

# **State Public School Building Authority Investment Policy**

## **Background and Purpose of Policy**

The statutory language in the State Public School Building Authority's (SPSBA) enabling Act of 1947 (24 P.S. § 791.1 *et seq.*) is disjunctive with respect to current investment procedures and best practices. SPSBA's Board and management have determined that there is a continuing need for a reasonable and prudent investment policy that will provide clear guidelines concerning investment objectives, goals, strategy, and restrictions.

This formally re-approved and adopted investment policy (Policy) is designed to provide guidance for adherence to SPSBA's general powers as set forth in the Act in view of modern investment practices as well as to set parameters for future investments. The Policy only applies to SPSBA funds and not bond funds held in trust. Bond issue investments must comply with specific trust indentures.

SPSBA provides for its own operation and the operation of the Pennsylvania Higher Educational Facilities Authority (PHEFA). All administrative fees collected by PHEFA are deposited directly into SPSBA's Administrative Fund in exchange for all management and administrative services received and operating expenses paid by SPSBA. Since all assets reside with SPSBA, PHEFA does not have a separate investment policy.

For purposes of this investment policy, the term "Executive Director" shall refer to an individual formally approved by the Board to serve as Executive Director or as Acting Executive Director.

## **Investment Authority and Board Oversight**

While SPSBA's Comptroller is responsible for investment decisions, the Board shall have direct oversight over such decisions. The Comptroller's investment decisions must be discussed with and reviewed by the Executive Director. The Comptroller and Executive Director shall ensure that investment decisions are made in accordance with the Policy. The Comptroller shall prepare a quarterly report for the Board detailing investment decisions made during that period. This report shall be reviewed and discussed during a public meeting of SPSBA.

## **Ethics and Conflicts of Interest**

SPSBA's staff involved with the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, impair their ability to make impartial decisions, or be perceived to be a conflict of interest. The Board members, Board proxies/designees, the Comptroller, and the Executive Director shall file a Statement of Financial Interest on an annual basis as required by the Public Official and Employee Ethics Act (65 Pa.C.S. § 1101 *et seq.*).

## **Approval and Annual Review of Investment Policy**

The Policy shall be formally approved and adopted by the Board and annually reviewed and revised as necessary.

## Investment Objectives

In priority order, the objectives of the Policy are safety, liquidity, and yield.

**Safety** - Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. This is accomplished by limiting investments to only those listed in the permissible investment section of the Policy.

**Liquidity** - The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature on a regular basis and maintaining a portion of the portfolio in the State Treasurer's Investment Pool which offers same-day liquidity.

**Yield** - The investment portfolio shall be designed to achieve a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above.

**Permissible Investments** - include any of the following:

- a) U.S. Treasury obligations which carry the full faith and credit guarantee of the U.S. government and are considered to be the most secure instruments available; and
- b) U.S. government agency and instrumentality obligations that have a liquid market with a readily determinable market value provided that no more than 5% of the overall portfolio be invested in the securities of a single issuer as defined in the concentration risk section of the Policy; and
- c) investments in money market funds rated "AAAm" or "AAAm-G" or better by S&P, which would include the State Treasurer's Investment Pool; and
- d) certificates of deposit, time deposit agreements or other comparable banking arrangements, whether negotiable or nonnegotiable, issued by any bank, trust company or national banking association, provided that such investments are fully insured by the Federal Deposit Insurance Corporation (FDIC) or collateralized with securities held by a third-party trust in accordance with state law concerning public deposits, which allows pooling of public accounts into a single collateral pool.

## Prohibited Investments

Any investment not expressly listed as permitted is **prohibited**. Prohibited investments include, but are not limited to, any type of swap, derivative instrument, or stock option of a corporation created by an act of Congress.

## Investment Strategy

SPSBA will maintain a laddered fixed investment portfolio taking into account the liquidity needs of the Administrative and Revolving Loan funds. SPSBA's laddered portfolio consists of fixed investments with original maturities ranging from one to five years. To maintain the ladder, SPSBA will annually purchase an investment with a five year maturity. In the event a five year maturity is unavailable, SPSBA will purchase the longest available maturity not exceeding five years. Using this strategy, SPSBA will invest in higher yielding longer term investments while still receiving a steady flow of investment income and reducing interest rate risk. The maximum maturity for an investment is five years from the date of purchase.

**Types of Risk** - includes credit risk, custodial credit risk, concentration risk, interest rate risk, and foreign currency risk.

**Credit Risk** - is the risk that an issuer or other counterparty to an investment will not be able to fulfill its obligations.

- SPSBA minimizes credit risk by limiting investments to only those listed in the permissible investment section.

**Custodial Credit Risk for Deposits** - is the risk that, in the event of a bank failure, SPSBA's deposits may not be recovered.

- Deposits, which would include certificates of deposit, shall be FDIC insured or collateralized. Collateral for SPSBA's certificates of deposit shall be held at the Federal Reserve in either the name of the SPSBA or the Commonwealth of Pennsylvania. Short term deposits, not qualified for FDIC insurance, shall be collateralized with securities held by a third-party trust in accordance with Act 72 of 1971 (72 P.S. § 3836-1 *et seq.*, as amended). This statute provides for a standardized procedure for pledging assets to secure deposits of public funds (i.e., the pooling of assets).

**Custodial Credit Risk for Cash Equivalents and Investments** - is the risk that, in the event of the failure of the counterparty, SPSBA will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

- Cash equivalents shall be invested in the State Treasurer's Investment Pool. Investments in U.S. Treasury and U.S. government agency obligations shall be maintained in a safekeeping account and held by a financial institution in SPSBA's name. The financial institution must have a minimum capital (equity) balance of \$25,000,000 and at least five years of operation.

**Concentration Risk** - is the risk of investing an inappropriate portion of funds with one issuer.

- SPSBA's permissible investments are restricted as to avoid investment losses by a specific issuer. No more than 5% of the overall portfolio may be invested in the securities of a single issuer, except for investments that bear the full faith and credit of the U.S. government or are fully collateralized or insured or invested in the State Treasurer's Investment Pool.

**Interest Rate Risk** - is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates.

- SPSBA limits interest rate risk by investing in a laddered portfolio of fixed investments and maintaining sufficient short term investments to meet operating needs.

**Foreign Currency Risk** - is the risk of currency fluctuations in investments that are held in a currency other than the U.S. dollar.

- SPSBA does not hold investments denominated in a foreign currency and foreign currency is not a permissible investment.

**This Policy was approved and adopted by the Board on 1/14/10. The most recent annual review of the Policy occurred on 7/19/17.**