

**ALBANY WATER BOARD AND
ALBANY MUNICIPAL WATER FINANCE AUTHORITY
INVESTMENT POLICY**

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**ALBANY WATER BOARD AND
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INVESTMENT PROGRAM OVERVIEW

The Albany Water Board and the Albany Municipal Water Finance Authority are responsible for combined investments of approximately \$10 million which are deposited under various funds, many of which are mandated by bond resolutions. Approximately 30 to 50 investment transactions are made annually.

The Board/Authority bond resolutions authorize investments in obligations of, or guaranteed by, the United States of America or the State of New York. Demand and time deposits, money market instruments, commercial paper, and bankers acceptances can be placed with banks and must be secured by direct obligations of the United States or the State of New York having a market value at least equal to the deposit. Certain corporate obligations may also be purchased. These statutory investment requirements serve as the basic guidelines followed for all Board/Authority investments.

Any New York State based bank or Trust Company may be designated as the Board/Authority's custodian and third party fiduciary of collateral held in escrow for demand and time deposits and money market accounts. This banking institution may also hold, in safe keeping, United States Government securities purchased by the Board/Authority including securities purchased under resale agreements.

It is the Board/Authority's policy to purchase securities with the intention of holding them to maturity. In addition to the security of funds invested, the objective of the investment program is to maximize investment income through interest earnings.

Knowledge of market conditions is maintained daily by the Board/Authority's investment advisors. Current interest yield by type of investment, together with forecasted future interest trends are reviewed and analyzed to determine investment policies that will maximize earnings. As a result, the Board/Authority's concentration of investments between U.S. obligations, time deposits, and other investments may vary depending on market yields between these types of investments.

To ensure cash availability, disbursement requirements are continually updated and monthly cash requirements for operating and maintenance expenses are projected. Additionally, forecasts of construction disbursements are made using work completion projections prepared by the Board/Authority's consulting engineer and the City of Albany. Investments for one month or less are generally made in time deposits, certificates of deposit, money market accounts, repurchase agreements, and treasury bills with maturities coinciding with operating and projected contract payment needs. Longer term investments are principally made in U.S. Treasury's, with maturities allowing for cash availability during the construction season, on debt service payment dates, and other periods requiring large cash availability.

Market conditions and cash flow requirements are considered in determining the term of an investment. In addition, rates offered by institutions are often contingent on the length of time funds are required by them. As a result, depositories often request a specific term for the investment which is agreeable to the Board/Authority and/or its investment advisors because of the attractive rate offer. The term of the investment is also influenced by the maturity dates of other investments. Thus, an over concentration of short or long-term maturities is avoided.

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GENERAL POLICY

The Albany Water Board initially approved this written investment policy on January 5, 1989.

The Albany Municipal Water Finance Authority initially approved this investment policy on December 1, 1988.

This policy is reviewed on an annual basis by the investment advisor and both Boards, and updated as necessary to reflect changes in available investment opportunities and market conditions, or as a result of recommendations from the periodic evaluation of performance of the investment program or any audits of the investment program. The investment policy is reviewed annually by monitoring the system of internal controls, consultation with the investment advisor, verifying relevant matters relating to securities purchased or held as collateral, determining that the investment results are consistent with the Boards objectives, and reviewing the independent audit of the investment programs.

INVESTMENT OBJECTIVES

The basic investment objectives of the Board and the Authority provide for the protection of funds by investing as outlined by the Bond Resolution, for the preservation of principal, for the proper application of funds, for the maintenance of demand bank balances at minimum levels consistent with sound operations, and for the maximization of income from all Board and Authority funds available for investment.

The Board and the Authority invests funds according to projected operating and capital expenditures. The purpose in this regard is to determine the appropriate portions of the funds that may be invested to mature at times when cash funds are needed for operations, maintenance, and capital expenditures.

GENERAL BOND RESOLUTION

The General Bond Resolution of the Albany Municipal Water Finance Authority, and the policies followed by the Albany Water Board, permit the following investments:

- New York State Obligations - These include direct obligations of, or obligations guaranteed as to the principal and interest by, the State of New York, or direct obligations of any state agency or public authority, provided such obligations are rated, at the time of purchase, in one of the two highest rating categories by a rating agency.

