



# MWRA INVESTMENT POLICY

**MASSACHUSETTS WATER RESOURCES AUTHORITY**

**INVESTMENT POLICY**

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## MASSACHUSETTS WATER RESOURCES AUTHORITY INVESTMENT POLICY

### I. Purpose:

The purpose of this document is to establish policies for governing the investment of the funds of the Massachusetts Water Resources Authority (“Authority”). The Investment Policy (“Policy”) FIN.02 is designed to ensure the prudent management of funds, and the availability of operating and capital funds when required, while earning a competitive return within the Policy framework. The Policy will serve to further codify the permitted investment restrictions and requirements defined by the Authority’s Amended and Restated General Bond Resolution.

### II. Scope:

This Investment Policy applies to activities of the Authority with regard to investing all of the Authority’s funds, which is specifically governed by Sections 522 and 523 of the Amended and Restated General Bond Resolution. The funds covered by this Policy, described in more detail in Appendix A, includes the following:

Per the Amended and Restated General Bond Resolution:

1. Construction Fund
2. Cost of Issuance Fund
3. Revenue Fund
4. Operating Fund
5. Debt Service Fund
6. Subordinated Debt Service Fund
7. Debt Service Reserve Fund
8. Subordinated Debt Service Reserve Fund
9. Commonwealth Obligation Fund
10. Rebate Fund
11. Operating Reserve Fund
12. Insurance Reserve Fund
13. Renewal and Replacement Reserve Fund
14. Water Pollution Abatement Fund
15. Rate Stabilization Fund
16. Revolving Loan Fund
17. General Fund
18. Note Payment Fund

### III. Statements of Objectives:

The portfolio shall be structured with the objective of maximizing return on investments considering the risk constraints and the cash flow requirements of Authority. Preservation of principal is the foremost objective of the Investment Policy where investment safety is defined as the certainty of receiving principal plus accrued interest at a security’s maturity.

Funds are invested in vehicles that provide the liquidity necessary to enable the Authority to

meet operating, debt service, and other cash flow requirements. Portfolio liquidity is defined as the ability to sell a security on short notice near the security's par value. An adequate amount of funds will be kept in short-term money market investments to accommodate the reasonable cash needs of the Authority.

The primary objectives, in order of priority, of investment activity shall be 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. The objective will be to mitigate credit risk and interest rate risk.

*Credit Risk:* The Authority will minimize credit risk, the risk of loss due to the failure of the security issuer or backer, by:

- i) Limiting investments to securities listed in the Amended and Restated General Bond Resolution;
- ii) Diversifying the investment portfolio to minimize the impact of potential losses from one type of security or individual issuer, excluding U.S. Treasuries, Federally Guaranteed Obligations, Government Sponsored Enterprises and the Massachusetts Municipal Depository Trust "MMDT".

*Interest Rate Risk:* The Authority will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates.

**Liquidity:** The investment portfolio shall remain sufficiently liquid to meet all operating, debt service, and other cash flow requirements that may be reasonably anticipated.

**Yield:** The investment portfolio shall be designed with the objective of attaining an optimal market rate of return considering the investment risk constraints and liquidity needs outlined in the Amended and Restated General Bond Resolution and this Policy. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. With respect to the investment of funds under the Authority's Amended and Restated General Bond Resolution, such investment portfolios shall be designed with the objective of maintaining compliance with all yield restrictions imposed under applicable federal tax law.

#### IV. **Standards of Care:**

All participants in the investment process shall act responsibly and professionally. The Authority's portfolio shall be invested and managed in accordance with the "Prudent Investor Rule" set forth in MGL Ch. 203C. In general, the Authority will invest and manage the assets under its control as a prudent investor would, considering the purposes of the Authority and the terms under which such assets are held by the Authority, exercising reasonable care, skill, and caution.

#### V. **Suitable and Permitted Investments:**

Funds shall be invested in the securities permitted under the definition of Investment

Securities and other applicable sections of the Amended and Restated General Bond Resolution. Appendix A contains an excerpt from the Amended and Restated General Bond Resolution listing the permitted investments.

VI. Investment Monitoring and Reporting:

On a continuing basis the Treasury department will monitor the market trends of instruments, prepare a monthly market valuation of all long-term investments and report results for use in preparing financial statements. These reports shall include a schedule showing principal amount, description of investment, maturity date, yield rate, and market value.

