

CHAPTER 4 INVESTMENT

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PREFACE

This Chapter of the P&P is intended to be consistent with the State Money Management Act, Utah Code Ann. Title 51, Chap.7 (“Money Management Act”), and applicable Rules of the Money Management Council.

4-1 INTENT

This Chapter is intended to assist the District in lawfully placing and maintaining appropriate, available District monies in reasonably secure and reasonably high yield investments. The Finance Committee shall review all investments on a regular basis and make recommendations to the Board in accordance with the provisions of Section 1-14, or as that Committee shall deem appropriate.

4-2 CUSTODY OF SECURITIES

The Treasurer shall have custody of all securities purchased and held by the District or deposited with a qualified depository, bank, or trust company, as described in P&P Section 3-633. All securities transactions, including collateral for repurchase agreements entered into by the District shall be conducted on a delivery-versus-payment (“DVP”) basis to either the Treasurer or to a qualifying safekeeping bank or trust company. The direct holding of title of book-entry-only securities by either the Treasurer or a qualifying custodial bank or trust company, for the benefit of the District, must be represented by a receipt, confirmation, or statement issued by the custodian of the book-entry-system. The Treasurer shall maintain the documentation of all deposits, withdrawals and investments.

4-3 AUTHORIZED INVESTMENTS FOR DISTRICT FUNDS

All funds deposited or securities purchased by the Treasurer must be made in qualified depositories or executed by certified dealers, or directly with the issuer of securities. A listing of all qualified depositories or certified dealers approved by the Money Management Council is found in the Rules of the Money Management Council. All purchases and sales of securities are to be settled within 15 days of the trade date. The Treasurer may invest or deposit District funds in the following securities or financial instruments:

- (1) State Treasurer’s Pool.
- (2) Negotiable or Non-Negotiable Deposits. The Treasurer may make deposits into qualified depositories as defined and restricted by Sections 3(21), 18.1 of the Money Management Act, and applicable Rules of the Money Management Council.

(3) Repurchase Agreements. Repurchase agreements may be entered into with either qualified depositories or with Certified Dealers using collateral consisting of: Government National Mortgage Association, Federal Home Loan Mortgage Corporation, Federal National Mortgage Corporation, Small Business Administration loan pools, or with any other investment authorized in Sections 11 and 17 of the Money Management Act. Repurchase agreements must be maintained at market value plus an appropriate margin collateral requirement based upon the term of the agreement and the type of securities acquired. Such agreements must be performed under a Master Repurchase Agreement that is defined as the current standard Master Repurchase Agreement as approved by the Public Securities Association or by any successor organization. Repurchase agreements shall be made only with primary dealers in government securities or financial institutions with a Moody's Investors Service, Inc., or equivalent, rating of 'A' or better. Depository must comply with requirements described in the Rules of the Money Management Council, Rule 10, and Section 18.1 of the Money Management Act.

(4) Reverse Repurchase Agreements. Reverse repurchase agreements may be entered into with either qualified depositories or with Certified Dealers using collateral consisting of: Government National Mortgage Association, Federal Home Loan Mortgage Corporation, Federal National Mortgage Corporation, Small Business Administration loan pools, or with any other investment authorized in Sections 11 and 17 of the Money Management Act. The Treasurer shall match or closely approximate the maturity of the investment purchased with the proceeds of a reverse repurchase agreement with the maturity of the reverse repurchase agreement(s). Purchases of securities with proceeds from reverse repurchase agreements may not be subject to a reverse repurchase agreement. Depository must comply with requirements described in the Rules of the Money Management Council, Rule 10, and Section 18.1 of the Money Management Act. Amounts and percentages used in determining the amount of permitted deposits that the Treasurer may purchase shall be determined by the book value of the portfolio at the time of purchase. Certification of a Dealer must be followed as described in the Rules of the Money Management Council, Rule 16.

(5) Commercial Paper. Restrictions are as follows: only commercial paper considered to be "first-tier" quality may be purchased, which is defined as commercial paper rated by at least two nationally recognized statistical rating organizations in the highest short-term rating category.

(6) Bankers' Acceptances. Restrictions are as follows: eligibility shall be limited to those financial institutions which maintain ratings equivalent to F1 by Fitch or better. The maximum maturity shall be limited to 270 days.

(7) Fixed Rate Deposits. For purposes of this policy, collateralized time deposits shall be considered investments. The following criteria will be used in evaluating financial institutions and form of collateral to determine eligibility for deposits: the financial institution must have been in existence for at least five years.

Eligibility for deposits shall be limited to those financial institutions that maintain ratings equivalent to F1 by Fitch or better.

(8) Direct United States Treasury Bills, Notes, and Bonds. The District may deposit or invest funds in any direct obligations of the United States Treasury, including United States Treasury bills, United States Treasury notes, and United States Treasury Bonds.

(9) Federal Agency Mortgage Obligations and Asset Backed Securities. The District may invest in any obligation that is issued by, or fully guaranteed as to principal and interest by the following agencies or institutions of the United States: Federal Farm Credit Bank, Federal Home Loan banks, Federal National Mortgage Association, Student Loan Marketing Association, Federal Home Loan Mortgage Corporation, Federal Agricultural Mortgage Corporation, and Tennessee Valley Authority.

