

Attachment B

Treasurer's Office
James City County, Virginia

Statement of Investment Policy
and Procedures

Revised January____, 2004

Treasurer's Office
James City County, Virginia

Statement of Investment Policy and Procedures

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Treasurer's Office

James City County, Virginia

Statement of Investment Policy and Procedures

Purpose

The purpose of this policy is to set forth the investment and operational policies for the management of the public funds of James City County, Virginia ("the County"). These policies have been adopted by, and can be changed only by, the Treasurer of James City County ("the Treasurer").

These policies are designed to ensure the prudent management of public funds, the availability of operating and capital funds when needed, and an investment return competitive with comparable funds and financial market indices.

It shall be the policy of the Treasurer that all investments and investment practices meet or exceed all statutes and guidelines governing the investment of public funds in Virginia and the guidelines established by the State Treasury Board and the Governmental Accounting Standards Board (GASB).

Scope of the Investment Policy

This investment policy is a comprehensive one that governs the overall administration and investment management of those funds held in the County's investment portfolio. This policy shall apply to such funds from the time of receipt until the time the funds ultimately leave the County's accounts. These funds include, but are not limited to, all operating funds, debt service funds, and capital project funds (the "County Portfolio").

Except for cash in certain restricted and special funds, the Treasurer will consolidate cash balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

The guidance set forth herein is to be strictly followed by all those responsible for any aspect of the management or administration of these funds.

Investment Objectives

The County's Portfolio shall be managed to accomplish the following hierarchy of objectives:

1 - Preservation of Principal - The single most important objective of the County's investment program is the preservation of principal of those funds within the portfolio.

2 - Maintenance of Liquidity - The portfolio shall be managed in such a manner that assures that funds are available as needed to meet those immediate and/or future

operating requirements of the County, including but not limited to payroll, accounts payable, capital projects, debt service and any other payments.

3 - Maximize Return - The portfolio shall be managed in such a fashion as to maximize the return on investments within the context and parameters set forth by objectives 1 and 2 above.

Delegation of Authority

The Treasurer is an elected official provided for by the Constitution of the Commonwealth of Virginia who is charged with collecting, safeguarding and disbursing public funds. Therefore, the Treasurer shall have responsibility for the operation of the investment program. The Treasurer shall establish written procedures for the operation of the investment program consistent with this investment policy. Procedures should include references to safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, collateral/depository agreement agreements and banking services contracts. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Treasurer. The Treasurer may employ an Investment Manager to assist in managing some or all of the County's Portfolio. Such Investment Manager must be registered under the Investment Advisors Act of 1940.

Standard of Prudence

The standard of prudence to be applied to the investment of the County's Portfolio shall be the "Prudent Investor" rule that states:

"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."

The Treasurer and other County employees and officials involved in the investment process acting in accordance with the Code of Virginia, this policy and any other written procedures pertaining to the administration and management of the County's Portfolio and who exercise the proper due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that any negative deviations are reported in a timely fashion to the County Treasurer and that reasonable and prudent action is taken to control and prevent any further adverse developments. Furthermore, in accordance with Section 2.2-4410 et seq. of the Code of Virginia, the Treasurer shall not be liable for loss of public money due to the default, failure or insolvency of a depository.

Ethics and Conflict of Interest

The State and Local Government Conflict of Interests Act governs officers and employees, including those involved in the County's investment process. Specifically, Code of Virginia Section 2.2-3103 (5) and (6) of the Act provide that no officer or employee shall:

- 1) accept any money, loan, gift, favor, service, or business or professional opportunity that reasonably tends to influence him in the performance of his official duties; or

- 2) accept any business or professional opportunity when he knows there is a reasonable likelihood that the opportunity is being afforded to influence him in the performance of his official duties.

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 who business in conducted on behalf of the Treasurer.

Authorized Investments

In accordance with Sections 2.2-4501 through 2.2-4510 of the Code of Virginia and other applicable law, including regulations promulgated by the Treasury Board of Virginia, the County shall be permitted to invest in any of the following securities.

