

SECTION: FINANCES

TITLE: Investment of District Funds

THE SCHOOL DISTRICT OF PHILADELPHIA

ADOPTED: October 5, 2011

REVISED: June 15, 2017

609 INVESTMENT OF DISTRICT FUNDS

Purpose

It shall be the policy of the School Reform Commission to optimize its return on funds available for investment through investment of cash balances in such a way as to minimize non-invested balances and to maximize return on investments consistent with the following principles:

Legality - All investments shall be made in accordance with applicable laws of Pennsylvania, the School District Investment Resolution, and applicable SRC policy.

Safety – Preservation of principal shall be of highest priority. Preservation of principal in the portfolio of investments shall be ensured by diversification and other means of minimizing credit risk, including avoidance of concentration of credit risk, market risk and interest rate risk, and by thoroughly investigating and reviewing the performance of all investment providers and professionals.

Liquidity - Investments shall remain sufficiently liquid to meet all operating requirements that are reasonably anticipated. A fiscal year operations anticipated cash flow shall be developed so that investments can be made as early as possible, with maturities consistent with anticipated cash demands.

Yield - Investments shall be made with the objective of attaining a market-average rate of return throughout the budgetary and economic cycles, taking into account investment risk constraints and liquidity needs.

Authority

All investments of the school district shall be made only by an officer and/or employee of the district who is authorized to do so and shall be made in accordance with this policy, applicable Pennsylvania law, the School District Investment Resolution and an annual investment plan approved by the SRC. [\[1\]](#)[\[2\]](#)[\[3\]](#)[\[4\]](#)[\[5\]](#)[\[6\]](#)[\[7\]](#)

Definitions

Act 10 Permissible Investments – Any type of investment permitted under Act 10 of March 25, 2016, (53 P.S. Sec. 5406, 5410.1) that is not among the types of investments permitted under Section 440.1 of the Public School Code of 1949, Act of March 10, 1949, (P.L. 30, No. 14) as last amended by the Act of June 30, 1995, (P.L. 220, No. 26).[\[1\]\[5\]\[6\]](#)

School Code Permissible Investments – Any investment permitted under Section 440.1 of the Public School Code of 1949, Act of March 10, 1949, (P.L. 30, No. 14) as last amended by the Act of June 30, 1995, (P.L. 220, No. 26).[\[1\]](#)

Short-term – Any period thirteen (13) months or less.

Long-term – Any period exceeding forty-eight (48) months' duration.

Mid-range – Any period between short-term and long-term.

Bankers' acceptances – Bankers' acceptances generally are created based on a letter of credit issued in a foreign trade transaction. Bankers' acceptances are short-term, non-interest-bearing notes sold at a discount and redeemed by the accepting banks at maturity for face value.

Collateral – Security pledged by a financial institution to a governmental entity for its deposit.[\[8\]](#)

Commercial paper – An unsecured promissory note issued primarily by corporations for a specific amount and maturing on a specific day. The maximum maturity for commercial paper is 270 days, but most is sold with maturities of up to thirty (30) days. Almost all commercial paper is rated as to credit risk by rating services.

Concentration of credit risk – The risk of loss attributed to the magnitude of a government's investment in a single issuer, pool, institution, or instrument.

Counterparty – Another party to a transaction. In the case of deposits and investments made by governmental entities, a counterparty could be the issuer of a security, a financial institution holding a deposit, a broker-dealer selling securities, or a third party holding securities or collateral.

Credit risk – The risk that a counterparty to an investment transaction will not fulfill its obligations. Overall credit risk can be associated with the issuer of a security, with a financial institution holding deposits, or with a party holding securities or collateral. Credit risk exposure can be affected by a concentration of deposits or investments in any one (1) investment type or with any one (1) counterparty.

Custodial credit risk – The custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

Foreign currency risk – The risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. Investments depending on substantial overseas activities or markets may present related foreign currency risk.

Interest rate risk – The risk that changes in interest rates will adversely affect the fair value of an investment.

Issuer – The entity that has the authority to distribute a security or other investment. A bond issuer is the entity that is legally obligated to make principal and interest payments to bond holders. In the case of mutual funds, external investment pools, and other pooled investments, issuer refers to the entity invested in, not the investment company-manager or pool sponsor.

Investment plan – The specifically enumerated investment program/strategy approved annually by the SRC.

