State Treasury Board for investment purposes and which shall provide their most

recent Consolidated Report of Condition. Periodically, these financial institutions must be examined and evaluated to determine their strength and creditworthiness. During the bid process the Treasurer may reject an investment with a higher yield when he feels it carries an element of risk. Speculative investments will not be allowed. Before the Treasurer invests any surplus funds, a competitive “bid” process with three or more financial institutions shall be conducted. If a specific maturity date is required, either for cash flow purposes or for conformance to maturity guidelines, bids will be requested for instruments which meet the maturity requirement. If no specific maturity is required, a market trend (yield curve) analysis will be conducted to determine which maturities would be most advantageous.

#### **6. Reporting and Controls**

The Treasurer shall report at the end of each month to the Board of Supervisors the amount of money on deposit with each depository.

The Treasurer shall establish a system of internal controls which shall be documented and reviewed with internal and independent auditors and meets the requirements of the governmental Accounting Standards Board (GASB). The controls are designed to prevent losses of public funds due to fraud, error, misrepresentation, unanticipated market change or imprudent actions.

### **B. SOURCE OF INVESTMENT POLICY**

#### **1. Current Management Practices**

The Treasurer shall develop and maintain written administrative procedures for the operation of the investment program. Each investment transaction shall seek to first ensure that capital losses are avoided, whether they be from securities defaults or erosion of the market value. The County seeks to attain market rates of return on its investments, consistent with constraints imposed by its safety objectives, cash flow consideration and Virginia state laws that restrict the placement of public funds.

The Treasurer shall also carry out an aggressive cash management program that maintains true zero balances in the County’s checking accounts with temporary idle funds being invested overnight in either repurchase

agreements that are secured or collateralized by governmental securities as required by the Code of Virginia or in one or more opened investment funds, provided that the funds are registered under Securities Act (§13.1-501, et seq.) of the Commonwealth of Virginia or the Federal Investment Co. Act of 1940, and that the investment of such funds by the County is restricted to investments otherwise permitted by law and this Investment Policy. Whenever possible funds held for future capital projects (i.e. bond proceeds) shall be invested to produce enough income to offset increases in construction costs due to inflation. Diversification is required through the use of portfolio percentages. Safekeeping will be required using third-party safekeeping in an account in an institution designated as a primary agent.

The Board of Supervisors will be given copies of the County's Investment Policies and Practices. All changes will be documented and copies sent to the Board. The Board should contact the Treasurer if they have any questions, recommendations, additions or deletions to the policies. The Treasurer will consider the recommendations and implement such recommendations which he deems in the best interest of the County.

## **2. Prudence Standards**

The standard of prudence to be applied by the Treasurer shall be the "prudent investor" rule, which states, "Investment shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercised in the management of their own affairs, not for speculation, but for investment, considering the probably safety of their capital as well as the probable income to be derived." The prudent investor rule shall be applied in the context of managing the overall portfolio.

The Treasurer, acting in accordance with the written procedures of the Code of Virginia, Section 2.1-329.1 and Section 58.1-3123 et. seq. and exercising due diligence, shall not be held personally responsible for a specific security's credit risk or market price changes provided that these deviations are reported immediately by the Treasurer and that reasonable and prudent action is taken to control adverse developments. Furthermore, in accordance with Section 58.1-

3163 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.

**3. State Law**

The County shall limit investment to those allowed under the Virginia Security for Public Deposits Act, Section 2.1-359 through 2.1-370 and Investment of Public Funds as in Section 2.1-327 through 2.1-329, Code of Virginia.

The Virginia Security for Public Deposits Act provides for a mutuality of responsibility involving a cross guarantee among all commercial banks holding public deposits. In the event of insolvency by a bank holding public deposits, any losses resulting from uncollateralized and uninsured public deposits will be paid by assessments against all other commercial banks holding public funds. The amount assessed against each bank will be based on the ratio that its average public deposits bears to the statewide average.

In respect to the savings and loan associations and savings banks, however, there is no sharing of liability for total public funds on deposit. Instead, the savings and loan associations are required to pledge collateral equal to 100% of their public deposits, compared to 50% that is required of the banks.

**4. Audit Requirements**

The Treasurer shall establish a system of internal controls which shall be documented in writing. Accurate and adequate records will be maintained by the Treasurer's Office. Such records will be subject to audit by the Internal Audit Department, as well as the independent auditors and the State Auditor of Public Accounts. Reporting and disclosure requirements will comply with all applicable regulations including the requirements of the Governmental Accounting Standards Board.