(10) Corporate Bonds, Notes, and Paper. Investments in Corporate Bonds and Notes are permitted provided that the bonds or notes are rated “A” or higher or the equivalent of “A” from at least two nationally recognized statistical rating organizations, one of which must be by Moody’s Investor Services or Standard and Poor’s. The corporate fixed-rate bonds or notes must be publicly traded and have a remaining term to maturity of 365 days or less or are subject to a hard put at par value or better, within 365 days. The investment in commercial notes and paper is to be done in compliance with the Rules of the Money Management Council, Rule 17. The amounts and percentages defined in Rule 17 used in determining the amount of permitted deposits the Treasurer may purchase shall be determined by the book value of the portfolio at the time of purchase.

(11) Tax Anticipation Notes and General Obligation Debt. Tax Anticipation Notes or General Obligation bonds issued by the State of Utah or of any County, incorporated City or Town, School District, or other political subdivision of the State of Utah, including bonds offered on a when-issued basis, may be purchased without regard to the limitation described in Section 11(7) of the Money Management Act, which states that all purchases and sales of securities are to be settled within 15 days of the trade date.

(12) Assessment and Revenue Bonds. The Treasurer may purchase and hold bonds, notes or other evidence of indebtedness issued by any county, incorporated City or Town, School District, or other political subdivision of the State of Utah that are payable from assessments or from revenues or earnings specifically pledged for payment of the principal and interest on these obligations, including bonds offered on a when-issued basis, without regard to the limitation set described in Section 11(7) of the Money Management Act, which states that all purchases and sales of securities are to be settled within 15 days of the trade date.

(13) Money Market Mutual Fund Shares or Certificates. The Treasurer may invest in shares of beneficial interest issued by eligible diversified management

companies that invest in securities approved by the Money Management Act and Rules of the Money Management Council. The money market mutual fund must be open-end managed and comply with the diversification, quality, and maturity requirements of the Rule 2a-7 of the Securities and Exchange Commission under the Investment Company Act of 1940. These funds must not assess sales loads on the purchase of shares and no contingent deferred sales charges.

(14) Variable Rate Negotiable Deposits. The Treasurer may purchase and hold qualifying variable rate negotiable deposits that are issued by a qualifying depository or a permitted depository. Such deposits must be re-priced at least semi-annually and have a remaining term to maturity not to exceed two years.

(15) Variable Rate Debt. The District may purchase and hold variable rate securities that are rated “A” or higher or the equivalent of “A” from at least two nationally recognized statistical rating organizations, one of which must be by Moody’s Investor Services or Standard and Poor’s. Any variable rate debt instruments held must be publicly traded and must be re-priced at least semiannually, and have a remaining term to final maturity not to exceed two years or are subject to a hard put at par value or better, within 365 days. The District may not hold any variable rate debt such as mortgages, mortgage-backed securities, mortgage derivative products, or any security making unscheduled periodic principal payments other than optional redemptions.

4-4 PRUDENT MAN RULE

(1) The Treasurer and custodial banks and trust companies are required to adhere to the Prudent Man Rule or prudent investor standard. Such judgment and care requires that the Treasurer use prudence, discretion, and intelligence while investing District funds by avoiding speculation, considering the probable safety of capital, as well as the probable benefits to be derived and the probable duration for which that investment may be made.

(2) The sale or disposal of a security at a price lower than at which it was purchased does not violate the Prudent Man Rule only if the sale will maximize the benefits that could be received if the funds were to be invested in other securities.

4-5 MAINTENANCE OF A FIDELITY BOND

The District is required to secure a fidelity bond in an amount based upon the District’s budgeted gross revenues in accordance with the Rules of the Money Management Council, Rule 4-4. The Treasurer must also prepare and submit biannual reports to the Utah State Treasurer on or before January 31 and July 31 which details the deposits and investments made throughout the six months ending December 31 and June 30 respectively, and the interest earnings received during that period. A copy of the same report shall be made available to the public.

4-6 INVESTMENT OBJECTIVES

(1) The Treasurer shall consider and meet the following objectives when depositing or investing District funds:

(a) Safety of Principal - Investments shall be undertaken in a manner which first seeks to ensure the preservation of principal in the portfolio. Each investment transaction shall be entered into after taking into consideration the quality of the issuer, the underlying security or collateral, and diversification of the portfolio. Market risk shall be reduced by limiting the average maturity of the portfolio, the maximum maturity of any one security, and by performing continuous cash flow analysis to avoid the need to sell securities prior to maturity.

(b) Liquidity - In an effort to ensure that the District's portfolio will be sufficiently liquid to meet current and anticipated operating requirements, a cash flow analysis will be performed on an ongoing basis. Investments shall be made so that the maturity date is compatible with cash flow needs and safety of principal.

(c) Yield on Investment - Investments shall be undertaken to produce an acceptable rate of return after first considering safety of principal and liquidity and the prudent investor standard. All investment activity shall be consistent with the prudent investor standard.

(d) Recognition of the Different Investment Objectives of Operating and Permanent Funds – The Treasurer must ensure that the funds invested meet the needed criteria of liquidity, yield and risk.

(e) Maturity of Investments – The Treasurer must ensure that the date of the investment does not exceed the anticipated date of the expenditure of funds.

The Treasurer shall monitor or cause to be monitored the extent to which financial institutions with which the District maintains deposits or investments are consistent with the District's policies regarding business activities that may jeopardize the safety and liquidity of District funds or violate other District policies. Such matters shall be included in the Treasurer's report to the Finance Committee described in P&P Sections 3-633 and 1-13(4)(g). The Treasurer shall invest all proceeds of general obligation bonds, tax anticipation notes, and all other funds pledged to the payment of principal and interest.