



# ERIE COUNTY WATER AUTHORITY

## INTEROFFICE MEMORANDUM

March 24, 2022

To: Jerome D. Schad, Chair  
Peggy A. LaGree, Vice Chair  
Michele M. Iannello, Treasurer

From: Karen A. Prendergast, Chief Financial Officer *KAP*

Subject: Investment Guidelines

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The Investment Guidelines have been amended to reflect a liquidity requirement of one hundred eighty (180) days of budgeted operating expenses be held in unrestricted cash accounts - \$29,968,648 based on the 2022 budget. The previous guideline required 20% of budgeted operating revenue - \$17,853,465 in 2022. Raftelis recommended the change in its presentation to the Board on September 23, 2020, and the new requirement was considered in preparing the 2022 budget.

The Reporting section of the Guidelines have also been amended to allow investment results to be reported to the Board on a quarterly vs monthly basis. The change is requested to accommodate changing Board schedules; however, it is my intention to continue to report each months results at the earliest possible Board meeting.

Please review the amended policy, a resolutions authorizing the Investment Guideline amendment are on the March 24, 2022 meeting agenda for your consideration.

cc T. McCracken  
M. Carney  
J Tomaka

ERIE COUNTY WATER AUTHORITY  
AUTHORIZATION FORM  
For Approval/Execution of Documents  
(check which apply)

**Contract:** \_\_\_\_\_ **Project No.:** \_\_\_\_\_  
**Project Description:** Amend Investment Guidelines

**Item Description:**


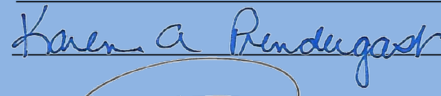

<input type="checkbox"/> Agreement	<input type="checkbox"/> Professional Service Contract	<input type="checkbox"/> Amendment	<input type="checkbox"/> Change Order
<input type="checkbox"/> BCD	<input type="checkbox"/> NYSDOT Agreement	<input type="checkbox"/> Contract Documents	<input type="checkbox"/> Addendum
<input type="checkbox"/> Recommendation for Award of Contract	<input type="checkbox"/> Recommendation to Reject Bids		
<input checked="" type="checkbox"/> Request for Proposals			
<input checked="" type="checkbox"/> Other	<u>Investment Guidelines</u>		

**Action Requested:**


<input type="checkbox"/> Board Authorization to Execute	<input type="checkbox"/> Legal Approval
<input type="checkbox"/> Board Authorization to Award	<input type="checkbox"/> Execution by the Chairman
<input type="checkbox"/> Board Authorization to Advertise for Bids	<input type="checkbox"/> Execution by the Secretary to the Authority
<input type="checkbox"/> Board Authorization to Solicit Request for Proposals	
<input checked="" type="checkbox"/> Other	<u>Approve Investment Guidelines</u>

**Approvals Needed:**

**APPROVED AS TO CONTENT:**

<input checked="" type="checkbox"/> Comptroller		Date: <u>03/16/2022</u>
<input type="checkbox"/> Chief Operating Officer	_____	Date: _____
<input type="checkbox"/> Executive Engineer	_____	Date: _____
<input type="checkbox"/> Director of Administration	_____	Date: _____
<input type="checkbox"/> Dir. of Human Resources	_____	Date: _____
<input checked="" type="checkbox"/> Chief Financial Officer		Date: <u>03/16/2022</u>
<input checked="" type="checkbox"/> Legal		Date: <u>3/16/2022</u>

**APPROVED FOR BOARD RESOLUTION:**

<input checked="" type="checkbox"/> Secretary to the Authority		Date: <u>3/16/22</u>
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**Remarks:** \_\_\_\_\_

**Resolution Date:** \_\_\_\_\_ **Item No:** \_\_\_\_\_

# **ERIE COUNTY WATER AUTHORITY INVESTMENT GUIDELINES**

## **SCOPE**

These investment guidelines apply to all moneys and other financial resources of the Erie County Water Authority (Authority) available for investment, and have been established pursuant to the following:

Public Authorities Law Article 5 §1055,  
Public Authorities Law Article 9 §2925, and  
Erie County Water Authority Bond Covenants

## **OBJECTIVES**

The primary objectives of the Authority's investment activities are, in priority order,

- to conform with all applicable federal, state, and other legal requirements
- to adequately safeguard principal
- to provide sufficient liquidity to meet all operating requirements, and
- to obtain a reasonable rate of return.

