



## **NORTHEAST OHIO AREAWIDE COORDINATING AGENCY**

### **MEMORANDUM**

**TO:** NOACA Board of Directors

**FROM:** Grace Gallucci, Executive Director

**DATE:** October 3, 2014

**RE:** **Resolution 2014-038 – NOACA Financial Investment Policy Update**

#### **ACTION REQUESTED**

The Board is asked to approve Resolution 2014-038 which adopts the revisions shown in the attached red line version of NOACA's Financial Investment Policy. The Finance and Audit Committee recommends this action.

#### **BACKGROUND/JUSTIFICATION**

At the June 13, 2014 Finance and Audit Committee meeting, staff were asked to review the agency's investment policy for potential revisions, as the current policy has not been updated since June 2005.

NOACA's investment advisors, from Meeder Investments, performed a review of the policy and have recommended three revisions under Section VIII: Authorized and Suitable Investments/Maximum Maturities:

1. Short-term
  - Remove section (f.) – Guaranteed Investment Contracts (GIC's) and Banker's Investment Contracts (BIC's)
  - Revise section (g.) – Increase maturities from 180 days to 270 days. Add the language "with a maximum total of 40% of the portfolio and 5% single issuer limitation."

(Change is a result of the passage of Senate Bill 287 that was effective 9/2/14)

2. Long-term

- Add section (e.) – Municipal Debt - Bonds and other obligations of political subdivisions of Ohio, rated in the three highest rating classifications and a maximum of 20% of the portfolio.
- Add section (f.) – Certificate of deposit exempt from Pledging requirements per ORC 135.144 (CDARS).

(Change is a result of the passage of Senate Bill 287 that was effective 9/2/14)

The current policy, including recommended revisions, is attached.

**FINANCIAL IMPACT**

NOACA's investment policy results in the continued maintenance and growth of the agency's financial assets.

**CONCLUSION/NEXT STEPS**

With Board approval, NOACA's investment policy will be revised and filed with the Ohio Auditor of State's office, and provided to all future entities selected to provide investment services for agency funds.

**Attachment: NOACA Invest Policy with Recommended Revisions**

GG/ck/2788b

RESOLUTION OF THE BOARD OF DIRECTORS  
OF THE  
NORTHEAST OHIO AREAWIDE COORDINATING AGENCY (NOACA)

**WHEREAS**, on June 11, 2005 the Northeast Ohio Areawide Coordinating Agency (NOACA) Board of Directors last revised NOACA's Investment Policy through Resolution No. 2005-022; and

**WHEREAS**, NOACA's investment advisors, Meeder Investments reviewed the policy and made suggestions that would update the policy to current standards and

**WHEREAS**, the NOACA Finance and Audit Committee has met, reviewed and agreed to the proposed revisions.

**NOW, THEREFORE, BE IT RESOLVED** by the Board of Directors of the Northeast Ohio Areawide Coordinating Agency, consisting of forty-five principal officials of general purpose local government throughout and within the Counties of Cuyahoga, Geauga, Lake, Lorain and Medina that:

**Section 1:** The NOACA Board of Directors hereby adopts the revised Investment Policy and authorizes the investment officer(s) to select investments based on criteria set forth in the policy.

**Section 2:** That the Executive Director is authorized to transmit certified copies of this resolution to appropriate federal, state and local agencies.

Certified to be a true copy of a Resolution of the Board of Directors of the Northeast Ohio Areawide Coordinating Agency adopted this 10th day of October 2014.

Secretary:  \_\_\_\_\_

Date Signed: 10 OCT 14

**INVESTMENT POLICY**  
**Northeast Ohio Areawide Coordinating Agency**

**June 10, 2005**

**I. POLICY**

The purpose of this investment policy is to establish investment and cash management guidelines for the officials of the Northeast Ohio Areawide Coordinating Agency (NOACA) who are responsible for management of the Agency's funds. It is the policy of NOACA to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the entity and conforming to all state and local statutes governing the investment of public funds.

**II. SCOPE**

This investment policy applies to all financial assets of the Agency. These funds are accounted for in the Agency's Annual Financial Audit Report and include:

1. General Fund
2. Special Revenue Funds

**III. RESPONSIBILITY**

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 possible income to be derived.