Local Government Investment Pool (LGIP) – An investment trust or pool organized by groups of political subdivisions or municipal authorities pursuant to Section 521 of the Public School Code of 1949, or pursuant to the Intergovernmental Cooperation Law, 53 Pa. C.S.A. Sec. 2301 et seq., for the purpose of investing funds of such political subdivisions or municipal authorities for their exclusive benefit and in accordance with the laws governing their permissible investments. LGIPs include, but are not limited to, the Pennsylvania School District Liquid Asset Fund (PSDLAF), the Pennsylvania Local Government Investment Trust (PLGIT), and for purposes of this policy, the PA INVEST program operated by the Pennsylvania Treasury Department. [\[10\]\[9\]](#)

Market risk – The risk that the market value of an investment, collateral protecting a deposit, or securities underlying a repurchase agreement will decline. Market risk is affected by the length to maturity of a security, the need to liquidate a security before maturity, the extent that collateral exceeds the amount invested, and the frequency at which the amount of collateral is adjusted for changing market values.

Repurchase agreement –

- a. An agreement in which a governmental entity (buyer-lender) transfers cash to a broker-dealer or financial institution (seller-borrower); the broker-dealer or financial institution transfers securities to the entity and promises to repay the cash plus interest in exchange for the same securities.
- b. A generic term for an agreement in which a governmental entity (buyer-lender) transfers cash to a broker-dealer or financial institution (seller-borrower); the broker-dealer or financial institution transfers securities to the entity and promises to repay the cash plus interest in exchange for the same securities (as in definition (a) above) or for different securities.

Weighted average maturity – A weighted average maturity measure expresses investment time horizons—the time when investments become due and payable—in years or months, weighted to reflect the dollar size of individual investments within an investment type.

Delegation of Responsibility

The SRC shall designate an Investment Officer, who shall manage the district's investment program in accordance with this policy, related procedures, applicable laws and the annual investment plan approved by the SRC.[\[1\]](#)

The Investment Officer shall prepare, for approval of the SRC, an annual investment plan for all general and segregated/designated funds of the district (i.e., general, capital reserve, bond, etc.), including bond proceeds, taking into account the anticipated liquidity needs of each fund.

The plan may provide for moneys from more than one (1) fund under school district control for the purchase of any single investment, provided that each of the funds combined for the purpose shall be accounted for separately in all respects and that the earnings from the investment are separately and individually computed and recorded, and credited to the accounts from which the investment was purchased.

The plan shall not encompass the investment of any separately managed student activity or class-related funds.

The annual investment plan shall be submitted to the SRC for review and approval no later than sixty (60) days after adoption of the annual budget.

The Investment Officer shall report quarterly to the SRC the following:[\[1\]\[1\]](#)

1. Amount of funds invested.
2. Interest earned and received that quarter.
3. Types and amounts of each investment and the interest rate on each.
4. Names of the institutions where investments are placed.
5. The means by which any deposits exceeding insurance limits are collateralized.
6. Other information required by the SRC.

This report may, but is not required to, include the information regarding depository balances, earnings and transactions required by the School Code to be reported to the SRC monthly as set forth in Policy 608.[\[12\]\[7\]](#)

The SRC directs the Superintendent and Investment Officer to develop, for approval by the SRC as an appendix to this policy, specific due diligence and risk mitigation measures for:

1. Evaluating and mitigating the risks associated with each investment;
2. Investigating, selecting and evaluating the performance of investment advisors and investment professionals;

3. Specifying standards for audits of investment transactions; and
4. Determining the qualifications, training, standards and disclosures required for district employees performing functions relating to the district's investment program.

Guidelines

Investments permitted by this policy are those defined in law and enumerated in this policy that are appropriately collateralized in accordance with this policy and applicable laws. [\[1\]\[8\]](#)

School Code Permissible Investments

1. United States Treasury bills.
2. Short-term obligations of the United States Government or its agencies or instrumentalities.
3. Deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation (FDIC) or the Federal Savings and Loan Insurance Corporation (FSLIC) or the National Credit Union Share Insurance Fund (NCUSIF) to the extent that such accounts are so insured, and, for any amounts above the insured maximum, provided that approved collateral as provided by law therefore shall be pledged by the depository.
4. Obligations of the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth, or of any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.
5. Shares of an investment company registered under the Investment Company Act of 1940 (54 Stat. 789, 15 U.S.C. Sec. 80a-1 et seq.), whose shares are registered under the Securities Act of 1933 (48 Stat. 74, 15 U.S.C. Sec. 77a et seq.). Provided, that the following are met: [\[13\]](#)
 - a. The only investments of that company are in the authorized investments for school district funds listed in items 1 through 4 above and repurchase agreements fully collateralized by such investments.
 - b. The investment company is managed so as to maintain its shares at a constant net asset value in accordance with 17 CFR Sec. 270 2a-7 (relating to money market funds).