**5. Concentration Bank**

The Treasurer will move funds from other depository banks to a central point to maximize the availability of funds. The central point or primary bank will be the concentration bank which shall be determined by competitive bids.

**6. Charges for Banking Services**

The cost of maintaining the account may be paid either by a compensating balance or by direct charges. If a compensating balance is used the Treasurer

shall review with a bank official monthly an analyzation of the County's account profitability to the bank.

Considering interest rates at that time and the bank's average earnings allowance, the bank will determine the balances in the accounts (compensating balances) which will be required for the following month in order to cover the cost of processing the County's banking transactions. Copies of the result of these analyses will be maintained by the Treasurer.

7. Zero Balance Account (ZBA)

The Treasurer will take full advantage of clearing time on County checks disbursed by maintaining true zero balances in the County's checking account.

As checks are presented for payment, they are accumulated and a single offsetting credit is prepared to bring the account to a zero balance at the end of the banking day. This account is linked to the Master Concentration or deposit account against which the ZBA draws funds to pay the checks presented for payment.

Temporarily idle funds will be invested overnight in repurchase agreements that are secured or collateralized by governmental securities as required by the Code of Virginia. The Treasurer will determine excess idle funds and invest them in longer term investments.

8. Diversification

Diversification by Instrument	Percent of Portfolio
U.S. Treasury Obligations (bills, notes and bonds)	70%
U.S. Government Agency Securities and Instrumentalities of Government	80%
Sponsored Corporations	
Banker's Acceptance (BA's)	40%
Repurchase Agreement (Repo's) Two or more nights	25%
Repurchase Agreement (Repo's) overnight	70%
Commercial Banks	
Certificates of Deposit (CDs)	100%
Savings & Loan Associations	

Certificate of Deposits (CDs)		10%
Commercial Paper		35%
Local Government Investment Pool		75%
Diversification by Financial Institution:		
Banker's Acceptance (BA's)		Not more than 25% of the total portfolio with any one institution
Repurchase Agreements (Repo's)		Not more than 20% of the total portfolio with any one institution
Certificates of Deposit (CDs)		Not more than 45% of the total portfolio with any one institution
Certificates of Deposit (CDs) Savings and Loan Association		Not more than \$100,000 with any one institution
Commercial Paper		Not more than 25% of the total portfolio may be purchased through any one financial institution <b><i>and the maximum dollar amount in any one issue shall not exceed One Million Dollars</i></b>
Diversification of Funds to be invested in any one issue:		
No limit – FDIC, FSLIC, Collateralized Certificates of Deposit		
No limit – U.S. Treasuries and Agencies		
Maximum – <u>10%</u> of total portfolio for any Bankers Acceptance and Commercial Paper issue		

## **II. REPURCHASE AGREEMENTS**

### **Definition**

#### **A. Investing in Repurchase Agreements**

##### **1. The Instrument**

The repurchase agreements (Repo's) are an integral part of an investment program of state and local government. Their flexibility is unmatched by other short term money market instruments. They provide the investor an excellent cash management tool.

The sale by a bank of a government security with a simultaneous agreement to repurchase the security at a later date can insure safety of public funds while securing money market rates of interest.

The Repo is a contractual transaction between an investor and an issuing financial institution. The investor exchanges cash for temporary ownership or control of collateral securities, with an agreement between the parties that on a future date, the financial institution will repurchase the securities.

The Treasurer will use a Master Repurchase Agreement (See Appendices) as a written contract to establish the County's right in all transactions. A written contract will also be used with the independent third-party custodian (See Appendices).

Customarily, the investor receives interest during the term of the repurchase agreement, as agreed upon at the time of the investment transaction. The eligibility of Repos depends on the manner in which the Repo is structured. The Attorney General, in an opinion written in July 1982, states "that a repurchase agreement which is secured or collateralized by governmental securities which qualify under Section 2.1-328 is a legally-authorized investment." The General Assembly during the 1985 session amended Section 2.1-328.5 and added Section 2.1-328.8. This legislation authorizes the investment of public funds in overnight, term and open repurchase agreements which are collateralized with securities that are approved for direct investment.