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 the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price charges, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

**IV. INVESTMENT OBJECTIVES**

The financial objectives for the investment of the agency's funds shall be as follows:

1. Safety. Investments should preserve the capital of the Agency. Safety of the principal is the foremost objective of the investment program. Investments of the Agency shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

06/10/2005  
0273k

To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio. The objective will be to minimize credit, concentration and interest rate risks.

- A. Custodial Credit Risk – The risk that, in the event of a failure of a counter party, the agency will not be able to recover the value of its investments or collateral securities that is in the possession of an outside party. The Agency employs the use of “safekeeping” accounts to hold and maintain custody of its investments as identified within this policy and as a means of mitigating this risk.
  - B. Concentration Risk – The Agency may invest in any investment that is not specifically guaranteed by the U.S. Government or considered a money market mutual fund up to fifty percent of total available investable cash at the end of each month during the fiscal year. The Agency will disclose investments in non-U.S. securities or money market mutual funds if exceeding five percent by issuer of total cash and investments.
  - C. Interest Rate Risk – The risk that the Agency will incur fair value losses arising from rising interest rates. Such risk is mitigated by the investment policy, by limiting investments to certain maximum maturities. As a rule, unless specified otherwise within the policy, Agency investments are to have a maximum maturity of five years unless the investment is matched to a specific expenditure. The context of a specific investment purchase must be weighed in proportion to the remainder of the existing investment portfolio and the “prudent investor” rule to attempt to limit such risk.
  - D. Foreign Currency Risk – The Agency is not authorized to invest in investments, which have this type of risk.
2. Liquidity. Investments should be sufficiently flexible so that the organization may readily meet its anticipated operating cash requirements.
  3. Yield. Investment returns should be optimized within the constraints of the objectives of safety and liquidity.
    - a. Short Term. The objective of this portfolio component is to allow timely payment of obligations while earning a rate equal to or greater than STAR Ohio or equivalent eligible money market mutual fund.
    - b. Long Term. The objective of this portfolio component is to earn a rate of return equal to a benchmark selected that approximates the desired maturity characteristics of these funds.

## **V. DELEGATION OF AUTHORITY**

Authority to manage the Agency's investment program is derived from O.R.C. 2109.37 and 2109.371. Management responsibility for the investment program is hereby delegated to the Investment Officers (Governing Board Treasurer, Finance & Audit Committee, Executive Director, Finance Director and Agency Legal Counsel). The Finance Director shall establish written procedures for operation of the investment program consistent with this investment policy. Procedures should include reference to: safekeeping, repurchase agreements, wire transfer agreements, collateral/depository agreements and banking service contracts. 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 Finance Director. The Finance Director shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

## **VI. ETHICS AND CONFLICTS OF INTEREST**

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the Executive Director any material financial interests in financial institutions that conduct business within this jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to performance of the Agency's portfolio. Employees and officers shall subordinate their personal investment transactions to those of the Agency, particularly with regard to the time of purchases and sales.

## VII. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The Finance Director will maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved security brokers/dealers selected by credit worthiness who are authorized to provide investment services in the State of Ohio. These may include “primary” dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1. No public deposits shall be made except in a qualified public depository as established by state laws.

All financial institutions and broker/dealers who desire to become qualified suppliers of investment securities will be required to furnish the Finance Director with current audited financial statements and certification that they have received, read and understand the investment policy of NOACA. A file will be maintained by NOACA.

## VIII. AUTHORIZED AND SUITABLE INVESTMENTS/MAXIMUM MATURITIES

Investment officers are empowered by statute to invest funds of the agency in the instruments listed below. The maximum final maturity of any investment will be five years from the date of purchase. No derivative securities or investment “pools”, with the exception of STAR Ohio, will be permitted. Due diligence is required prior to investing in “pools.”

