

**COUNTY OF FAIRFAX, VIRGINIA**

**INVESTMENT POLICY**

**June 2016**

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## **1.0 POLICY**

It is the policy of the County of Fairfax, Virginia (County) to invest public funds in a manner which will safely preserve principal, provide adequate liquidity to meet the County's cash flow needs, and optimize returns while conforming to all federal, state and local statutes governing the investment of public funds.

## **2.0 SCOPE**

This investment policy (Policy) applies to all cash and financial investments of the County. These assets, as identified in the Comprehensive Annual Financial Report, include the following funds: general, internal service, special revenue, capital project, enterprise, and agency. The exceptions are those financial assets explicitly excluded from coverage by the Investment Policy for legal or operational reasons. Bond proceeds shall be invested in accordance with the requirements and restrictions outlined in bond documents. This Policy excludes retirement funds and will also apply to all new funds created unless specifically exempted.

Pooling of Funds - Except for cash in certain restricted and special funds, the County will consolidate cash balances from all funds to maximize investment earnings. Investment income will be distributed to the various funds in accordance with County budgetary guidelines.

## **3.0 OBJECTIVES**

The overall objectives of this policy are: the preservation of capital and the protection of investment principal (safety); maintenance of sufficient liquidity to meet operating requirements; conformance with federal, state and other legal requirements; diversification to avoid incurring unreasonable risks regarding specific security types or individual financial institutions; and attainment of a market rate of return.

Funds of the County will be invested in accordance with this policy and procedures developed by the Investment Committee.

Funds held for future capital projects (i. e., bond proceeds) shall be invested in such a manner so as to ensure compliance with U.S. Treasury arbitrage regulations.

The portfolio shall be managed with the following objectives in mind:

- Priority 1 - Safety
- Priority 2 - Liquidity
- Priority 3 - Yield

1. Safety - Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest

rate risk.

a. Credit Risk - The County will minimize credit risk, the risk of loss due to the failure of the security issuer or bank, by:

- Limiting investments to the safest types of securities.
- Pre-qualifying financial institutions, broker/dealers, intermediaries, and advisers with which the County will do business.
- Diversifying the investment portfolio by issuer so that potential losses on individual securities will be minimized.

b. Interest Rate Risk - The County will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates, by:

- Structuring the investment portfolio so that securities mature to meet daily liquidity.
- Investing operating funds in short-term securities with a maturity of two years or less from settlement date.

2. Liquidity - The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs. Since all possible cash demands cannot be anticipated, the portfolio will invest primarily in securities with active secondary or resale markets.

3. Yield - The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. Securities shall not be sold prior to maturity with the following exceptions:

- A security with declining credit may be sold early to minimize loss of principal.
- Liquidity needs of the portfolio require that a security be sold.

#### **4.0 PRUDENCE**

In accordance with § 2.2-4514 of the Code of Virginia, public funds held by the Commonwealth, public officers, municipal corporations, political subdivisions, and any other public body of the Commonwealth shall be held in trust for the citizens of the Commonwealth. Any investment of such funds pursuant to the provisions of this chapter shall be made solely in the interest of the citizens of the Commonwealth and with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be

applied in the context of managing an overall portfolio.

Investment Staff acting in accordance with written procedures and this investment policy, and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported immediately to the Investment Committee and appropriate action is taken to control adverse developments.

## **5.0 ETHICS AND CONFLICTS OF INTEREST**

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 investment decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business within the County. They shall further disclose any large 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 County.

## **6.0 DELEGATION OF AUTHORITY**

Authority to manage the County's investment program is derived from the Code of Virginia. The Investment Staff of the Department of Finance are designated as the investors of the County and are responsible for investment decisions and activities in accordance with established written procedures and internal controls as well as operation of the investment program consistent with this investment policy, under the direction of the Investment Committee and the Director of Finance, see Attachment I.

### **6.1 INVESTMENT COMMITTEE**

Management of the County's investment portfolio shall be the responsibility of the Investment Committee. The Investment Committee shall consist of the following employees:

- Chief Financial Officer
- Director, Department of Finance
- Director, Department of Tax Administration
- Deputy Director, Department of Finance
- Investment Manager, Department of Finance
- Investment Analysts (3), Department of Finance

In order to optimize total return through daily portfolio management, resources shall be allocated to the cash management program. This commitment of resources shall include financial and staffing considerations.

## 6.2 VOTING HIERARCHY

All members of the Committee shall have voting rights. A majority rule shall consist of five (5) of the eight (8) members, with one (1) of the five (5) majority being either the CFO, Director of the Department of Finance or Director of the Department of Tax Administration.

Time sensitive decisions can be decided by polling Investment Committee members via E-mail or telephone and obtaining a majority rule. These items will be presented at the next Investment Committee meeting to document the results for the record.

## 7.0 INVESTMENT PROCEDURES

Investment Staff, with approval from the Investment Committee, shall establish written investment policy procedures for the operation of the investment program consistent with this policy. The procedures should include reference to: safekeeping, repurchase agreements, wire transfer agreements, banking service contracts, cash flow projections, revenue forecasting and collateral/depository agreements. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Investment Staff and approved by the Investment Committee.

## 8.0 AUTHORIZED FINANCIAL INSTITUTIONS

The Investments Staff shall maintain a list of financial institutions, selected on the basis of credit worthiness, financial strength, experience, and minimal capitalization, authorized to provide investment services to the County (Authorized Financial Institutions). Authorized Financial Institutions will be selected on a competitive basis. A copy of this policy will be delivered to all depositories and Authorized Financial Institutions along with a receipt for same. The receipt will acknowledge delivery of the policy and that the depository and authorized financial institution reviewed its content.

Authorized Financial Institutions shall include any of the following:

- 1) Primary security dealers serving as trading counterparties to the New York Federal Reserve.
- 2) Commercial Banks who meet one of two criteria:
  - Commercial banks must have at least two of the following short term rating: Moody's Investors Services (Moody's) P-1, Standard & Poor's (S&P) A-1, Fitch Ratings (Fitch) F-1, or Duff and Phelps D-1. or
  - Commercial banks which are listed in the Qualified Public Depository list as issued by the Department of the Treasury, Commonwealth of Virginia. In addition, all existing senior bond indebtedness must be rated "A" or better by

Moody's and S&P.

3) Any direct issuer of commercial paper that meets the credit criteria outlined in the investment policy.

4) Any issuer of banker's acceptances that meet the credit criteria outlined in the investment policy

5) Any regional or secondary market dealer who meet the following criteria or as specifically approved by the Investment Committee:

- Financial institution, if a bank holding company, at a minimum, the bank holding company of the regional dealer must have a existing senior bond indebtedness rating of "A" or better or the equivalent rating by Moody's or S&P or other nationally recognized credit rating agency.
- Financial institution must comply with the Financial Industry Regulatory Authority (FINRA) Net Capital Requirements for Broker or Dealers (SEA Rule 15c3-1). The firm shall provide immediate disclosure to the investing government whenever the firm's capital position falls short of the capital requirement.
- Financial institution shall submit audited financial statements annually.
- Financial institution shall maintain an active registration and be in good standing with FINRA.
- Financial institution must have a Total Net Capital of at least \$100 million.
- Financial institution must have been in business for at least five years.
- Financial institution must be currently licensed and in good standing in Virginia, the Securities and Exchange Commission, the National Association of Securities Dealers or other applicable self-regulatory organizations.
- Financial institution, if it deals in government securities, shall comply with the Government Securities Act (Public Law 99-571) established in 1986, which imposed a regulatory structure and net capital requirements for all brokers/dealers in U.S. government Securities.

Investment staff shall conduct an annual review of the financial condition, registrations and other qualifications of all approved financial institutions and broker/dealers to ensure they continue to meet the County's guidelines for qualification. Additionally, the County shall keep a current audited financial statement on file for each approved financial institution and broker/dealer.

## **9.0 AUTHORIZED INVESTMENTS AND DEPOSITS**

Authorized investments for public funds are set forth in the "Investment of Public Funds Act" of the Code of Virginia §§ 2.2-4500 through 2.2-4518. Within the permitted statutory framework, the County limits the investment of assets to the following categories of securities at time of purchase:

U.S. Treasury Securities & Agencies	100% maximum
Banker's Acceptances	40% maximum
Negotiable CD's & Bank Deposit Notes	40% maximum
Non-Negotiable Certificates of Deposit	40% maximum
Insured Certificates of Deposit	40% maximum
Commercial Paper	35% maximum
Repurchase Agreements	30% maximum
Mutual Funds	30% maximum
Collateralized Deposit Account	30% maximum
Insured Deposit Account	30% maximum
Corporate Notes	25% maximum
Virginia Investment Pool	10% maximum

No additional funds shall be invested in any investment that is listed on Moody's Watchlist, S&P's CreditWatch or Fitch Watch with a short term negative rating.