- c. The investment company is rated in the highest category by a nationally recognized statistical rating organization.
6. Local Government Investment Pools (LGIPs) as defined in this policy.
7. Repurchase agreements with respect to U.S. Treasury bills or obligations, participations or other instruments of or guaranteed by the U.S. or any federal agency, instrumentality or U.S. government-sponsored enterprise.

Act 10 Permissible Investments

1. Obligations, participations or other instruments of any federal agency, instrumentality or U.S. government-sponsored enterprise if the debt obligations are rated at least "A" or its equivalent by at least two (2) nationally recognized statistical ratings organizations.
2. Commercial paper issued by corporations or other business entities organized in accordance with federal or state law, with a maturity not to exceed 270 days, if the issuing corporation or business entity is rated in the top short-term category by at least two (2) nationally recognized statistical ratings organizations.
3. Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers' acceptances, if the bankers' acceptances do not exceed 180 days maturity and the accepting bank is rated in the top short-term category by at least two (2) nationally recognized statistical ratings organizations.
4. Shares of an investment company registered under the Investment Company Act of 1940 (54 Stat. 789, 15 U.S.C. Sec. 80a-1 et seq.) whose shares are registered under the Securities Act of 1933 (48 Stat. 74, 15 U.S.C. Sec. 77a et seq.), if all of the following conditions are met:
 - a. The investments of the company are the authorized investments under 53 P.S. §5410.1, subsection (a) (Act 10, Section 1.1(a)).
 - b. The investment company is managed in accordance with 17 CFR Sec. 270.2a-7 (relating to money market funds).
 - c. The investment company is rated in the highest category by a nationally recognized rating agency.

[Legal Note: Investment options listed in Act 10 also include certain negotiable certificates of deposit satisfying specified conditions. This investment is omitted here, where it would otherwise appear in this policy, due to the collateralization requirements of School Code sections 440.1, 622 and 623, which Act 10 did not displace or supersede. Because negotiable certificates of deposit do not exist in the current investment market in a collateralized form that would satisfy School Code requirements, they are not an investment lawfully available to school districts at this time, notwithstanding Act 10. If in the future there has been corrective legislation, or a final

judicial or other ruling having the force of law concluding that school districts may invest in uncollateralized negotiable certificates of deposit despite School Code collateral requirements, this policy will be updated to include such investments among Act 10 permissible investments.]

Management of Investments and Collateral

All securities or other investments in which the school district invests or that collateralize school district investments shall be managed as provided in this policy and in the school district's investment plan annually approved by the SRC.[\[1\]](#)

The plan shall require that securities purchased as investments be purchased in the name of the school district and held in custody for the benefit of the school district as provided in the investment plan and authorized custodian agreements. The plan may make exceptions to such requirements for investments in LGIPs as defined in this policy, or for the purchase of shares of an investment company.

If, after purchase, the rating of any instrument is reduced and no longer in compliance with SRC policy, the Investment Officer shall replace the investment immediately upon receipt of notice of the rating change and notify the SRC of the rating change, action taken and replacement investment.

The foregoing rating change related requirement(s) do(es) not apply to investments in LGIPs as defined in this policy.

For purposes of interest rate disclosure in the annual financial report, the method of determining interest rate risk shall be based on weighted average maturity.

Foreign Currency and Related Risk

District funds shall not be invested in foreign currency. To the extent other permissible investments are exposed to related foreign currency risk, they shall be disclosed as required by GASB Statement 40.

Bond Proceeds

Bond proceeds shall be invested in accordance with applicable federal and state laws, subject to approval by the Office of General Counsel and/or bond counsel and the SRC.[\[14\]](#)

Investment transactions arising from bond proceeds shall be reported monthly to the SRC, in accordance with policy.

Protection of Savings Accounts, Time Deposits, Share Accounts or Other Depository Balances in Excess of FDIC Insurance Limits

When district cash is deposited in any savings account, time deposit, share account or other authorized depository account other than a Local Government Investment Pool (LGIP), if

the cash balance exceeds FDIC insurance limits, district funds shall be collateralized in one or more of the following ways:[\[11\]\[1\]](#)

1. An Irrevocable Letter of Credit (LOC) issued by a Federal Home Loan Bank (FHLB).
2. Tri-Party Collateral in the name of the school district consisting of the following underlying securities only:
 - a. U.S. Treasury Securities.
 - b. Obligations, participations or other instruments of any federal agency, instrumentality or U.S. government-sponsored enterprise if the debt obligations are rated at least "A" or its equivalent by at least two (2) nationally recognized statistical ratings organizations.
3. Assets pledged as collateral in accordance with the act of August 6, 1971, (P.L. 281, No.72), 72 P.S. Sec. 3836-1 et seq. (relating to pledges of assets to secure deposits of public funds, whether or not pooled).[\[11\]](#)

It shall be the responsibility of the Investment Officer or his/her designee to verify with the depository the value of the collateral instrument(s) based on the instrument being "marked to market." This valuation shall occur at least monthly.

