



REPORT TO THE FINANCE COMMITTEE

Recommendation to Amend and Restate the Investment Policy

March 2014

Recommended Action

That the Finance Committee recommend to the Board of Directors to amend and restate the Metropolitan Washington Airports Authority Investment Policy

Background

- The Board's current Metropolitan Washington Airports Authority Investment Policy (the Policy) defines investment objectives, procedural requirements and permitted investments
- Among other permitted investments, the Policy currently authorizes up to one month of operating cash reserves to be invested among regional banks which have a Community Reinvestment Act (CRA) rating of "Outstanding", in certificates of deposit
- Noting that the current program prohibits participation by regional banks that do not have a CRA Rating of "Outstanding," the Board requested staff review the current program to review opportunities for achieving the investment objective with regional banks



Discussion

- At its January 2014 meeting, the Investment Committee that is established to implement the Board's Investment Policy endorsed a proposed change to the Investment Policy that would achieve the investment of up to one month operating reserves in regional banks

Discussion (Continued)

The Investment Committee recommends investments in regional banking institutions in two separate programs:

1. Up to 2/3 of one month of operating reserve can be invested among regional banks which have a CRA rating of “Outstanding”, in certificates of deposit of one or more of the banks, and
2. Regional Banks that do not qualify for the program above, can compete for investment deposits through an annual competitive solicitation. Up to 1/3 of operating reserve can be invested in certificates of deposit that must either be insured under FDIC or amounts in excess of FDIC limits must be fully collateralized

Proposed 2014 Implementation Time Line

- March 19, 2014 - Finance Committee approve and recommend Restated and Amended Investment Policy to the Board of Directors
- April 16, 2014 – Board action
- April 2014 – If approved, Investment Committee approve bidding procedures for regional bank certificates of deposit
- June 2014 – Treasury Department conduct investment bids with estimated settlement date of July 1, 2014
- November 2014 – Board update on progress of program

Recommendation

That the Finance Committee approve and recommend to the Board of Directors to amend and restate the Metropolitan Washington Airports Authority Investment Policy to include two separate regional banking programs



Ronald Reagan Washington National Airport



Dulles Corridor Metrorail Project



Dulles Toll Road



Washington Dulles International Airport



METROPOLITAN WASHINGTON
AIRPORTS AUTHORITY

REPORT TO THE FINANCE COMMITTEE
RECOMMENDATION TO AMEND AND RESTATE THE INVESTMENT POLICY
MARCH 2014

ACTION REQUESTED

Staff requests that the Finance Committee approve and recommend to the Board of Directors to amend and restate the Metropolitan Washington Airports Authority Investment Policy.

BACKGROUND

In 1989, the Board of Directors adopted the Metropolitan Washington Airports Authority Investment Policy (Investment Policy) that was subsequently amended and restated in 1990 and 2010. The Investment Policy provides investment objectives, procedural requirements, and defines permitted investments. It also permits investment of a limited amount of Airports Authority funds in regional banks. The program, as defined in Section 2.1.5 of the Investment Policy is consistent with the Local Disadvantaged Business Enterprise Program whereby a portion of assets, up to one month of operating cash reserves, may be invested locally in certificates of deposit with banks with local branches that have a Community Reinvestment Act (CRA) rating of “Outstanding”.

The majority of banks that qualify for deposits with a CRA rating of “Outstanding” are large national banks with a local presence, and other regional depository institutions were not being provided full opportunity to compete for investments because of their lower CRA ratings. The Board requested that the current program be reviewed for opportunities to ensure that its original goal of supporting the regional banking establishments could be met.

DISCUSSION

The Investment Committee that was established to implement the Board’s Investment Policy met on January 28, 2014 to review the current program and consider opportunities for improvement. The Investment Committee reviewed past results and considered opportunities to enhance the program for regional investing, while maintaining the Authority’s primary objectives to ensure the safety of capital, the liquidity of the portfolio and the yield of the investments.

The Investment Committee determined that the Airports Authority goal of investing one month of operating cash reserves with regional banks was falling short, as there were insufficient regional banks meeting the required criteria of “Outstanding” CRA rating. Accordingly, the Investment Committee concurred that modification of the regional investment program was warranted.

The Investment Committee endorses an amended and restated Investment Policy that will continue to set aside up to one month of operating cash reserves for investment in regional

banking institutions, but would now allocate those assets between two separate programs as follows:

1. Consistent with the Airports Authority's Local Disadvantaged Business Enterprise Program, up to two-thirds of one month of operating cash reserve can be invested among regional banks which have a Community Reinvestment Act rating of "Outstanding" (or the equivalent), in certificates of deposit of one or more of the banks.
2. Regional Banks that do not qualify for the program as outlined above, shall be allowed to compete for investment deposits through an annual competitive solicitation process. Up to one-third of operating reserve can be invested in certificates of deposit that must either be insured under FDIC or amounts in excess of FDIC limits must be fully collateralized.