Investments will be limited to U.S. dollar denominated instruments.

Prior to purchasing any investment vehicle that has not previously been purchased; the Investment Committee shall obtain an opinion from the County Attorney's office or Bond Counsel to ensure that the investment is allowable under the provisions of the Code of Virginia and County code.

## 9.1 OBLIGATIONS OF THE UNITED STATES

Pursuant to § 2.2-4501 of the Commonwealth of Virginia., the County is authorized to invest in obligations issued or guaranteed by the U.S. Government, an agency thereof, or U.S. Government Sponsored Enterprises (GSEs). These securities can be held directly, in the form of repurchase agreements collateralized by such debt securities, and in the form of a registered money market or mutual fund provided that the portfolio of the fund is limited to such evidences of indebtedness.

Acceptable Agency and/or GSE instruments must have at least two of the following short term rating: Moody's P-1, S&P A-1, Fitch F-1, or Duff and Phelps D-1.

## 9.2 COMMERCIAL PAPER

Pursuant to Section § 2.2-4502 of the Code of Virginia, the County is authorized to invest in commercial paper.

"Prime quality" shall be as rated by at least two of the following: Moody's P-1, S & P A-1, Fitch F-1, Duff and Phelps D-1, or by their corporate successors, provided that at the time of any such investment:

1. The issuing corporation, or its guarantor, has a net worth of at least \$100 million; and

2. The net income of the issuing corporation, or its guarantor, has averaged three million dollars per year for the previous five years; and
3. All existing senior bonded indebtedness of the issuer, or its guarantor, is rated "A" or better or the equivalent rating by at least two of the following: Moody's, S & P, Fitch, or Duff and Phelps.

Commercial paper must be issued by domestic corporations.

Not more than 5% of the total funds available for investment at time of purchase may be invested in any one issuing or guaranteeing corporation.

### **9.3 BANKER'S ACCEPTANCES**

Pursuant to § Section 2.2-4504 of the Code of Virginia, the County is authorized to invest in bankers acceptances.

Banker's acceptances must have at least two of the following: Moody's rating of A-1, S & P P-1, Fitch F-1, or Duff and Phelps D-1.

Banker's acceptances must be with major U.S. banks or domestic offices of international banks.

The sovereign rating of an issuer's country of domicile must be rated AA+ or better by Moody's, S & P or Fitch.

Not more than 10% of the total funds available for investment at time of purchase may be invested in any one issuing or guaranteeing corporation.

Not more than 10% of the portfolio at time of purchase may be invested in banks that are domiciled in any foreign country.

### **9.4 SECURITIES LENDING**

Pursuant to § 2.2-4506 of the Code of Virginia, the County is authorized to participate in Securities Lending. However, due to the inherent risk associated with Securities Lending, the County does not engage in this activity.

### **9.5 REPURCHASE AGREEMENTS**

Pursuant to § 2.2-4507 of the Code of Virginia, the County is authorized to invest in overnight, term and open repurchase agreements that are collateralized with securities that are approved for direct investment.

All repurchase agreements shall be fully collateralized by U.S. Treasury issues, agencies or U.S. Government Sponsored Enterprises (GSEs) with maturities of less than ten years.

An executed "Master Repurchase Agreement" developed by the Bond Market Association, is required. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 102% of the market value of principal plus accrued interest, and the value shall be adjusted daily .

The County shall seek to maintain 5% of the investment portfolio in repurchase agreements, demand deposit account and/or mutual funds to meet daily liquidity requirements.

Not more than 10% of the total funds available for investment at time of purchase may be invested in any one issuing or guaranteeing corporation.

## **9.6 MUTUAL FUNDS**

Pursuant to § 2.2-4508 of the Code of Virginia, the County is authorized to invest in mutual funds.

Mutual funds must have a rating of AAA or better by S&P, Moody's or other nationally recognized rating agency, and a weighted average maturity of one year or less.

All mutual fund investments must be in compliance with the Code of Virginia.

Securities held shall be limited to obligations issued or guaranteed by the U.S. Government, an agency thereof, or U.S. Government Sponsored Enterprises (GSEs).

The County shall seek to maintain 5% of the investment portfolio in mutual funds, demand deposit account and/or repurchase agreements to meet daily liquidity requirements.

Not more than 10% of the total funds available for investment at time of purchase may be invested in any one money market mutual fund.

## **9.7 CORPORATE NOTES**

Pursuant to § 2.2-4510 of the Code of Virginia, the County is authorized to invest in corporate notes.

Corporate notes must have a rating of at least AA by Moody's and S & P.

Corporate notes must be issued by a domestic corporation.

Not more than 5% of the total funds available for investment at time of purchase may be invested in any one issuing or guaranteeing corporation.

## **9.8 VIRGINIA INVESTMENT POOL**

The Virginia Investment Pool Trust Fund is a Section 115 governmental trust fund created under the Joint Exercise of Powers statute of the Commonwealth of Virginia to provide an investment vehicle for political subdivisions to pool surplus funds. Benefits of the Fund include diversification of investments, semi-monthly liquidity, active oversight, and professional fund management. The Fund can only invest in instruments authorized by the Code of Virginia.

## **9.9 DEPOSITS**

### **9.9.1 Negotiable Certificates of Deposit and Bank Notes**

Pursuant to § 2.2-4509 of the Code of Virginia, the County is authorized to invest in negotiable certificates of deposit and negotiable bank deposit notes.

All negotiable certificates of deposit and negotiable bank deposit notes of domestic banks and domestic offices of foreign banks must have a rating of A-1 by S & P, P-1 by Moody's. Negotiable certificates of deposit with maturities greater than one year require at least two of the following ratings: AA by Standard and Poor's, Aa by Moody's, or AA by Fitch.

Not more than 10% of the portfolio at time of purchase may be invested in banks that are domiciled in any foreign country.

### **9.9.2 Non-Negotiable Certificates of Deposits**

Pursuant to § 2.2-4401 of the Code of Virginia, the County is authorized to invest in non-negotiable certificates of deposit.

Non-negotiable certificates of deposit must be from Qualified Public Depositories. "Qualified public depository" means any national banking association, federal savings and loan association or federal savings bank located in Virginia and any bank, trust company or savings institution organized under Virginia law that receives or holds public deposits that are secured pursuant to this chapter.

Non-negotiable certificates of deposit must have at least two top short term ratings by Moody's, S&P, Fitch and Duff and Phelps.

Non-Negotiable certificates of deposit and time deposits are to be federally insured to the maximum extent possible and collateralized under the Virginia Security for Public Deposits Act of the Code of Virginia.

For collateral specifications, see Section 11.0 on Collateralization

Not more than 10% of the portfolio at time of purchase may be placed in non-negotiable certificates of deposit issued by a single bank.

### **9. 9.3 Insured Deposits**

Pursuant to § 2.2-4518 of the Code of Virginia, the County is authorized to invest in deposits with the following conditions:

1. The funds are initially invested through any federally insured bank or savings institution that is qualified by the Virginia Treasury Board to accept public deposits;
2. The bank or savings institution arranges for the deposit of the funds in one or more federally insured banks or savings institutions wherever located, for the County;
3. The full amount of principal and any accrued interest of each such deposit is covered by federal deposit insurance;
4. The bank or savings institution acts as custodian for the County with respect to each deposit issued for the County; and
5. At the same time that the County's funds are deposited and each deposit is issued, the bank or savings institution receives an amount of deposits from customers of other financial institutions wherever located equal to or greater than the amount of funds invested by the County through the selected bank or savings institution.

Deposits shall not be subject to the provisions of Chapter 44 (§ 2.2-4400 et seq.), § 2.2-4515, or any security or collateral requirements that may otherwise be applicable to the investment or deposit of public funds by government investors.

### **9. 9.4 Collateralized Deposit Account**

Pursuant to § 2.2-4400 of the Code of Virginia, the County is authorized to deposit moneys in qualified public depositories. Deposits not fully insured by FDIC are to be collateralized

Collateralized Deposits must be from Qualified Public Depositories. "Qualified Public Depository" means any national banking association, federal savings and loan association or federal savings bank located in Virginia and any bank, trust company or savings institution organized under Virginia law that receives or holds public deposits that are secured pursuant to this chapter .

The Qualified Public Depositories must have at least two top short term ratings by Moody's, S&P, Fitch and Duff and Phelps.

Collateralized Deposits are to be federally insured to the maximum extent possible and collateralized under the Virginia Security for Public Deposits Act of the Code of Virginia.

For collateral specifications, see Section 11.0 on Collateralization

Not more than 10% of the portfolio at time of purchase may be placed in a collateralized deposit issued by a single bank.

