



Hampton Roads Transportation Accountability Commission

Statement of Investment Policy

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GLOSSARY

HAMPTON ROADS TRANSPORTATION ACCOUNTABILITY COMMISSION STATEMENT OF INVESTMENT POLICY

A. INTRODUCTION

The Hampton Roads Transportation Accountability Commission (“HRTAC” or “Commission”) is a political subdivision of the Commonwealth of Virginia created under §33.2-2601 et seq. of the Code of Virginia. All cash and investment activities shall be conducted in accordance with applicable law, including the Code of Virginia Hampton Roads Transportation Fund (“HRTF”; §33.2-2600 et seq.), Security for Public Deposits Act (“SPDA”; §2.2-4400 et seq.), Investment of Public Funds Act (§2.2-4500 et seq.), and Administration of the Transportation Trust Fund (§33.2-1525), the provisions of any applicable bond resolutions, and this Investment Policy (the “Policy”).

B. SCOPE

This Policy applies to the deposit and investment activities of all HRTAC funds that are eligible for investment except for any funds set aside for post-employment employee benefits. All financial assets of all funds including Hampton Roads Transportation Fund shall be administered in accordance with the provisions of the Policy. Although these funds may be pooled for investment purposes, they may be segregated as necessary for accounting and budgetary reporting purposes. For the purpose of this Policy, these funds are referred to collectively as the “Investment Portfolio”.

C. OBJECTIVES

All investments and deposits will be managed to accomplish the following fundamental goals:

- **Safety of Principal** - The single most important objective is the preservation of principal of those funds within the Investment Portfolio.
- **Maintenance of Liquidity** - The Investment Portfolio will be managed at all times with sufficient liquidity to meet all projected disbursement needs as well as to fund capital projects and other operational requirements which may reasonably be anticipated.
- **Maximizing Return** - The Investment Portfolio shall be managed so as to maximize the return on investments within the context and parameters set forth by the safety and liquidity objectives above.

D. STANDARD OF PRUDENCE

Public funds held and invested by HRTAC shall be held in trust for the citizens of the member jurisdictions and any investment of such funds shall be made with the care, skill, prudence, and diligence under the circumstances then prevailing that a person acting in a

like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

E. DELEGATION OF AUTHORITY

The Commission is responsible for the adoption of the Investment Policy, and must approve any revisions or alterations made to it.

HRTAC's Executive Director shall have responsibility for the operation of the cash management and investment program subject to: the Commission's Policies for the Management of Cash, Bank Accounts, and Credit and Debit Cards; the Commission's Policy Relating to Procurement of Goods and Services, Including Procedures for Small Purchases; this Investment Policy; and other policies adopted by the Commission.

Subject to the approval of the Commission, the Executive Director may engage external investment advisors as defined in this Policy, under Section M. Engagement of Investment Managers, to assist in managing HRTAC's Investment Portfolio and to provide advice on the administration of cash and investment activities.

No member of the Commission, or the Executive Director, or any employee of the Commission acting in accordance with Code of Virginia Section §33.2-1525 shall be personally liable for any loss relating to an investment in the absence of negligence, malfeasance, misfeasance, or nonfeasance.

F. ETHICS AND CONFLICTS OF INTEREST

The Executive Director and any HRTAC staff involved in the cash management and investment processes shall comply with the Code of Virginia Section §2.2-3100 et seq., the State and Local Government Conflict of Interests Act. Specifically, no staff shall:

- a) 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
- b) 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.

The Executive Director and HRTAC staff shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair his ability to make impartial decisions.

G. AUTHORIZED INVESTMENTS

Subject to applicable state laws, federal laws, bond resolutions, and in the case of the LGIP, VIP and Virginia SNAP funds, adoption by the Commission of necessary Resolutions, HRTAC's Investment Portfolio may be invested in the following Authorized Investments. The Executive Director may, but shall not be obligated to, impose additional requirements and restrictions to ensure that HRTAC's goals are met.

1. **U.S. Treasury Obligations.** Bills, notes and any other obligation or securities issued by or backed by the full faith and credit of the United States Treasury. The

final maturity shall not exceed a period of five (5) years from the time of purchase. For all Authorized Investments the “time of purchase” shall be interpreted as the transaction settlement date.