One month of operating reserves in 2014 is approximately \$28 million.

Attachment 1 is the current Investment Policy which includes edits necessary to implement the programs described above (refer to Section 2.1.5 and new Section 2.1.6).

RECOMMENDATION

Staff recommends that the Finance Committee approve and recommend to the Board of Directors the adoption of the resolution that amends and restates the Investment Policy.

Prepared by: Office of Finance
March 2014

**METROPOLITAN WASHINGTON AIRPORTS AUTHORITY
INVESTMENT POLICY**

April 16, 2014

March 3, 2010

1.0 Scope

This Investment Policy applies to the investment activities of the Metropolitan Washington Airports Authority, including the Aviation Enterprise Fund and the Dulles Corridor Enterprise Fund, except for its Retirement Plan which is separately organized and administered.

2.0 Objectives

2.1 The primary objectives of the Airports Authority's investment activities are the safety of capital, the liquidity of the portfolio and the yield of the investments.

2.1.1 The Airports Authority shall consider the safety of its capital in the overall portfolio as a principal objective in investment activities. Each investment transaction shall seek to first ensure that capital losses are avoided, whether they be from securities defaults or erosion of market value.

2.1.2 The Airports Authority's investment portfolio will remain sufficiently liquid to enable the Airports Authority to meet operating requirements that might reasonably be anticipated. Liquidity shall be achieved by matching investment maturities with forecasted cash flow requirements and by investing in securities with active secondary markets.

2.1.3 The Airports Authority's operating investment portfolio shall be designed with the objective of regularly exceeding the average rate of return on the three month U.S. Treasury Bill, or the average Federal Reserve Discount rate, whichever is higher. The investment program shall seek to augment returns above this threshold consistent with risk limitations identified herein and prudent investment principles.

2.1.4 Funds held for future capital projects shall be invested in securities that reasonably can be expected to assist in offsetting inflationary construction cost increases. The portfolio of construction funds should be designed with the objective of exceeding the average rate of return on the U.S. Treasury Bill most closely matching the weighted average maturity of the portfolio. However, such funds shall never be exposed to market price risks that would jeopardize the assets available to accomplish their stated objective,

or be invested in a manner inconsistent with applicable federal and state regulations.

2.1.5. Consistent with the Airports Authority's Local Disadvantaged Business Enterprise Program, up to two-thirds of one month of operating cash reserve ~~will~~can be invested among regional banks which have a Community Reinvestment Act rating of "Outstanding" (or the equivalent), in certificates of deposit of one or more of the banks.

2.1.6 Regional Banks that do not qualify for the program as outlined in 2.1.5, shall be allowed to compete for investment deposits through an annual competitive solicitation process. Up to one-third of operating reserve can be invested in certificates of deposit that must either be insured under FDIC or amounts in excess of FDIC limits must be fully collateralized.

2.1.7 All participants in the investment process shall act responsibly as custodians of the public trust. Investment officials shall avoid any transactions that might impair public confidence in the Airports Authority's ability to function effectively. The Airports Authority's Management recognizes that in a diversified portfolio, occasional measured losses due to market volatility are inevitable, and must be considered within the context of the overall portfolio's investment return, provided that adequate diversification has been achieved.

3.0 Procedures

Written Investment Objectives and Procedures shall be established for the operation of the investment program, consistent with this investment policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions.

4.0 Investments

Permitted investments are included as exhibits to this Investment Policy.

4.1 Funds not covered by bond indentures of the Metropolitan Washington Airports Authority may be invested in securities outlined in Exhibit A

4.2 All Bond funds, whether proceeds or debt service, may be invested in securities as permitted in the bond indentures for the Aviation Enterprise Fund and the Dulles Corridor Enterprise Fund (Exhibit B);

5.0 Control

- 5.1. Investments shall be made with the exercise of due care, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

- 5.2 Employees and investment officials directly involved in the investment process shall disclose to the President in writing at least annually their financial interests in financial institutions that conduct business with the Airports Authority and they shall further disclose all personal financial/investment positions that could be related to the performance of the Airports Authority's portfolio. Officials and employees involved in the investment process shall refrain from personal business activity, other than routine banking relations, that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. All employees and investment officials involved in the investment process are to act in a reasonable and prudent manner to further the interests of the Airports Authority.

