



# **County of Fairfax, Virginia**

## **INVESTMENT POLICY**

**May 2023**

## Table of Contents

<b>1.0</b>	<b>POLICY</b>	<b>3</b>
<b>2.0</b>	<b>SCOPE</b>	<b>3</b>
<b>3.0</b>	<b>OBJECTIVES</b>	<b>3</b>
<b>4.0</b>	<b>PRUDENCE</b>	<b>4</b>
<b>5.0</b>	<b>ETHICS AND CONFLICTS OF INTEREST</b>	<b>5</b>
<b>6.0</b>	<b>DELEGATION OF AUTHORITY</b>	<b>5</b>
<b>6.1</b>	<b>INVESTMENT COMMITTEE</b>	<b>5</b>
<b>6.2</b>	<b>VOTING HEIRARCHY</b>	<b>6</b>
<b>6.3</b>	<b>INVESTMENT COMMITTEE MEETINGS</b>	<b>6</b>
<b>7.0</b>	<b>INVESTEMENT PROCEDURES</b>	<b>6</b>
<b>8.0</b>	<b>AUTHORIZED FINANCIAL INSTITUTIONS</b>	<b>6</b>
<b>9.0</b>	<b>AUTHORIZED INVESTMENTS AND DEPOSITS</b>	<b>7</b>
<b>10.0</b>	<b>UNAUTHORIZED INVESTMENTS/INVESTMENT STRATEGIES</b>	<b>9</b>
<b>11.0</b>	<b>COLLATERALIZATION</b>	<b>9</b>
<b>12.0</b>	<b>SAFEKEEPING</b>	<b>10</b>
<b>13.0</b>	<b>MONITORING AND ADJUSTING THE PORTFOLIO</b>	<b>10</b>
<b>14.0</b>	<b>PORTFOLIOS: SIZE AND MATURITIES</b>	<b>10</b>
<b>14.1</b>	<b>Liquidity Portfolio</b>	<b>11</b>
<b>14.2</b>	<b>Core Portfolio</b>	<b>11</b>
<b>14.3</b>	<b>Revenue Stabilization Portfolio</b>	<b>11</b>
<b>15.0</b>	<b>COMPETITIVE SELECTION OF INVESTMENT INSTRUMENTS</b>	<b>11</b>
<b>16.0</b>	<b>DIVERSIFICATION</b>	<b>11</b>
<b>17.0</b>	<b>INTERNAL CONTROL</b>	<b>12</b>
<b>18.0</b>	<b>PERFORMANCE STANDARDS</b>	<b>12</b>
<b>19.0</b>	<b>REPORTING REQUIREMENTS</b>	<b>12</b>
<b>20.0</b>	<b>INVESTMENT POLICY ADOPTION AND REVIEW</b>	<b>13</b>
	<b>ATTACHMENT I: Glossary of Terms</b>	<b>14</b>
	<b>ATTACHMENT II: Revisions and Reviews of Policy</b>	<b>20</b>
	<b>ATTACHMENT III: Code of Virginia</b>	<b>26</b>

## **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 and provides guidance for the County Investment Program (Program). These assets, as identified in the Annual Comprehensive Financial Report, include the following funds: general, internal service, special revenue, capital project, enterprise, and agency. Bond proceeds shall be invested in accordance with the requirements and restrictions outlined in bond documents. This Policy excludes retirement funds.

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 Program 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 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 and maturity so that potential losses on individual securities will be minimized.

b. Interest Rate Risk – The County will manage 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 five years or less from settlement date.

2. Liquidity – The Program shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated by holding at least 5% of the portfolio in daily liquidity investments. 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 Program 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.
- A security may be sold before maturity to meet liquidity needs.
- Investments may include established early redemption/maturity/withdrawal options at the time of purchase. These options may be exercised under the program, so long as 1) the established criteria for Safety and Liquidity are taken into account, 2) the potential cost of the transaction is considered prudent, with any and all costs or decrease in interest revenue recouped within 12 months of transaction, and 3) the increase in yield from the original product to the replacement product is at least 200%.

#### **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 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**

Investment officials 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.
- Disclose any material interests in financial institutions with which they conduct business within the County.
- Disclose any large personal financial/investment positions that could be related to the performance of the investment portfolio.
- 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**

Section 2.2, Chapters 45 and 46 of the Code of Virginia authorizes treasurers or any other persons collecting, disbursing, or otherwise handling public funds to invest public funds. 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 Program consistent with this Policy, under the direction of the Investment Committee and the Director of Finance (Treasurer of Fairfax County).

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:

- Chief Finance Division, Department of Finance Investments & Cash Management (ICM)
- Investment Analysts, Department of Finance ICM Division

## **6.1 INVESTMENT COMMITTEE**

Management of the County Investment Program 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
- Director, Department of Management and Budget
- Deputy Director, Department of Finance
- Chief Finance Division, Department of Finance, ICM
- Investment Analysts (2), Department of Finance, ICM

## **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 two (2) of the five (5) majority being either the CFO, Director of the Department of Finance, Director of the Department of Tax Administration, or Director of the Department of Management and Budget.

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.

## **6.3 INVESTMENT COMMITTEE MEETINGS**

The Investment Committee shall meet monthly; meetings will include an economic update and a review of the County's investment portfolio (including investment holdings, issuer's list, monthly portfolio averages, interest revenue earnings and cash flows).

## **7.0 INVESTMENT PROCEDURES**

Investment staff, with approval from the Investment Committee, shall establish written investment policy procedures for the operation of the Program consistent with this Policy. The procedures should include reference to: safekeeping, repurchase agreements, wire transfer agreements, banking service contracts, cash flow projections, and 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 investment 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/or 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:
  - Must have at least two of the following short term ratings from a Nationally Recognized Statistical Rating Organization (NRSRO): A1, P1, F1, or
  - 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 an NRSRO
- 3) Any direct issuer of commercial paper that meets the credit criteria outlined in the Policy.
- 4) Any issuer of banker's acceptances that meet the credit criteria outlined in the 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 an existing senior bond indebtedness rating of "A" or better or the equivalent rating by an NRSRO
  - 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.

## **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. Percentage limitations and rating requirements, where indicated, apply at the time of purchase. When comparing minimum ratings, an equivalent rating from another NRSRO.

Securities that have been downgraded to a level that is below the minimum rating may be sold or held at the Investment Committee's discretion.

**Investments not specifically listed below are deemed inappropriate and are prohibited:**

<b>Authorized Investment</b>	<b>VA Code</b>	<b>Maximum %</b>	<b>Maximum Maturity</b>	<b>Minimum Rating</b>	<b>Other Constraints</b>
U.S. Treasury Obligations	2.2-4501 (A2)	No Limit	5 years	N/A	
Federal Agencies/GSEs	2.2-4501 (A2)	No Limit 35% Issuer	5 years	N/A	
Supranationals	2.2-4501 (A6)	10% of Program  5% Issuer	3 years	AAA	Limited to World Bank, Asian Development Bank and African Development Bank
Commercial Paper	2.2-4502	35% of Program  5% Issuer	270 days	2 of the following: A1, P1, D1, F1	US Domicile Net worth \$50 mm, Income \$3 mln yearly average US Domicile
Corporate Notes	2.2-4510	25% of Program 5% Issuer	3 years	2 of the following: Moody's Aa S&P AA Fitch AA	
Banker's Acceptance	2.2-4504	35% of Program 5% Issuer	1 year	A1 P1	
Negotiable CDs	2.2-4509	40% of Program 5% Issuer	3 years	A1, P1 if < 1 year, AA if > 1 year	
Non-Negotiables CDs	2.2-4401	25% of Program 10%	3 years	N/A	
Insured CDs	2.2-4401	15% of Program	3 years	FDIC Insurance	
Repurchase Agreement	2.2-4507	30% of Program  10% Issuer	1 month	N/A	Collateral Obligations of U.S., Master Repurchase Agreement



<b>Authorized Investment</b>	<b>VA Code</b>	<b>Maximum %</b>	<b>Maximum Maturity</b>	<b>Minimum Rating</b>	<b>Other Constraints</b>
Bank Demand Deposit	2.2-4518	10% of Program 10% Issuer	N/A	N/A	Virginia Security for Public Deposits Act

<b>Authorized Investment</b>	<b>VA Code</b>	<b>Maximum %</b>	<b>Maximum Maturity</b>	<b>Minimum Rating</b>	<b>Other Constraints</b>
Mutual Funds	2.2-4508	30% of Program 10% Issuer	N/A	AAA	Fund balance > \$1 billion
LGIP — Daily Liquidity	2.2-4513.1	30% of Program 10% Issuer	N/A	A1, P1, D1, F1	
LGIP — Bond Fund	2.2-4513.1	25% of Program 10% Issuer	N/A	AAA	Maximum duration 2 years

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.

