

## **I. PURPOSE**

It shall be the policy of the Board to optimize its return on funds available for investment through investment of cash balances in such a way as to minimize non-invested balances and to maximize return on investments consistent with the following principles:

**Legality** - All investments shall be made in accordance with applicable laws of Pennsylvania, including, but not limited to, the Economic Development Financing Law, 73 P.S. §380.

**Safety** – Preservation of principal shall be of highest priority. Preservation of principal in the portfolio of investments shall be ensured by diversification and other means of minimizing credit risk, including avoidance of concentration of credit risk, market risk and interest rate risk, and by thoroughly investigating and reviewing the performance of all investment providers and professionals.

**Liquidity** - Investments shall remain sufficiently liquid to meet all operating requirements that are reasonably anticipated. A fiscal year operations anticipated cash flow shall be developed so that investments can be made as early as possible, with maturities consistent with anticipated cash demands.

**Yield** - Investments shall be made with the objective of attaining a market-average rate of return throughout the budgetary and economic cycles, taking into account investment risk constraints and liquidity needs.

## **II. AUTHORITY**

The Executive Director and Treasurer Director shall implement the Authority's investment program in accordance with this policy, applicable laws and the annual investment plan approved by the Board, if any. [Footnotes 1 and 2].

## **III. DEFINITIONS**

**Act 10 Permissible Investments** – Any type of investment permitted under Act 10 of March 25, 2016, (53 P.S. Sec. 5406, 5410.1).

**Economic Development Financing Law Permissible Investments** – Any investment permitted under Section 380 of the Economic Development Financing Law. 73 PS §380.

**Short-term** – Any period thirteen (13) months or less.

**Long-term** – Any period exceeding forty-eight (48) months.

**Mid-range** – Any period between short-term and long-term.

**Bankers' acceptances** – Bankers' acceptances generally are created based on a letter of credit issued in a foreign trade transaction. Bankers' acceptances are short-term, non-interest-bearing notes sold at a discount and redeemed by the accepting banks at maturity for face value.

**Collateral** – Security pledged by a financial institution to a governmental entity for its deposit. [Footnote 3].

**Commercial paper** – An unsecured promissory note issued primarily by corporations for a specific amount and maturing on a specific day. The maximum maturity for commercial paper is 270 days, but most is sold with maturities of up to thirty (30) days. Almost all commercial paper is rated as to credit risk by rating services.

**Concentration of credit risk** – The risk of loss attributed to the magnitude of a government's investment in a single issuer, pool, institution, or instrument.

**Counterparty** – Another party to a transaction. In the case of deposits and investments made by governmental entities, a counterparty could be the issuer of a security, a financial institution holding a deposit, a broker-dealer selling securities, or a third party holding securities or collateral.

**Credit risk** – The risk that a counterparty to an investment transaction will not fulfill its obligations. Overall credit risk can be associated with the issuer of a security, with a financial institution holding deposits, or with a party holding securities or collateral. Credit risk exposure can be affected by a concentration of deposits or investments in any one (1) investment type or with any one (1) counterparty.

**Custodial credit risk** – The custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

**Foreign currency risk** – The risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. Investments depending on substantial overseas activities or markets may present related foreign currency risk.

**Interest rate risk** – The risk that changes in interest rates will adversely affect the fair value of an investment.

**Issuer** – The entity that has the authority to distribute a security or other investment. A bond issuer is the entity that is legally obligated to make principal and interest payments to bond holders. In the case of mutual funds, external investment pools, and other pooled investments, issuer refers to the entity invested in, not the investment company-manager or pool sponsor.

**Investment plan** – The Authority’s specifically enumerated investment strategy approved annually by the Board.

**Local Government Investment Pool (LGIP)** – An investment trust or pool organized by groups of political subdivisions or municipal authorities pursuant to the Intergovernmental Cooperation Law, 53 Pa. C.S.A. Sec. 2301 et seq., for the purpose of investing funds of such political subdivisions or municipal authorities for their exclusive benefit and in accordance with the laws governing their permissible investments. LGIPs include, but are not limited to, the Pennsylvania Local Government Investment Trust (PLGIT), and for purposes of this policy, the PA INVEST program operated by the Pennsylvania Treasury Department. [Footnote 4].

**Market risk** – The risk that the market value of an investment, collateral protecting a deposit, or securities underlying a repurchase agreement will decline. Market risk is affected by the length to maturity of a security, the need to liquidate a security before maturity, the extent that collateral exceeds the amount invested, and the frequency at which the amount of collateral is adjusted for changing market values.

**Repurchase agreement** –

1. An agreement in which a governmental entity (buyer-lender) transfers cash to a broker-dealer or financial institution (seller-borrower); the broker-dealer or financial institution transfers securities to the entity and promises to repay the cash plus interest in exchange for the same securities.