Exhibit A

**Metropolitan Washington Airports Authority
Permitted Investments for Funds not covered by Bond Indentures**

Funds of the Metropolitan Washington Airports Authority, not covered by bond indentures, may be invested in:

- A. U.S. Treasury securities;
- B. Short term (five years or less) obligations of U.S. Government agencies, including securities backed by the full faith and credit of the United States;
- C. Repurchase agreements whose underlying collateral consist of the foregoing;
- D. Short term (five years or less) obligations of the Commonwealth of Virginia, the State of Maryland or the District of Columbia;
- E. Prime Commercial Paper;
- F. Prime Bankers Acceptance Notes;
- G. Money Market Funds whose underlying collateral consist of the foregoing;
- H. Certificates of Deposits of banks with a LACE Quarterly Financial Institution Rating of "B" or better or fully insured or collateralized certificates of deposits at commercial banks and savings and loan associations; and
- I. Other such securities or obligations which may be approved by the Finance Committee and the Board of Directors by modification of this policy.

Exhibit B

**Metropolitan Washington Airports Authority
Permitted Investments per the Aviation Enterprise Fund and the Dulles
Corridor Enterprise Fund Master Trust Indentures**

Terms referenced herein are defined by the Master Trust Indentures for the Aviation Enterprise Fund and the Dulles Corridor Enterprise Fund. Permitted Investments shall mean and include any of the following, if and to the extent the same are at the time legal for the investment of the Airports Authority's money:

- A. Government Obligations and Government Certificates.

- B. Obligations issued or guaranteed by any of the following:
 - (i) Federal Home Loan Bank System;
 - (ii) Export-Import Bank of the United States;
 - (iii) Federal Financing Bank;
 - (iv) Government National Mortgage Association;
 - (v) Farmers Home Administration;
 - (vi) Federal Home Loan Mortgage Corporation;
 - (vii) Federal Housing Administration;
 - (viii) Private Export Funding Corp;
 - (ix) Federal National Mortgage Association; and
 - (x) Federal Farm Credit Bank; and
 - (xi) Or any indebtedness issued or guaranteed by any instrumentality or agency of the United States.

- C. Pre-refunded municipal obligations rated at the time of purchase in the highest rating category by, or otherwise acceptable to, the Rating Agencies and meeting the following conditions:
 - (i) such obligations are (a) not to be redeemed prior to maturity or the Trustee has been given irrevocable instructions concerning their calling and redemption and (b) the issuer of such obligations has covenanted not to redeem such obligations other than as set forth in such instructions;
 - (ii) such obligations are secured by Government Obligations or Government Certificates that may be applied only to interest, principal, and premium payments of such obligations;
 - (iii) the principal of and interest on such Government Obligations or Government Certificates (plus any cash in the escrow fund with respect to such pre-refunded obligations) are sufficient to meet the liabilities of the obligations;

- (iv) the Government Obligations or Government Certificates serving as security for the obligations are held by an escrow agent or trustee; and
 - (v) such Government Obligations or Government Certificates are not available to satisfy any other claims, including those against the trustee or escrow agent.

- D. Direct and general long-term obligations of any state of the United States of America or the District of Columbia (a "*State*"), to the payment of which the full faith and credit of such State is pledged and that at the time of purchase are rated in either of the two highest rating categories by, or are otherwise acceptable to the Rating Agencies.

- E. Direct and general short-term obligations of any State, to the payment of which the full faith and credit of such State is pledged and that at the time of purchase are rated in the highest rating category by, or are otherwise acceptable to the Rating Agencies.

- F. Interest-bearing demand or time deposits with, or interests in money market portfolios rated AAA by Standard & Poor's issued by, state banks or trust companies or national banking associations that are members of the Federal Deposit Insurance Corporation ("*FDIC*"). Such deposits or interests must be:
 - (i) continuously and fully insured by FDIC,
 - (ii) if they have a maturity of one year or less, with or issued by banks that at the time of purchase are rated in one of the two highest short term rating categories by, or are otherwise acceptable to, the Rating Agencies,
 - (iii) if they have a maturity longer than one year, with or issued by banks that at the time of purchase are rated in one of the two highest rating categories by, or are otherwise acceptable to, the Rating Agencies, or
 - (iv) fully secured by Government Obligations and Government Certificates. Such Government Obligations and Government Certificates must have a market value at all times at least equal to the principal amount of the deposits or interests. The Government Obligations and Government Certificates must be held by a third party (who shall not be the provider of the collateral), or by any Federal Reserve Bank or depository, as custodian for the institution issuing the deposits or interests. Such third party should have a perfected first lien in the Government Obligations and Government Certificates serving

as collateral, and such collateral is to be free from all other third party liens.