## **10.0 UNAUTHORIZED INVESTMENTS/INVESTMENT STRATEGIES**

1. Derivatives – 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.
2. Leveraging – 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 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 instruments 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 maturities and interest amounts due, notify the County of call notices, and report all activity to the County.

All investments shall be safekept in a manner so as to provide the highest level of protection, using guidance provided in the Governmental Accounting Standards Board Statement No. 3.

All trades, where applicable, will be executed by delivery vs. payment (DVP) to ensure that securities are deposited with the 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 Program, financial markets, and relative values of competing money market instruments.
- Adjust the portfolios accordingly with the approval of the Investment Committee.
- 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.
- Keep a current audited financial statement on file for each approved financial institution and broker/dealer.

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

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

### **14.1 Liquidity Portfolio**

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. A liquidity cushion will be maintained in this portfolio at all times of at least 15% of the County's stable balance at the seasonal low point. This margin of cushion and the size of the Liquidity Portfolio will be revisited annually. 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.

### **14.2 Core Portfolio**

The Core Portfolio shall be sized periodically at the direction of the Investment Committee. This portfolio will be invested in securities maturing no more than three years, and up to 15% of the Core portfolio maturing up to five years. The target average maturity is 1.75 years with a maximum of 2.25 years.

### **14.3 Revenue Stabilization Portfolio**

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. Although the maximum maturity on investments is three years, the weighted average maturity of the portfolio should not exceed one year.

## **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 favorable to the County, at the discretion of the Investment Manager, and must be approved and documented for each non-competitive trade executed. Factors may include availability in asset type and issuer and must conform to the Code of Virginia 2.24327 "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**

The 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 Portfolio is subject to an annual independent review by an external auditor. 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 custodian;
- Third party custodian to confirm with the Director of Finance, Deputy Director of Finance, 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 an 18-month rolling average of the Merrill Lynch 0-3 years U.S. Treasury Index.

## **19.0 REPORTING REQUIREMENTS**

The Investment staff shall generate daily, weekly, and monthly investment activity reports for the Investment Committee.

The investment staff will present analysis and discussion of yield curves, market opportunities and portfolios duration at the monthly Investment Committee meetings

A presentation of the market value of the Program portfolio is issued annually. The method of determining market value 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 at least annually by the Fairfax County Investment Committee. All changes/additions will be presented to the Investment Committee for consideration of approval prior to any changes being made to the Policy.

## **ATTACHMENT I: Glossary of Terms**

**African Development Bank** – A regional multilateral development finance institution established to contribute to the economic development and social progress of its member African countries.

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

**Asian Development Bank** – An organization providing loans and equity investments for development projects in its member countries, particularly in Southeast and East Asia.

**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. BAs 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.

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

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

**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 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.

**Farmer Mac** – FAMC or the Federal Agricultural Mortgage Corporation. A federally chartered private corporation providing an alternate source of credit for agricultural loans and rural housing.

**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.

**International Bank for Reconstruction and Development** – Also known as the World Bank. An international lending organization offering long term low interest credit for industrial development.

**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 funding's.

**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 vault for protection.

**Securities & Exchange Commission (SEC)** – 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.

**Virginia Investment Pool (VIP)** – A Section 115 governmental trust fund created under the Joint Exercise of Powers statute of the Commonwealth of Virginia. It provides political subdivisions with an investment vehicle to pool surplus funds and to invest such funds into one or more investment portfolios under the direction and daily supervision of a professional fund manager. The VIP is governed by a Board of Trustees.

**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

## ATTACHMENT II: Revisions and Reviews of Policy

<u>Date</u>	<u>Action Taken</u>
5/19/2023	Removed “from the date the purchase settled” from section 14.1; Removed “from date purchases are settled” from section 14.2.
3/21/2023	Added the following language to section 3.0.3: <ul style="list-style-type: none"><li>- Investments may include established early redemption/maturity/withdrawal options at the time of purchase. These options may be exercised under the program, so long as 1) the established criteria for Safety and Liquidity are taken into account, 2) the potential cost of the transaction is considered prudent, with any and all costs or decrease in interest revenue recouped within 12 months of transaction, and 3) the increase in yield from the original product to the replacement product is at least 200%.</li></ul>
10/27/2022	Incorporated the following changes to the Investment Policy: <ul style="list-style-type: none"><li>- Included language adding “County Investment Program” and associated changes to incorporate “Program” as referring to the entire investment activities.</li><li>- Modified “Investment Manager” to “Chief Finance Division” to align with human resource changes in class specifications.</li><li>- Modified the Core Portfolio benchmark to include “18-month rolling average” of the existing benchmark.</li><li>- Changed 14.2 from “The Core Portfolio shall be sized periodically at the direction of the Investment Committee. This portfolio will be invested in securities maturing no more than three years, and up to 10% of the entire portfolio up to five years from date purchases are settled. The target average maturity is 1.50 years with a maximum of 1.75 years.”, to “The Core Portfolio shall be sized periodically at the direction of the Investment Committee. This portfolio will be invested in securities maturing no more than three years, and up to 15% of the Core portfolio up to five years from date purchases are settled. The target average maturity is 1.75 years with a maximum of 2.25 years.”</li><li>- Adding the Director of Management and Budget as a member of the Investment Committee.</li><li>- Change the majority rule in Section 6.2 from "A majority rule shall consist of four (4) of the seven (7) members, with two (2) of the four (4) majority being either the CFO, Director of the Department of Finance, or Director of the Department of Tax Administration, to "A majority rule shall consist of five (5) of the eight (8) members, with two (2) of the five (5) majority being either the CFO, Director of the Department of Finance, Director of the Department of Tax Administration, or Director of the Department of Management and Budget.</li></ul>
8/19/2021	Change the majority rule in Section 6.2 from “A majority rule shall consist of five (5) of the eight (8) members, with two (2) of the five (5) majority being either the CFO, Director

of the Department of Finance, Director of Management and Budget, or Director of the Department of Tax Administration.” to “A majority rule shall consist of four (4) of the seven (7) members, with two (2) of the four (4) majority being either the CFO, Director of the Department of Finance, or Director of the Department of Tax Administration.” Removed the Director, Management and Budget from the committee membership in Section 6.1.

- 7/26/2021 Policy was reviewed with no recommended changes.
- 7/23/2020 Change the minimum rating requirement on Corporate Notes to two of the following: Moody's Aa, S+P AA, Fitch AA.
- 8/15/2019 Change the majority rule in Section 6.2 from "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, Director of Management and Budget, or Director of the Department of Tax Administration, to "A majority rule shall consist of five (5) of the eight (8) members, with two (2) of the five (5) majority being either the CFO, Director of the Department of Finance, Director of Management and Budget, or Director of the Department of Tax Administration.”
- 7/31/2019 Following are changes to the Investment Policy that were approved on July 31, 2019:
- Using the term Nationally Recognized Statistical Rating Organization (NRSRO) in lieu of listing the rating companies.
  - Mutual Funds will replace Government Money Market Funds as authorized investments.
  - Adding the Director of Management and Budget as a member of the Investment Committee, and changing the majority rule to at least five of eight members, with one member being the CFO, Director of Finance, Director of Tax Administration, or Director of Management and Budget.
- 7/31/2019 The balance in the Liquidity portfolio on June 30, 2019 was \$733.2 million. The Committee decided at this time not to change allocations to the Core and Liquidity portfolios.
- 7/26/2019 The Investment Committee approved increasing the allocation in the Commonwealth of Virginia's LGIP from 10% of the portfolio balance to 20%, for a period not to exceed 60 days.
- 12/13/2017 Combine the present Core, Core Extended, and VIP Bond Fund portfolios into one Core portfolio.
- Increase the maximum maturity to five years, with no more than 10% of the portfolio past three years. Only U.S. Treasuries and agency securities may have a maturity beyond three years.
  - Add a new asset class for Supranationals. Investments are limited to the International

Bank for Reconstruction and Development, Asian Development Bank, and African Development Bank. The maximum maturity for Supranationals is three years.