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- United States Obligations - These consist of any bonds or other obligations which, as to principal and interest, constitute direct obligations of, or guaranteed by, the United States of America, including obligations of any agency thereto or corporation which has been, or may hereafter, be created pursuant to an act of Congress as an agency or instrumentality of the United States of America. Additionally, United States obligations include any other receipt, certificate or other evidence of any ownership interest and obligations or in specified portions thereof (which may consist of specified portions of the interest thereon) of the character described in the previous sentence. (It is the policy of the Board/Authority that investments in money market or mutual funds, where the investment vehicle is not delivered, will be fully collateralized by United States obligations.) The United States obligations are of any agency, subdivision, department, division or instrumentality of the United States of America or obligations fully guaranteed as to the interest and principal by an agency, subdivision, department, division, or instrumentality of the United States of America.

- Bankers Acceptances - These can be issued by a commercial bank with its principal place of business within the State of New York and having a combined capital and surplus of more than \$25 million.

- Corporate Securities - These include commercial paper and fixed income obligations, which are, at the time of purchase, rated by a rating agency in its highest rating category for comparable types of obligations.

- Certificates of Deposit - Certificates of deposit can be purchased provided they are secured at all times by collateral consisting of United States obligations.

- Savings Accounts or Deposit Accounts - Savings accounts or deposit accounts can be used when they are fully insured by an agency of the U.S. Government.

- Repurchase Agreements - Repurchase agreements can be purchased provided they are fully collateralized by any one or more of direct obligations of the United States of America. Repurchase agreements shall not be for any periods in excess of 90 days. Repurchase agreements can only be entered into provided for the Authority or its Trustee take physical possession of collateral or be named the record owner of collateral held by the Federal Reserve Bank of New York. Collateral agreements must be entered into between the Authority, or the Trustee, and either a bank or trust company organized under the laws of the state or the United States of America, which is a member of the Federal Reserve System and the FDIC, having capital of not less than \$25 million, or a government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York.

Notwithstanding the above, no security shall be purchased, regardless of issuer, if it is generally considered by investment professionals to be a risky derivative security.

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TYPES OF BOARD AND AUTHORITY AUTHORIZED INVESTMENTS

The policy of the Board/Authority is to restrict investments to the following:

United States Government Securities

<u>Investment Type</u>	<u>Description</u>
Treasury Notes	Treasury Notes are usually obligations issued with a maturity of not less than 1 year, or more than 10 years, and paying interest semi-annually at a specific rate.
Treasury Bills	Treasury Bills are short term obligations issued with a maturity not exceeding 1 year. These are non-interest bearing securities which are issued on a discount basis.
Obligations of Federal Agencies	Obligations of Federal Agencies will be obligations issued with a maturity of not less than 1 year or more than 10 years, and paying interest semi-annually at a specific rate or, if non-interest bearing, on a discounted basis.

Repurchase Agreements

Repurchase agreements permitting earnings on funds which otherwise would remain temporarily idle will be entered into, but only in obligations of, or guaranteed by, the United States of America. Repurchase agreements are where the seller simultaneously agrees to repurchase such securities at a stated price on a fixed future date. The seller will issue and deliver to the Board/Authority, or its custodian, on the initial date of the transaction a confirmation of any sales and purchase orders. All repurchase agreements must be secured with the Board/Authority's custodian with direct obligations of the United States or the State of New York, the market value of which must be at least equal to the amount of the deposit.

Money Market Accounts

Money market accounts permitting earnings on funds, may be entered into, but only in obligations of or guaranteed by the United States of America. The funds can be bought and sold on a daily basis and earn interest based on the mix of the pool. All money market accounts must be secured with the Board/Authority's custodian with direct obligations of the United States or the State of New York, the market value of which must be at least equal to the amount of the deposit.

Certificates of Deposit

Certificates of deposits are investments of over 7 days from specific funds on an agreed amount, maturity, and stipulated interest rates. Maturities generally are up to 360 days. All certificates of deposit must be secured with the Board/Authority's custodian with direct obligations of the United States or the State of New York, the market value of which must be at least equal to the amount of the deposit.