### 1. Short-term

- a. Negotiable Order of Withdrawal (NOW) accounts in federally-insured financial institutions and collateral at 105% of deposited amount.
- b. No load money market mutual funds consisting exclusively of obligations described in division B (1) o (2) of Section 135.14 and repurchase agreements secured by such obligations.
- c. Certificates of Deposit in eligible institutions as provided in 135.08 of the Revised Code.
- d. Repurchase agreements (not to exceed 30 days) as permitted under Section 135.14 (E) of the Revised Code.
- e. STAR Ohio (Local government investment pool)
- ~~f. Guaranteed Investment Contracts (GIC's) and Banker's Investment Contracts (BIC's)~~
- g. Commercial Paper rated in the highest category by two nationally recognized rating agencies and with maturities not to exceed ~~180~~ 270 days, with a maximum total of 40% of the portfolio and a 5% single issuer limitation-

## 2. Long-term

- a. Direct obligations of the U.S. Treasury, its agencies, instrumentalities and Government Sponsored Enterprises (GSEs).
- b. Certificates of Deposit in eligible institutions as provided in 135.08 of the Revised code.
- c. STAR Ohio (Local government investment pool)
- d. Negotiable Order of Withdrawal (NOW) accounts in federally-insured financial institutions and collateral at 105% of deposited amount.
- e. Municipal Debt-Bonds and other obligations of political subdivisions of Ohio, rated in the three highest rating classifications and a maximum of 20% of the portfolio.
- e.f. Certificate of deposit exempt from Pledging requirements per ORC 135.144 (CDARS)

## **IX. MAXIMUM MATURITIES**

To the extent possible, the Agency will attempt to match its investment maturities to anticipated cash flow requirements. If not matched to a specific cash flow, the Agency may purchase investments with a stated final maturity not greater than two years from the settlement date. Reserve Funds may be invested in instruments with a final stated maturity not to exceed five years from the settlement date.

## **X. COLLATERALIZATION**

Collateral for certificates of deposit and repurchase agreements will be provided as required by the Ohio Revised Code, Sections 135.18 and 135.181 and deposited with a qualified trustee. Collateral statements will be provided by the depositories as required by the ORC.

## **XI. SAFEKEEPING AND CUSTODY**

All security transactions, including collateral for repurchase agreements, entered into by the Agency shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third party custodian designated by the Finance Director and evidenced by safekeeping receipts.

## **XII. DIVERSIFICATION**

The Agency will diversify its investments by security type and institution. With the exception of U.S. Treasury securities and authorized pools, no more than 50% of the Agency's total investment portfolio will be invested in a single security type or with a single financial institution.

## **XIII. INVESTMENT PRACTICES AND REPORTING**

The Finance Director shall establish an annual process of independent review by the Agency's



auditors in conjunction with their periodic review of the Agency's financial statements. This review will provide internal control by assuring compliance with policies and procedures.

The Finance Director shall prepare and submit periodic reports on investment activity to the Board of Directors at its regularly scheduled monthly meetings. These reports will provide investment account listings, account balances and interest rates.

#### Financial Statement Disclosure

1. The Agency will disclose credit quality ratings of external investment pools, money market funds, bond mutual funds and other pooled investments of fixed-income securities. The Agency will disclose if the investment is not rated.

#### **XIV. PERFORMANCE STANDARDS**

The investment portfolio will be designed to obtain market average rate of return during budgetary and economic cycles, taking into account the Agency's investment risk constraints and cash flow needs.

The basis used by the Finance Director to determine whether the portfolio is achieving a market return shall be a commonly available and acceptable benchmark that approximates the portfolio's configuration.

#### **XV. CASH MANAGEMENT**

Cash balances are required in the operating account for biweekly payroll, monthly accounts payable processing and other manual checks required throughout the month. Cash balances are monitored daily to ensure there are sufficient funds to cover these expenditures. The Finance Director will transfer funds to/from the operating account to maintain adequate balances for monthly operating expenses. Any excess funds will be invested through authorized investment instruments.

#### **XVI. INVESTMENT POLICY ADOPTION**

The Agency's investment policy shall be adopted by resolution of the Agency's Governing Board of Directors. The policy shall be reviewed on an annual basis by the Investment Officers Committee and any modifications made thereto must be approved by the Governing Board.

#### **XVII. DEFINITIONS**

**AGENCIES:** Federal agency securities.

**ASKED:** The price at which securities are offered.

**BANKERS' ACCEPTANCE (BA):** A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as does the issuer.

**BID:** The price offered for securities.

**BROKER:** A broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides; he does not position. In the money market, brokers are active in markets in which banks buy and sell money and in interdealer markets.

