

ONONDAGA COUNTY WATER AUTHORITY

INVESTMENT POLICY AND GUIDELINES

I. Governing Authority

Legality

The investment program shall be operated in conformance with federal, state, and other legal requirements, including Article V and Article VI of the Revenue Bond Resolution, adopted March 14, 2001. Investment of any tax exempt borrowing proceeds and any related debt service funds will comply with the “arbitrage” restrictions in all applicable Internal Revenue Codes

II. Scope

These guidelines shall govern the investment, monitoring and reporting of funds of the Onondaga County Water Authority (the Authority). For purposes of these guidelines, funds of the Authority are all monies and other financial resources available for investment by the Authority on its own behalf or on behalf of any other entity or individual. All such monies shall be invested at all times to the fullest extent practicable, and in accordance with the requirements and restrictions set forth in these guidelines.

III. General Objectives

The primary objectives, in priority order, of investment activities shall be safety, liquidity, and yield:

1. *Safety*

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

a. Credit Risk

The Authority will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer, by:

- Limiting investments to the types of securities listed in Section VII of this Investment Policy
- Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the Authority will do business in accordance with Section V
- Diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

b. Interest Rate Risk

The Authority will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by:

- Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity

- Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools and limiting the average maturity of the portfolio in accordance with this policy (see section VIII).

2. *Liquidity*

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). Alternatively, a portion of the portfolio may be placed in money market mutual funds or local government investment pools which offer same-day liquidity for short-term funds.

3. *Yield*

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall generally be held until maturity with the following exceptions:

- A security with declining credit may be sold early to minimize loss of principal.
- A security swap would improve the quality, yield, or target duration in the portfolio.
- Liquidity needs of the portfolio require that the security be sold.

IV. Standards of Care

1. *Prudence*

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 officers acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

The "prudent person" standard states that, "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived."

2. *Ethics and Conflicts of Interest*

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the Authority.

3. *Delegation of Authority*

Authority to manage internally or delegate the management of the investment program to an external manager is granted to the Manager of Accounting, hereinafter referred to as investment officer. Responsibility for the operation of the investment program is hereby delegated to the investment officer, who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy. If authority to manage all or part of the investment program is delegated to an external manager, the investment officer is responsible for:

- Periodic investment portfolio reporting;
- Evaluating the performance of the externally managed portfolio;
- Monitoring manager compliance with the investment policy;
- Conveying the investment needs of the Authority to the external manager;
- Developing investment strategy with the external manager.

V. Authorized Financial Institutions, Depositories, and Broker/Dealers

1. *Authorized Financial Institutions, Depositories, and Broker/Dealers*

A list will be maintained of financial institutions and depositories authorized to provide investment services. In addition, a list will be maintained of approved security broker/dealers selected by creditworthiness (e.g., a minimum capital requirement of \$10,000,000 and at least five years of operation). These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule).

All financial institutions and broker/dealers who desire to become qualified for investment transactions must supply the following as appropriate:

- Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines
- Proof of National Association of Securities Dealers (NASD) certification (not applicable to Certificate of Deposit counterparties)
- Proof of state registration
- Completed broker/dealer questionnaire (not applicable to Certificate of Deposit counterparties)
- Certification of having read and understood and agreeing to comply with the Authority's investment policy.
- Evidence of adequate insurance coverage.

An annual review of the financial condition and registration of all qualified financial institutions and broker/dealers will be conducted by the investment officer

VI. Safekeeping and Custody

1. *Delivery vs. Payment*

All trades of marketable securities will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds.

2. *Safekeeping*

Securities will be held by a [centralized] independent third-party custodian selected by the entity as evidenced by safekeeping receipts in the Authority's name. The safekeeping institution shall annually

provide a copy of their most recent report on internal controls (Statement of Auditing Standards No. 70, or SAS 70).

3. *Internal Controls*

The investment officer shall establish a system of internal controls, which shall be documented in writing. The internal controls shall be reviewed by the investment committee, where present, and with the independent auditor. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the Authority.