VII. Review of Policy

The Investment Policy shall be reviewed periodically, but in no case less than every two years as required by the Commonwealth's State Finance and Governance Board's Regulation. Any changes to the Investment Policy shall be adopted by the Board of Directors.

## **Appendix A**

Excerpts from MWRA's Amended and Restated General Bond Resolution:

**Section 101. Definitions** (pages 7-9)

**Section 521. Depositaries** (page 52)

**Section 522. Deposits** (page 53)

**Section 523. Investment of Certain Funds** (pages 53-54)

**Section 524. Valuation and Sale of Investments** (page 55)

“Investment Securities” shall mean and include any of the following securities, if and to the extent the same are at the time legal investments by the Authority of the funds to be invested therein and conform to the policies set forth in any investment guidelines adopted by the Authority or by a duly appointed subcommittee of its Board of Directors and in effect at the time of the making of such investment:

(a) Government Obligations;

(b) Certificates or receipts representing direct ownership of future interest or principal payments on Government Obligations or any obligations of agencies or instrumentalities of the United States of America which are backed by the full faith and credit of the United States, which obligations are held by a custodian in safekeeping on behalf of the holders of such receipts;

(c) Bonds, debentures, notes or other evidences of indebtedness issued by any of the following: Federal Home Loan Mortgage Corporation; Student Loan Marketing Association; Federal Home Loan Banks; Federal National Mortgage Association; Government National Mortgage Association; Bank for Cooperatives; Federal Intermediate Credit Banks; Federal Financing Bank; Export-Import Bank of the United States; Federal Land Banks; or any other agency or instrumentality of the United States of America; or the International Reconstruction Development Bank;

(d) All other obligations issued or unconditionally guaranteed as to the timely payment of principal and interest by an agency or person controlled or supervised by and acting as an instrumentality of the United States of America pursuant to authority granted by Congress;

(e) (i) Interest-bearing time or demand deposits, certificates of deposit, or other similar banking arrangements with any government securities dealer, bank, trust company, savings and loan association, national banking association or other savings institution (including the Trustee), provided that such deposits, certificates, and other arrangements are fully insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation or (ii) interest-bearing time or demand deposits or certificates of deposit with any bank, trust company, national banking association or other savings institution (including the Trustee), provided such deposits and certificates are in or with a bank, trust company, national banking association or other savings institution whose long-term unsecured debt is rated in one of the three highest long-term rating categories by S&P and Moody's (if such rating agencies are Rating Agencies) and, if rated by any other Rating Agency, rated in the three highest rating categories of such Rating Agency, and provided further that with respect to (i) and (ii) any such obligations are held by the Trustee or a

bank, trust company or national banking association (other than the issuer of such obligations, unless the issuer is the Trustee);

(f) Repurchase agreements collateralized by securities described in subparagraphs (a), (b), (c) or (d) above with any registered broker/dealer or with any commercial bank, provided that (1) a specific written repurchase agreement governs the transaction, (2) the securities are held, free and clear of any lien, by the Trustee or an independent third party acting solely as agent for the Trustee, and such third party is (a) a Federal Reserve Bank, or (b) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than \$25 million, and the Trustee shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Trustee, (3) the repurchase agreement has a term of thirty days or less, or the Trustee will value the collateral securities no less frequently than monthly and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within five business days of such valuation, and (4) the fair market value of the collateral securities in relation to the amount of the repurchase obligation, including principal and interest, is equal to at least 102%;

(g) Money market funds rated in the highest rating category by S&P and Moody's (if such rating agencies are Rating Agencies) and, if rated by any other Rating Agency, rated in the highest category of such Rating Agency;

(h) Commercial paper rated in the highest rating category by S&P and Moody's (if such rating agencies are Rating Agencies) and, if rated by any other Rating Agency, rated in the highest category of such Rating Agency;

(i) Shares of investment companies or cash equivalent investments which are authorized to invest only in assets or securities described in subparagraphs (a), (b), (c), (d) and (f) above;

(j) Advance-Refunded Municipal Bonds;

(k) Short-term or long-term obligations the interest on which is excludable from gross income for Federal income tax purposes and that are rated in the three highest rating categories by S&P and Moody's (if such rating agencies are Rating Agencies) and if rated by any other Rating Agency, rated in the three highest rating categories of such Rating Agency, or shares of investment companies or cash equivalents which are authorized to invest primarily in such obligations;



(l) participation units in a combined investment fund created under Section 38A of Chapter 29 of the General Laws of the Commonwealth;