2. A generic term for an agreement in which a governmental entity (buyer-lender) transfers cash to a broker-dealer or financial institution (seller-borrower); the broker-dealer or financial institution transfers securities to the entity and promises to repay the cash plus interest in exchange for the same securities (as in definition (a) above) or for different securities.

**Weighted average maturity** – A weighted average maturity measure expresses investment time horizons—the time when investments become due and payable—in years or months, weighted to reflect the dollar size of individual investments within an investment type.

#### **IV. DELEGATION OF RESPONSIBILITY**

The Executive Director and Treasurer shall implement the Authority’s investment program in accordance with this policy, related procedures, applicable laws and the annual investment plan approved by the Board.

The Executive Director and Treasurer shall prepare, for approval of the Board, an annual investment plan for all general and segregated/designated funds of the Authority (i.e., general, capital reserve, etc.), taking into account the anticipated liquidity needs of each fund.

The plan may provide for moneys from more than one (1) fund under Authority control for the purchase of any single investment, provided that each of the funds combined for the purpose shall be accounted for separately in all respects and that the earnings from the investment are

separately and individually computed and recorded, and credited to the accounts from which the investment was purchased.

The annual investment plan shall be submitted to the Board for review and approval no later than sixty (60) days after adoption of the annual budget.

The Executive Director and Treasurer shall report monthly to the Board the following: [Footnote 5].

1. Amount of funds invested.
2. Interest earned and received to date.
3. Types and amounts of each investment and the interest rate on each.
4. Names of the institutions where investments are placed.
5. The means by which any deposits exceeding insurance limits are collateralized.
6. Other information required by the Board.

The Board directs the Executive Director and Treasurer and/or their designee to develop measures for:

1. Evaluating and mitigating the risks associated with each investment;
2. Investigating, selecting and evaluating the performance of investment advisors and investment professionals;
3. Specifying standards for audits of investment transactions; and
4. Determining the qualifications, training, standards and disclosures required for Authority employees performing functions relating to the Authority's investment program.

## **V. GUIDELINES**

Investments permitted by this policy are those defined in law and enumerated in this policy that are appropriately collateralized in accordance with this policy and applicable laws. [Footnote 3].

### **Economic Development Financing Law Permissible Investments**

1. Deposits in accounts with banks or trust companies or under savings contracts in savings associations, in one or more special accounts.

## Act 10 Permissible Investments

1. Obligations, participations or other instruments of any Federal agency, instrumentality or United States government-sponsored enterprise, including those issued or fully guaranteed as the principal and interest by Federal agencies, instrumentalities or United States government-sponsored enterprises, if the debt obligations are rated at least "A" or its equivalent by at least two nationally recognized statistical ratings organizations.

2. Repurchase agreements with respect to United States Treasury bills or obligations, participations or other instruments of or guaranteed by the United States or any Federal agency, instrumentality or United States government-sponsored enterprise.

3. Negotiable certificates of deposit or other evidences of deposit, with a remaining maturity of three years or less, issued by a nationally or State-chartered bank, a Federal or State savings and loan association or a State-licensed branch of a foreign bank. For obligations with a maturity of one year or less, the debt obligations of the issuing institution or its parent must be rated in the top short-term rating category by at least two nationally recognized statistical ratings organizations. For obligations with a maturity in excess of one year, the senior debt obligations of the issuing institution or its parent must be rated at least "A" or its equivalent by at least two nationally recognized statistical ratings organizations.

4. Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers' acceptances, if the bankers' acceptances do not exceed 180 days' maturity and the accepting bank is rated in the top short-term category by at least two nationally recognized statistical ratings organizations.

5. Commercial paper issued by corporations or other business entities organized in accordance with Federal or State law, with a maturity not to exceed 270 days, if the issuing corporation or business entity is rated in the top short-term category by at least two nationally recognized statistical ratings organizations.

6. Shares of an investment company registered under the Investment Company Act of 1940 (54 Stat. 789, 15 U.S.C. § 80a-1 et seq.) whose shares are registered under the Securities Act of 1933 (48 Stat. 74, 15 U.S.C. § 77a et seq.), if all of the following conditions are met:

(a) The investments of the company are the authorized investments under this subsection.

(b) The investment company is managed in accordance with 17 CFR 270.2a-7 (relating to money market funds).

(c) The investment company is rated in the highest category by a nationally recognized rating agency.

7. Savings or demand deposits placed in accordance with the following conditions:

(a) The money is initially deposited and invested through a federally insured institution having a place of business in this Commonwealth, which is selected by the public corporation or municipal authority.

(b) The selected institution arranges for the redeposit of the money in savings or demand deposits in one or more financial institutions insured by the Federal Deposit Insurance Corporation, for the account of the public corporation or municipal authority.

(c) The full amount of principal and any accrued interest of each such deposit is insured by the Federal Deposit Insurance Corporation.