2. **Federal Agency/Government Sponsored Enterprise Obligations.** Bonds, notes and other obligations of the United States, and securities guaranteed by any federal government agency or instrumentality or government sponsored enterprise, with a rating of at least “AA” (or its equivalent) by at least two NRSROs, one of which will be either Moody’s Investors Services, Inc. (“Moody’s”), or Standard & Poor’s, Inc. (“S&P”). The final maturity shall not exceed a period of five (5) years from the time of purchase. Any investment in mortgage backed securities or collateralized mortgage obligations shall have a weighted average life that does not exceed five (5) years from the time of purchase.
3. **Municipal Obligations.** Bonds, notes and other general obligations of the Commonwealth of Virginia and its agencies, authorities, and political subdivisions upon which there is no default, has a rating of at least “AA” by S&P and “Aa” by Moody’s, matures within three (3) years of the date of purchase, and otherwise meets the requirements of Code of Virginia §2.2-4501.
4. **Commercial Paper.** “Prime quality” commercial paper, with a maturity of 270 days or less, issued by domestic corporations (corporations organized and operating under the laws of the United States or any state thereof) provided that the issuing corporation, or its guarantor, has a short-term debt rating of at least two of the following: P-1 by Moody’s Investors Service, Inc., A-1 by Standard & Poor’s, Inc., F-1 by Fitch Investor’s Services, Inc., and D-1, by Duff and Phelps, Inc., and that otherwise meets the requirements of Code of Virginia §2.2-4502.
5. **Bankers’ Acceptance.** Issued by domestic banks or a federally chartered office of a foreign bank, which are eligible for purchase by the Federal Reserve System with a maturity of 180 days or less. The issuing corporation, or its guarantor, must have a short-term debt rating of no less than “A-1” by S&P and “P-1” by Moody’s.
6. **Corporate Notes.** High quality corporate notes with a rating of at least “A” by S&P and “A” by Moody’s. For notes with ratings of A by S&P or Moody’s the final maturity shall not exceed a period of three (3) years from the time of purchase. For notes with ratings of at least AA by S&P and Aa by Moody’s, the final maturity shall not exceed a period of five (5) years from the time of purchase.
7. **Negotiable Certificates of Deposit and Bank Deposit Notes.** Negotiable certificates of deposit and negotiable bank deposit notes of domestic banks and domestic offices of foreign banks with a rating of at least “A-1” by S&P and “P-1” by Moody’s for maturities of one year or less, and a rating of at least “AA” by S&P and “Aa” by Moody’s, for maturities over one (1) year. The final maturity may not exceed a period of five (5) years from the time of purchase.
8. **Bank Deposits and Non-Negotiable Certificates of Deposit.** Demand deposits, time deposits, and other deposits that comply with all aspects of SPDA or with §2.2-4518 with a final maturity no greater than two (2) years.
9. **Repurchase Agreements.** In overnight repurchase agreements provided that the following conditions are met:

- a. the contract is fully secured by deliverable U.S. Treasury and Federal Agency/Government Sponsored Enterprise obligations as described in paragraphs 1 and 2 above, including the maximum maturity of three (3) years, having a market value at all times of at least one hundred and two percent (102%) of the amount of the contract;
- b. a Master Repurchase Agreement or specific written Repurchase Agreement governs the transaction;
- c. the securities are free and clear of any lien and held by an independent third party custodian acting solely as agent for HRTAC, provided such third party is not the seller under the repurchase agreement;
- d. a perfected first security interest under the Uniform Commercial Code in accordance with 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;
- e. the counterparty is a:
 - i. primary government securities dealer who reports daily to the Federal Reserve Bank of New York, or
 - ii. a bank, savings and loan association, or diversified securities broker-dealer having at least \$5 billion in assets and \$500 million in capital and subject to regulation of capital standards by any state or federal regulatory agency; and
- f. the counterparty meets the following criteria:
 - i. a long-term credit rating of at least 'AA' or the equivalent from an NRSRO.
 - ii. has been in operation for at least 5 years, and
 - iii. is reputable among market participants.