## **10.0 UNAUTHORIZED INVESTMENTS**

It is the policy of the County not to invest in Derivatives, a financial contract whose value derives from the value of underlying stocks, bonds, currencies, commodities, etc.

The County may not borrow funds for the express purpose of reinvesting these funds, otherwise known as leveraging.

## **11.0 COLLATERALIZATION**

Collateralization will be required on certificates of deposit, demand deposit accounts and repurchase agreements. Certificates of deposit and demand deposit accounts shall be collateralized through the state collateral pool as required by the Code of Virginia, for any amount exceeding FDIC coverage. All repurchase agreements shall be fully collateralized by U.S. Treasury issues or agencies as approved in Section 9.2 of the Investment Policy with maturities of less than ten years. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 102% of market value of principal and accrued interest for repurchase agreements and the value shall be adjusted daily. Other investments, as applicable, shall be collateralized by the actual security held in safekeeping by the custodian. A clearly marked evidence of ownership must be supplied to the County and retained.

## **12.0 SAFEKEEPING**

All investment securities purchased by the County will be held by a third-party custodian, whenever applicable, designated by the Director of Finance and evidenced by safekeeping receipt. The custodian shall issue a monthly account custody report to the County listing the specific instrument held in safekeeping. It is the Custodian's responsibility to settle all trades in accordance with instructions received from the County; credit the County with all interest payments due and maturities, to notify the County of call notices, and to report all activity to the County.

All investments shall be safekept so as to be classified within category one of Statement 3 of the Governmental Accounting Standards Board (GASB).

All trades where applicable will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in County's Custodian prior to the release of funds.

## **13.0 MONITORING AND ADJUSTING THE PORTFOLIO**

The Investment Staff will routinely monitor: investment holdings of the portfolio, financial markets, relative values of competing money market instruments, and will adjust the portfolio accordingly with the approval of the Investment Committee.

#### **14.0 PORTFOLIOS: SIZE AND MATURITIES**

Funds available for investment are managed in three portfolios: the Liquidity Portfolio holds funds needed to meet short-term payment obligations; the Core Portfolio holds funds not expected to be drawn upon for a period of more than one year; the Revenue Stabilization Portfolio holds funds not anticipated to be drawn upon for extended periods, but available in response to extraordinary economic conditions.

**14.1** The Liquidity Portfolio shall hold all funds not allocated to the Core and Revenue Stabilization Portfolios. With the primary objective of providing availability of cash to meet known and anticipated needs and to respond to reasonable levels of unanticipated spending, this is an ultra-short portfolio. Investments will target a weighted average maturity of 90 days or less. No securities in this portfolio may have a maturity greater than one year from the date the purchase settled.

**14.2** The Core Portfolio shall be sized periodically at the direction of the Investment Committee. For fiscal year 2015, the portfolio level will be \$1.75 billion. Approximately half of this portfolio (\$775 million) will be invested in securities maturing no more than two years from date purchases are settled and laddered to achieve an approximate even distribution of maturities over a two-year period. The remainder of the Core Portfolio will be invested in securities maturing no more than one year from date purchases are settled.

**14.3** The Revenue Stabilization Portfolio segregates for investment purposes amounts designated by the Board of Supervisors as unavailable for use other than under fiscal conditions for which they were put aside. The size of the Revenue Stabilization Portfolio shall be adjusted annually to an amount no greater than the ending fund balance of the Revenue Stabilization Fund. Amounts in excess of that fund balance shall be transferred to the Liquidity Portfolio at such time as the ending fund balance has been determined.

#### **15.0 COMPETITIVE SELECTION OF INVESTMENT INSTRUMENTS**

Investments shall be awarded on a competitive bid basis to the institution whose percentage yield produces the greatest interest income to the County and complies with safekeeping requirements and investment limitations. Comparative rates must be recorded and documented by the Investment Staff for each competitive trade executed. When non-competitive selections exist, the source will be based on other factors favorably to the County at the discretion of the Investment Manager. Factors may include availability in asset type, issuer and conforms to Code of Virginia 2.2-4327 "Preference for Community Reinvestment Activities in Contracts for Investment of

Funds”.

Market information systems may be used to assess the market and determine that an offering is above the market for a comparable maturity and investment type when a situation makes competitive bidding impractical.

## **16.0 DIVERSIFICATION**

The County will diversify use of investment instruments to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions or maturities. In addition, investments shall be diversified by continuously investing a portion of the portfolio in readily available funds such as overnight repurchase agreements and/or money market mutual funds.

## **17.0 INTERNAL CONTROL**

Investment staff, with approval from the Investment Committee, is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the County are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. Accordingly, the Investment Committee shall establish a process for an annual independent review by an external auditor to assure compliance with policies and procedures. The controls shall be designed to prevent loss of public funds due to fraud, error, misrepresentation, unanticipated market changes or imprudent actions.

The internal controls shall address the following points:

- Controls to prevent collusion
- Separation of transaction authority from accounting and reconciliation activities
- Custodial safekeeping
- Avoidance of physical delivery of securities to the county (when possible)
- Clear delegation of authority to subordinate staff members
- Written confirmation of transactions for investments and wire transfers
- Development of a wire transfer agreement with the lead bank and third-party custodian
- Custodian to confirm with Finance Director, Deputy Director, or their approved designee, a security sale prior to maturity

## **18.0 PERFORMANCE STANDARDS**

The County’s investment strategy is to buy and hold all investments until maturity. Given this strategy, several benchmarks will be used by the Investment staff as a basis to determine if market yields are being achieved. The yield on the Liquidity Portfolio will be compared to the Local Government Investment Pool (LGIP). The Core Portfolio yield will be compared to the Six Month Libor Index. The Core Extended Portfolio will be

compared to the yield of the Merrill Lynch One Year Treasury Note Index. For the VACo/VML Virginia Investment Pool, the benchmark will be the Bank of America Merrill Lynch One to Three Year Corporate and Government Index. The goal of the County shall be to maintain an annual return competitive with these benchmark organizations.

## **19.0 REPORTING REQUIREMENTS**

The Investment Staff shall generate daily investment activity reports and weekly portfolio reports for the Investment Committee.

A statement of the market value of the portfolio shall be issued annually. The review is consistent with the General Accounting Standards Board (GASB) Statements 31 and 40.

## **20.0 INVESTMENT POLICY ADOPTION AND REVIEW**

This policy will be reviewed and approved by the Fairfax County Investment Committee annually or as frequently as deemed necessary by the Investment Committee or Investment Staff.

**Attachment I**  
**Listing of Authorized Personnel**

The following positions are authorized to make investment transactions on behalf of the County of Fairfax:

- Director, Department of Finance
- Deputy Director, Department of Finance

Investment Staff:

- Investment Manager, Investments & Cash Management Division of the Department of Finance
- Investment Analysts, Investments & Cash Management Division of the Department of Finance

**Attachment II**  
**Revisions and Reviews of Policy**

<u>Date</u>	<u>Section Reference</u>	<u>Decision Directive #</u>
10/29/91	Quarterly Review of Policy	
10/29/91	Code Reference for Investments	FY 92 #1
10/29/91	1.2-1 Voting Hierarchy	FY 92 #2
11/07/91	2.1-5 Authorized Investments-- Obligations of U.S.	FY 92 #3
11/26/91	Administrative Charge (Replaced By FY 92 #6)	FY 92 #4
01/21/92	2.2 South Africa Policy	FY 92 #5
01/21/92	Administrative Charge (Replaces FY92 #4)	FY 92 #6
02/04/92	Quarterly Review of Policy	
02/04/92	Administrative Charge (Replaces FY 92 #6)	FY 92 #7
05/19/92	Swaps	FY 92 #8
07/07/92	2.1-11 Clarification of Repurchase Agreement Policy	FY 93 #1
07/07/92	Quarterly Review of Policy	
02/16/93	Quarterly Review of Policy	
06/29/93	Quarterly Review of Policy	
08/03/93	Quarterly Review of Policy	
11/16/93	Quarterly Review of Policy	
03/22/94	Quarterly Review of Policy	

06/07/94	Quarterly Review of Policy
03/21/95	Quarterly Review of Policy
03/28/95	Quarterly Review of Policy
06/22/95	Quarterly Review of Policy
07/06/95	Quarterly Review of Policy
01/31/96	Quarterly Review of Policy
05/07/96	Quarterly Review of Policy
05/21/96	Update to section 1.5 Prudence
08/06/96	Quarterly Review of Policy
11/14/96	Quarterly Review of Policy
03/25/97	Quarterly Review of Policy
07/22/97	Quarterly Review of Policy
08/14/97	Update to reflect GFOA recommendations and maximum allowable investment term
09/30/97	Update to reflect GFOA Investment Policy Recommendations (Revised 8/97)
11/11/97	Quarterly Review of Policy
05/14/98	Quarterly Review of Policy
05/19/98	Update to reflect Section 20 Dealer criteria
07/21/98	Commercial Bank - revision of Thompson BankWatch criteria to reflect comprehensive rating.
08/06/98	Quarterly Review of Policy
10/20/98	Update for submission of Investment Policy Certification by the Municipal