**COLLATERAL:** Securities, evidence of deposit or other property which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

**COMMERCIAL PAPER:** Short term unsecured promissory notes issued by companies.

**CERTIFICATE OF DEPOSIT (CD):** A time deposit with a specific maturity evidenced by a certificate. Large-denomination CD's are typically negotiable.

**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.

**DEALER:** A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

**DELIVERY VERSUS PAYMENT:** There are two methods of delivery of securities: delivery versus payment and delivery versus receipt (also called free). Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

**DEBENTURE:** A bond secured only by the general credit of the issuer.

**DISCOUNT:** The difference between the cost price of a security and its value at maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

**DISCOUNT SECURITIES:** Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value, e.g., U.S. Treasury bills.

**DIVERSIFICATION:** Dividing investment funds among a variety of securities offering independent returns.

**EXECUTIVE DIRECTOR:** Person in charge of overall operations of the Agency.

**FEDERAL CREDIT AGENCIES:** Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., S&L's, small business firms, students, farmers, farm cooperatives, and exporters.

**FEDERAL FUNDS RATE:** The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

**FEDERAL OPEN MARKET COMMITTEE (FOMC):** Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

**FEDERAL RESERVE SYSTEM:** The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., 12 regional banks and about 5,700 commercial banks that are members of the system.

**FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC):** A federal agency that insures bank deposits, currently up to \$100,000 per deposit.

**FEDERAL HOME LOAN BANKS (FHLB):** Institutions that regulate and lend to savings and loan associations. Federal Home Loan Banks play a role analogous to that played by the Federal Reserve Banks vis-a-vis member commercial banks.

**FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA):** FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development, H.U.D. It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

**FINANCE DIRECTOR:** Person in charge of accounting functions of the Agency.

**GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae):** Securities guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith

and credit of the U.S. Government. Ginnie Mae securities are backed by FHA, VA or FMHM mortgages. The term pass-throughs is often used to describe Ginnie Mae's.

~~**GUARANTEED INVESTMENTS CONTRACTS (GIC's):** Guaranteed Investment Contracts ("GIC's") are investment vehicles offered by insurance companies, banks (often referred to as "BIC's") and other entities for the investment of proceeds from tax exempt and taxable bond issues. GIC's provide high yields and allow withdrawals to be made on an "as needed" basis. A GIC pays a guaranteed rate of interest for the term of the GIC. This rate can be either fixed or floating.~~

**LEGAL COUNSEL:** Person responsible for overseeing all legal aspects of the Agency.

**LIQUIDITY:** A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

**LOCAL GOVERNMENT INVESTMENT POOL (LGIP):** The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

**MARKET VALUE:** The price at which a security is trading and could presumably be purchased or sold.

**MASTER REPURCHASE AGREEMENT:** A written contract covering all future transactions between the parties to repurchase--reverse repurchase agreements that establishes each party's rights in the transactions. A master agreement will often 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 upon which the principal or stated value of an investment becomes due and payable.

**MONEY MARKET:** The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances) are issued and traded.

**OPEN MARKET OPERATIONS:** Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

**PORTFOLIO:** Collection of securities held by an investor.

**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 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.

**PRIMARY DEALER:** A group of government securities dealers that 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 (SSEC) registered securities broker-dealers, banks, and a few unregulated firms.

**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 or the current income return.

**QUALIFIED PUBLIC DEPOSITORIES:** A financial institution which does not claim exemption from 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.

**REPURCHASE AGREEMENT (RP OR REPO):** A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security “buyer” in effect lends the “seller” money for the period of the agreement, and the terms of the agreement are structured to compensate for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money, that is, increasing bank reserves.

**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 vaults for protection.

**SECONDARY MARKET:** A market made for the purchase and sale of outstanding issues following the initial distribution.

**SEC RULE 15C3-1:** See uniform net capital rule.

**SECURITIES & EXCHANGE COMMISSION:** Agency created by Congress to protect investors in securities transactions by administering securities legislation.

**TREASURER:** Person appointed by the **Governing Board of Directors** to represent the

board's interest in financial matters.

**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 BOND:** Long-term U.S. Treasury securities having initial maturities of more than 10 years.

**TREASURY NOTES:** Intermediate term coupon bearing U.S. Treasury securities having initial maturities of from one to 10 years.

**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 bond.

**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.