##### **2. Types of Repurchase Agreements**

An overnight Repo is one which is written for one day, as its name implies. These are popular with cash managers seeking to invest funds overnight to meet

specific cash needs on the next day or to combine assets with other investments and incoming cash in larger denominations for a longer maturity in another instrument. Interest rates tend to be quoted in relationship to the Fed funds rate, which is the interbank lending rate for bank reserves.

Term Repos are written for a specific time period of more than one day. The County uses term Repos usually for maturities for less than 14 days, particularly when bank regulations require jumbo CDs to be written for at least 14 days with some having 30-day requirements. Collateral is adjusted daily to project the investor.

Open Repos are written without a specific maturity. Either party may end the transaction on a future date and the amount invested can be changed on a daily basis. Open Repos are based upon a rate that keys off Fed funds or T-bill yields.

### **3. Know With Whom You Are Investing**

The Treasurer must exercise special caution selecting parties to conduct repurchase transactions with and be able to identify the parties acting as principals to the transactions. A written master repurchase agreement is executed between the County, the bank and the third party collateral agent.

It is the policy of the County to concentrate its investment efforts to banks located in the State of Virginia which are under the Virginia statutes for public funds and all banks must be approved depositories by the State Treasury Board.

### **4. Collateral**

Collateral is the Repo's underlying security. Repos are written against specific government securities as authorized by law. The best collateral from the investor's standpoint is short-term U.S. Treasury bills, which are liquid and not subject to severe price changes.

### **5. Delivery of Collateral**

As a matter of policy, the County must take delivery of the securities purchased through the agreement if the term of the agreement is more than four (4) days. These investment securities may be held by the County or placed in a third party custodial account for safekeeping. If the term is less than four (4) day, such as the overnight Repo when third party safekeeping is not required, the

securities may be held in safekeeping by the bank, but must be held for the account of the County. The Repo must be written against specific government securities as authorized under Section 2.1-328. When entering a repurchase agreement where delivery is not required, the County shall obtain a safekeeping receipt for the specific securities purchased. Pledged securities under the repurchase agreement must be based on market value, not face value.

#### 6. Risk

Risk is significantly reduced by delivery of underlying securities through physical delivery to a third party custodian.

Repos shall not exceed 25% of the total investment in the County's investment portfolio on any one day and no more than 15% with any one institution.

Losses can be limited in doing Repos, if not avoided entirely, by following these four basic rules: (1) operate under the terms of a clearly specified and executed master repurchase agreement with Commercial Virginia Banks, (2) properly assess counterparties including their corporate structure and capital strength, (3) use appropriate procedures for obtaining control of securities, and (4) evaluate securities appropriately and monitor them regularly, making margin calls when necessary.

### **III. PRIME BANKER'S ACCEPTANCES**

#### Definition

This instrument as defined by the Government Finance Officers Association, Committee on Cash Management in its June 1984 publication Model Investment Legislation is as follows:

“Bankers’ acceptances typically are created from a letter of credit in a foreign trade transaction. For example, a U. S. corporation planning to import goods from abroad requests that its bank issue a letter of credit on its behalf in favor of the foreign supplier. This letter allows the foreign vendor to draw a draft on the importer’s U.S. bank for payment of the merchandise. Upon receipt of this letter and draft, the supplier ships the goods and presents the draft at its bank for discounting, allowing the supplier to receive immediate payment for the shipment. The foreign bank then forwards the draft to its U.S. correspondent. At

this point, the draft is stamped “accepted” with the U.S. bank incurring an obligation to pay the draft (now a bankers’ acceptance) at maturity.

The accepting domestic bank may buy the acceptance, earning the discount between the purchase price and face amount to be reimbursed by the U.S. importer. On the other hand, the acceptance may be sold to a third party, freeing the bank of all but the contingent liability, for which it collects a small fee. In this case the acceptance – secured by the bank, the goods themselves and the importer – becomes a money market instrument.

In 69 years of use in the United States, the bankers’ acceptance has experience no known principal loss to investors. There have been instances of counterfeit and fraudulent acceptances. Government investors are advised to seek bankers’ acceptance from money center banks to insure a secondary marketability unless a lesser known local institution offers a yield premium. Maturities range from 30 to 180 days.

As a matter of policy, one of the banks should be a Virginia bank and the County should only purchase bankers’ acceptances of banks that have a rating of no lower than B/C as assigned by Keefe Bruyette or the top local banks.