- Add Farmer Mac as an approved agency investment.
- Increase the maturity on Corporate Notes, Negotiable CDs, Non-negotiable CDs, and Insured CDs to three years.
- Benchmarks will be as follows:
  - Liquidity Portfolio – LGIP and VIP LGIP
  - Core Portfolio – Merrill Lynch 0-3 Year US Treasury Index
- Other tweaks to maximum maturities and holdings.
- Monthly meetings will include analysis and discussion of yield curve, market opportunities and portfolio duration.

6/14/2016	Investment Policy was reviewed and no changes were made.
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.
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.
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.
6/6/2012	Adds Demand Deposit Account as another investment for daily liquidity.
6/22/2011	Expands Section 14 by defining various portfolios and establishes the size of the Core Portfolio as 50% of all holdings on June 30.
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
09/01/09	Add Insured Deposits as a permitted investment
06/30/09	Annual Review of Policy
04/03/07	Annual Review of Policy

02/10/06	Annual Review of Policy
08/22/06	Clarification on Maximum Maturity based upon Trade Date
02/07/06	Clarification on Unauthorized Investments
05/31/05	Annual review of Policy
09/21/04	Modification of "Maximum Term" Policy to provide for investment in a Core Portfolio with an average maturity up to 365 days
05/04/04	Clarification on Ratings for Commercial Paper and Banker's Acceptances
03/08/04	Annual Review of Policy
01/14/03	Removal of Japanese BA Restriction. Annual Review of Policy
07/16/02	Annual Review of Policy
03/20/01	Quarterly Review of Policy
09/21/99	Quarterly Review of Policy
08/17/99	Increase in Agency Discount Notes
08/04/99	Increase in Repurchase Agreement Limits
10/20/98	Update for submission of Investment Policy Certification by the Municipal Treasurers Association
08/06/98	Quarterly Review of Policy
07/21/98	Commercial Bank - revision of Thompson BankWatch criteria to reflect comprehensive rating.
05/19/98	Update to reflect Section 20 Dealer criteria
05/14/98	Quarterly Review of Policy
11/11/97	Quarterly Review of Policy
09/30/97	Update to reflect GFOA Investment Policy Recommendations (Revised 8/97)
08/14/97	Update to reflect GFOA recommendations and maximum allowable investment term
07/22/97	Quarterly Review of Policy
03/25/97	Quarterly Review of Policy

11/14/96	Quarterly Review of Policy
08/06/96	Quarterly Review of Policy
05/21/96	Update to section 1.5 Prudence
05/07/96	Quarterly Review of Policy
01/31/96	Quarterly Review of Policy
07/06/95	Quarterly Review of Policy
06/22/95	Quarterly Review of Policy
03/28/95	Quarterly Review of Policy
03/21/95	Quarterly Review of Policy
06/07/94	Quarterly Review of Policy
03/22/94	Quarterly Review of Policy
11/16/93	Quarterly Review of Policy
08/03/93	Quarterly Review of Policy
06/29/93	Quarterly Review of Policy
02/16/93	Quarterly Review of Policy
07/07/92	Quarterly Review of Policy
07/07/92	2.1-11 Clarification of Repurchase Agreement Policy, (FY 93 #1)
05/19/92	Swaps, FY 92 #8
02/04/92	Administrative Charge (Replaces FY 92 #6 with FY 92 #7)
02/04/92	Quarterly Review of Policy
01/21/92	Administrative Charge, (Replaces FY92 #4 with FY 92 #6)
01/21/92	2.2 South Africa Policy, (FY 92 #5)
11/26/91	Administrative Charge (Replaced by FY 92 #6), (FY 92 #4)
11/07/91	2.1-5 Authorized Investments—Obligations of U.S., (FY 92 #3)
10/29/91	1.2-1 Voting Hierarchy, (FY 92 #2)



10/29/91 Code Reference for Investments, (FY 92 #1)

10/29/91 Quarterly Review of Policy

## **ATTACHMENT III: Code of Virginia**

Title 2.2. Administration of Government  
Chapter 44. Virginia Security for Public Deposits Act

### **§ 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 collateral for public deposits 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. Public depositors are required to secure their deposits pursuant to several applicable provisions of law, including but not limited to §§ 2.2-1813, 2.2-1815, 8.01-582, 8.01-600, 15.2-1512.1, 15.2-1615, 15.2-2625, 15.2-6611, 15.2-6637, 58.1-3149, 58.1-3150, 58.1-3154, and 58.1-3158.
- 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 that (i) such deposits do not exceed 10 percent of average monthly investment balances and (ii) the out-of-state financial institutions used for this purpose have received at least one of the following short-term deposit ratings: (a) not less than A-1 by Standard & Poor's; (b) not less than P-1 by Moody's Investors Service, Inc.; or (c) not less than F1 by Fitch Ratings, Inc.

1973, c. 172, §§ 2.1-359, 2.1-361; 1984, c. 135; 2000, cc. 335, 352; 2001, c. 844; 2010, cc. 640, 674; 2020, c. 333.

The chapters of the acts of assembly referenced in the historical citation at the end of this section may not constitute a comprehensive list of such chapters and may exclude chapters whose provisions have expired.

### **§ 2.2-4401. Definitions.**

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

"Dedicated method" or "opt-out method" means the securing of public deposits without accepting the contingent liability for the losses of public deposits of other qualified public depositories, pursuant to § 2.2-4404 and regulations and guidelines promulgated by the Treasury Board.

"Defaulting depository" means any qualified public depository determined to be in default or insolvent.

"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.

"Eligible collateral" means securities or instruments authorized as legal investments under the laws of the Commonwealth for public sinking funds or other public funds as well as Federal Home Loan Bank letters of credit issued in accordance with guidelines promulgated by the Treasury Board.

"Located in Virginia" means having a main office or branch office in the Commonwealth where deposits are accepted, checks are paid, and money is lent.

"Pooled method" means securing public deposits by accepting the contingent liability for the losses of public deposits of other qualified public depositories choosing this method, pursuant to § 2.2-4403 and regulations and guidelines promulgated by the Treasury Board.

"Public deposit" means moneys held by a public depositor who is charged with the duty to receive or administer such moneys and is acting in an official capacity, such moneys being deposited in any of the following types of accounts: nonnegotiable time deposits, demand deposits, savings deposits, or any other transaction accounts.

"Public depositor" means the Commonwealth or any county, city, town or other political subdivision thereof, including any commission, institution, committee, board, or officer of the foregoing and any state court.

"Qualified escrow agent" means the State Treasurer or any bank or trust company approved by the Treasury Board to hold collateral pledged to secure public deposits.

"Qualified public depository" means any national banking association, federal savings and loan association or federal savings bank located in Virginia, any bank, trust company or savings institution organized under Virginia law, or any state bank or savings institution organized under the laws of another state located in Virginia authorized by the Treasury Board to hold public deposits according to this chapter.

"Required collateral" of a qualified public depository means the amount of eligible collateral required to secure public deposits set by regulations or an action of the Treasury Board.

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

1973, c. 172, § 2.1-360; 1984, c. 135; 1987, c. 718; 1996, c. 77; 1998, cc. 20, 21; 2001, c. 844; 2008, c.7; 2010, cc. 640, 674.

The chapters of the acts of assembly referenced in the historical citation at the end of this section may not constitute a comprehensive list of such chapters and may exclude chapters whose provisions have expired.