- A) **U.S. Government Obligations.** The following securities issued by the United States Government or its Agencies;
 - 1) Stocks, bonds, treasury notes and other evidences of indebtedness of the United States, including:
 - a) the guaranteed portion of any loan guaranteed by the Small Business Administration,
 - b) any agency of the United States government, and
 - c) those unconditionally guaranteed as to the payment of principal and interest by the United States;
 - 2) bonds of the District of Columbia;
 - 3) bonds and notes of the Federal National Mortgage Association and the Federal Home Loan Banks;
 - 4) 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
 - 5) obligations issued by the United States Postal Service when principal and interest thereon is guaranteed by the government of the United States.

U.S. Government obligations shall be limited to a maximum maturity of five (5) years at the time of purchase.

- B) **Repurchase Agreements.** Contracts for the present purchase and subsequent resale at a specified time in the future of specific securities at specified prices at a price differential representing the interest income to be earned by the County. Such contracts shall be invested in only if the following conditions are met:
 - 1) the repurchase agreement has a term to maturity of no greater than ninety (90) days;
 - 2) the contract is fully secured by deliverable U.S. Government obligations as described in (A) above (without limit to maturity), having a market value at all times of at least one hundred two percent (102%) of the amount of the contract;
 - 3) a master repurchase agreement or specific written, repurchase agreement governs the transaction;
 - 4) the securities are held free and clear of any lien by an independent third party custodian acting solely as agent for the County, provided such third party is not the seller under the

- repurchase agreement and is a qualified public depository as defined in Section 2.2-4400 et seq. of the Code of Virginia;
- 5) a perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. in such securities is created for the benefit of the City;
 - 6) for repurchase agreements with terms to maturity of greater than one (1) day, the County will value the collateral securities continuously and require that if additional collateral is required then that collateral must be delivered within one business day (if a collateral deficiency is not corrected within this time frame, the collateral securities will be liquidated.);
 - 7) the counterparty is a:
 - a) primary government securities dealers who report daily to the Federal Reserve Bank of New York, or
 - b) a bank, savings and loan association or diversified securities broker-dealer having \$5 billion in assets and \$500 million in capital and subject to regulation of capital standards by any state or federal regulatory agency; and
 - 8) the counterparty meets the following criteria:
 - a) have long-term credit rating of at least "AA" by Standard & Poor's or "Aa" by Moody's Investors Services,
 - b) have been in operation for at least 5 years, and
 - c) be reputable among market participants.
- C) **Commercial paper.** Unsecured short-term debt of U.S. corporations may be purchased if the following conditions are met:
- 1) the maturity is no greater than two hundred-seventy days (270) days;
 - 2) no more than thirty-five percent (35%) of the total funds available for investment (based on book value on the date of acquisition) may be invested in commercial paper;
 - 3) the amount invested in any single issuing corporation will not exceed five percent (5%) of the total funds available for investment (based on book value on the date of acquisition);
 - 4) the issuing corporation, or its guarantor, has a net worth of at least \$50 million;
 - 5) the net income of the issuing corporation, or its guarantor, has averaged \$3 million per year for the previous five years; and
 - 6) the issuing corporation, or its guarantor, has a short-term debt rating of no less than "A-1" (or its equivalent) by at least two of the following; Moody's Investors Service, Standard & Poor's, Fitch Investor's Service and Duff and Phelps.
- D) **Bankers' acceptances** issued by a domestic bank or a federally chartered domestic office of a foreign bank, which are eligible for purchase by the Federal Reserve System may be purchased if the following conditions are met:
- 1) the maturity is no greater than two hundred-seventy days (270) days;
 - 2) the short-term paper of which is rated not lower than P-1 by Moody's Investors Services and A-1 Standard & Poor's Corporation; and
 - 3) the amount invested in any single bank will not exceed five percent (5%) of the total funds available for investment (based on book value on the date of acquisition).
- E) **Corporate Notes** issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States which meets the following requirements:
- 1) the maturity is no greater than five (5) years at the time of purchase;