VII. Suitable and Authorized Investments

1. *Investment Types*

- (i) Defeasance Obligations;
- (ii) Direct obligations of, or obligations guaranteed as to timely payment of principal and interest by Federal Home Loan Mortgage Corporation, Fannie Mae or the Federal Farm Credit System;
- (iii) Demand and time deposits in or certificates of deposit of, or bankers' acceptances issued by, any bank or trust company, savings and loan association or savings bank, payable on demand or on a specified date no more than three months after the date of issuance thereof, if such deposits or instruments are rated F1 by Fitch (if rated by Fitch), A-1+ by S&P and P-1 by Moody's;
- (iv) General obligations of, or obligations guaranteed by any state of the United States or the District of Columbia receiving one of the two highest long-term unsecured debt rating categories available for such securities by Fitch (if rated by Fitch), Moody's and S&P;
- (v) Commercial or finance company paper (including both non-interest-bearing discount obligations and interest-bearing obligations payable on demand or on a specified date not more than three months after the date of issuance thereof) that is rated F1 by Fitch (if rated by Fitch), A-1+ by S&P and P-1 by Moody's;
- (vi) Repurchase obligations with respect to any security described in clause (i) or (ii) above entered into with a primary dealer, depository institution or trust company (acting as principal) rated F1 by Fitch (if rated by Fitch), A-1+ by S&P and P-1 by Moody's (if payable on demand or on a specified date no more than three months after the date of issuance thereof) or in one of the two highest long-term rating categories by Fitch (if rated by Fitch), S&P and Moody's or collateralized by securities described in clause (i) or (ii) above with any registered broker/dealer or with any domestic bank whose long-term debt obligations are rated "investment grade" by each of Fitch (if rated by Fitch), S&P and Moody's, provided that (1) a specified written agreement governs the transaction, (2) the securities are held, free and clear of any lien, by the Trustee or an independent third party acting solely as agent for the Trustee, and such third party is (a) a Federal Reserve Bank, or (b) a member of the Federal Deposit Insurance Corporation that has combined surplus and undivided profits of not less than \$25 million, and the Trustee shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Trustee, (3) the agreement has a term of thirty days or less, or the collateral securities are required to be valued on behalf of the Authority no less frequently than monthly and the Trustee notified in writing of the results thereof, if any deficiency in the required collateral percentage is not restored within five Business Days of such valuation, the Trustee is to liquidate the collateral securities and (4) the fair market value of the collateral securities in relation to the amount of the obligations, including principal and interest, is equal

- to at least 104% or, if the collateral securities are described in clause (ii) above, at least 105%;
- (vii) Securities bearing interest or sold at a discount (payable on demand or on a specified date no more than three months after the date of issuance thereof) that are issued by any corporation under the laws of the United States of America or any state thereof and rated F1 by Fitch (if rated by Fitch), P-1 by Moody's and A-1+ by S&P at the time of such investment or contractual commitment providing for such investment; provided however, that securities issued by any such corporation will not be Authorized Investments to the extent that investment therein would cause the then outstanding principal amount of the securities issued by such corporation that are then held to exceed 20% of the aggregate principal amount of all Authorized Investments then held;
- (viii) Units of taxable money market funds which funds are regulated investment companies and seek to maintain a constant net asset value per share and have been rated in one of the two highest categories by Moody's and at least AA-Am or AA-Am-G by S&P, including if so rated any such fund which the Trustee of an affiliate of the Trustee serves as an investment advisor, administrator, shareholder, servicing agent and/or custodian or sub-custodian, notwithstanding that (a) the Trustee or an affiliate of the Trustee charges and collects fees and expenses (not exceeding current income) from such funds for services rendered, (b) the Trustee charges and collects fees and expenses for services rendered pursuant to the Resolution, and (c) services performed for such funds and pursuant to the Resolution may converge at any time (the Authority specifically authorizes the Trustee or an affiliate of the Trustee to charge and collect all fees and expenses from such funds for services rendered to such funds, in addition to any fees and expenses the Trustee may charge and collect for services rendered pursuant to the Resolution);
- (ix) Investment agreements, including guaranteed investment contracts, forward purchase agreements and reserve fund put agreements rated, or with any financial institution or corporation whose senior long-term debt obligations are rated, or guaranteed by a financial institution whose senior long-term debt obligations are rate, at the time such agreement or contract is entered into, in one of the two highest long-term rating categories by Fitch (if rated by Fitch), Moody's and S&P if the Authority has an option to terminate such agreement in the event that either such rating is downgraded below AA- by Fitch (if rated by Fitch), Aa3 by Moody's or AA- by S&P, or if not so rated, then collateralized by securities described in clause (i) or (ii) above with any registered broker/dealer or with any domestic commercial bank whose long-term debt obligations are rated "investment grade" by each of Fitch (if rated by Fitch), S&P and Moody's, provided that (1) a specific written agreement governs the transaction, (2) the securities are held, free and clear of any lien, by the Trustee or an independent third party acting solely as an agent for the Trustee, and such third party is (a) a Federal Reserve Bank or (b) a member of the Federal Deposit Insurance Corporation that has a combined surplus and undivided profits of not less than \$25 million, and the Trustee shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as an agent for the Trustee, (3) the agreement has a term of thirty days or less, or the collateral securities are to be valued on behalf of the Authority no less frequently than monthly and the Trustee notified in writing of the results thereunder and if any deficiency in the required collateral percentage is not restored within five Business Days of such valuation, the Trustee is to liquidate the collateral securities and (4) the fair market value of the collateral securities in relation to the amount of the obligation, including principal and interest, is equal to at least 104% or, if the collateral securities are described in (ii) above, at least 105%; and
- (x) Other obligations, securities, agreements or contracts that are non-callable and that are acceptable to the provider of the Credit Facility, if any; *provided, however*, that no Authorized Investment may (a) except for Defeasance Obligations, evidence the right to receive only interest with respect to the obligations underlying such instrument or (b) be purchased at a price