Treasurers Association

08/04/99	Increase in Repurchase Agreement Limits
08/17/99	Increase in Agency Discount Notes
09/21/99	Quarterly Review of Policy
03/20/01	Quarterly Review of Policy
07/16/02	Annual Review of Policy
01/14/03	Removal of Japanese BA Restriction, Annual Review of Policy
03/08/04	Annual Review of Policy
05/04/04	Clarification on Ratings for Commercial Paper and Banker's Acceptances
09/21/04	Modification of "Maximum Term" Policy to provide for investment in a Core Portfolio with an average maturity up to 365 days
05/31/05	Annual review of Policy
02/07/06	Clarification on Unauthorized Investments
08/22/06	Clarification on Maximum Maturity based upon Trade Date
02/10/06	Annual Review of Policy
04/03/07	Annual Review of Policy
06/30/09	Annual Review of Policy
9/1/09	Add Insured Deposits as a permitted investment
12/15/09	Increase net worth to \$100mln on Authorized Institutions, clarify the "Do Not Buy on Negative Watch" to short term investments, Purchase Date defined as Settlement Date, use short term ratings for eligibility on Bankers Acceptances, separate Banker's Acceptances from Negotiable CD's, separate money funds from repurchase agreements holdings, reduce holdings from 50% to 40% on Non-Negotiable CD's
6/22/11	Expands Section 14 by defining various portfolios and establishes the size

of the Core Portfolio as 50% of all holdings on June 30.

- 6/6/2012 Adds Demand Deposit Account as another investment for daily liquidity.
- 12/5/2012 Expands Insured Certificate of Deposits to include Insured Accounts. This updates policy to include Amendment to Section 2.2.4518 of the Code of Virginia, Insured deposits.
- 1/07/2014 Adds the VACo/VML Virginia Investment Pool as an authorized investment and extends maximum maturity to the Core Extended Portfolio to two years. Adds new portfolio benchmarks, and updates regulatory bodies.
- 3/31/2015 Adds Internal Control measure (Section 17.0) that the Custodian is to confirm with Finance Director, Deputy Director, or their approved designee, a security sale prior to maturity. Funds of the County are listed as general, internal service, special revenue, capital project, enterprise, and agency (Section 2.0 Scope). Updates Attachment I to clarify individuals that compose the Investment Staff. Updates Section 9.5, Repurchase Agreements, stating that a Master Repurchase Agreement is required to enter into a repurchase agreement transaction.
- 6/14/2016 Investment Policy was reviewed and no changes were made.

## Attachment III

### Code of Virginia

#### Chapter 44

§ 2.2-4400. Short title; declaration of intent; applicability.

A. This chapter may be cited as the "Virginia Security for Public Deposits Act."

B. The General Assembly intends by this chapter to establish a single body of law applicable to the pledge of security as collateral for public funds on deposit in financial institutions so that the procedure for securing public deposits may be uniform throughout the Commonwealth.

C. All public deposits in qualified public depositories that are required to be secured by other provisions of law or by a public depositor shall be secured pursuant to this chapter.

D. This chapter, however, shall not apply to deposits made by the State Treasurer in out-of-state financial institutions related to master custody and tri-party repurchase agreements, provided (i) such deposits do not exceed ten percent of average monthly investment balances and (ii) the out-of-state financial institutions used for this purpose have a short-term deposit rating of not less than A-1 by Standard & Poor's Rating Service or P-1 by Moody's Investors Service, Inc., respectively.

(1973, c. 172, §§ 2.1-359, 2.1-361; 1984, c. 135; 2000, cc. 335, 352; 2001, c. 844.)

§ 2.2-4401. Definitions.

As used in this chapter, unless the context requires a different meaning:

"Public deposit" means moneys of the Commonwealth or of any county, city, town or other political subdivision thereof, including moneys of any commission, institution, committee, board or officer of the foregoing and any state, circuit, county or municipal court, which moneys are deposited in any qualified public depository in any of the following types of accounts: nonnegotiable or registered time deposits, demand deposits, savings deposits, and any other transaction accounts, and security for such deposit is required by other provisions of law, or is required due to an election of the public depositor.

"Qualified public depository" means any national banking association, federal savings and loan association or federal savings bank located in Virginia and any bank, trust company or savings institution organized under Virginia law that receives or holds public deposits that are secured pursuant to this chapter.

"Default or insolvency" includes, but shall not be limited to, the failure or refusal of any qualified public depository to return any public deposit upon demand or at maturity and the issuance of an order of supervisory authority restraining such depository from making payments of deposit liabilities or the appointment of a receiver for such depository.

"Treasury Board" means the Treasury Board of the Commonwealth created by § 2.2-2415.

"Eligible collateral" means securities of the character authorized as legal investments under the laws of the Commonwealth for public sinking funds or other public funds and securities acceptable under United States Treasury Department regulations as collateral for the security of treasury tax and loan accounts.

"Required collateral" of a qualified public depository means, (i) in the case of a bank, a sum equal to fifty percent of the actual public deposits held at the close of business on the last banking day in the month immediately preceding the date of any computation of such balance, or the average balance of all public deposits for such preceding month,

whichever is greater, and (ii) in the case of a savings and loan association or savings bank, a sum equal to 100 percent of the average daily balance for the month immediately preceding the date of any computation of such balance of all public deposits held by such depository but shall not be less than 100 percent of the public deposits held by such depository at the close of business on the last banking day in such preceding month.

"Treasurer" and "public depositor" means the State Treasurer, a county, city, or town treasurer or director of finance or similar officer and the custodian of any other public deposits secured pursuant to this chapter.

(1973, c. 172, § 2.1-360; 1984, c. 135; 1987, c. 718; 1996, c. 77; 1998, cc. 20, 21; 2001, c. 844.)

#### § 2.2-4402. Collateral for public deposits.

Every qualified public depository shall deposit with the State Treasurer, or, with the approval of the Treasury Board, with the Federal Reserve Bank of Richmond or any other bank or trust company located within or without the Commonwealth, eligible collateral equal to or in excess of the required collateral of such depository to be held subject to the order of the Treasury Board. Eligible collateral shall be valued as determined by the Treasury Board. Substitutions and withdrawals of eligible collateral may be made from time to time under regulations issued by the Treasury Board.

Each qualified public depository shall, at the time of the deposit of eligible collateral, deliver to the State Treasurer a power of attorney authorizing him to transfer any registered securities deposited, or any part thereof, for the purpose of paying any of the liabilities provided for in this chapter.

Notwithstanding any other provisions of law, no depository shall be required to give bond or pledge securities in the manner herein provided for the purpose of securing deposits received or held in the trust department of the depository and that are secured as required by § 6.1-21 or that are secured pursuant to Title 12, § 92a of the United States Code by securities of the classes prescribed by § 6.1-21.

No qualified public depository shall accept or retain any public deposit that is required to be secured unless it has deposited eligible collateral equal to its required collateral with some proper depository pursuant to this chapter.

(1973, c. 172, § 2.1-362; 2001, c. 844.)

#### § 2.2-4403. Procedure for payment of losses where depository is bank.

When the Treasury Board is advised by any treasurer or otherwise determines that a default or insolvency has occurred with regard to a qualified public depository that is a bank, it shall as promptly as practicable make payment to the proper treasurer of all funds subject to such default or insolvency, pursuant to the following procedures:

1. The Treasury Board and the treasurer shall ascertain the amount of public funds on deposit with the qualified public depository in default or insolvent that are secured pursuant to this chapter, either with the cooperation of the Commissioner of Financial Institutions or receiver appointed for such depository or by any other means available, and the amount of deposit insurance applicable to such deposits.

2. The amount of such public deposits ascertained as provided in subdivision 1, net of applicable deposit insurance, shall be assessed by the Treasury Board first against the depository in default or insolvent to the extent of the full realizable current market value of the collateral deposited by it to secure its public deposits, and second, to the extent that such collateral is insufficient to satisfy the liability of the depository upon its deposits secured pursuant to this chapter against each of the other qualified public depositories according to the ratio that the average daily balance for each month of the secured public deposits held by the depository during the twelve calendar months immediately preceding the date of the default or insolvency with respect to which the assessment is made bears to the total average daily balance for each month of all secured public deposits held by all qualified public depositories that are banks, other than the defaulting depository, during those twelve calendar months.