The maximum percentage of funds to be invested in any one issue shall not exceed five (5) percent of the total portfolio. These securities will be held by the County’s third party custodial agent in the County’s name.

#### **IV. PRIME QUALITY COMMERCIAL PAPER**

##### Definition

Commercial paper has a history that extends back to colonial times, prior to the existence of a banking system in America. The precursor of commercial paper was the domestic bill of exchange, which was used to finance trade as early as the beginning of the eighteenth century. Bills of exchange allowed the safe and convenient transfer of funds and provided a short-term loan between the time of purchase and payment for goods. As financial intermediation evolved, banks and paper brokers began discounting paper. The supply of negotiable paper was held by commercial banks or by entrepreneurs investing surplus funds.

Commercial paper is a short term unsecured promissory note that is generally sold by large corporations. In recent years, commercial paper has

attracted much attention because of its rapid growth and its use as an alternative to short term bank loans. The principal issuers of commercial paper include finance companies, non-financial companies and bank holding companies. These issuers participate in the market for different reasons and in different ways.

Finance companies raise funds on a more-or-less continuous basis in the commercial paper sales in part to support their consumer and business lending. These commercial paper sales in part provide interim financing between issues of long-term debentures. Non-financial companies issue commercial paper at less frequent intervals than do finance companies.

These firms issue paper to meet their funding requirements for short-term or seasonal expenditures such as inventories, payrolls and tax liabilities. Bank holding companies use the commercial paper market to finance primarily banking related activities such as leasing, mortgage banking, and most obtain two ratings. In most cases, insurers bank their paper one hundred percent with lines of credit from commercial banks. Present day investors in commercial paper include money center banks, non-financial firms, investment firms, state and local governments, private pension funds, foundations and individuals.

The County's policy is to invest only in "prime quality" commercial paper, with a maturity of two hundred seventy days (270) or less, or issuing corporations organized under the laws of the United States, or any state thereof including paper issued by banks and bank holding companies.

"Prime quality" shall be as rated by Moody's Investors Service, Inc. within its ratings of prime 1 or prime 2 or by Standard and Poor's, Inc. within its ratings of A-1 or A-2 or by Fitch Investors Service within its ratings of F-1 and F-2. The maximum percentage of funds to be invested in any one issue shall not exceed five (5) percent of the total portfolio; no more than five (5) percent of the total portfolio shall be invested in any one issue; and the maximum dollar amount shall not exceed One Million Dollars. These securities will be held by the County's third party custodial agent in the County's name. It shall be the County's policy to purchase only A1 – P1 paper.

## **Local Government Investment Pool Act Operated Directly By State Treasurer**

### **A. The Act and its Purpose**

#### **1. Introduction**

The “Investment of Public Funds and Local Government Investment Pool Act” became effective January 1, 1981 and provides for a local government investment pool which will produce additional revenues for localities on short-term investments.

The pooling of funds enables governmental entities to avail themselves of the economics of large-scale investing as well as active, professional management of funds by the State Treasurer’s investment staff.

As a member of the pool, governmental entities are able to take advantage of the investment facilities of the Commonwealth. Pooled funds are invested in accordance with Treasury Board investment guidelines for the Commonwealth’s general fund monies. This encompasses third-party delivery of repo collateral and other professional safekeeping arrangements.

#### **2. Investment Strategies**

Investments will be made in conformity with Section 2.1-234-4 of the Act. There is a minimum participation of \$5,000. The minimum period for investment is one day. Rates of return vary. Once the account is established, no minimum balance is required. Additional investments can be made in minimum \$1,000 increments. The pool provides liquidity to the investor with one-day notice of deposit or withdrawal of funds. Instructions are to be called to the Department of the Treasury at (804) 225-3166 before 4:00 p.m. on the business day prior to the actual transfer of funds.

#### **3. Income Earnings**

Accumulated income will be credited to each participant’s account monthly. Each locality will receive a monthly report which will contain the following information:

Average investment balance

Average yield

Gross investment credit

Administrative expenses

Net investment credit

Changes in participation made during the preceding month.

4. Reserve for Losses

It is not anticipated that a reserve for losses will be necessary due to restriction on the quality of investments.

Amendments:

January 28, 1992

December 1, 1992

June 27, 1995

April 22, 1997

August 28, 2001

August 28, 2007

March 8, 2011