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DIVERSIFICATION OF INVESTMENTS

Funds in the Debt Service, Construction, and Debt Service Reserve Funds must be held by the Trustee. Inasmuch as the balance in the Debt Service Fund represents accrued debt service for the current year, investments in this fund are short-term. When money market rates are higher than comparable termed U.S. Treasury obligations, the funds will remain invested in money market funds; otherwise Treasuries are purchased. (Additionally, funds which have been budgeted to be utilized within the next fiscal year are held in money market accounts, due to liquidity.)

The Board/Authority's Operating and Maintenance Reserves represent a significant portion of the investment portfolio and are generally required for longer term disbursements. Investments maturing within 18 months are normally made with these funds. Longer investments are permitted if, in the opinion of the investment advisor, a higher rate of return will be earned for the period of the investment versus rolling over shorter term investments. In any event, no investment will have a final maturity or rate adjustment date longer than five years. As a result, the portfolio relationship of U.S. Treasuries and money market funds will vary depending on market conditions. Working capital and the Operation and Maintenance Fund is invested in short-term certificates of deposit or repurchase agreements. Portfolio diversification of approximately 70% of U.S. Treasuries, including repurchase agreements, and 30% for time deposits are general investment concentration guidelines.

Investments in certificates of deposit are made only with banks. Their annual reports are reviewed by the Board/Authority's investment advisor to determine satisfactory financial strength.

Purchases of United States obligations require the seller to transfer securities to the Board/Authority custodian, Key Trust. The financial strength of the dealer or bank is not a factor in the purchase of securities inasmuch as they are only the seller of Treasury obligations which are transferred through the Federal Reserve Bank.

The Board/Authority enter into repurchase agreements only with dealers or banks on the Federal Reserve's most recent list of primary reporting dealers and government securities and executes a written agreement with each dealer bank prior to any such investment transaction.

The Board/Authority's general policy is to limit investment concentration in certificates of deposit, repurchase agreements, and money market accounts with any one financial institution to no more than 30% of the Board/Authority's combined total investment portfolio. (This general policy does not apply to the Trustee because of the trustee relationship.)

INVESTMENT MANAGEMENT

All investment transactions are reviewed and approved by an investment advisor who has been designated by both Boards. Investment decisions can only be authorized by the Chairman of the Albany Water Board, the Chairman of the Albany Municipal Water Finance Authority, and the investment advisor.

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INTERNAL CONTROL AND PROCEDURES

The operating procedures for the Board/Authority provide for the separation of authorization and accounting functions. Both of these activities are maintained separately from the custodial function. On an annual basis, the Board/Authority will review investment information, which consists of descriptions and amounts of investments, transaction dates, interest rates, maturities, collateral arrangements, and market prices as prepared by the investment advisor. Additionally, both Boards will review and oversee this reporting process and information through monthly financial reporting.

INVESTMENT PROCEDURES AND CONTRACTS

United States Government Securities

When purchasing United States Government Securities (Bills, Notes, and Bonds), the Board/Authority (or its investment advisor) will contact various security dealers or banks for the best rate offered for the investment. When a determination is made regarding which dealer or bank the Board/Authority will make the purchase from, funds will be transferred to the agent. The agent releases the funds covering the purchase only after advice from the Federal Reserve Bank that the securities have been received through Federal Reserve book entry. The agent receives advice per 'Fedwire' that their security account at the Federal Reserve Bank has been credited and their cash position at the Federal Reserve Bank is charged.

Certificates of Deposit

When certificates of deposit are purchased, determination is made regarding the length of time for which the investment should be purchased. In order to determine current market rates, interest rate quotations are obtained from at least two banks. The determination regarding which banks are to be contacted is based upon the availability of collateral and the amount of monies already invested with the bank. Funds are generally invested with the bank paying the highest rate of interest, providing there is sufficient collateral to cover such investment. Funds to cover the certificate of deposit are wired directly to the bank in which the certificate of deposit is purchased. There are two written agreements executed between the Board/Authority in each bank. These agreements are an "undertaking" and an "assignment of securities." These agreements commit the bank from which the Board/Authority has purchased a certificate of deposit to hold harmless the Board/Authority for any loss of funds. Only with the approval of the Board/Authority are adjustments made in the amount of collateral. Collateral is priced to insure the market value of securities pledged is equal to or greater than the amount invested in certificates of deposit. When the market value of the collateral is not sufficient to cover the investments currently held, additional collateral is immediately pledged.