## **DELEGATION OF AUTHORITY**

The Authority's Board has delegated responsibility for administration of the investment program to the Chief Financial Officer, who shall establish procedures for the operation of the investment program consistent with these investment guidelines. Such procedures shall include an adequate internal control structure to provide a satisfactory level of accountability based on a data base or records incorporating description and amounts of investments, transaction dates, and other relevant information and regulate the activities of subordinate employees.

## **PRUDENCE**

All participants in the investment process shall seek to act responsibly as custodians of the public trust and shall avoid any transaction that might impair public confidence in the Erie County Water Authority to operate effectively.

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 safety of the principal as well as the probable income to be derived.

All participants 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.

## **DIVERSIFICATION**

It is the policy of the Erie County Water Authority to diversify its deposits and investments by

financial institution, by investment instrument, and by maturity scheduling.

## **LIQUIDITY**

Unrestricted cash will be maintained at one hundred eighty (180) days of budgeted operating expenses. These funds will be invested in accordance with the Authority's Investment Guidelines.

The Authority will maintain operating cash of \$4 million, which will be available on a daily basis. These funds should be in the Authority's NOW accounts or money market accounts for easy access. If the Authority is aware of an event for which additional operating funds will be required, this amount can be adjusted.

The remaining unrestricted cash may be invested until it is needed for operating expenditures. A cash flow schedule should be reviewed to determine how long the funds may be invested. Depending on the economic environment, it may be advantageous to invest these funds on a short-term basis. They can then be reinvested periodically until the funds are required.

## **INTERNAL CONTROLS**

The Chief Financial Officer is responsible for establishing and maintaining an internal control structure to provide reasonable, but not absolute, assurance that deposits and investments are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly, and are managed in compliance with applicable laws and regulations.

## **DESIGNATION OF DEPOSITORIES**

The banks and trust companies authorized for the deposit of monies are:

Bank of America  
Evans Bank, NA  
JP Morgan Chase Bank  
JPMorgan Securities LLC  
Key Bank of New York  
M&T Bank  
Manufacturers & Traders Trust Company/Wilmington Trust, NA  
UBS Financial Services Inc.

## **COLLATERALIZING OF DEPOSITS**

All deposits of the Authority, including certificates of deposit and special time deposits, in excess of the amount insured under the provisions of the Federal Deposit Insurance Act shall be secured by a pledge of eligible securities with an aggregate market value equal to the aggregate amount of deposits from the categories designated in Appendix A to the guidelines.

Alternately, deposits may be collateralized by an irrevocable letter of credit issued in favor of the Authority by a federal home loan bank whose commercial paper and other unsecured short-term debt obligations are rated in the highest rating category by at least one nationally recognized statistical rating organization, as security for the payment of 100 percent of the aggregate amount of deposits and the agreed-upon interest, if any.

At the time investments are made collateral requirements are established to protect the underlying investments. The collateral is monitored daily until the extinguishment of the investments.

Current market values will be reviewed monthly.

## **SAFEKEEPING AND COLLATERALIZATION**

Eligible securities used for collateralizing deposits shall be held by a third-party bank or trust company subject to written security and custodial agreements.

The security agreement shall provide those eligible securities are being pledged to secure the Authority's deposits together with agreed upon interest, if any, and any costs or expenses arising out of the collection of such deposits upon default. It shall also provide the conditions under which the securities may be sold, presented for payment, substituted, or released and the events which will enable the Authority to exercise its rights against the pledged securities. In the event that the securities are not registered or inscribed in the name of the Authority, such securities shall be delivered in a form suitable for transfer or with an assignment in blank to the Erie County Water Authority or its custodial bank.

The custodial agreement shall provide those securities held by the bank or trust company, as agent of and custodian for the Authority, will be kept separate and apart from the general assets of the custodial bank or trust company and will not, in any circumstances, be commingled with or become part of the backing for any other deposit or other liabilities. The agreement should also describe that the custodian shall confirm the receipt, substitution, or release of the securities. The agreement shall provide for the frequency of revaluation of eligible securities and for the substitution of securities when a change in the rating of a security may cause ineligibility. Such agreement shall include all provisions necessary to provide the Authority a perfected interest in the securities.