Following a review of valuation, the Investment Officer may request an additional review by the district's investment advisors or financial consultant, and shall require additional collateral if the existing collateral has declined in value and exposes the district to potential loss of principal. The SRC shall be advised of the status of the valuation review and any additional collateral at the first meeting following the review.

Reporting Requirement for Local Government Investment Pools (LGIPs)

Local Government Investment Pools (LGIPs) pool the resources of participating government entities and invest in various securities as permitted under state law, so that participating governments can benefit from economies of scale, professional fund management and other advantages.

Recognizing that LGIPs invest directly in permissible securities on behalf of the participating government entities, which in turn have proportional ownership rights in those securities, district investments in a LGIP shall not be subject to the collateral requirements of this policy, provided that the LGIP:

1. Makes available to participants daily and monthly statements, and other information from which the status of the investments can be verified; and
2. Provides an audited annual financial report to each participating government entity.

Further Risk Mitigation for Act 10 Permissible Investments

Recognizing that Act 10 of 2016 expanded the range of permissible investments to include investments with the potential to expose the school district to elevated levels of credit risk and other investment risks, the SRC directs that any investment plan or investment recommendations proposed by the Investment Officer take into account, implement and highlight the following factors and precautions with respect to Act 10 Permissible Investments:

1. A significantly more thorough level of due diligence is required.
2. In addition to verification of rating by a nationally recognized statistical rating organization and other due diligence requirements, the investigation of Act 10 Permissible Investments shall include ensuring that there is an independent credit review (a qualified financial services organization with an active and recognized credit analysis team is also monitoring the issuer, in addition to the nationally recognized statistical rating organization(s)).
3. Act 10 Permissible Investments shall be limited to no more than ten percent (10%) of district funds available for investment, excluding bond proceeds and refunding escrow balances.

Audit

The SRC directs that all investment records be subject to annual audit.[15]

The audit shall include but not be limited to independent verification of amounts and records of all transactions, as deemed necessary.

Conflict of Interest Avoidance and Disclosure

The Investment Officer and any other district employee performing functions related to the investment program shall disclose in writing to the SRC any material conflict of interest or material potential conflict of interest which exists because of personal relationships or personal business activity between the Investment Officer or other employees and any depository institution, broker, dealer, investment advisor, or other investment provider or professional serving the district. The Investment Officer or other employees shall refrain from any personal business activity that could impair ability to make impartial decisions in managing the annual investment plan.[16]

All depository institutions, repurchase agreement providers, brokers, and investment advisors and managers shall disclose in writing to the district: (1) any fees or other compensation paid to or received from a third party with respect to any district investment; and (2) any ownership of or by a parent corporation which owns any other depository institution, broker, dealer, investment advisor, or other investment provider or professional which does business with the district.

All investment advisors shall verify in writing that they have received and reviewed a copy of this SRC policy and agree to comply with this policy and all applicable laws related to school district investments.

Legal References:

1. 24 P.S. 440.1
2. 24 P.S. 621
3. 24 P.S. 622
4. 24 P.S. 623
5. 53 P.S. 5406
6. 53 P.S. 5410.1
7. 24 P.S. 624
8. 72 P.S. 3836-1
9. 24 P.S. 521
10. 53 Pa. C.S.A. 2301 et seq
11. 72 P.S. 3836-1 et seq
12. Pol. 608 - Bank Accounts
13. 17 CFR Part 270
14. 53 Pa. C.S.A. 8001 et seq
15. Pol. 619 - District Audit
16. 65 Pa. C.S.A. 1101 et seq

Related Information:

24 P.S. 218

24 P.S. 511

24 P.S. 696

Philadelphia Home Rule Charter - 12-300

Philadelphia Home Rule Charter - 12-306

15 U.S.C. 77a et seq

15 U.S.C. 80a-1 et seq

Governmental Accounting Standards Board, Statement No. 3 (amended by Statement 40)

School District Investment Resolution

P.L. 111-203 - Dodd-Frank Act

Pol. 618 - Student Activity Funds