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

Qualified public depositories shall elect to secure deposits by either the pooled method or the dedicated method. Every qualified public depository shall deposit with a qualified escrow agent eligible collateral equal to or in excess of the required collateral. Eligible collateral shall be valued as determined by the

Treasury Board. Substitutions and withdrawals of eligible collateral may be made as determined by the Treasury Board.

Notwithstanding any other provisions of law, no qualified public depository shall be required to give bond or pledge securities or instruments 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 § 6.2-1005 of the Code of Virginia or that are secured pursuant to Title 12, § 92a of the United States Code by securities of the classes prescribed by § 6.2-1005 of the Code of Virginia.

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 a qualified escrow agent pursuant to this chapter.

1973, c. 172, § 2.1-362; 2001, c. 844; 2010, cc. 640, 674.

The chapters of the acts of assembly referenced in the historical citation at the end of this section may not constitute a comprehensive list of such chapters and may exclude chapters whose provisions have expired.

**§ 2.2-4403. Procedure for payment of losses by pooled method.**

When the Treasury Board determines that a qualified public depository securing public deposits in accordance with this section is a defaulting depository, it shall as promptly as practicable take steps to reimburse public depositors for uninsured public deposits using the following procedures:

1. The Treasury Board shall ascertain the amount of uninsured public deposits held by the defaulting depository, either with the cooperation of the Commissioner of Financial Institutions, the receiver appointed for such depository, or by any other means available.
2. The amount of such uninsured public deposits ascertained as provided in subdivision 1, plus any costs associated with liquidation, shall be assessed by the Treasury Board first against the defaulting depository to the extent of the full realizable market value of the collateral pledged to secure its public deposits.
3. In the event the realized value of the pledged collateral in subdivision 2 is insufficient to satisfy the liability of the defaulting depository to its public depositors and the Treasury Board, the Treasury Board shall assess the remaining liability against all other qualified public depositories securing public deposits according to the following ratio: total average public deposit balance for each qualified public depository held during the immediately preceding twelve months divided by the total average public deposit balance for the same period held by all qualified public depositories under this section other than the defaulting depository.
4. Assessments made by the Treasury Board in accordance with subdivision 3 shall be payable by the close of business on the second business day following demand. Upon 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 the non-paying depository's escrow agent and liquidate the same to the extent necessary to pay the original assessment plus any additional costs necessary to liquidate the collateral.

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

1973, c. 172, § 2.1-363; 1978, c. 14; 1984, c. 135; 2001, c. 844; 2009, c. 64; 2010, cc. 640, 674.

The chapters of the acts of assembly referenced in the historical citation at the end of this section may not constitute a comprehensive list of such chapters and may exclude chapters whose provisions have expired.

**§ 2.2-4404. Procedure for payment of losses by dedicated method.**

When the Treasury Board determines that a qualified public depository securing public deposits in accordance with this section is a defaulting depository, it shall as promptly as practicable take steps to reimburse public depositors of all uninsured public deposits using the following procedures:

1. The Treasury Board shall ascertain the amount of uninsured public deposits held by the defaulting depository with the cooperation of the Commissioner of Financial Institutions, the receiver appointed for such depository or by any other means available.

2. The amount of such uninsured public deposits ascertained as provided in subdivision 1, plus any costs associated with liquidation of the eligible collateral of the defaulting depository, shall be assessed by the Treasury Board against the defaulting depository. The State Treasurer shall promptly take possession of the eligible collateral deposited by such depository with the depository's escrow agent, as is necessary to satisfy the assessment of the Treasury Board and shall liquidate the same and turn over the net proceeds to the Treasury Board.

3. Upon receipt from the State Treasurer of the eligible collateral liquidated, the Treasury Board shall reimburse the public depositors from the proceeds of the collateral up 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; 2009, c. 64; 2010, cc. 640, 674.

The chapters of the acts of assembly referenced in the historical citation at the end of this section may not constitute a comprehensive list of such chapters and may exclude chapters whose provisions have expired.

**§ 2.2-4.405. Powers of Treasury Board relating to the administration of this chapter.**

The Treasury Board shall have power to:

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

2. Prescribe and enforce regulations and guidelines fixing terms and conditions consistent with this chapter under which public deposits must be secured;

3. Require additional collateral, in excess of the required collateral of any or all qualified public depositories as it may determine prudent under the circumstances;
4. Determine what securities or instruments shall be acceptable as eligible collateral, and fix the percentage of face value or market value of such securities or instruments that can be used to secure public deposits;
5. Establish guidelines to permit banks to withdraw from the procedures for the payment of losses under § 2.2-4403 and instead be governed by the procedures for the payment of losses under § 2.2-4404, consistent with the primary purpose of protecting public deposits;
6. Require any qualified public depository to provide information concerning its public deposits as requested by the Treasury Board; and
7. 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. 84'1;2009, c. 64;2010, cc. 640, 674.

The chapters of the acts of assembly referenced in the historical citation at the end of this section may not constitute a comprehensive list of such chapters and may exclude chapters whose provisions have expired.

**§ 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 on any claim presented pursuant to § 2.2-4403 or 2.2-4404, 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 such defaulting or insolvent depository's 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 payment or expense of the Treasury Board in enforcing any such claim.

1973, c. 172, § 2.1-365; 2001, c. 844;2010, cc. 640, 674.

The chapters of the acts of assembly referenced in the historical citation at the end of this section may not constitute a comprehensive list of such chapters and may exclude chapters whose provisions have expired.

**§ 2.2-4407. Mandatory deposit of public funds in qualified public depositories.**

Public deposits required to be secured pursuant to this chapter shall be deposited in a qualified public depository.

1973, c. 172, § 2.1-366; 2001, c. 844;2010, cc. 640, 674.

The chapters of the acts of assembly referenced in the historical citation at the end of this section may not constitute a comprehensive list of such chapters and may exclude chapters whose provisions have expired.

**§ 2.2-4408. Authority to make public deposits.**

A. All public depositors are hereby authorized to make public deposits under their control in qualified public depositories, securing such public deposits pursuant to this chapter.

B. Local officials handling public deposits in the Commonwealth may not require from a qualified public depository any pledge of collateral for their deposits 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;2010, cc. 640, 674.

The chapters of the acts of assembly referenced in the historical citation at the end of this section may not constitute a comprehensive list of such chapters and may exclude chapters whose provisions have expired.

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

All qualified public depositories are hereby authorized to secure public deposits in accordance with this chapter and shall be deemed to have accepted the liabilities and duties imposed upon it pursuant to this chapter.

1973, c. 172, § 2.1-368; 2001, c. 841;2010, cc. 640, 674.

The chapters of the acts of assembly referenced in the historical citation at the end of this section may not constitute a comprehensive list of such chapters and may exclude chapters whose provisions have expired.

**§ 2.2-4410. Liability of public depositors.**

When deposits are made in accordance with this chapter no official of a public depositor shall be personally liable for any loss resulting from the default or insolvency of any qualified public depository in the absence of negligence, malfeasance, misfeasance, or nonfeasance on his part or on the part of his agents.

1973, c. 172, § 2.1-370; 2001, c. 841;2010, cc. 640, 674.

The chapters of the acts of assembly referenced in the historical citation at the end of this section may not constitute a comprehensive list of such chapters and may exclude chapters whose provisions have expired.

**§ 2.2-4411. Reports of qualified public depositories.**

By the tenth day after the end of each calendar reporting month or when requested by the Treasury Board each qualified public depository shall submit to the Treasury Board an electronic report of such data required by the Treasury Board to demonstrate that the current market value of its pledged collateral was equal to or greater than the amount of required collateral for the previous month, certified as to its accuracy by an authorized official of the qualified public depository.

Upon request by a public depositor, a qualified public depository shall provide a schedule detailing the public deposit accounts reported to the Treasury Board for that depositor, as well as the amount of total public deposits held by that depository at the close of the applicable month and the total market value of the collateral securing such public deposits.