10. Money Market Mutual Funds (Open-Ended Investment Funds). Shares in open-end, no-load investment funds provided such funds are registered under the Investment Company Act of 1940 and provided that the fund is rated at least "AAAm" or the equivalent by an NRSRO. The mutual fund must comply with all requirements of Rule 2(a)-7, or any successor rule, of the United States Securities and Exchange Commission, provided the investments by such funds are restricted to investments otherwise permitted by the Code of Virginia for political subdivisions.

11. Local Government Investment Pool (LGIP). A specialized commingled investment program that operates in compliance with Government Accounting Standards Board's Statement 79 ("GASB 79) that was created in the 1980 session of the General Assembly (Code of Virginia §2.2-4700 et seq.) designed to offer a convenient and cost-effective investment vehicle for public funds. The LGIP is administered by the Treasury Board of the Commonwealth of Virginia and is rated AAAM by Standard & Poor's.

12. Virginia Investment Pool (VIP). A commingled investment program organized as a local government investment pool with oversight provided by a shareholder elected board of trustees. VIP is designed for the investment of longer-term monies that are not necessary for near term disbursement. VIP has a bond fund rating from Standard and Poor's of AAf/S1.

13. Virginia State Non-Arbitrage Program's (Virginia SNAP) SNAP Fund. A specialized commingled investment program that operates in compliance with

GASB 79 and that was authorized by the Government Non-Arbitrage Act in 1989 (Code of Virginia §2.2-4700 et seq.). Virginia SNAP and the SNAP Fund are administered by the Treasury Board of the Commonwealth of Virginia. Virginia SNAP offers several investment options, including the SNAP Fund, and arbitrage rebate reporting services that are specifically designed for the investment of tax exempt bond proceeds.

H. PORTFOLIO DIVERSIFICATION

The Investment Portfolio shall be diversified by security type and institution. The maximum percentage of the portfolio permitted in each eligible security is as follows:

Permitted Investment	Sector Limit	Issuer Limit
U.S. Treasury Obligations	100%	100%
Federal Agency/GSE Obligations	100%	35%
Municipal Obligations	15%	5%
Commercial Paper	35%	5%
Bankers' Acceptances	35%	5%
Corporate Notes	25%	5%
Negotiable Certificates of Deposit and Bank Deposit Notes	25%	5%
Bank Deposits and Non-Negotiable Certificates of Deposit	100%	100%
Repurchase Agreements	25%	25%
Money Market Mutual Funds	25%	25%
LGIP	100%	100%
VIP	25%	25%
Virginia SNAP-SNAP Fund (Proceeds of Tax Exempt Bonds Only)	100%	100%

In addition, HRTAC will hold no more than 10% of the outstanding shares of any comingled investment program including but not limited to money market mutual funds, LGIP, VIP, and/or the SNAP Fund.

I. MAXIMUM MATURITY

Maintenance of adequate liquidity to meet HRTAC's cash flow needs is essential. Accordingly, to the extent possible, the Investment Portfolio will be structured in a manner that ensures sufficient cash is available to meet anticipated liquidity needs. Whenever practical, selection of investment maturities will be consistent with known cash requirements in order to minimize the potential for a forced sale of securities in order to provide cash for disbursement needs.

To manage market value volatility, the duration and/or weighted average maturity of the total Investment Portfolio shall not exceed two (2) years.

J. SECURITY DOWNGRADES

In the event that any authorized investment held in the Investment Portfolio is downgraded below the minimum credit rating requirement established in Section G of

this policy, the Executive Director shall be notified immediately and the downgraded security shall be liquidated in 30 days unless the Commission authorizes otherwise.

K. INVESTMENT OF BOND PROCEEDS

HRTAC intends to comply with all applicable sections of the Internal Revenue Code relating to Arbitrage Rebate and the investment of bond proceeds. All investment records will be maintained to ensure compliance with all regulations.

L. SELECTION OF BROKER/DEALERS

The Executive Director will maintain a list of broker/dealers that are approved for investment purposes. All broker/dealers who desire to provide investment services will be provided with current copies of the HRTAC's Investment Policy. Before an organization can provide investment services to HRTAC, it must confirm in writing that it has reviewed the Investment Policy and will not recommend or sell to HRTAC any security that is in conflict with the Policy.