3. Assessments made by the Treasury Board shall be payable on the second business day following demand, and in case of the failure of any qualified public depository to pay such assessment when due, the State Treasurer shall promptly take possession of the eligible collateral deposited with him or with the Federal Reserve Bank of Richmond or other bank or trust company pursuant to this chapter and liquidate the same to the extent necessary to pay such assessment and turn over such amounts received to the Treasury Board.

4. Upon receipt of such assessment, payments or the proceeds of the eligible collateral liquidated to pay such assessments from the State Treasurer, the Treasury Board shall reimburse the public depositors to the extent of the depository's deposit liability to them, net of any applicable deposit insurance.

(1973, c. 172, § 2.1-363; 1978, c. 14; 1984, c. 135; 2001, c. 844.)

§ 2.2-4404. Procedure for payment of losses where depository is savings bank or savings and loan association.

When the Treasury Board is advised by any treasurer or otherwise determines that a default or insolvency has occurred with regard to a qualified public depository that is a savings bank or a savings and loan association, it shall as promptly as practicable make payment to the proper treasurer of all funds subject to such default or insolvency, pursuant to the following procedures:

1. The Treasury Board and the treasurer shall ascertain the amount of public funds on deposit with the qualified public depository in default or insolvent that are secured pursuant to this chapter, either with the cooperation of the Commissioner of Financial Institutions or receiver appointed for such depository or by any other means available, and the amount of deposit insurance applicable to such deposits.

2. The amount of such public deposits ascertained as provided in subdivision 1 net of applicable deposit insurance, shall be assessed by the Treasury Board against the depository in default or insolvent. The State Treasurer shall promptly take possession of such of the eligible collateral deposited by such depository with him, or with any other depository pursuant to this chapter, as is necessary to satisfy the assessment of the Treasury Board and shall liquidate the same and turn over the proceeds thereof to the Treasury Board.

3. Upon receipt from the State Treasurer of the payments or proceeds of the eligible collateral liquidated to pay such assessments from the State Treasurer, the Treasury Board shall reimburse the public depositors to the extent of the depository's deposit liability to them, net of any applicable deposit insurance.

(1984, c. 135, § 2.1-363.1; 2001, c. 844.)

§ 2.2-4405. Powers of Treasury Board relating to the administration of this chapter.

The Treasury Board shall have power to:

1. Make and enforce regulations necessary and proper to the full and complete performance of its functions under this chapter;

2. Prescribe regulations fixing terms and conditions consistent with this chapter under which public deposits may be received and held;

3. Require such additional collateral, in excess of the required collateral of any qualified public depository, of any and all such depositories as it may determine prudent under the circumstances;

4. Determine what securities shall be acceptable as eligible collateral, and to fix the percentage of face value or market value of such securities that can be used to secure public deposits;

5. Require any qualified public depository to furnish such information concerning its public deposits; and

6. Determine when a default or insolvency has occurred and to take such action as it may deem advisable for the protection, collection, compromise or settlement of any claim arising in case of default or insolvency.

(1973, c. 172, § 2.1-364; 2001, c. 844.)

§ 2.2-4406. Subrogation of Treasury Board to depositor's rights; payment of sums received from distribution of assets.

Upon payment in full to any public depositor, the Treasury Board shall be subrogated to all of such depositor's rights, title and interest against the depository in default or insolvent and shall share in any distribution of its assets ratably with other depositors. Any sums received from any such distribution shall be paid to the other qualified public depositories against which assessments were made, in proportion to such assessments, net of any proper expense of the Treasury Board in enforcing any such claim.

(1973, c. 172, § 2.1-365; 2001, c. 844.)

§ 2.2-4407. Deposit of public funds in qualified public depository mandatory.

No public deposit that is required to be secured pursuant to this chapter shall be made except in a qualified public depository.

(1973, c. 172, § 2.1-366; 2001, c. 844.)

§ 2.2-4408. Authority to deposit public funds.

A. All treasurers and public depositors are hereby authorized to deposit funds under their control in qualified public depositories securing public deposits pursuant to this chapter.

B. Local officials handling public funds in the Commonwealth may not require from a depository institution any pledge of collateral for their deposits in such institution which is in excess of the requirements of this chapter.

(1973, c. 172, § 2.1-367; 1980, c. 538, § 2.1-234.5; 1998, cc. 20, 21; 2001, c. 844.)

§ 2.2-4409. Authority to secure public deposits; acceptance of liabilities and duties by public depositories.

All institutions located in the Commonwealth that are permitted to hold and receive public deposits are hereby authorized to secure such deposits in accordance with this chapter.

Any institution accepting a public deposit that is required to be secured pursuant to this chapter shall be deemed to have accepted the liabilities and duties imposed upon it pursuant to this chapter with respect to the deposit.

(1973, c. 172, § 2.1-368; 2001, c. 844.)

§ 2.2-4410. Liability of treasurers or public depositors.

When deposits are made in accordance with this chapter no treasurer or public depositor shall be liable for any loss thereof resulting from the failure or default of any depository in the absence of negligence, malfeasance, misfeasance, or nonfeasance on his part or on the part of his assistants or employees.

(1973, c. 172, § 2.1-370; 2001, c. 844.)

§ 2.2-4411. Reports of public depositories.

Within ten days after the end of each calendar month or when requested by the Treasury Board each qualified public depository shall submit to the Treasury Board a written report, under oath, indicating (i) the total amount of public deposits held by it at the close of business on the last banking day in the month, (ii) the average daily balance for the month of all secured public deposits held by it during the month, (iii) a detailed schedule of pledged collateral at its current asset value for purposes of collateral at the close of business on the last banking day in the month, and (iv) any other information with respect to its secured public deposits that may be required by the Treasury Board.

Each qualified public depository shall also furnish at the same time to each public depositor for which it holds deposits and that makes a written request therefore a schedule of the secured public deposits to the credit of such depositor as of the close of business on the last banking day in the month and the total amount of all secured public deposits held by it upon such date.

(1973, c. 172, § 2.1-369; 1979, c. 154; 2001, c. 844.)

## **Chapter 45**

### § 2.2-4500. Legal investments for public sinking funds.

The Commonwealth, all public officers, municipal corporations, other political subdivisions and all other public bodies of the Commonwealth may invest any sinking funds belonging to them or within their control in the following securities:

1. Bonds, notes and other evidences of indebtedness of the Commonwealth, and securities unconditionally guaranteed as to the payment of principal and interest by the Commonwealth.
2. Bonds, notes and other 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. The evidences of indebtedness enumerated by this subdivision may be held directly, or in the form of repurchase agreements collateralized by such debt securities, or in the form of securities of any open-end or closed-end management type investment company or investment trust registered under the Investment Company Act of 1940, provided that the portfolio of such investment company or investment trust is limited to such evidences of indebtedness, or repurchase agreements collateralized by such debt securities, or securities of other such investment companies or investment trusts whose portfolios are so restricted.
3. Bonds, notes and other evidences of indebtedness of any county, city, town, district, authority or other public body of the Commonwealth upon which there is no default; provided, that such bonds, notes and other evidences of indebtedness of any county, city, town, district, authority or other public body are either direct legal obligations of, or those unconditionally guaranteed as to the payment of principal and interest by the county, city, town, district, authority or other public body in question; and revenue bonds issued by agencies or authorities of the Commonwealth or its political subdivisions upon which there is no default.
4. Bonds and other obligations issued, guaranteed or assumed by the International Bank for Reconstruction and Development, bonds and other obligations issued, guaranteed or assumed by the Asian Development Bank and bonds and other obligations issued, guaranteed or assumed by the African Development Bank.
5. Savings accounts or time deposits in any bank or savings institution within the Commonwealth provided the bank or savings institution is approved for the deposit of other funds of the Commonwealth or other political subdivision of the Commonwealth.

(1956, c. 184, § 2-297; 1958, c. 102; 1966, c. 677, § 2.1-327; 1970, c. 75; 1974, c. 288; 1986, c. 270; 1988, cc. 526, 834; 1996, cc. 77, 508; 2001, c. 844.)