1973, c. 172, § 2.1-369; 1979, c. 154; 2001, c. 841; 2010, cc. 640, 674.

The chapters of the acts of assembly referenced in the historical citation at the end of this section may not constitute a comprehensive list of such chapters and may exclude chapters whose provisions have expired.

Code of Virginia

Title 2.2. Administration of Government

Chapter 45. Investment of Public Funds Act

**§ 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.

The chapters of the acts of assembly referenced in the historical citation at the end of this section may not constitute a comprehensive list of such chapters and may exclude chapters whose provisions have expired.

#### **§ 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 90 days, provided that within the 20 fiscal years next preceding the making of such investment, such state has not been in default for more than 90 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 9 (§ 64.2- 780 et seq.) of Chapter 7 of Title 64.2, 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 90 days, provided that (i) within the 20 fiscal years next preceding the making of such investment, such city, county, town, or district has not been in default for more than 90 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 20 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 10 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 funds authorized by law to be invested by the Virginia Retirement System or to deferred compensation plan funds to be invested pursuant to § 51.1-601 or to funds contributed by a locality to a pension program for the benefit of any volunteer fire department or volunteer emergency medical services agency established pursuant to § 15.2-955.

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; 2007, c. 67; 2008, c. 295; 2015, cc. 502, 503.

The chapters of the acts of assembly referenced in the historical citation at the end of this section may not constitute a comprehensive list of such chapters and may exclude chapters whose provisions have expired.

**§ 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" means that the paper has received at least two of the following ratings: (i) at least prime 1 by Moody's Investors Service, Inc.; (ii) at least A1 by Standard & Poor's; or (iii) at least F1 by Fitch Ratings, Inc., provided that at the time of any such investment:

1. The issuing corporation, or its guarantor, has a net worth of at least \$50 million; and
2. The net income of the issuing corporation, or its guarantor, has averaged \$3 million per year for the previous five years; and
3. All existing senior bonded indebtedness of the issuer, or its guarantor, has received at least two of the following ratings : (i) at least A by Moody's Investors Service, Inc.; (ii) at least A by Standard & Poor's; or (iii) at least A by Fitch Ratings, Inc.

Not more than 35 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, and 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;2020, c. 333.

The chapters of the acts of assembly referenced in the historical citation at the end of this section may not constitute a comprehensive list of such chapters and may exclude chapters whose provisions have expired.

**§ 2.2-4503. Investments by Fairfax County finance director.**

Notwithstanding any provisions of law to the contrary or any limitation or restriction contained in any such law, the director of finance of Fairfax County may invest, redeem, sell, exchange, and reinvest unexpended or surplus moneys, in any fund or account of which he has custody or control in bankers' acceptances.

1980, c. 50, § 2.1-328.2; 2001, c. 844.

The chapters of the acts of assembly referenced in the historical citation at the end of this section may not constitute a comprehensive list of such chapters and may exclude chapters whose provisions have expired.

**§ 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.

The chapters of the acts of assembly referenced in the historical citation at the end of this section may not constitute a comprehensive list of such chapters and may exclude chapters whose provisions have expired.

**§ 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.

The chapters of the acts of assembly referenced in the historical citation at the end of this section may not constitute a comprehensive list of such chapters and may exclude chapters whose provisions have expired.

**§ 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.

The chapters of the acts of assembly referenced in the historical citation at the end of this section may not constitute a comprehensive list of such chapters and may exclude chapters whose provisions have expired.

**§ 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.

The chapters of the acts of assembly referenced in the historical citation at the end of this section may not constitute a comprehensive list of such chapters and may exclude chapters whose provisions have expired.

**§ 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.

The chapters of the acts of assembly referenced in the historical citation at the end of this section may not constitute a comprehensive list of such chapters and may exclude chapters whose provisions have expired.

**§ 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:

1. With maturities not exceeding one year, that have received at least two of the following ratings: (i) at least A-1 by Standard & Poor's; (ii) at least **P-1** by Moody's Investors Service, Inc.; or (iii) at least F1 by Fitch Ratings, Inc.; and

2. With maturities exceeding one year and not exceeding five years, that have received at least two of the following ratings: (i) at least AA by Standard & Poor's; (ii) at least Aa by Moody's Investors Service, Inc.; or (iii) at least AA by Fitch Ratings, Inc.

1998, cc. 20, 21, § 2.1-328.15; 2001, c. 844;2020, c. 333.

The chapters of the acts of assembly referenced in the historical citation at the end of this section may not constitute a comprehensive list of such chapters and may exclude chapters whose provisions have expired.

### **§ 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 maturities of no more than five years that have received at least two of the following ratings: (i) at least Aa by Moody's Investors Service, Inc.; (ii) at least AA by Standard and Poor's; or (iii) at least AA by Fitch Ratings, Inc.

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 that have received at least two of the following ratings: (i) at least A by Moody's Investors Service, Inc.; (ii) at least A by Standard and Poor's; or (iii) at least A by Fitch Ratings, 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 the two qualifying ratings shall be (i) at least Baa2 by Moody's Investors Service, Inc.; (ii) at least BBB by Standard and Poor's; or (iii) at least BBB by Fitch Ratings, 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; 2020, c. 333.

The chapters of the acts of assembly referenced in the historical citation at the end of this section may not constitute a comprehensive list of such chapters and may exclude chapters whose provisions have expired.

**§ 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 with a rating of at least AAA or Aaa by two rating agencies. One of the two qualifying ratings shall be (i) at least Aaa by Moody's Investors Service, Inc.; (ii) at least AAA by Standard and Poor's; or (iii) at least AAA by Fitch Ratings, 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; 2020, c. 333.

The chapters of the acts of assembly referenced in the historical citation at the end of this section may not constitute a comprehensive list of such chapters and may exclude chapters whose provisions have expired.

**§ 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 maturity of no more than five years that have received at least two of the following ratings: (i) at least Aaa by Moody's Investors Service, Inc.; (ii) at least AAA by Standard and Poor's; or (iii) at least AAA by Fitch Ratings, Inc.

Not more than 10 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; 2020, c. 333.

The chapters of the acts of assembly referenced in the historical citation at the end of this section may not constitute a comprehensive list of such chapters and may exclude chapters whose provisions have expired.

**§ 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.

The chapters of the acts of assembly referenced in the historical citation at the end of this section may not constitute a comprehensive list of such chapters and may exclude chapters whose provisions have expired.

**§ 2.2-4513.1. Investment of funds in qualified investment pools.**

A. Notwithstanding the provisions of Article 1 (§ 15.2-1300 et seq.) of Chapter 13 of Title 15.2, in any locality in which the authority to invest moneys belonging to or within the control of the locality has been granted to its elected treasurer, the treasurer may act on behalf of his locality to become a participating political subdivision in qualified investment pools without an ordinance adopted by the locality approving a joint exercise of power agreement. For purposes of this section, "qualified investment pool" means a jointly administered investment pool organized as a trust fund pursuant to Article 1 of Chapter 13 of Title 15.2 that has a professional investment manager.

B. Investments in qualified investment pools described in this section shall comply with the requirements of this chapter applicable to municipal corporations and other political subdivisions.

C. The provisions of this section shall not apply to local trusts established pursuant to Article 8 (§ 15.2-1544 et seq.) of Chapter 15 of Title 15.2 to fund postemployment benefits other than pensions.

2017, cc. 792, 819.

The chapters of the acts of assembly referenced in the historical citation at the end of this section may not constitute a comprehensive list of such chapters and may exclude chapters whose provisions have expired.

**§ 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.

The chapters of the acts of assembly referenced in the historical citation at the end of this section may not constitute a comprehensive list of such chapters and may exclude chapters whose provisions have expired.



**§ 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 31 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 Prudent Management of Institutional Funds Act, Chapter 11 (§ 64.2-1100 et seq.) of Title 64.2.

1988, c. 834, § 2.1-329.01; 2001, c. 844; 2008, c. 184.

The chapters of the acts of assembly referenced in the historical citation at the end of this section may not constitute a comprehensive list of such chapters and may exclude chapters whose provisions have expired.