- 2) has a minimum “Aa” long term debt rating by Moody’s Investors Service and a minimum “AA” long term debt rating by Standard & Poor’s; and
 - 3) the amount invested in any single issuing corporation will not exceed five percent (5%) of the total funds available for investment (based on book value on the date of acquisition).
- F) **Municipal Obligations.** Bonds, notes and other evidences of indebtedness of the Commonwealth of Virginia, or of any county, city, town, district, authority or public body of the Commonwealth of Virginia upon which there is no default that meet the following criteria;
- 1) have a final maturity on the date of investment not to exceed five (5) years.
 - 2) rated in either of the two highest rating categories by a nationally recognized rating agency; and
- G) **Negotiable Certificates of Deposit and Bank Deposit Notes** of domestic banks and domestic offices of foreign banks with:
- 1) a rating of at least A-1 by Standard & Poor’s and P-1 by Moody’s Investor Service, Inc., for maturities of one year or less;
 - 2) and a rating of at least “AA” by Standard & Poor’s and “Aa” by Moody’s Investor Service for maturities over one year and not exceeding five years.
- H) **State Pool.** The pooled investment fund (known as the Virginia Local Government Investment Pool or “LGIP”) as provided for in Section 2.2-4600 et seq. of the Code of Virginia.
- I) **Registered Investment Companies (Mutual Funds.)** Shares in open-end investment funds provided such funds are registered under the Federal Investment Company Act of 1940, invest exclusively in the securities permitted under this investment policy, provided that the fund is rated “AAm” or “AAM-G” or better by Standard & Poor’s Corporation, or equivalent by other rating agencies. The fund must also be properly registered for sale under the Securities Act (Section 13.1-501 et seq.) of the Code of Virginia.

Bank Deposits

Certificates of deposit and other evidences of deposit in any national banking association, Federal Savings and Loan Association or Federal Savings Bank located in Virginia and any bank, trust company or savings institutions organized under Virginia law are permitted by Section 2.2-4401 et seq. of the Code of Virginia. The County will maintain bank deposits meeting the following requirements:

- 1) the maturity is no greater than one (1) year at the time of purchase;
- 2) certificates of deposit will be placed directly with depository institutions (no third parties or money brokers will be used);
- 3) deposits will be secured in accordance with the Virginia Security for Public Deposits Act, (Section 2.2-4400 et seq.) of the Code of Virginia that requires:
 - a) collateralization on all deposits of County funds in excess of the amount protected by federal deposit insurance, and
 - b) collateralization with (i) U.S. Government obligations and securities unconditionally guaranteed as to the payment of principal and interest by the United States, or any Agency thereof, or (ii) municipal bonds of the Commonwealth of Virginia or any

political subdivision of the Commonwealth of Virginia that meets the minimum criteria established in this Policy for direct investment.

Portfolio Diversification

The County's Portfolio shall be diversified by security type and institution. The maximum percentage of the portfolio (book value at the date of acquisition) permitted in each eligible security is as follows:

U.S. Government Obligations	100% maximum
Registered Money Market Mutual Funds	100% maximum
State of Virginia LGIP	100% maximum
Repurchase Agreements	50% maximum
Bankers' Acceptances	40% maximum
Commercial Paper	35% maximum
Negotiable Certificates of Deposit/Bank Notes	20% maximum
Municipal Obligations	20% maximum
Corporate Notes	15% maximum
Bank Deposits	25% maximum

The County's Portfolio will be further diversified to limit the exposure to any one issuer. No more than 5% of the County's Portfolio will be invested in the securities of any single issuer with following exceptions

U.S. Treasury	100% maximum
Each Money Market Mutual Fund	50% maximum
Each Federal Agency	35% maximum
Each Repurchase Agreement Counterparty	25% maximum

Maximum Maturity

Maintenance of adequate liquidity to meet the cash flow needs of the County is essential. Accordingly, the portfolio will be structured in a manner that ensures sufficient cash is available to meet anticipated liquidity needs. Selection of investment maturities must be consistent with the cash requirements of the County in order to avoid the forced sale of securities prior to maturity.