- G. Eurodollar time deposits issued by a bank with a deposit rating at the time of purchase in one of the top two short-term deposit rating categories by, or otherwise acceptable to the Rating Agencies.
- H. Long-term or medium-term corporate debt guaranteed by any corporation that is rated in one of the two highest rating categories by, or is otherwise acceptable to the Rating Agencies.
- I. Repurchase agreements,
 - (i) the maturities of which are 30 days or less or
 - (ii) the maturities of which are longer than 30 days and not longer than one year provided the collateral subject to such agreements are marked to market daily, entered into with financial institutions such as banks or trust companies organized under State law or national banking associations, insurance companies, or government bond dealers reporting to, trading with, and recognized as a primary dealer by, the Federal Reserve Bank of New York and a member of the Security Investors Protection Corporation, or with a dealer or parent holding company that is rated at the time of purchase investment grade by, or is otherwise acceptable to the Rating Agencies. The repurchase agreement should be in respect of Government Obligations and Government Certificates or obligations described in paragraph (b) of this definition. The repurchase agreement securities and, to the extent necessary, Government Obligations and Government Certificates or obligations described in paragraph (b), exclusive of accrued interest, shall be maintained in an amount at least equal to the amount invested in the repurchase agreements. In addition, the provisions of the repurchase agreement shall meet the following additional criteria:
 - (a) the third party (who shall not be the provider of the collateral) has possession of the repurchase agreement securities and the Government Obligations and Government Certificates;
 - (b) failure to maintain the requisite collateral levels will require the third party having possession of the securities to liquidate the securities immediately; and

- (c) the third party having possession of the securities has a perfected, first priority security interest in the securities.

- J. Prime commercial paper of a corporation, finance company or banking institution at the time of purchase rated in the highest short-term rating category by, or otherwise acceptable to the Rating Agencies.

- K. Public housing bonds issued by public agencies. Such bonds must be: fully secured by a pledge of annual contributions under a contract with the United States of America; temporary notes, preliminary loan notes or project notes secured by a requisition or payment agreement with the United States of America; or state or public agency or municipality obligations at the time of purchase rated in the highest credit rating category by, or otherwise acceptable to the Rating Agencies.

- L. Shares of a diversified open-end management investment company, as defined in the Investment Company Act of 1940, or shares in a regulated investment company, as defined in Section 851(a) of the Code, that is a money market fund that at the time of purchase has been rated in the highest rating category by, or is otherwise acceptable to the Rating Agencies.

- M. Money market accounts of any state or federal bank, or bank whose holding parent company is, at the time of purchase rated in one of the top two short-term or long-term rating categories by, or is otherwise acceptable to the Rating Agencies.

- N. Investment agreements, the issuer of which is at the time of purchase rated in one of the two highest rating categories, by, or is otherwise acceptable to the Rating Agencies.

- O. Any debt or fixed income security, the issuer of which is at the time of purchase rated in the highest rating category by, or is otherwise acceptable to the Rating Agencies.

- P. Investment agreements or guaranteed investment contracts that are fully secured by obligations described in items (a) or (b) of the definition of Permitted Investments which are:
 - (i) valued not less frequently than monthly and have a fair market value, exclusive of accrued interest, at all times at least equal to

103% of the principal amount of the investment, together with the interest accrued and unpaid thereon,

- (ii) held by the Trustee (who shall not be the provider of the collateral) or by any Federal Reserve Bank or a depository acceptable to the Trustee,
- (iii) subject to a perfected first lien on behalf of the Trustee, and
- (iv) free and clear from all third-party liens.

Q. Any other type of investment consistent with the Airports Authority's policy in which an Airports Authority Representative directs the Trustee to invest and there is delivered to the Trustee a certificate of an Airports Authority Representative stating that each of the Rating Agencies has been informed of the proposal to invest in such investment and each Rating Agency has confirmed that such investment will not adversely affect the rating then assigned by such Rating Agency to any of the Bonds.

Proposed Resolution

Amending and Restating the Investment Policy

WHEREAS, The Board of Directors approved an Investment Policy by Resolution No. 89-15, which was amended by the Board in August 1990, and March 2010;

WHEREAS, The 1990 amendment to the Investment Policy permitted up to one month of operating cash reserve to be invested among regional banks which have a Community Reinvestment Act rating of “Outstanding” (or the equivalent), in certificates of deposit of one or more of the banks;

WHEREAS, The Board desires to expand its programmatic goal to invest limited funds with regional depository institutions which may not have a Community Reinvestment Act rating of “Outstanding”;

WHEREAS, Consistent with written Investment Objectives and Procedures, the Investment Committee recommends an amendment to the Investment Policy whereby regional banks that do not have a Community Reinvestment Act rating of “Outstanding”, shall be allowed to compete for investment deposits that are fully securitized investments through FDIC, collateral, or a combination thereof; and

WHEREAS, The Investment Committee further recommends that the combined investment in the regional bank programs are limited to one month of operating cash reserves; now, therefore, be it

RESOLVED, That the restated and amended Metropolitan Washington Airports Authority Investment Policy, as presented to the Finance Committee on March 19, 2014 and to the Board of Directors on April 16, 2014, is hereby approved; and

2. That this resolution shall be effective upon its adoption.

For Consideration by the Finance Committee on March 19, 2014