greater than par if such instrument may be prepaid or called at a price less than its purchase price prior to its stated maturity

2. Collateralization

Where allowed by state law and in accordance with the GFOA Recommended Practices on the Collateralization of Public Deposits, full collateralization will be required on all demand deposit accounts, including checking accounts and non-negotiable certificates of deposit.

VIII. Investment Parameters

1. Diversification

The investments shall be diversified by:

- limiting investments to avoid overconcentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities),
- limiting investment in securities that have higher credit risks,
- investing in securities with varying maturities, and
- continuously investing a portion of the portfolio in readily available funds such as local government investment pools (LGIPs), money market funds or overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

Diversification by Type and Issuer:

Security	% Limitation of Total Portfolio
U.S. Treasury	100% of portfolio
U.S. Government Agencies	100% of portfolio 50% in any single Government Sponsored Enterprise
Certificates of Deposit	50% of portfolio 25% per bank
Bankers' Acceptances	50% of portfolio 25% per bank
Commercial Paper and Corporate Notes	50% of portfolio 10% per issuer
State Government Securities	25% of portfolio
Repurchase Agreements	25% of portfolio
Money Market Funds	100% of portfolio

2. Maximum Maturities

To the extent possible, the Authority shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the Authority will not directly invest in securities maturing more than five (5) years from the date of purchase or in accordance with state and local statutes and ordinances.

Reserve funds and other funds with longer-term investment horizons may be invested in securities exceeding five (5) years if the maturities of such investments are made to coincide as nearly as practicable with the expected use of funds. The intent to invest in securities with longer maturities shall be disclosed in writing to the Authority Board.

Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds such as local government investment pools, money market funds, or overnight repurchase agreements to ensure that appropriate liquidity is maintained to meet ongoing obligations.

IX. Reporting

1. Methods

The investment officer shall prepare an investment report at least quarterly, including a management summary that provides an analysis of the status of the current investment portfolio and the individual transactions executed over the last quarter. This management summary will be prepared in a manner which will allow the Authority to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the Authority's Executive Director and Board of Directors. The report will include the following:

- Listing of individual securities held at the end of the reporting period.
- Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over one-year duration that are not intended to be held until maturity (in accordance with Governmental Accounting Standards Board (GASB) requirements).
- Average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks.
- Listing of investment by maturity date.
- Percentage of the total portfolio which each type of investment represents.

The Authority shall also prepare and approve an annual investment report which shall include the Authority's investment guidelines as well as additional information required by Public Authorities Law. The annual report shall be submitted to the Onondaga County Executive, Onondaga County's chief fiscal officer and the New York State Department of Audit and Control.

2. Performance Standards

The Authority's cash management portfolio shall be designed with the objective of regularly meeting or exceeding the following performance benchmarks; the average return on three-month U.S. Treasury bills and the MTB US TREAS MMKT INST FD-II #959. These indices are benchmarks for lower risk investment transactions and therefore comprise a minimum standard for the portfolio's rate of return.

3. Marking to Market

The market value of the portfolio shall be calculated at least quarterly and a statement of the market

value of the portfolio shall be issued at least quarterly. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed consistent with the GFOA Recommended Practice on "Mark-to-Market Practices for State and Local Government Investment Portfolios and Investment Pools." In defining market value, considerations should be given to the GASB Statement 31 pronouncement.

X. Approval of Investment Policy

The investment policy shall be formally approved and adopted by the governing body of the Authority and reviewed annually.

XI. List of Attachments

The following documents, as applicable, are attached to this policy:

- GFOA Recommended Policies:
 - a) Collateralization of Public Deposits
 - b) Diversification of Investments in a Portfolio
 - c) Maturities of Investments in a Portfolio