(m) investment contracts with, or guaranteed by, banks or other financial institutions whose long-term unsecured debt or claims-paying ability is rated in one of the three highest rating categories by S&P and Moody's (if such rating agencies are Rating Agencies) and, if rated by any other Rating Agency, rated in the three highest rating categories of such Rating Agency;

(n) forward purchase agreements for the delivery of securities described in subparagraph (a), (b), (c), (d), (h) or (k) above from financial institutions rated in one of the three highest rating categories by S&P and Moody's (if such rating agencies are Rating Agencies) and, if rated by any other Rating Agency, rated in one of the three highest rating categories by such Rating Agency; and

(o) any other investment authorized pursuant to an amendment or supplement hereto pursuant to Section 801(i).

Obligations of any Fiduciary or an affiliate thereof may be Investment Securities, provided that they otherwise qualify.

“Local Body” shall mean, a city, town, district, commission or other political subdivision or instrumentality of the Commonwealth receiving water supply or sewer services from the Authority and responsible for providing by itself or through an officer, board, department or division thereof local water supply or local sewer services; provided that in any case where local water supply or local sewer services within the territorial boundaries of a Local Body are provided in whole or in part by a political subdivision or public instrumentality of the Commonwealth separate from such Local Body, the term Local Body shall mean, within the service area thereof, that political subdivision or public instrumentality.

SECTION 521. Depositaries.

(a) All moneys or securities held by the Trustee under the provisions of this Resolution shall constitute trust funds and the Trustee may, and shall, if directed in writing by an Authorized Representative of the Authority, deposit such moneys or securities with one or more Depositaries in trust for the Trustee. Moneys or securities in the Operating Fund shall be deposited by the Authority with one or more Depositaries in trust for the Authority. All moneys or securities

deposited under the provisions of this Resolution with the Trustee or any Depositary shall be held in trust and applied only in accordance with the provisions of this Resolution, and each of such Funds established by this Resolution shall be a trust fund for the purposes thereof. The Authority and the Trustee shall instruct each Depositary that any moneys or securities credited to a Fund or an Account hereunder which are deposited with such Depositary shall be identified to be part of such Fund or Account and subject to the pledge in favor of the Trustee created under this Resolution. Prior to the first deposit of any moneys or securities with each Depositary, the Authority and the Trustee shall obtain from such Depositary its agreement to serve as agent of the Trustee in holding such moneys or securities in trust in favor of the Trustee and the contract or other written instrument between the Authority and such Depositary governing the establishment and operation of such account shall provide the moneys or securities from time to time deposited with such Depositary shall be held by such Depositary as such agent in trust in favor of the Trustee; provided that, except as otherwise expressly provided herein, the Authority shall be permitted at any time to make withdrawals from and write checks or other drafts against any account held by the Authority and established with such Depositary and apply the same for the purposes specified in this Resolution and, subject to Section 523 hereof, the Authority shall be permitted to invest amounts in any such account in Investment Securities.

(b) Each Depositary holding moneys or securities in trust for the Trustee shall be a bank or trust company organized under the laws of the Commonwealth or a national banking association (having its principal office within the Commonwealth), having capital stock, surplus and undivided earnings aggregating at least \$100,000,000 (or such greater amount as set forth in a Supplemental Resolution) and willing and able to accept the office on reasonable and customary terms and authorized by law to act in accordance with the provisions of this Resolution.

(c) Moneys and securities credited to any Fund or Account may be commingled with moneys and securities credited to other Funds or Accounts for the purposes of establishing checking or other bank accounts for purposes of investing funds or otherwise; provided, however, the Trustee and the Authority shall at all times maintain or cause to be maintained accurate books and records reflecting the amounts credited to the respective Funds and Accounts held by each of them. All withdrawals from any commingled moneys or securities shall be charged against the proper Fund or Account and no moneys shall be withdrawn from commingled moneys if there is not on credit to the Fund or Account to be charged sufficient funds to cover such withdrawal.

SECTION 522. Deposits.

(a) All Revenues and other moneys held by any Depository under this Resolution may be placed in a demand or time deposit, if and as directed by the Authority, provided that such deposits shall permit the moneys so held to be available for use at the time when needed. All such moneys deposited with a Fiduciary, acting as a Depository, may be made in the commercial banking department of any Fiduciary which may honor checks and drafts on such deposit with the same force and effect as if it were not such Fiduciary. All moneys held by any Fiduciary, as such, may be deposited by such Fiduciary in its banking department on demand or, if and to the extent directed by the Authority and acceptable to such Fiduciary, on time deposit, provided that such moneys on deposit be available for use at the time when needed.