### § 2.2-4501. Legal investments for other public funds.

A. The Commonwealth, all public officers, municipal corporations, other political subdivisions and all other public bodies of the Commonwealth may invest any and all moneys belonging to them or within their control, other than sinking funds, in the following:

1. Stocks, bonds, notes, and other evidences of indebtedness of the Commonwealth and those unconditionally guaranteed as to the payment of principal and interest by the Commonwealth.
2. Bonds, notes and other 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. The evidences of indebtedness enumerated by this subdivision may be held directly, or in the form of repurchase agreements collateralized by such debt securities, or in the form of securities of any open-end or closed-end management type investment company or investment trust registered under the Investment Company Act of 1940, provided that the portfolio of such investment company or investment trust is limited to such evidences of indebtedness, or repurchase agreements collateralized by such debt securities, or securities of other such investment companies or investment trusts whose portfolios are so restricted.
3. Stocks, bonds, notes and other evidences of indebtedness of any state of the United States upon which there is no default and upon which there has been no default for more than ninety days; provided, that within the twenty fiscal years next preceding the making of such investment, such state has not been in default for more than ninety days in the payment of any part of principal or interest of any debt authorized by the legislature of such state to be contracted.
4. Stocks, bonds, notes and other evidences of indebtedness of any county, city, town, district, authority or other public body in the Commonwealth upon which there is no default; provided, that if the principal and interest be payable from revenues or tolls and the project has not been completed, or if completed, has not established an operating record of net earnings available for payment of principal and interest equal to estimated requirements for that purpose according to the terms of the issue, the standards of judgment and care required in Article 2 (§ 26-45.3 et seq.) of Chapter 3 of Title 26, without reference to this section, shall apply.

In any case in which an authority, having an established record of net earnings available for payment of principal and interest equal to estimated requirements for that purpose according to the terms of the issue, issues additional evidences of indebtedness for the purposes of acquiring or constructing additional facilities of the same general character that it is then operating, such additional evidences of indebtedness shall be governed by the provisions of this section without limitation.

5. Legally authorized stocks, bonds, notes and other evidences of indebtedness of any city, county, town or district situated in any one of the states of the United States upon which there is no default and upon which there has been no default for more than ninety days; provided, that (i) within the twenty fiscal years next preceding the making of such investment, such city, county, town or district has not been in default for more than ninety days in the payment of any part of principal or interest of any stock, bond, note or other evidence of indebtedness issued by it; (ii) such city, county, town or district shall have been in continuous existence for at least twenty years; (iii) such city, county, town or district has a population, as shown by the federal census next preceding the making of such investment, of not less than 25,000 inhabitants; (iv) the stocks, bonds, notes or other evidences of indebtedness in which such investment is made are the direct legal obligations of the city, county, town or district issuing the same; (v) the city, county, town or district has power to levy taxes on the taxable real property therein for the payment of such obligations without limitation of rate or amount; and (vi) the net indebtedness of such city, county, town or district (including the issue in which such investment is made), after deducting the amount of its bonds issued for self-sustaining public utilities, does not exceed ten percent of the value of the taxable property in such city, county, town or district, to be ascertained by the valuation of such property therein for the assessment of taxes next preceding the making of such investment.

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

B. This section shall not apply to retirement funds and deferred compensation plans to be invested pursuant to §§ 51.1-124.30 through 51.1-124.35 or § 51.1-601.

C. Investments made prior to July 1, 1991, pursuant to § 51.1-601 are ratified and deemed valid to the extent that such investments were made in conformity with the standards set forth in Chapter 6 (§ 51.1-600 et seq.) of Title 51.1.

(1956, c. 184, § 2-298; 1966, c. 677, § 2.1-328; 1980, c. 596; 1988, c. 834; 1991, c. 379; 1992, c. 810; 1996, c. 508; 1999, c. 772; 2001, c. 844.)

§ 2.2-4502. Investment of funds of Commonwealth, political subdivisions, and public bodies in "prime quality" commercial paper.

A. The Commonwealth, all public officers, municipal corporations, other political subdivisions and all other public bodies of the Commonwealth may invest any and all moneys belonging to them or within their control other than sinking funds in "prime quality" commercial paper, with a maturity of 270 days or less, of issuing corporations organized under the laws of the United States, or of any state thereof including paper issued by banks and bank holding companies. "Prime quality" shall be as rated by at least two of the following: Moody's Investors Service, Inc., within its NCO/Moody's rating of prime 1, by Standard & Poor's, Inc., within its rating of A-1, by Fitch Investor's Services, Inc., within its rating of F-1, by Duff and Phelps, Inc., within its rating of D-1, or by their corporate successors, provided that at the time of any such investment:

1. The issuing corporation, or its guarantor, has a net worth of at least fifty million dollars; and
2. The net income of the issuing corporation, or its guarantor, has averaged three million dollars per year for the previous five years; and
3. All existing senior bonded indebtedness of the issuer, or its guarantor, is rated "A" or better or the equivalent rating by at least two of the following: Moody's Investors Service, Inc., Standard & Poor's, Inc., Fitch Investor's Services, Inc., or Duff and Phelps, Inc.

Not more than thirty-five percent of the total funds available for investment may be invested in commercial paper, and not more than five percent of the total funds available for investment may be invested in commercial paper of any one issuing corporation.

B. Notwithstanding subsection A, the Commonwealth, municipal corporations, other political subdivisions and public bodies of the Commonwealth may invest any and all moneys belonging to them or within their control, except for sinking funds, in commercial paper other than "prime quality" commercial paper as defined in this section provided that:

1. Prior written approval is obtained from the governing board, committee or other entity that determines investment policy. The Treasury Board shall be the governing body for the Commonwealth; and
2. A written internal credit review justifying the creditworthiness of the issuing corporation is prepared in advance and made part of the purchase file.

(1973, c. 232, § 2.1-328.1; 1974, c. 295; 1976, c. 665; 1986, c. 170; 1987, c. 73; 1988, c. 834; 1992, c. 769; 2001, c. 844.)

§ 2.2-4503.

Not set out. (2001, c. 844.)

§ 2.2-4504. Investment of funds by the Commonwealth and political subdivisions in bankers' acceptances.

Notwithstanding any provisions of law to the contrary, all public officers, municipal corporations, other political subdivisions and all other public bodies of the Commonwealth may invest any and all moneys belonging to them or within their control other than sinking funds in bankers' acceptances.

(1981, c. 18, § 2.1-328.3; 1988, c. 834; 2001, c. 844.)

§ 2.2-4505. Investment in certificates representing ownership of treasury bond principal at maturity or its coupons for accrued periods.

Notwithstanding any provision of law to the contrary, the Commonwealth, all public officers, municipal corporations, other political subdivisions and all other public bodies of the Commonwealth may invest any and all moneys belonging to them or within their control, in certificates representing ownership of either treasury bond principal at maturity or its coupons for accrued periods. The underlying United States Treasury bonds or coupons shall be held by a third-party independent of the seller of such certificates.

(1983, c. 117, § 2.1-328.5; 1985, c. 352; 1988, c. 834; 2001, c. 844.)

§ 2.2-4506. Securities lending.

Notwithstanding any provision of law to the contrary, the Commonwealth, all public officers, municipal corporations, political subdivisions and all public bodies of the Commonwealth may engage in securities lending from the portfolio of investments of which they have custody and control, other than sinking funds. The Treasury Board shall develop guidelines with which such securities lending shall fully comply. Such guidelines shall ensure that the state treasury is at all times fully collateralized by the borrowing institution.

(1983, c. 268, § 2.1-328.6; 2001, c. 844.)

§ 2.2-4507. Investment of funds in overnight, term and open repurchase agreements.

Notwithstanding any provision of law to the contrary, the Commonwealth, all public officers, municipal corporations, other political subdivisions and all other public bodies of the Commonwealth, may invest any and all moneys belonging to them or within their control in overnight, term and open repurchase agreements that are collateralized with securities that are approved for direct investment.

(1985, c. 352, § 2.1-328.8; 1988, c. 834; 2001, c. 844.)

§ 2.2-4508. Investment of certain public moneys in certain mutual funds.

Notwithstanding any provision of law to the contrary, the Commonwealth, all public officers, municipal corporations, other political subdivisions and all other public bodies of the Commonwealth may invest any and all moneys belonging to them or within their control, other than sinking funds that are governed by the provisions of § 2.2-4500, in one or more open-end investment funds, provided that the funds are registered under the Securities Act (§ 13.1-501 et seq.) of the Commonwealth or the Federal Investment Co. Act of 1940, and that the investments by such funds are restricted to investments otherwise permitted by law for political subdivisions as set forth in this chapter, or investments in other such funds whose portfolios are so restricted.

(1986, c. 170, § 2.1-328.9; 1988, c. 834; 1996, c. 508; 2001, c. 844.)

§ 2.2-4509. Investment of funds in negotiable certificates of deposit and negotiable bank deposit notes.

Notwithstanding any provision of law to the contrary, the Commonwealth and all public officers, municipal corporations, and other political subdivisions and all other public bodies of the Commonwealth may invest any or all of the moneys belonging to them or within their control, other than sinking funds, in 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 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 year and not exceeding five years.

(1998, cc. 20, 21, § 2.1-328.15; 2001, c. 844.)

§ 2.2-4510. Investment of funds in corporate notes.