For purposes of this Investment Policy, assets of the County shall be segregated into three categories based on expected liquidity needs and purposes — short-term operating funds, the core portfolio and bond proceeds.

Short-Term Operating Funds. Assets categorized as short-term funds will be invested in permitted investments maturing in twelve (12) months or less. The average weighted maturity of the short-term assets will not exceed 180 days. Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio will be continuously invested in readily available funds such as the LGIP, money market mutual funds or overnight repurchase agreements to ensure that appropriate liquidity is maintained to meet ongoing obligations.

Core Portfolio. The operating fund core portfolio will be invested in permitted investments with a stated maturity of no more than 5 years from the date of purchase. To control the volatility of the core portfolio, the Treasurer will determine a duration target, not to exceed three years.

Bond Proceeds. Proceeds from the sale of bonds will be invested in compliance with the specific requirements of the bond covenants without further restriction as to the maximum term to maturity of securities purchased. However, in no case will bond proceeds be invested in securities with a term to maturity that exceeds the expected disbursement date of those funds.

Reserve funds and other funds with longer-term investment horizons may be invested in securities exceeding five (5) years if the maturity of such investment is 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 Board of Supervisors.

Prohibited Investments and Investment Practices

The County is prohibited from:

- 1) Investment in reverse repurchase agreements;
- 2) Short sales (selling a specific security before it has been legally purchased);
- 3) Borrowing funds for the sole purpose of reinvesting the proceeds of such borrowing;
- 4) Investment in complex derivatives such as range notes, dual index notes, inverse floating rate notes and leveraged notes, or notes linked to lagging indices or to long-term indices.
- 5) Investing in any security not specifically permitted by this Policy.

Olde Towne Medical Center Endowment Fund

The Olde Towne Medical Center Endowment Fund (“Endowment Fund”) was established to generate annual income to supplement the Medical Center’s operating revenue. Spending from the Endowment Fund may be restricted and will be determined annually by the Board of Directors of the Olde Towne Medical Center. To ensure adequate liquidity to meet operating obligations, at least \$50,000 of the Endowment Fund will be invested in accordance with the Short-Term Operating Fund guidelines listed above.

The remainder of the Endowment Fund may be invested in Authorized Investments without regard to maturity as long as the effective duration of the Endowment Fund does not exceed 7 years. In addition to the Authorized Investments contained herein, up to 20% of the Endowment Fund may be invested in stock mutual funds that mirror the price and yield performance of the S & P 500 Index or the Wilshire 5000 Index.

Selection, Approval of Brokers, Qualified Financial Institutions

The County Treasurer and/or the County’s Investment Manager shall maintain a list of financial institutions and broker/dealers that are approved for investment purposes (“Qualified

Institutions”). Only firms meeting the following requirements will be eligible to serve as Qualified Institutions:

- 1) “primary” dealers and regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule);
- 2) capital of no less than \$10,000,000;
- 3) registered as a dealer under the Securities Exchange Act of 1934;
- 4) member of the National Association of Dealers (NASD);
- 5) registered to sell securities in Virginia; and
- 6) the firm and assigned broker have been engaged in the business of effecting transactions in U.S. government and agency obligations for at least five (5) consecutive years.

All brokers, dealers and other financial institutions deemed to be Qualified Institutions shall be provided with current copies of the County’s Investment Policy. A current audited financial statement is required to be on file for each financial institution and broker/dealer with which the County transacts business.

Competitive Selection of Investment Instruments

It will be the policy of the County to transact all securities purchase/sales only with Qualified Institutions through a formal and competitive process requiring the solicitation and evaluation of at least three bids/offers. The County will accept the offer which (a) the highest rate of return within the maturity required; and (b) optimizes the investment objective of the overall portfolio. When selling a security, the County will select the bid that generates the highest sale price.

Primary fixed price federal agency offerings may be purchased from the list of Qualified Institutions without competitive solicitation if it is determined that no agency obligations meeting the County’s requirements are available in the secondary market at a higher yield.