When a certificate of deposit matures, and the funds are not immediately needed, they are generally rolled over with the same bank. However, if the bank is not paying the highest interest rate quoted by other banks, they are requested to match the highest rate. If this requirement cannot be met, the funds are transferred to another bank or invested in United States Government Securities.

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Repurchase Agreements

The Board/Authority enters into repurchase agreements with those banks or brokers appearing on the Federal Reserve Bank's most current list of primary reporting dealers and government securities. In addition, the Board/Authority enters into a written agreement with each bank or broker prior to investing in repurchase agreements. The written agreement commits the broker or bank to the repurchase of securities and provides for the Board/Authority's right to sell the securities should the bank or broker default at the time the repurchase agreement matures.

When a repurchase agreement investment is made by the Board/Authority, the funds are wired to the Trustee. The Trustee will release the funds covering the purchase only after the securities (direct obligations of or guaranteed by the United States Government or New York State) are received by their investment custodian, or upon advice from the Federal Reserve Bank that securities have been received through Federal Reserve book entry. The requirement is for payment only against delivery, which is the same requirement used when Treasury Securities are purchased outright. The Board/Authority also receives written confirmation of the securities purchased underlying the repurchase agreement. The description of the securities is provided at the time the investment is made to enable the Board/Authority to price the securities and determine that the market value is sufficient to cover the principal and interest payment to be made at maturity.

During the term of repurchase agreement, the Board/Authority does not allow the bank or broker to substitute securities for the original securities purchased. This prohibition reinforces the Board/Authority's position that the transaction is a bona fide sale and delivery of securities against payment, and not collateral for the purpose of securing a loan. These securities are priced at current market value, including accrued interest, which further reinforces the position that the securities are purchased.

Repurchase agreements may be made for overnight investments for periods generally not to exceed 30 days. This requirement protects the Board/Authority from significant fluctuations occurring in the market value of securities. If the market value is not equal to the amount of the investment and the interest to be paid at maturity, additional securities are delivered to cover the investment.

COLLATERALIZATION

The availability of appropriate collateral influences the type of investment and the bank in which an investment is placed. The collateral for investments for the Board/Authority will be limited to direct obligations of the United States Government or New York State. The collateral is generally held by the Trustee in the Board/Authority's name. All demand deposits, time deposits, certificates of deposit, and money market accounts will be collateralized for amounts over and above Federal Deposit Insurance Company or other applicable coverage. The market value and accrued interest of the collateral will equal the value of the investment and any accrued interest at all times. The recorded value of the collateral backing any investment will be compared with current market values at the time of the initial investment and on a monthly basis, to be certain that it continues to be a least equal to the value of the investment plus accrued interest. Each bank that provides collateral will enter into an agreement with the Board/Authority which provides for, among other things, (1) which collateral may be substituted and (2) that the custodian is holding the securities solely for the benefit of the Board/Authority and makes no claim thereto.

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PERFORMANCE EVALUATION AND AUDIT

The Board and Authority's investment advisor will prepare written quarterly reports on the performance of the investments and the related collateral information. In addition, investments will be reviewed on a monthly basis through reporting prepared by the Board/Authority's independent accountants. The reporting process will provide for a means for the Boards to jointly evaluate the investment performance and evaluate compliance with the investment program. On an annual basis, the Board/Authority will have an annual independent audit of all investments performed in accordance with Section 2925 of the Public Authority's Law.

REPORTING

The following reports will be prepared as described:

- Quarterly Investment Reports to the Boards - On behalf of the Board/Authority, the investment advisor will prepare a quarterly financial report for the Boards. The report will indicate, among other financial information, the inventory of existing investments, including collateral information. The investment advisor will also meet quarterly with the Board/Authority to review investments and other matters.

- Financial Statements - The Board/Authority's annual financial statements will contain all of the footnote disclosures on deposits with the financial institutions and investments required by the Government Accounting Standards Board Statement No. 3 "Deposits With Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements."

- Annual Investment Report - An annual investment report will be prepared which includes the investment guidelines required by Section 2925 of the Office of the State Comptroller, and any amendments to such guidelines since the last investment report, the results of the annual independent audit, the investment income record of the Board/Authority, and a list of total fees, commissions or other charges paid to each investment advisor.