Securities issued in the Authority's name, for example commercial paper, will also be held by the custodian. These securities may not be released without prior written approval of the Authority.

## **PERMITTED INVESTMENTS**

All investments of the Authority shall comply with:

- The Authority's bond covenants,
  - ✓ Fourth General Water Revenue Bond Resolution dated July 9, 1992
  - ✓ 2003 Supplemental Resolution dated October 31, 2002 (Series 2003F)

- ✓ 2016 Supplemental Resolution dated August 30, 2016 (Series 2016)
  - ✓ 2018 Supplemental Resolution dated June 28, 2018 (Series 2018)
  - ✓ 2021 Supplemental Resolution dated October 28, 2021 (Series 2021 WIFIA Bond)
- All applicable federal and state laws, and
  - Recommendations of the New York State Comptroller.

The Authority's Board authorizes the Chief Financial Officer to invest moneys not required for immediate expenditure for terms not to exceed its projected cash flow needs as follows:

- a. Direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America.
- b. Obligations of any agency, subdivision, department division or instrumentality of the United States of America; or obligations fully guaranteed as to interest and principal by any agency, subdivision, department, division, or instrumentality of the United States of America.
- c. New Housing Authority Bonds issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an annual contributions contract or contracts with the United States of America or any agency thereof; or Project Notes issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America or any agency thereof.
- d. Direct obligations of, or obligations guaranteed as to principal and interest by, any state or direct obligations of any agency or public authority thereof, provided such obligations are rated, at the time of purchase, in one of the two highest rating categories by at least two nationally recognized Bond Rating Agencies.
- e. Bank time deposits evidenced by certificates of deposit and bankers' acceptances issued by any bank or trust company (which may include the Trustee with respect to any series of the Authority's bonds) which is a member of the Federal Deposit Insurance Corporation, provided that such time deposits and bankers' acceptance (a) do not exceed at any one time in the aggregate five percent (5%) of the total of the capital and surplus of such bank or trust company, or (b) are secured by obligations described in items (1), (2), or (3) above, which such obligations at all times have a market value (exclusive of accrued interest) at least equal to such time deposits so secured.
- f. Repurchase agreements with any bank or trust company (which may include the Trustee with respect to any series of the Authority's bonds), which is a member of the Federal Deposit Insurance Corporation, which such agreements are secured by securities which are obligations described in items (1), (2) or (3) above provided that each such repurchase

agreement (a) is in commercially reasonable form and is for a commercially reasonable period, and (b) results in transfer to the Trustee for the Authority's bonds or the Authority of legal title to, or the grant to the Trustee for the Authority's bonds or the Authority of a prior perfected security interest in, identified securities referred to in items (1), (2) or (3) above which are free and clear of any claims by third parties and are segregated in a custodial or trust account held by a third party (other than the repurchaser) as the agent solely of, or in trust solely for the benefit of, the Trustee for the Authority's bonds or the Authority; provided that such securities acquired pursuant to such repurchase agreements shall be valued at the lower of the then current market value of such securities or the repurchase price thereof set forth in the applicable repurchase agreement; and provided that such repurchase agreements comply with the restrictions specified in Section XIV of these guidelines.

- g. Obligations consisting of notes, bonds and debentures which are direct obligations of a solvent corporation existing under the laws of the United States or any state thereof, provided that such investments shall be rated in the two highest rating categories established by at least two nationally recognized bond rating agencies.
- h. Commercial paper which is rated at the time of purchase in the single highest classification, "A-1+" by Standard & Poor's and "P-1" by Moody's Investor Services, and which matures not more than 270 days after the date of purchase.
- i. Certificates or other obligations that evidence ownership of the right to payments of principal of or interest on obligations of the United States of America or any state of the United States of America or any political subdivision thereof or any agency or instrumentality of the United States of America or any state or political subdivision, provided that such obligations shall be held in trust by a bank or trust company or a national banking association meeting the requirements for a Trustee under the Authority's Bond Resolutions, and provided further that, in the case of certificates or other obligations of a state or political subdivision, the payments of all principal of and interest on such certificates or such obligations shall be fully insured or unconditionally guaranteed by, or otherwise unconditionally payable pursuant to a credit support arrangement provided by, one or more financial institutions or insurance companies or associations which shall be rated in the highest rating category by Moody's Investors Service, Inc. and Standard & Poor's Corporation, or, in the case of an insurer providing municipal bond insurance policies insuring the payment, when due, of the principal of and interest on municipal bonds, such insurance policy shall result in such municipal bonds being rated in the highest rating category by Moody's Investors Service, Inc. and Standard & Poor's Corporation.
- j. Investment agreements rated, or the issuer of which is rated, in one of the two highest rating categories by at least two nationally recognized rating agencies and if rated by Moody's Investors Service or Standard & Poor's Corporation such investment agreements or the long-term unsecured debt obligations of the issuer thereof must be rated in one of the two highest rating categories by the respective agency rating such investment agreements.