Investment of Bond Proceeds

The County intends to comply with all applicable sections of the Internal Revenue Code of 1986, Arbitrage Rebate Regulations and bond covenants with regard to the investment of bond proceeds. Accounting records will be maintained in a form and for a period of time sufficient to document compliance with these regulations.

Sinking fund investments will be limited to those securities authorized by Section 2.2-4500 et seq. of the Code of Virginia.

Safekeeping and Custody

All investment securities purchased by the County or held as collateral on deposits or investments shall be held in third-party safekeeping at a qualified public depository who may not otherwise be a counterparty to the investment transaction. (A qualified public depository is defined under Virginia law as a national banking association, federal savings and loan association or federal savings bank located in Virginia and any bank, trust company or savings institution organized under Virginia law that receives or holds public deposits which are secured pursuant to Section 2.2-4400 et. seq. of the Code of Virginia.)

All securities in the County’s Portfolio shall be held in the name of the County and will be free and clear of any lien. Further, all investment transactions will be conducted on a delivery-vs.-

payment basis. The depository shall issue a safekeeping receipt to the County listing the specific instrument, rate, maturity and other pertinent information. On a monthly basis, the depository will also provide reports that list all securities held for the County, the book value of holdings and the market value as of month-end.

Appropriate County officials and representatives of the depository responsible for, or in any manner involved with, the safekeeping and custody process of the County shall be bonded in such a fashion as to protect the County from losses from malfeasance and misfeasance.

Performance Standards

The investment portfolio shall be designed and managed with the objective of obtaining a market rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and cash flow needs of the County. Short-term funds and other funds that must maintain a high degree of liquidity will be compared to the return on the three-month U. S. Treasury Bill. Medium term investments and other funds that have a longer-term investment horizon will be compared to an index of U. S. Treasury securities having a similar duration or other appropriate benchmark.

Reporting

The Treasurer or Investment Manager shall prepare an investment report not less than monthly. This report shall include: (i) a listing of the existing portfolio in terms of investment securities, amortized book value, maturity date, yield-on-cost, market value and other features deemed relevant and (ii) a listing of all transactions executed during the month.

The Treasurer or Investment Manager shall prepare a “Quarterly Investment Report” that summarizes (i) recent market conditions, economic developments and anticipated investment conditions, (ii) the investment strategies employed in the most recent quarter, (iii) a description of all securities held in investment portfolios at month-end, (iv) the total rate of return for the quarter and year-to-date versus appropriate benchmarks, and (v) any areas of policy concern warranting possible revisions to current or planned investment strategies. The market values presented in these reports will be consistent with accounting guidelines in GASB Statement 31 pertaining to the valuation of investments and the treatment of unrealized gains/losses.

The quarterly report will also include a statement that the investment of the County Portfolio is in compliance with this Policy and any applicable bond resolutions.

Investment Policy Adoption

This policy is adopted by the Treasurer of James County this _____ day of January, 2004.

Approved by

M. Ann Davis, MGT
Treasurer of James City County

ATTACHMENT C

Williamsburg/James City County Schools

Berkeley Middle

1118 Ironbound Rd, Williamsburg (City of Williamsburg)

Clara Byrd Baker Elementary

3131 Ironbound Rd, Williamsburg

D.J. Montague Elementary

5380 Centerville Rd, Williamsburg

James Blair Middle

117 Ironbound Rd, Williamsburg (City of Williamsburg)

James River Elementary

8901 Pocahontas Trail

Jamestown High

3751 John Tyler Highway, Williamsburg

Lafayette High

4460 Longhill Rd, Williamsburg

Matthew Whaley Elementary

301 Scotland St, Williamsburg (City of Williamsburg)

Norge Elementary

7311 Richmond Rd, Williamsburg (Norge area)

Rawls Byrd Elementary

112 Laurel Lane, Williamsburg

Stonehouse Elementary

3651 Rochambeau Drive, Toano

Toano Middle

7817 Richmond Rd, Toano

Warhill High

4615 Opportunity Way, Williamsburg (Lightfoot area)