**§ 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.

The chapters of the acts of assembly referenced in the historical citation at the end of this section may not constitute a comprehensive list of such chapters and may exclude chapters whose provisions have expired.

**§ 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.

The chapters of the acts of assembly referenced in the historical citation at the end of this section may not constitute a comprehensive list of such chapters and may exclude chapters whose provisions have expired.

#### **§ 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.

The chapters of the acts of assembly referenced in the historical citation at the end of this section may not constitute a comprehensive list of such chapters and may exclude chapters whose provisions have expired.

**§ 2.2-4519. Investment of funds by the Virginia Housing Development Authority and the Virginia Resources Authority.**

A. For purposes of §§ 36-55.44 and 62.1-221 only, the following investments shall be considered lawful investments and shall be conclusively presumed to have been prudent:

1. Obligations of the Commonwealth. 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. Obligations of the United States. Stocks, bonds, treasury notes, and other evidences of indebtedness of the United States, including the guaranteed portion of any loan guaranteed by the Small Business Administration, an agency of the United States government, and those unconditionally guaranteed as to the payment of principal and interest by the United States; bonds of the District of Columbia; bonds and notes of the Federal National Mortgage Association and the Federal Home Loan Banks; bonds, debentures, or other similar obligations of federal land banks, federal intermediate credit banks, or banks of cooperatives, issued pursuant to acts of Congress; and obligations issued by the United States Postal Service when the principal and interest thereon is guaranteed by the government of the United States. The evidences of indebtedness enumerated by this subdivision may be held directly, 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 federal 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. Obligations of other states. 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 90 days, provided that within the 20 fiscal years next preceding the making of such investment, such state has not been in default for more than 90 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. Obligations of Virginia counties, cities, or other public bodies. 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 is 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 the Uniform Prudent Investor Act (§ 64.2-780 et seq.), 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 fully by the provisions of this section without limitation.

5. Obligations of cities, counties, towns, or districts of other states. 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 90 days, provided that (i) within the 20 fiscal years next preceding the making of such investment, the city, county, town, or district has not been in default for more than 90 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) the city, county, town, or district shall have been in continuous existence for at least 20 years; (iii) the 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 the 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 10 percent of the value of the taxable property in the 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. Obligations subject to repurchase. Investments set forth in subdivisions 1 through 5 may also be made subject to the obligation or right of the seller to repurchase these on a specific date.

7. Bonds secured on real estate. Bonds and negotiable notes directly secured by a first lien on improved real estate or farm property in the Commonwealth, or in any state contiguous to the Commonwealth within a 50-mile area from the borders of the Commonwealth, not to exceed 80 percent of the fair market value of such real estate, including any improvements thereon at the time of making such investment, as ascertained by an appraisal thereof made by two reputable persons who are not interested in whether or not such investment is made.

8. Bonds secured on city property in Fifth Federal Reserve District. Bonds and negotiable notes directly secured by a first lien on improved real estate situated in any incorporated city in any of the states of the United States which lie wholly or in part within the Fifth Federal Reserve District of the United States as constituted on June 18, 1928, pursuant to the act of Congress of December 23, 1913, known as the Federal Reserve Act, as amended, not to exceed 60 percent of the fair market value of such real estate, with the improvements thereon, at the time of making such investment, as ascertained by an appraisal thereof made by two reputable persons who are not interested in whether or not such

investment is made, provided that such city has a population, as shown by the federal census next preceding the making of such investments, of not less than 5,000 inhabitants.

9. Bonds of Virginia educational institutions. Bonds of any of the educational institutions of the Commonwealth that have been or may be authorized to be issued by the General Assembly.

10. Securities of the Richmond, Fredericksburg and Potomac Railroad Company. Stocks, bonds, and other securities of the Richmond, Fredericksburg and Potomac Railroad Company, including bonds or other securities guaranteed by the Richmond, Fredericksburg and Potomac Railroad Company.

11. Obligations of railroads. Bonds, notes, and other evidences of indebtedness, including equipment trust obligations, which are direct legal obligations of or which have been unconditionally assumed or guaranteed as to the payment of principal and interest by, any railroad corporation operating within the United States that meets the following conditions and requirements:

a. The gross operating revenue of such corporation for the fiscal year preceding the making of such investment, or the average of the gross operating revenue for the five fiscal years next preceding the making of such investment, whichever of these two is the larger, shall have not been less than \$10 million;

b. The total fixed charges of such corporation, as reported for the fiscal year next preceding the making of the investment, shall have been earned an average of at least two times annually during the seven fiscal years preceding the making of the investment and at least one and one-half times during the fiscal year immediately preceding the making of the investment. The term "total fixed charges" as used in this subdivision and subdivision c shall be deemed to refer to the term used in the accounting reports of common carriers as prescribed by the regulations of the Interstate Commerce Commission; and

c. The aggregate of the average market prices of the total amounts of each of the individual securities of such corporation junior to its bonded debt and outstanding at the time of the making of such investment shall be equal to at least two-thirds of the total fixed charges for such railroad corporation for the fiscal year next preceding the making of such investment capitalized at an annual interest rate of five percent. Such average market price of any one of such individual securities shall be determined by the average of the highest quotation and the lowest quotation of the individual security for a period immediately preceding the making of such investment, which period shall be the full preceding calendar year plus the then-expired portion of the calendar year in which such investment is made, provided that if more than six months of the calendar year in which such investment is made shall have expired, then such period shall be only the then-expired portion of the calendar year in which such investment is made, and provided further that if such individual security shall not have been outstanding during the full extent of such period, such period shall be deemed to be the length of time such individual security shall have been outstanding.

12. Obligations of leased railroads. Stocks, bonds, notes, other evidences of indebtedness, and any other securities of any railroad corporation operating within the United States, the railroad lines of which have been leased by a railroad corporation, either alone or jointly with other railroad corporations, whose bonds, notes, and other evidences of indebtedness shall, at the time of the making of such investment, qualify as lawful investments for fiduciaries under the terms of subdivision 11,

provided that the terms of such lease shall provide for the payment by such lessee railroad corporation individually, irrespective of the liability of other joint lessee railroad corporations, if any, in this respect, of an annual rental of an amount sufficient to defray the total operating expenses and maintenance charges of the lessor railroad corporation plus its total fixed charges, plus, in the event of the purchase of such a stock, a fixed dividend upon any issue of such stock in which such investment is made, and provided that if such investment so purchased shall consist of an obligation of definite maturity, such lease shall be one which shall, according to its terms, provide for the payment of the obligation at maturity or extend for a period of not less than 20 years beyond the maturity of such obligations so purchased, or if such investment so purchased shall be a stock or other form of investment having no definite date of maturity, such lease shall be one which shall, according to its terms, extend for a period of at least 50 years beyond the date of the making of such investment.

13. Equipment trust obligations. Equipment trust obligations issued under the "Philadelphia Plan" in connection with the purchase for use on railroads of new standard gauge rolling stock, provided that the owner, purchaser, or lessee of such equipment, or one or more of such owners, purchasers, or lessees, shall be a railroad corporation whose bonds, notes, and other evidences of indebtedness shall, at the time of the making of such investment, qualify as lawful investments for fiduciaries under the terms of subdivision 11, and provided that all of such owners, purchasers, or lessees shall be both jointly and severally liable under the terms of such contract of purchase or lease, or both, for the fulfillment thereof.