- k. Bonds, notes, or other evidence of indebtedness rated “AA+” by Standard and Poor’s Corporation and “Aaa” by Moody’s Investor Services issued by the Federal National Mortgage Association (FNMA) or the Federal Home Loan Mortgage Corporation (FHLMC) with remaining maturities not exceeding three years.
- l. Investments in a money market fund rated “AAAm” or “AAAm-G” or better by Standard & Poor’s Corporation.
- m. Such other investments with respect to any Series of Bonds as shall be specified in the supplemental resolution pursuant to which such Series of Bonds was issued.

All investment obligations shall be payable or redeemable at the option of the Erie County Water Authority within such times as the proceeds will be needed to meet expenditures for purposes for which the moneys were provided and, in the case of obligations purchased with the proceeds of bonds or notes, shall be payable or redeemable at the option of the Erie County Water Authority within two years of the date of purchase.

#### **AUTHORIZED FINANCIAL INSTITUTIONS AND DEALERS**

The Authority shall maintain a list of financial institutions and dealers approved for investment purposes. All financial institutions with which the Authority conducts business must be credit worthy. Banks shall provide their most recent Consolidated Report of Condition (Call Report) at the request of the Erie County Water Authority. Security dealers not affiliated with a bank shall be required to be classified as reporting dealers affiliated with the New York Federal Reserve Bank, as primary dealers. The Chief Financial Officer is responsible for evaluating the financial position and maintaining a listing of proposed depositories, trading partners and custodians. Such listing shall be evaluated at least annually.

If the Authority deems it advisable to retain an investment banker, broker, agent, dealer or other investment advisor or agent to transact business with the Authority, it shall establish criteria for said individuals or firms covering the quality, reliability, experience, capitalization, size, and any other factors that at the time the Authority feels pertinent before qualifying said firm to transact business with the Authority.

The Authority must have discretion over all investment transactions and must be supplied with adequate documentation for each transaction. All agreements must comply with the Investment Advisor’s Act of 1940 and applicable New York State and Federal laws. In addition, a separate agreement will be entered into with a third-party custodian to hold all securities purchased by the investment advisor.

See Exhibit I for a list of authorized financial institutions and dealers.



## **PURCHASE OF INVESTMENTS**

The Authority shall enter into a written contract covering each investment made by the Authority unless it shall determine by resolution that a written contract is not practical or that written contracts are not a regular business practice with respect to any specific investment or transaction.

The Chief Financial Officer is authorized to contract for the purchase of investments:

- Directly, including through a repurchase agreement, from an authorized trading partner.
- By participation in a cooperative investment program with another authorized governmental entity pursuant to Section 1054 of the Public Authorities Law where the specific program has been authorized by the Board.
- By utilizing an ongoing investment program with an authorized trading partner pursuant to a contract authorized by the Board.

All investments in U.S. Government Securities shall be kept in book-entry form, and the securities may be retained by the banking institution involved. In such instances, the Authority shall have a duly executed agreement passing title to said securities to the Authority.

The written contract shall fully secure the Authority's financial interest in each investment except where these guidelines describe circumstances where the Authority's financial interest in any investment may be less than fully secured or collateralized.

Said contract shall recite the type and amount of collateral or insurance for each investment.

It shall establish a method of valuation of the collateral at not less than market value. The Chief Financial Officer, or someone delegated to act in his behalf, shall monitor the valuation of the collateral security not less than once every six (6) months and keep a record setting forth the valuation of said collateral security.