A. Notwithstanding any provision of law to the contrary, the Commonwealth, all public officers, municipal corporations, other political subdivisions and all other public bodies of the Commonwealth may invest any and all moneys belonging to them or within their control, other than sinking funds, in high quality corporate notes with a rating of at least Aa by Moody's Investors Service, Inc., and a rating of at least AA by Standard and Poors, Inc., and a maturity of no more than five years.

B. Notwithstanding any provision of law to the contrary, any qualified public entity of the Commonwealth may invest any and all moneys belonging to it or within its control, other than sinking funds, in high quality corporate notes with a rating of at least A by two rating agencies, one of which shall be either Moody's Investors Service, Inc., or Standard and Poors, Inc.

As used in this section, "qualified public entity" means any state agency or institution of the Commonwealth, having an internal or external public funds manager with professional investment management capabilities.

C. Notwithstanding any provision of law to the contrary, the Department of the Treasury may invest any and all moneys belonging to it or within its control, other than sinking funds, in high quality corporate notes with a rating of at least BBB or Baa2 by two rating agencies, one of which shall be Moody's Investors Service, Inc., or Standard and Poors, Inc. With regard to investment securities rated below A, the Commonwealth Treasury Board shall establish strict investment guidelines concerning the investment in such securities and monitor the performance of the securities for compliance with the investment guidelines.

(1987, c. 187, § 2.1-328.10; 1988, c. 834; 1994, c. 145; 2001, c. 844; 2002, cc. 18, 438; 2005, c. 30.)

§ 2.2-4511. Investment of funds in asset-backed securities.

Notwithstanding any provision of law to the contrary, any qualified public entity of the Commonwealth may invest any and all moneys belonging to it or within its control, other than sinking funds, in asset-backed securities with a duration of no more than five years and a rating of no less than AAA by two rating agencies, one of which must be either Moody's Investors Service, Inc., or Standard and Poors, Inc.

As used in this section, "qualified public entity" means any state agency, institution of the Commonwealth or statewide authority created under the laws of the Commonwealth having an internal or external public funds manager with professional investment management capabilities.

(1994, c. 145, § 2.1-328.13; 1997, c. 29; 2001, c. 844.)

§ 2.2-4512. Investment of funds by State Treasurer in obligations of foreign sovereign governments.

Notwithstanding any provision of law to the contrary, the State Treasurer may invest unexpended or excess moneys in any fund or account over which he has custody and control, other than sinking funds, in fully hedged debt obligations of sovereign governments and companies that are fully guaranteed by such sovereign governments, with

a rating of at least AAA by Moody's Investors Service, Inc., and a rating of at least AAA by Standard and Poors, Inc., and a maturity of no more than five years.

Not more than ten percent of the total funds of the Commonwealth available for investment may be invested in the manner described in this section.

(1988, c. 461, § 2.1-328.11; 2001, c. 844.)

§ 2.2-4513. Investments by transportation commissions.

Transportation commissions that provide rail service may invest in, if required as a condition to obtaining insurance, participate in, or purchase insurance provided by, foreign insurance companies that insure railroad operations.

(1988, c. 834, § 2.1-328.12; 2001, c. 844.)

§ 2.2-4514. Commonwealth and its political subdivisions as trustee of public funds; standard of care in investing such funds.

Public funds held by the Commonwealth, public officers, municipal corporations, political subdivisions, and any other public body of the Commonwealth shall be held in trust for the citizens of the Commonwealth. Any investment of such funds pursuant to the provisions of this chapter shall be made solely in the interest of the citizens of the Commonwealth and with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

(1996, c. 437, § 2.1-328.14; 2001, c. 844.)

§ 2.2-4515. Collateral and safekeeping arrangements.

Securities purchased pursuant to the provisions of this chapter shall be held by the public official, municipal corporation or other political subdivision or public body or its custodial agent who may not otherwise be a counterparty to the investment transaction. Securities held on the books of the custodial agent by a custodial agent shall be held in the name of the municipal corporation, political subdivision or other public body subject to the public body's order of withdrawal. The responsibilities of the public official, municipal corporation, political subdivision or other public body shall be evidenced by a written agreement that shall provide for delivery of the securities by the custodial agent in the event of default by a counterparty to the investment transaction.

As used in this section, "counterparty" means the issuer or seller of a security, an agent purchasing a security on behalf of a public official, municipal corporation, political subdivision or other public body or the party responsible for repurchasing securities underlying a repurchase agreement.

The provisions of this section shall not apply to (i) investments with a maturity of less than thirty-one calendar days or (ii) the State Treasurer, who shall comply with safekeeping guidelines issued by the Treasury Board or to endowment funds invested in accordance with the provisions of the Uniform Investment of Institutional Funds Act, Article 1.1 (§ 55-268.1 et seq.) of Chapter 15 of Title 55.

(1988, c. 834, § 2.1-329.01; 2001, c. 844.)

§ 2.2-4516. Liability of treasurers or public depositors.

When investments are made in accordance with this chapter, no treasurer or public depositor shall be liable for any loss therefrom in the absence of negligence, malfeasance, misfeasance, or nonfeasance on his part or on the part of his assistants or employees.

(1979, c. 135, § 2.1-329.1; 2001, c. 844.)

§ 2.2-4517. Contracts on interest rates, currency, cash flow or on other basis.

A. Any state entity may enter into any contract or other arrangement that is determined to be necessary or appropriate to place the obligation or investment of the state entity, as represented by bonds or investments, in whole or in part, on the interest rate cash flow or other basis desired by the state entity. Such contract or other arrangement may include contracts providing for payments based on levels of, or changes in, interest rates. These contracts or arrangements may be entered into by the state entity in connection with, or incidental to, entering into, or maintaining any (i) agreement that secures bonds or (ii) investment, or contract providing for investment, otherwise authorized by law. These contracts and arrangements may contain such payment, security, default, remedy, and other terms and conditions as determined by the state entity, after giving due consideration to the creditworthiness of the counterparty or other obligated party, including any rating by a nationally recognized rating agency, and any other criteria as may be appropriate. The determinations referred to in this subsection may be made by the Treasury Board, the governing body of the state entity or any public funds manager with professional investment capabilities duly authorized by the Treasury Board or the governing body of any state entity authorized to issue such obligations to make such determinations.

As used in this section, "state entity" means the Commonwealth and all agencies, authorities, boards and institutions of the Commonwealth.

B. Any money set aside and pledged to secure payments of bonds or any of the contracts entered into pursuant to this section may be invested in accordance with this chapter and may be pledged to and used to service any of the contracts or other arrangements entered into pursuant to this section.

(2002, c. 407.)

§ 2.2-4518. Investment of funds in deposits.

A. Notwithstanding any provision of law to the contrary, the Commonwealth and all public officers, municipal corporations, other political subdivisions, and all other public bodies of the Commonwealth, each referred to in this section as a "public entity," may invest any or all of the moneys belonging to them or within their control in accordance with the following conditions:

1. The moneys are initially invested through any federally insured bank or savings institution selected by the public entity that is qualified by the Virginia Treasury Board to accept public deposits;
2. The selected bank or savings institution arranges for the deposit of the moneys in one or more federally insured banks or savings institutions wherever located, for the account of the public entity;
3. The full amount of principal and any accrued interest of each such deposit is covered by federal deposit insurance;
4. The selected bank or savings institution acts as custodian for the public entity with respect to each deposit issued for the public entity's account; and
5. At the same time that the public entity's moneys are deposited, the selected bank or savings institution receives an amount of deposits from customers of other financial institutions wherever

located equal to or greater than the amount of moneys invested by the public entity through the selected bank or savings institution.

B. After deposits are made in accordance with the conditions prescribed in subsection A, such deposits shall not be subject to the provisions of Chapter 44 (§ [2.2-4400](#) et seq.), § [2.2-4515](#), or any security or collateral requirements that may otherwise be applicable to the investment or deposit of public moneys by government investors.

(2008, c. [103](#); 2010, c. [33](#).)

## Attachment IV Glossary of Selected Terms

**Agencies** - Informal name that refers to securities issued by agencies of the United States government and U.S. government sponsored enterprises.

**Banker's Acceptance (BA)** - A short-term financial instrument that is the unconditional obligation of the accepting bank. Banker's acceptances arise from transactions involving the import, export, transit or storage of goods - domestic as well as international transit. For investors, it is important to realize that the underlying transaction that gives rise to a BA is almost completely irrelevant to the credit quality or the liquidity of the instrument. From an investor's point of view, a BA is a bank obligation that has at least the same credit strength as any CD issued by the same bank. BA's are considered, safe, liquid, short-term money market securities.

**Bid or Bid Price** - The trading price acceptable to a prospective buyer of securities.

**Bond Anticipation Note (BAN)** - A short-term note sold by a public entity that will be repaid from the proceeds of an anticipated bond issue.