(d) On the same date that the money is redeposited pursuant to paragraph (ii), the selected institution receives an amount of deposits from customers of other financial institutions equal to or greater than the amount of money initially invested through the selected institution by the public corporation or municipal authority.

#### Management of Investments and Collateral

All securities or other investments in which the Authority invests or that collateralize Authority investments shall be managed as provided in this policy and in the investment plan annually approved by the Board.

The plan shall require that securities purchased as investments be purchased in the name of the Authority and held in custody for the benefit of the Authority as provided in the investment plan and authorized custodian agreements. The plan may make exceptions to such requirements for investments in LGIPs as defined in this policy, or for the purchase of shares of an investment company.

If, after purchase, the rating of any instrument is reduced and no longer in compliance with Board policy, the individual responsible for Authority investments shall replace the investment immediately upon receipt of notice of the rating change and notify the Board of the rating change, action taken and replacement investment.

The foregoing rating change related requirement(s) do(es) not apply to investments in LGIPs as defined in this policy.

For purposes of interest rate disclosure in the annual financial report, the method of determining interest rate risk shall be based on weighted average maturity.

#### Foreign Currency and Related Risk

Authority funds shall not be invested in foreign currency. To the extent other permissible investments are exposed to related foreign currency risk, they shall be disclosed as required by GASB Statement 40.

## Protection of Savings Accounts, Time Deposits, Share Accounts or Other Depository Balances in Excess of FDIC Insurance Limits

When cash is deposited in any savings account, time deposit, share account or other authorized depository account other than a Local Government Investment Pool (LGIP), if the cash balance exceeds FDIC insurance limits, all funds shall be collateralized in one or more of the following ways: [Footnote 5].

1. An Irrevocable Letter of Credit (LOC) issued by a Federal Home Loan Bank (FHLB).
2. Tri-Party Collateral in the name of the Authority consisting of the following underlying securities only:
  - a. U.S. Treasury Securities.
  - b. Obligations, participations or other instruments of any federal agency, instrumentality or U.S. government-sponsored enterprise if the debt obligations are rated at least "A" or its equivalent by at least two (2) nationally recognized statistical ratings organizations.
3. Assets pledged as collateral in accordance with the act of August 6, 1971, (P.L. 281, No.72), 72 P.S. Sec. 3836-1 et seq. (relating to pledges of assets to secure deposits of public funds, whether or not pooled). [Footnote 5].

It shall be the responsibility of the Executive Director and Treasurer to verify with the depository the value of the collateral instrument(s) based on the instrument being "marked to market." This valuation shall occur at least monthly.

Following a review of valuation, the Executive Director and Treasurer may request an additional review by the Authority's investment advisors or financial consultant, and shall require additional collateral if the existing collateral has declined in value and exposes the Authority to potential loss of principal. The status of the valuation review and any additional collateral shall be included in the periodic reports to the Board regarding the investment program.

### Reporting Requirement for Local Government Investment Pools (LGIPs)

Local Government Investment Pools (LGIPs) pool the resources of participating government entities and invest in various securities as permitted under state law, so that participating governments can benefit from economies of scale, professional fund management and other advantages.

Recognizing that LGIPs invest directly in permissible securities on behalf of the participating government entities, which in turn have proportional ownership rights in those securities, Authority investments in a LGIP shall not be subject to the collateral requirements of this policy, provided that the LGIP:

1. Makes available to participants daily and monthly statements, and other information from which the status of the investments can be verified; and
2. Provides an audited annual financial report to each participating government entity.

### Audit

The Board directs that all investment records be subject to annual audit by the Authority's independent auditors.

The audit shall include but not be limited to independent verification of amounts and records of all transactions, as deemed necessary by the independent auditors.

### Conflict of Interest Avoidance and Disclosure

The Executive Director and Treasurer and any other employee performing functions related to the investment program shall disclose in writing to the Board any material conflict of interest or material potential conflict of interest which exists because of personal relationships or personal business activity between the Executive Director and Treasurer or other employees and any depository institution, broker, dealer, investment advisor, or other investment provider or professional serving the Authority. The Executive Director and Treasurer or other employees shall refrain from any personal business activity that could impair ability to make impartial decisions in managing the annual investment plan. [Footnote 6].

All depository institutions, repurchase agreement providers, brokers, and investment advisors and managers shall disclose in writing to the Authority: (1) any fees or other compensation paid to or received from a third party with respect to any Authority investment; and (2) any ownership of or by a parent corporation which owns any other depository institution, broker, dealer, investment advisor, or other investment provider or professional which does business with the Authority.

All investment advisors shall verify in writing that they have received and reviewed a copy of this Board policy and agree to comply with this policy and all applicable laws related to Authority investments.

### **FOOTNOTES:**

1. 53 P.S. 5406

2. 53 P.S. 5410.1

3. 72 P.S. 3836-1 et seq

4. 53 Pa. C.S.A. 2301 et seq

5. 72 P.S. 3836-1 et seq