All purchased obligations, unless registered or inscribed in the name of the Authority, shall be purchased through, delivered to, and held in the custody of a bank or trust company. Such obligations shall be purchased, sold, or presented for redemption or payment by such bank or trust company only in accordance with prior written authorization from the officer authorized to make the investment. All such transactions shall be confirmed in writing to the Authority by the bank or trust company. Any obligation held in the custody of a bank or trust company shall be held pursuant to a written custodial agreement as described in General Municipal Law, §10.

The custodial agreement shall provide those securities held by the bank or trust company, as agent of and custodian for the Authority, will be kept separate and apart from the general assets of the custodial bank or trust company and will not, in any circumstances, be commingled with or become part of the backing for any other deposit or other liabilities.

The agreement shall describe how the custodian shall confirm the receipt and release of the securities. Such agreement shall include all provisions necessary to provide the Authority a perfected interest in the securities.

## **REPURCHASE AGREEMENTS**

Repurchase agreements are authorized subject to the following restrictions:

- All repurchase agreements must be entered into subject to a Master Repurchase Agreement.
- Trading partners are limited to banks or trust companies authorized to do business in New York State and primary reporting dealers.
- Obligations shall be limited to obligations of the United States of America and obligations guaranteed by agencies of the United States of America.
- No substitution of securities will be allowed.
- The custodian shall be a party other than the trading partner.

Maximum dollars to be invested with each bank or Trust Company is \$30 million except for proceeds received from a banking institution or state authority in relation to issuance of Authority bonds.

## **LOCKBOX**

A written contract must be entered into for lockbox services.

Customer water bill payments processed by a lockbox will be deposited into a Water System Revenue Account. This account will be collateralized in accordance with these guidelines.

## **ON-LINE BANKING SERVICE AGREEMENTS**

The customer water bill payments made on-line with a service organization acting on behalf of the paying bank will be electronically transferred into the Water System Revenue Account. In addition, customer deposits will be transferred into the Customer Deposit Account. These accounts will be collateralized in accordance with these guidelines.

A written contract must be entered into for the transmission of customer payments made on-line.

## **REPORTING**

The Chief Financial Officer of the Authority shall report to the Authority's Board on the investments of the Authority not less than once each quarter.

The independent accounting firm retained by the Authority to perform the yearly audit of the Authority's books and records shall audit the investments of the Authority and make its report available to the members of the Authority at the time the members conduct the annual review and approval of these investment guidelines.

The Chief Financial Officer shall annually prepare for approval by resolution of the Authority an investment report which shall include these investment guidelines, any amendments to such guidelines since the last investment report, the results of the annual independent audit of the schedule of investments, and a list of the total fees, commissions or other charges paid to each investment banker, broker, agent, dealer or advisor rendering investment associated services to the Authority since the last investment report. This investment report may be made a part of the Authority's annual report to the Authorities Budget Office.

## APPENDIX A

### Schedule of Eligible Securities for Collateralization of Deposits

- Obligations issued, or fully insured or guaranteed as to the payment of principal and interest, by the United States of America, an agency thereof or a United States government sponsored corporation.
- Obligations issued or fully guaranteed by the International Bank for Reconstruction and Development, the Inter-American Development Bank, the Asian Development Bank, and the African Development Bank.
- Obligations partially insured or guaranteed by any agency of the United States of America, at a proportion of the Market Value of the obligation that represents the amount of the insurance or guaranty.
- Obligations issued or fully insured or guaranteed by the State of New York, obligations issued by a municipal corporation, school district or district corporation of such State or obligations of any public benefit corporation which under a specific State statute may be accepted as security for deposit of public moneys.
- Currency of the United State of America which constitutes legal tender

## **EXHIBIT I**

### Authorized Financial Institutions and Dealers:

Bank of America  
Bank of New York Mellon  
Capital Markets Advisors, LLC  
Evans Bank, N.A.  
Federal Home Loan Bank of New York  
Fitch Ratings  
Jefferies LLC  
JPMorgan Chase Bank  
JPMorgan Securities LLC  
Key Bank of New York  
M&T Bank  
Manufacturers & Traders Trust Company/Wilmington Trust, NA  
Moody's Investors Service  
New York State Environment Facilities Corporation  
Paymentus Corporation  
Standard & Poor's Rating Services  
UBS Financial Services Inc.  
United States Treasury