**Book Entry Securities** - Stocks, bonds, other securities, and some certificates of deposit that are purchased, sold and held with only manual or computer accounting entries rather than transfers of physical certificates to evidence the transfer. Typically, instead of a physical certificate or instrument, buyers receive only receipts or confirmations as evidence of their ownership.

**Book Value** - Value at which an asset is carried on a balance sheet.

**Callable Bond**- A bond in which the issuer has the right to redeem prior to its maturity, under certain conditions.

**Broker** - A party who brings buyers and sellers together. Brokers do not take ownership of the property being traded.

**Certificate of Deposit (CD)** - A deposit of funds, in a bank or savings and loan association, for a specified term that earns interest at a specified rate or rate formula. They may be for terms as short as 1 week or as long as or longer than 10 years.

**Collateral** - Securities exchanges in a repo, reverse repo, buy/sell back, or sell/buy back. Property that a debtor has pledged, mortgaged, or assigned to a creditor.

**Commercial Paper** - Unsecured, short-term promissory notes issued by corporations for specific amounts and with specific maturity dates. Firms with lower ratings or firms

without well-known names usually back their commercial paper with guarantees or bank letters of credit. Commercial paper may be sold on a discount basis or may bear interest. Terms can be as short as 1 day and usually do not exceed 270 days.

**Commingled Funds** - Money pooled for a common purpose. Often funds pooled for investments.

**Coupon** - {a}The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. {b}A certificate attached to a bond evidencing interest due on a payment date.

**Credit Risk** - Credit risk is the risk that a debtor will fail will fail to make timely payments of principal or interest when due or that a company will fail, thus placing loans, fixed-income debt, and equity in danger of being reduced in value or eliminated. Also called default risk.

**Dealer** - A firm or an individual who buys and sells for his or her own account. Dealers have ownership, even if only for an instant, between a purchase from one party and sale to another party. They are compensated by the spread between the price they pay and the price they receive. Not the same as a broker; however, the same individuals and firms that act as dealers in some transactions may act as brokers in other transactions.

**Debenture** - A bond secured only by the general credit of the issuer.

**Default Risk** - The risk arising from the chance that debtors will not make promised payments either on time or in full. Another term for credit risk.

**Delivery vs. Payment (DVP)** - the simultaneous exchange of securities and cash. The safest method of settling either the purchase or sale of a security. In a DVP settlement, the funds are wired from the buyer's account and the security is delivered from the seller's account in simultaneous, interdependent wires.

**Depository Trust Company (DTC)** - An organization that holds physical certificates for stock and bonds and issues receipts to owners. Securities held by DTC are immobilized so that they can be traded on a book-entry basis.

**Derivatives** - Financial instruments whose value depends on the values of underlying assets, interest rates, currency exchange rates, or indexes. For hedging purposes, common derivatives are options, futures, swaps, and swap options. All CMOs are derivatives.

**Discount** - The amount by which the price for a security is less than its par.

**Discount Rate** - The percentage rate applied to reduce the redemption value of a security in cases where the difference between such a reduced value and the redemption value is the investor's compensation for owning the security.

**Discount Securities** - Securities that do not pay periodic interest. Investors earn the difference between the discount issue price and the full face value paid at maturity. Treasury bills, banker's acceptances, and zero coupon bonds are discount securities. Most commercial paper is also issued at a discount.

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

**DK** - Initials for "don't know". A security is said to be "DK'd" when it is delivered to the purchaser or more typically the purchaser's correspondent but is rejected because the purchaser either doesn't know or doesn't agree with one or more of the aspects of the trade.

**Duration** - a sophisticated measure of the average timing of cash flows from an asset or a liability or from an asset portfolio or a liability portfolio. Essentially, duration is a more accurate measure of maturity because it reflects the timing of cash flows from period interest and/or principal payments in addition to the cash flows represented by the funds transferred at maturity. Duration is computed by summing the present values of all of the future cash flows after multiplying each by the time until receipt, and then dividing that product by the sum of the present value of the future cash flows without weighting them for the time of receipt.

**Effective Annual Yield** - A seldom-used expression to refer to the yield on an investment expressed on a compound interest basis.

**Event Risk** - The risk of an unexpected, future decrease in credit quality that is a result of events such as a corporate acquisition or material changes in taxes, laws, or regulations.

**Fannie Mae** - An informal name for the Federal National Mortgage Association (FNMA). FNMA is a privately owned corporation whose function is to buy government-insured or guaranteed and conventional mortgages. To finance its mortgage purchases, FNMA relies primarily on the sale of debentures and short-term discount notes. FNMA securities are not backed by the full faith and credit of the federal government, but the risk of default is considered to be low.

**Federal Credit Agencies** - Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, i.e., S&L, small business firms, students, farmers, farm cooperatives, and exporters.

**Federal Deposit Insurance Corporation (FDIC)** - A federal agency that insures bank deposits, currently up to \$250,000 per deposit.

**Federal Funds Rate** - The rate for which overnight federal funds are traded.

**Federal Home Loan Bank (FHLB)** - Unsecured joint and several obligations of the 12 district banks. They are issued with short maturities ( under 1 year) to complement the longer-term borrowings of the bank. It raises money by issuing notes and bonds and lends money to savings and loans and other mortgage lenders based on the amount of collateral the institution can provide.

**Floating Rate Bond**- Bonds that have a variable-rate coupon that is usually tied to a predetermined index, plus a margin or spread. The spread is a rate that remains constant.

**Freddie Mac** - An informal name for the Federal Home Loan Mortgage Corporation (FHLMC) or for securities issued by it. The FHLMC was created to promote the development of a nationwide secondary market in conventional residential mortgages. FHLMC may purchase mortgages only from financial institutions that have their deposits or accounts insured by agencies of the Federal government. FHLMC sells its interest in the mortgages it purchases through mortgage-backed securities. These are not backed by the full faith and credit of the U.S. Government.

**Interest Rate Risk** - The risk that changes in prevailing interest rates will adversely affect assets, liabilities, capital, income, and/or expense at different times or in different amounts.

**Laddered Maturities** - A maturity pattern within a portfolio in which maturities of the assets in the portfolio are equally spaced. Over time, the shortening of the remaining lives of the assets provides a steady source of liquidity or cash flow.

**Liquidity** - An individual's or a firm's capacity to meet future monetary outflows (whether they are required or optional) from available resources.

**Liquidity Risk** - The risk that not enough cash will be generated from either assets or liabilities to meet cash requirements. For a bank, cash requirements primarily comprise deposit withdrawals or contractual loan fundings.

**Mark to Market** - The process of restating the carrying value of an asset or liability to equal its current market value.

**Market risk** - The risk of an increase or decrease in the market value or price of a financial instrument. Market values for debt instruments are affected by actual and anticipated

changes in prevailing interest rates.

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

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

**Maturity** - The date on which the principal or last principal payment on a debt is due and payable.

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

**Offer** - The price asked by a seller of securities. (When you are buying securities, you ask for an offer.)

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

**Portfolio Return** - The simplest measurement of portfolio return is interest earnings divided by average daily balances.

**Primary Dealer** - A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities brokers-dealers, banks, and a few unregulated firms.

**Prudent Person Rule** - An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state – the so-called legal list. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

**Public Securities Association (PSA)** - An industry trade organization for U.S. brokers/dealers. Among other things, the PSA has developed standard documentation for repurchase agreement transactions and for describing prepayments received from mortgage-backed securities.

**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 this state, 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 the current income return.

**Rate Risk** - The risk that the entity's earnings and/or its capital may be reduced by an adverse change in prevailing interest rates.

**Repurchase agreement** - A form of secured, short-term borrowing in which a security is sold with a simultaneous agreement to buy it back from the purchaser at a future date. Rates paid on repos are short-term money market interest rates and are completely unrelated to the coupon rate paid on the instrument being purchased.

**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.

**Securities & Exchange Commission** - Agency created by Congress to protect investors in securities transactions by administering securities legislation.

**SEC Rule 15C3-1** - See Uniform Net Capital Rule.

**Settlement Date** - Date by which an executed order must be settled, either by a buyer paying for the securities with cash or by a seller delivering the securities and receiving the proceeds of the sale for them.

**Treasury Bills** - A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

**Treasury Bonds** - Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to 10 years.

**Treasury Notes** - Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to 10 years.

**Trade Date** - Date on which a security or commodity future trade actually takes place and the buyer and seller agree upon a transaction.

**Uniform Net Capital Rule** - 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.

**Weighted Average Maturity** - Calculated as (Percentage of portfolio at cost) x (Maturity date - Today's date). The average maturity calculation for each investment is then totaled.

**Yield** - The rate of annual income return on an investment expressed as a percentage. {a} **Income Yield** is obtained by dividing the current dollar income by the current market price for the security. {b} **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 bonds.

Source: Sheshunoff, Essentials of Cash Management