At the request of the Executive Director, broker/dealers will supply HRTAC with information sufficient to adequately evaluate their financial capacity and creditworthiness. The following information will be provided:

- 1) Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines;
- 2) Proof of Financial Institution Regulatory Authority ("FINRA") certification
- 3) Proof of state registration;
- 4) Certification of having read and understood and agreeing to comply with the HRTAC's investment policy;
- 5) Evidence of adequate insurance coverage;
- 6) A sworn statement by an authorized representative of the broker/dealer pledging to adhere to "Capital Adequacy Standards" established by the Federal Reserve Board and acknowledging the broker/dealer understands that the HRTAC has relied upon this pledge; and
- 7) any additional information requested by the Executive Director in evaluating the creditworthiness of the institution.

Only firms meeting the following requirements will be eligible to serve as broker/dealers for HRTAC:

- 1) "Primary" dealers and regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule);
- 2) Capital of at least \$10,000,000;
- 3) Registered as a dealer under the Securities Exchange Act of 1934;
- 4) Member of the Financial Institution Regulatory Authority ("FINRA");
- 5) Registered to sell securities in the Commonwealth of Virginia; and
- 6) Engaged in the business of effecting transactions in U.S. government and agency obligations for at least five (5) consecutive years.

If an external third-party Investment Manager is engaged, the Executive Director may designate that Investment Manger to maintain a list of approved broker/dealers.

M. ENGAGEMENT OF INVESTMENT MANAGERS

HRTAC may engage one or more qualified firms to provide investment management services. All investment management firms who desire to provide investment services to HRTAC will be provided with current copies of the Investment Policy. Before an organization can provide investment services to HRTAC, it must confirm in writing that it has reviewed the Investment Policy and will not purchase for HRTAC any security that, at the time of purchase, is in conflict with the Policy.

Only firms meeting the following requirements will be eligible to serve as investment manager for HRTAC:

- 1) Registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940;
- 2) Must provide to HRTAC an annual updated copy of Form ADV, Part II;
- 3) Must be registered to conduct business in the Commonwealth of Virginia; and
- 4) Must have proven experience in providing investment management services under Code of Virginia §2.2-4500 et seq.

Any firm engaged by HRTAC to provide investment services shall:

- 1) Maintain a list of approved security brokers/dealers selected by creditworthiness who are authorized to provide investment services in the Commonwealth of Virginia;
- 2) Provide monthly reports of transactions and holdings to the Executive Director;
- 3) Provide quarterly performance reports that display investment performance in comparison to HRTAC's investment benchmarks;
- 4) Upon request must show that it has solicited at least three bids for any security purchased or sold on behalf of HRTAC; and
- 5) Not collect any soft dollar fees from any broker/dealer or other financial firm in relation to services provided to HRTAC.

N. COMPETITIVE SELECTION OF INVESTMENT INSTRUMENTS

All securities purchases and sales will be transacted only with designated broker/dealers through a formal and competitive process requiring the solicitation and evaluation of at least three bids/offers, taking into consideration current market conditions. Electronic bids will be accepted. HRTAC or its Investment Manager will accept the bid which: (a) offers the highest rate of return within the maturity required and (b) optimizes the investment objective of the overall Investment Portfolio, including diversification requirements. When selling a security, the bid will be selected that generates the highest sale price, consistent with the diversification requirements.

O. SAFEKEEPING AND CUSTODY

All investment securities purchased by or for HRTAC shall be held by a third-party custodial agent that may not otherwise be counterparty to the investment transaction. The custodial agent shall annually provide a copy of its most recent Statement on Standards for Attestation Engagements (SSAE) No. 16 report.

All securities in HRTAC's Investment Portfolio will be held in the name of HRTAC and will be free and clear of any lien. Further, all investment transactions will be conducted on a delivery-vs.-payment basis. On a monthly basis, the custodial agent will provide reports that list details of all securities held for HRTAC including CUSIP, original cost, and market value as of month-end.

Original copies of non-negotiable certificates of deposit and confirming copies of all other investment transactions must be delivered to HRTAC or its custodial agent.