(b) All moneys deposited with the Trustee and each Depository shall be credited to the particular Fund or Account to which such moneys belong.

SECTION 523. Investment of Certain Funds.

(a) Moneys held in the Debt Service Fund, the Subordinated Debt Service Fund, and the Note Payment Fund shall be invested and reinvested by the Trustee to the fullest extent practicable in Investment Securities (other than those of the type described in subparagraph (e) of the definition of Investment Securities in Section 101) which mature not later than at such times as shall be necessary to provide moneys when needed for payments to be made from such Funds. Subject to Sections 510(d) and 511(d) hereof, moneys held in the Debt Service Reserve Fund and the Subordinated Debt Service Reserve Fund shall be invested and reinvested by the Trustee to the fullest extent practicable in Investment Securities (other than those of the type described in (subparagraph (e) of the definition of Investment Securities in Section 101) which mature not later than at such times as shall be necessary to provide moneys when needed for payment to be made from such Funds. Moneys held in any other Fund or Account established under this Resolution may be invested and reinvested in Investment Securities which mature not later than such times as shall be necessary to provide moneys when needed for payments to be made from such Funds. The Trustee shall make all such investments of moneys held by it in accordance with written instructions from any Authorized Representative of the Authority, which may for this purpose include one or more investment advisors designated in writing by such Representative from time to time. In making any investment in any Investment Securities with moneys in any Fund or Account established under this Resolution, the Authority may, and may instruct the Trustee to, combine such moneys with moneys in any other Fund or Account, but solely for purposes of making such investment in such Investment Securities.

(b) Interest (net of that which represents a return of accrued interest paid in connection with the purchase of any investment) and other investment earnings on any moneys or investments in the Funds and Accounts, other than the Construction Fund, the Cost of Issuance Fund, the Operating Fund, the Note Payment Fund, the Debt Service Fund, the Debt Service Reserve Fund, the Subordinated Debt Service Fund and the Subordinated Debt Service Reserve Fund shall be paid into the Revenue Fund, on the last Business Day of each month. Interest (net of that which represents a return of accrued interest paid in connection with the purchase of any investment) and other investment earnings on any moneys or investments in the Cost of Issuance Fund, the Operating Fund, the Debt Service Fund, the Subordinated Debt Service Fund and the Note Payment Fund shall be retained in the Fund in which such earnings accrued; provided that the Authority may direct that the earnings on moneys in the Operating Fund may be deposited in the Revenue Fund. Interest (net of that which represents a return of accrued interest paid in connection with the purchase of any investment) and other investment earnings on any moneys or investments in the Construction Fund attributable to the first series of Secured Bonds issued hereunder shall be retained in the Construction Fund. Interest (net of that which represents a return of accrued interest paid in connection with the purchase of any investment) and other investment earnings on any other moneys or investments in the Construction Fund attributable to any subsequent series of Secured Bonds shall be paid on the last Business Day of each month, to the related Subaccounts of the Debt Service Fund (or the Subordinated Debt Service Fund if so specified in the applicable Supplemental Resolution) first to the Interest Account and second to the Principal Account; provided, however, that the Authority may from time to time direct that all or a portion of such earnings may be retained in the Construction Fund for any period of time if there shall be provided to the Trustee a Certificate of an Authorized Officer of the Authority on the date of such direction and on each July 1 thereafter, so long as such direction remains in effect, (i) certifying for the most recent preceding period of twelve consecutive months, Revenues Available for Bond Debt Service were at least equal to the Primary Bond Coverage Requirement and (ii) projecting that Revenues Available for Bond Debt Service will be at least equal to the Primary Bond Coverage Requirement for both the current and, if the period so directed by Authority includes it, the following Fiscal Year. Earnings retained in the Construction Fund will not be included in the calculation of Revenues Available for Bond Debt Service. Interest (net of that which represents a return of accrued interest paid in connection with the purchase of any investment) and other investment earnings on any moneys or investments in the Debt Service Fund and the Debt Service Reserve Fund shall be paid on the last Business Day of each month, on a pro rata basis based on the required deposits to each Series Subaccount therein pursuant to Section 506(a), first to the Interest Account of the Debt Service Fund and second to the Principal Account of the Debt Service Fund; provided however, that the Authority may direct that investment earnings on any moneys or investments in the Debt Service Reserve Fund may be deposited for such period of time as the Authority may determine in the Revenue Fund or the Construction Fund if the Authority shall obtain a Bond Counsel's Opinion to the effect that such application of earnings shall not adversely affect the exclusion of interest on any Tax Exempt Indebtedness from gross income of the holder for federal income tax purposes. Interest (net of that which represents a return of accrued interest paid in connection with the purchase of any investment) and any other investment earnings on the Subordinated Debt Service Reserve Fund shall be paid on the last Business Day of each month, on a pro rata basis based on the required deposits to each Series Subaccount therein pursuant to Section 506(a), first to the Interest Account