14. Preferred stock of railroads. Any preference stock of any railroad corporation operating within the United States, provided such stock and such railroad corporation meet the following conditions and requirements:

- a. Such stock shall be preferred as to dividends, such dividends shall be cumulative, and such stock shall be preferred as to assets in the event of liquidation or dissolution;
- b. The gross operating revenue of such corporation for the fiscal year preceding the making of such investment, or the average of the gross operating revenue for the five fiscal years next preceding the making of such investment, whichever of these two is the larger, shall have been not less than \$10 million;
- c. The total fixed charges, as defined in subdivision 11 b, of such corporation, as reported for the fiscal year next preceding the making of such investment, plus the amount, at the time of making such investment, of the annual dividend requirements on such preference stock and any preference stock having the same or senior rank, such fixed charges and dividend requirements being considered the same for every year, shall have been earned an average of at least two and one-half times annually for the seven fiscal years preceding the making of such investment and at least two times for the fiscal year immediately preceding the making of such investment; and
- d. The aggregate of the average market prices of the total amount of each of the individual securities of such corporation, junior to such preference stock and outstanding at the time of the making of such investment, shall be at least equal to the par value of the total issue of the preference stock in question plus the total par value of all other issues of its preference stock having either the same rank as, or a senior rank to, the issue of such preference stock plus total fixed charges, as defined in subdivision 11 b, for such railroad corporation for the fiscal year next preceding the

making of such investment capitalized at an annual interest rate of five percent. Such average market price of any one of such individual securities shall be determined in the same manner as prescribed in subdivision 11 c.

15. Obligations of public utilities. Bonds, notes, and other evidences of indebtedness of any public utility operating company operating within the United States, provided such company meets the following conditions and requirements:

- a. The gross operating revenue of such public utility operating company for the fiscal year preceding the making of such investment, or the average of the gross operating revenue for the five fiscal years next preceding the making of such investment, whichever of these two is the larger, shall have been not less than \$5 million;
- b. The total fixed charges of such corporation, as reported for the fiscal year next preceding the making of the investment, shall have been earned, after deducting operating expenses, depreciation, and taxes, other than income taxes, an average of at least one and three-quarters times annually during the seven fiscal years preceding the making of the investment and at least one and one-half times during the fiscal year immediately preceding the making of the investment;
- c. In the fiscal year next preceding the making of such investment, the ratio of the total par value of the bonded debt of such public utility operating company, including the total bonded indebtedness of all its subsidiary companies, whether assumed by the public utility operating company in question or not, to its gross operating revenue shall not be greater than four to one; and
- d. Such public utility operating company shall be subject to permanent regulation by a state commission or other duly authorized and recognized regulatory body.

The term "public utility operating company" as used in this subdivision and subdivision 16 means a public utility or public service corporation (i) of whose total income available for fixed charges for the fiscal year next preceding the making of such investment at least 55 percent thereof shall have been derived from direct payments by customers for service rendered them; (ii) of whose total operating revenue for the fiscal year next preceding the making of such investment at least 60 percent thereof shall have been derived from the sale of electric power, gas, water, or telephone service and not more than 10 percent thereof shall have been derived from traction operations; and (iii) whose gas properties are all within the limits of one state, if more than 20 percent of its total operating revenues are derived from gas.

16. Preferred stock of public utilities. Any preference stock of any public utility operating company operating within the United States, provided such stock and such company meet the following conditions and requirements:

- a. Such stock shall be preferred as to dividends, such dividends shall be cumulative, and such stock shall be preferred as to assets in the event of liquidation or dissolution;
- b. The gross operating revenue of such public utility operating company for the fiscal year preceding the making of such investment, or the average of the gross operating revenue for the five

fiscal years next preceding the making of such investment, whichever of these two is the larger, shall have been not less than \$5 million;

c. The total fixed charges of such public utility operating company, as reported for the fiscal year next preceding the making of such investment, plus the amount, at the time of making such investment, of the annual dividend requirements on such preference stock and any preference stock having the same or senior rank, such fixed charges and dividend requirements being considered the same for every year, shall have been earned, after deducting operating expenses, depreciation, and taxes, including income taxes, an average of at least two times annually for the seven fiscal years preceding the making of such investment and at least two times for the fiscal year immediately preceding the making of such investment;

d. In the fiscal year next preceding the making of such investment, the ratio of the sum of the total par value of the bonded debt of such public utility operating company, the total par value of the issue of such preference stock, and the total par value of all other issues of its preference stock having the same or senior rank to its gross operating revenue shall not be greater than four to one; and

e. Such public utility operating company shall be subject to permanent regulation by a state commission or other duly authorized and recognized regulatory body.

17. Obligations of the following telephone companies. Bonds, notes, and other evidences of indebtedness of American Telephone and Telegraph, Bell Atlantic, Bell South, Southwestern Bell, Pacific Telesis, Nynex, American Information Technologies, or U.S. West, and bonds, notes, and other evidences of indebtedness unconditionally assumed or guaranteed as to the payment of principal and interest by any such company, provided that the total fixed charges, as reported for the fiscal year next preceding the making of the investment, of such company and all of its subsidiary corporations on a consolidated basis shall have been earned, after deducting operating expenses, depreciation, and taxes, other than income taxes, an average of at least one and three-fourths times annually during the seven fiscal years preceding the making of the investment and at least one and one-half times during the fiscal year immediately preceding the making of the investment.

18. Obligations of municipally owned utilities. The stocks, bonds, notes, and other evidences of indebtedness of any electric, gas, or water department of any state, county, city, town, or district whose obligations would qualify as legal for purchase under subdivision 3, 4, or 5, the interest and principal of which are payable solely out of the revenues from the operations of the facility for which the obligations were issued, provided that the department issuing such obligations meets the requirements applying to public utility operating companies as set out in subdivisions 15 a through c.

19. Obligations of industrial corporations. Bonds, notes, and other evidences of indebtedness of any industrial corporation incorporated under the laws of the United States or of any state thereof, provided such corporation meets the following conditions and requirements:

a. The gross operating revenue of such corporation for the fiscal year preceding the making of such investment, or the average of the gross operating revenue for the five fiscal years next preceding the making of such investment, whichever of these two is the larger, shall have been not less than \$10 million;



b. The total fixed charges of such corporation, as reported for the fiscal year next preceding the making of the investment, shall have been earned, after deducting operating expenses, depreciation, and taxes, other than income taxes, and depletion in the case of companies commonly considered as depleting their natural resources in the course of business, an average of at least three times annually during the seven fiscal years preceding the making of the investment and at least two and one-half times during the fiscal year immediately preceding the making of the investment;

c. The net working capital of such industrial corporation, as shown by its last published fiscal year-end statement prior to the making of such investment, or in the case of a new issue, as shown by the financial statement of such corporation giving effect to the issuance of any new security, shall be at least equal to the total par value of its bonded debt as shown by such statement; and

d. The aggregate of the average market prices of the total amounts of each of the individual securities of such industrial corporation, junior to its bonded debt and outstanding at the time of the making of such investment, shall be at least equal to the total par value of the bonded debt of such industrial corporation at the time of the making of such investment, such average market price of any one of such individual securities being determined in the same manner as prescribed in subdivision 11 c.

20. Preferred stock of industrial corporations. Any preference stock of any industrial corporation incorporated under the laws of the United States or of any state thereof, provided such stock and such industrial corporation meet the following conditions and requirements:

a. Such stock shall be preferred as to dividends, such dividends shall be cumulative, and such stock shall be preferred as to assets in the event of liquidation or dissolution;

b. The gross operating revenue of such corporation for the fiscal year preceding the making of such investment, or the average of the gross operating revenue for the five fiscal years next preceding the making of such investment, whichever of these two is the larger, shall have been not less than \$10 million;

c. The total fixed charges of such corporation, as reported for the fiscal year next preceding the making of such investment, plus the amount, at the time of making such investment, of the annual dividend requirements on such preference stock and any preference stock having the same or senior rank, such fixed charges and dividend requirements being considered the same for every year, shall have been earned, after deducting operating expenses, depreciation, and taxes, including income taxes, and depletion in the case of companies commonly considered as depleting their natural resources in the course of business, an average of at least four times annually for the seven fiscal years preceding the making of such investment and at least three times for the fiscal year immediately preceding the making of such investment;

d. The net working capital of such industrial corporation, as shown by its last published fiscal year-end statement prior to the making of such investment, or, in the case of a new issue, as shown by the financial statement of such corporation giving effect to the issuance of any new security, shall be at least equal to the total par value of its bonded debt plus the total par value of the issue of such

preference stock plus the total par value of all other issues of its preference stock having the same or senior rank; and

e. The aggregate of the lowest market prices of the total amounts of each of the individual securities of such industrial corporation junior to such preference stock and outstanding at the time of the making of such investment shall be at least two and one-half times the par value of the total issue of such preference stock plus the total par value of all other issues of its preference stock having the same or senior rank plus the par value of the total bonded debt of such industrial corporation. Such lowest market price of any one of such individual securities shall be determined by the lowest single quotation of the individual security for a period immediately preceding the making of such investment, which period shall be the full preceding calendar year plus the then-expired portion of the calendar year in which such investment is made, and if such individual security shall not have been outstanding during the full extent of such period, such period shall be deemed to be the length of time such individual security shall have been outstanding.