P. RECORDS AND REPORTS

The Executive Director will review an investment performance report on at least a quarterly basis as provided by external investment managers and pooled investment programs. The Executive Director shall report investment performance to the Commission on a quarterly basis.

In addition to quarterly performance reports, monthly reports of balances and holdings shall be provided to the Commission. The reports shall consist of a summary of cash and investments by depository and manager and a listing of all investments.

Q. PERFORMANCE STANDARDS

The Investment Portfolio will be designed to obtain at least a market level rate of return, given budgetary and economic cycles, commensurate with HRTAC's risk tolerances and cash flow needs. HRTAC's portfolio management approach will be active, allowing periodic restructuring of the Investment Portfolio to take advantage of current and anticipated interest rate movements.

The returns on the Investment Portfolio will be compared on a quarterly basis to indices of U.S. Treasury securities having similar maturities or to other appropriate benchmarks as selected by the Executive Director. For funds having a weighted average maturity greater than 90 days, performance will be computed on a total return basis.

R. INVESTMENT POLICY ADOPTION

This policy was adopted by the Hampton Roads Transportation Accountability Commission, on the 16th day of June, 2016, and was revised by the Hampton Roads Transportation Accountability Commission on the 13th day of December, 2018 and the 20th day of June, 2019. The policy with revised changes will become effective June 20, 2019.


Michael J. Hipple, Chair


Linda T. Johnson, Vice-Chair

Glossary of Terms

Bankers' Acceptance: a draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

Benchmark: a comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

Broker: brings buyers and sellers together for a commission.

Certificate of Deposit (CD): a time deposit with a specific maturity evidenced by a Certificate. Large-denomination CD's are typically negotiable.

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: An unsecured promissory note with a fixed maturity no longer than 270 days. Public offerings are exempt from SEC regulation.

Corporate Notes: Unsecured promissory notes issued by corporations to raise capital.

Dealer: acts as a principal in all transactions, buying and selling for his own account.

Debenture: a bond secured only by the general credit of the issuer.

Delivery versus Payment: delivery of securities with an exchange of money for the securities. (See also "Delivery versus Receipt")

Delivery versus Receipt: delivery of securities with an exchange of a signed receipt for the securities. Also known as "free" delivery. (See also "Delivery versus Payment").

Diversification: allocation investment funds among a variety of securities offering independent returns.

Federal Agency: government sponsored/owned entity created by the U.S. Congress, generally for the purpose of acting as a financial intermediary by borrowing in the marketplace and directing proceeds to specific areas of the economy considered to otherwise have restricted access to credit markets, also referred to as Government Sponsored Enterprises or GSEs. The largest are Ginnie Mae, Fannie Mae, Freddie Mac, Federal Home Loan Banks, Federal Farm Credit Bank, Tennessee Valley Authority.

Federal Funds: funds placed in Federal Reserve Banks by depository institutions in excess of current reserve requirements, and frequently loaned or borrowed on an overnight basis between depository institutions.

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.

Liquidity: the ability of ease with which an asset can be converted 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 transacted at those quotes.

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.

Nationally Recognized Statistical Rating Organization (NRSRO): A credit rating agency which issues credit ratings that the U.S. Securities and Exchange Commission (the "SEC") permits other financial firms to use for certain regulatory purposes. Several examples include Moody's Investor Service, Standard & Poor's and Fitch Ratings.

Portfolio: collection of securities held by an investor.

Primary Dealer: a group of government securities dealers who 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 (SEC)-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.

Repurchase Agreement (RP or REPO): a agreement under which the holder of securities sells these securities to an investor with a commitment to repurchase the securities at a fixed price on a fixed date. The security's "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this.

Safekeeping: a service rendered by banks for a fee whereby securities and valuables of all types and descriptions are held by the bank for protection.

SEC Rule 15C3-1: see "Uniform Net Capital Rule".

Securities and Exchange Commission ("SEC"): agency created by Congress to protect investors in securities transactions by administering securities legislation.

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 Bonds: long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than 10 years.

Treasury Notes: medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to 10 years.

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.

Yield: the rate of annual income return on an investment, expressed as a percentage. Income/current yield is obtained by dividing the current dollar income by the current market price for the security. 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.