of the Subordinated Debt Service Fund and second to the Principal Account of the Subordinated Debt Service Fund; provided, however, that the Authority may direct that investment earnings on any moneys or investments in the Subordinated Debt Service Fund may be deposited for such period of time as the Authority may determine in the Revenue Fund or the Construction Fund if the Authority shall obtain a Bond Counsel's Opinion to the effect that such application of earnings shall not adversely affect the exclusion of interest on any Tax Exempt Indebtedness from gross income of the holder for federal income tax purposes.

(c) Notwithstanding the foregoing provisions of this Section 523, the Authority may direct that investment earnings reasonably expected to be subject to the requirements of Section 148(f) of the Code or the Treasury Regulations applicable thereto may be deposited directly to the Rebate Fund to the extent desirable to comply with the requirements of section 148(f) of the Code or the Treasury Regulations applicable thereto.

(d) All Investment Securities acquired with moneys in any Fund or Account, shall be held by the Trustee in pledge or by a Depository as agent in pledge in favor of the Trustee in accordance with Section 522 hereof.

(e) Nothing in this Resolution shall prevent any Investment Securities acquired as investments of Funds held under this Resolution from being issued or held in book-entry form on the books of the Department of the Treasury of the United States or the Federal Reserve Bank.

SECTION 524. Valuation and Sale of Investments. Obligations purchased as an investment of moneys in any Fund created under the provisions of this Resolution shall be deemed at all times to be a part of such Fund and any profit realized from the liquidation of such investment shall be credited to such Fund and any loss resulting from the liquidation of such investment shall be charged to such Fund.

In computing the amount in any Fund created under the provisions of this Resolution for any purpose provided in this Resolution, obligations purchased as an investment of moneys therein shall be valued at the amortized cost of such obligations or the market value thereof, whichever is lower. As used herein the term "amortized cost", when used with respect to an obligation purchased at a premium above or a discount below par, means the value as of any given time obtained by dividing the total premium or discount at which such obligation was purchased by the number of days remaining to maturity on such obligation at the date of such purchase and by multiplying the amount thus calculated by the number of days having passed since such purchase; and (i) in the case of an obligation purchased at a premium by deducting the product thus obtained from the purchase price, and (ii) in the case of an obligation purchased at a discount by adding the product thus

obtained to the purchase price. Any deficiency resulting from a decrease in the valuation of investments held in the Debt Service Reserve Fund may be disregarded for purposes of calculating deposits required pursuant to Section 506 (but not for purposes of deposits required pursuant to Section 401(b)) provided that the amount on deposit in the Debt Service Reserve Fund is at least 95% of the Debt Service Reserve Fund Requirement. The accrued interest paid in connection with the purchase of any obligation shall be included in the value thereof until interest on such obligation is paid. Such computation shall be made annually on June 30 for all Funds and at such other times as the Authority shall determine or as may be required by this Resolution.

Except as otherwise provided in this Resolution, the Trustee shall sell at the best price obtainable, or present for redemption, any obligation so purchased as an investment whenever it shall be requested in writing by an Authorized Representative of the Authority so to do. Whenever it shall be necessary in order to provide moneys to meet any payment or transfer from any Fund held by the Trustee, the Trustee shall sell at the best price obtainable or present for redemption such obligation or obligations designated by an Authorized Representative of the Authority necessary to provide sufficient moneys for such payment or transfer; provided, however, that if the Authority fails to provide such designation promptly after request thereof by the Trustee, the Trustee may in its discretion select the obligation or obligations to be sold or presented for redemption. The Trustee shall not be liable or responsible for any loss resulting from the making of any such investment or the sale or redemption of any obligation in the manner provided above.