21. Obligations of finance corporations. Bonds, notes, and other evidences of indebtedness of any finance corporation incorporated under the laws of the United States or of any state thereof, provided such corporation meets the following conditions and requirements:

a. The gross operating income of such corporation for the fiscal year preceding the making of such investment, or the average of the gross operating income for the five fiscal years next preceding the making of such investment, whichever of these two is the larger, shall have been not less than \$5 million;

b. The total fixed charges of such corporation, as reported for the fiscal year next preceding the making of the investment, shall have been earned, after deducting operating expenses, depreciation, and taxes, other than income taxes, an average of at least two and one-half times annually during the seven fiscal years preceding the making of the investment and at least two times during the fiscal year immediately preceding the making of the investment;

c. The aggregate indebtedness of such finance corporation as shown by its last fiscal year-end statement, or, in the case of a new issue, as shown by the financial statement giving effect to the issuance of any new securities, shall be no greater than three times the aggregate net worth, as represented by preferred and common stocks and surplus of such corporation; and

d. The aggregate of the average market prices of the total amounts of each of the individual securities of such finance corporation, junior to its bonded debt and outstanding at the time of the making of such investment, shall be at least equal to one-third of the sum of the par value of the bonded debt plus all other indebtedness of such finance corporation as shown by the last published fiscal year-end statement, such average market price of any one of such individual securities being determined in the same manner as prescribed in subdivision 11 c.

22. Preferred stock of finance corporations. Any preference stock of any finance corporation incorporated under the laws of the United States or of any state thereof, provided such stock and such corporation meet the following conditions and requirements:

- a. Such stock shall be preferred as to dividends, such dividends shall be cumulative, and such stock shall be preferred as to assets in the event of liquidation or dissolution;
- b. The gross operating income of such corporation for the fiscal year preceding the making of such investment, or the average of the gross operating income for the five fiscal years next preceding the making of such investment, whichever of these two is the larger, shall have been not less than \$5 million;
- c. The total fixed charges of such finance corporation, as reported for the fiscal year next preceding the making of such investment, plus the amount, at the time of making such investment, of the annual dividend requirements on such preference stock and any preference stock having the same or senior rank, such fixed charges and dividend requirements being considered the same for every year, shall have been earned, after deducting operating expenses, depreciation, and taxes, including income taxes, an average of at least three and one-half times annually for the seven fiscal years preceding the making of such investment and at least three times for the fiscal year immediately preceding the making of such investment;
- d. The aggregate indebtedness and par value of the purchased stock, both the issue in question and any issues equal or senior thereto, of such finance corporation as shown by its last published fiscal year-end statement, or, in the case of a new issue, as shown by the financial statement giving effect to the issuance of any new securities, shall be no greater than three times the aggregate par value of the junior securities and surplus of such corporation; and
- e. The aggregate of the lowest market prices of the total amounts of each of the individual securities of such finance corporation junior to such preference stock and outstanding at the time of the making of such investment shall be at least equal to one-third of the sum of the par value of such preference stock plus the total par value of all other issues of preference stock having the same or senior rank plus the par value of the total bonded debt plus all other indebtedness of such finance corporation as shown by the last published fiscal year-end statement, such lowest market price of any one of such individual securities being determined in the same manner as prescribed in subdivision 20 e.

23. Federal housing loans. First mortgage real estate loans insured by the Federal Housing Administrator under Title II of the National Housing Act.

24. Certificates of deposit and savings accounts. Certificates of deposit of, and savings accounts in, any bank, banking institution, or trust company, whose deposits are insured by the Federal Deposit Insurance Corporation at the prevailing rate of interest on such certificates or savings accounts; however, no such fiduciary shall invest in such certificates of, or deposits in, any one bank, banking institution, or trust company an amount from any one fund in his or its care which shall be in excess of such amount as shall be fully insured as a deposit in such bank, banking institution, or trust company by the Federal Deposit Insurance Corporation. A corporate fiduciary shall not, however, be prohibited by the terms of this subdivision from depositing in its own banking department, in the form of demand deposits, savings accounts, time deposits, or certificates of deposit, funds in any amount awaiting investments or distribution, provided that it shall have complied with the provisions of §§ 6.2-1005 and 6.2-1007, with reference to the securing of such deposits.

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

26. Deposits in savings institutions. Certificates of deposit of, and savings accounts in, any state or federal savings institution or savings bank lawfully authorized to do business in the Commonwealth whose accounts are insured by the Federal Deposit Insurance Corporation or other federal insurance agency; however, no such fiduciary shall invest in such shares of any one such association an amount from any one fund in his or its care which shall be in excess of such amount as shall be fully insured as an account in such association by the Federal Deposit Insurance Corporation or other federal insurance agency.

27. Certificates evidencing ownership of undivided interests in pools of mortgages. Certificates evidencing ownership of undivided interests in pools of bonds or negotiable notes directly secured by first lien deeds of trust or mortgages on real property located in the Commonwealth improved by single-family residential housing units or multi-family dwelling units, provided that (i) such certificates are rated AA or better by a nationally recognized independent rating agency; (ii) the loans evidenced by such bonds or negotiable notes do not exceed 80 percent of the fair market value, as determined by an independent appraisal thereof, of the real property and the improvements thereon securing such loans; and (iii) such bonds or negotiable notes are assigned to a corporate trustee for the benefit of the holders of such certificates.

28. Shares in credit unions. Shares and share certificates in any credit union lawfully authorized to do business in the Commonwealth whose accounts are insured by the National Credit Union Share Insurance Fund or the Virginia Credit Union Share Insurance Corporation, provided no such fiduciary shall invest in such shares an amount from any one fund in his or its care which shall be in excess of such amount as shall be fully insured as an account in such credit union by the National Credit Union Share Insurance Fund or the Virginia Credit Union Share Insurance Corporation.

B. Whenever under the terms of this section the par value of a preference stock is required to be used in a computation, there shall be used instead of such par value the liquidating value of such preference stock in the case of involuntary liquidation, as prescribed by the terms of its issue, in the event that such liquidating value shall be greater than the par value of such preference stock; or in the event that the preference stock in question has no par value, then such liquidating value shall be used instead; or when such preference stock shall be one of no par value and one for which no such liquidating value shall have been so prescribed, then for the purposes of such computation the preference stock in question shall be deemed to have a value of \$100 per share.

C. When any security provided for in this section is purchased by a fiduciary and at the time of such purchase the statement for the preceding fiscal year of the corporation issuing the security so being purchased has not been published and is therefore not available, the statement of such corporation for the fiscal year immediately prior to such preceding fiscal year shall be considered the statement for such preceding fiscal year and shall have the same force and effect as the statement for the fiscal year preceding such purchase, provided the date of such purchase is not more than four months after the end of the last fiscal year of the corporation.

D. In testing a new issue of securities under the provisions of this section, it shall be permissible, in determining the number of times that fixed charges or preferred dividend requirements have been earned,

to use pro forma fixed charges or dividend requirements, provided the corporation or its corporate predecessor has been in existence for a period of not less than seven years.

E. Investments made under the provisions of this section, if in conformity with the requirements of this section at the time such investments were made, may be retained even though they cease to be eligible for purchase under the provisions of this section, but shall be subject to the provisions of the Uniform Prudent Investor Act (§ 64.2-780 et seq.).

2012, c. 614.

The chapters of the acts of assembly referenced in the historical citation at the end of this section may not constitute a comprehensive list of such chapters and may exclude chapters whose provisions have expired.