

Summary of Investment Policy Revisions 2010

SECTION II – GENERAL OBJECTIVES

1.a. Credit Risk

Decreased required collateralization of certain investments from 110% to 105% of market value of securities pledged as collateral. Decrease required to align with other government agencies (State of Illinois, City of Chicago) which require only 105% collateralization, and to encourage more investment opportunities with banks who currently are not participating in the District program due to the high cost of collateral. 105% coverage will provide adequate collateral in the event of default. The District can price collateral to market daily if necessary, and is able to request additional collateral whenever necessary.

Reduced calculation of the required collateral amount by the amount insured by the FDIC. Current practice requires collateralization of the amount insured by the FDIC (currently \$250,000). In some instances, this requirement precludes the District from securing certificate of deposit investments with community banks that may not have excess collateral on hand, yet could offer a competitive rate of investment.

1.b. Interest Rate Risk

Same change as above **reducing** 110% to 105% market value collateralization excluding the amount insured by the FDIC.

Increased Commercial Paper maximum investment period from 180 to 270 days. (Public Act 96-0741 effective date August 25, 2009)

Updated investments in securities of the United States Government to include short-term discount obligations of the United States Government and its Agencies created by Acts of Congress. Deleted separate reference to Federal National Mortgage Association Discount Notes since included in definition of Agencies.

Added municipal bond investments and CDARS (Certificate of Deposit Account Registry Service) investments as Suitable and Authorized Investments. CDARS investments added by amendment to Public Funds Investment Act (30 ILCS 235/6.5) on July 16, 2004. See Section V for further discussion.

3. Yield

Added Paragraph 4 as a condition to allow investments to be sold prior to maturity. Purpose is to allow for restructuring of capital project fund investments in the event that bonds related to the fund are refunded prior to the maturity of such investments. IRS regulations define the refunding event as the loss of the temporary period for arbitrage calculations, therefore, rendering a portion of the project fund yield restricted. Federally guaranteed investments are not eligible investments

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for the project fund at the date of refunding. Therefore, investments in CD's, discount notes, and Illinois Funds money market accounts must be liquidated and converted to U.S. Government bonds or T-bills prior to the date of the refunding. Treasury requires the authorization to sell the federally guaranteed investments if a bond refunding occurs while the project fund is active.

SECTION III – STANDARDS OF CARE

General Policy Update

Replaced all references to “Investment Officer” with “Treasury Analyst,” which is the current title for the position.

SECTION IV – SAFEKEEPING AND CUSTODY

1. Authorized Financial Dealers and Institutions

Removed “All depository institutions must have total capitalization of at least \$3,000,000.” This is not required by the Illinois Public Funds Investment Act. It could also allow the District to invest with a bank that has experienced a significant decline in equity yet meets the \$3,000,000 requirement.

Removed “The Treasurer will verify the percentage of deposits at least quarterly”. Compliance procedures require that the percentage of deposits be verified on a semi-monthly basis and documented in the Treasury compliance binder.

Selection of brokers/dealers: **Consolidated** the minimum number of years of operation requirement to one point. **Removed** Capital requirement. **Added** requirement to provide a certificate evidencing good standing as qualified to do business in the State of Illinois. **Added** requirement of disclosure of the firm used to clear trades with the District. District must review, and can reject any firm that may pose a risk in settling trades.

Changed requirement of “Quarterly Report of Condition and Income as filed with the appropriate Federal and/or State oversight agency” to specifically name the required reports. Banks to provide quarterly “Reports of Condition and Income (Call Reports), and broker/dealers to provide quarterly “Focus Report (Form X-17A-5).”

Added request for certification of Minority (MBE), Small (SBE), or Women (WBE) Business Enterprise status as applicable.

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SECTION V – SUITABLE AND AUTHORIZED INVESTMENTS

1. Investment Types

Increased Commercial Paper maximum investment period from 180 to 270 days. (Public Act 96-0741 effective date August 25, 2009)

Expanded short-term discount obligations definition to include U.S. Government Agencies created by acts of Congress which issue discount obligations.

Added municipal bonds as a qualified investment class for the District. Municipal bonds are a qualified investment defined in the Illinois Public Funds Investment Act.

Added CDARS (Certificate of Deposit Account Registry Service) investments. (Amendment to Public Funds Investment Act, 30 ILCS 235/6.5, on July 16, 2004)

2. Collateralization

Same change as sections 1.a. and 1.b. **reducing** 110% to 105% market value collateralization excluding the amount insured by the FDIC. **Changed** bank cash account collateralization to the same requirement.

SECTION VI – INVESTMENT PARAMETERS

1. Diversification

Added exception to 20% of funds invested limitation for investments in the commercial paper of one issuer entity. Exception will be relevant when the District is liquidating the commercial paper portfolio as maturities occur, and there is no credit risk requiring the sale of the security prior to maturity. This action was necessary when the commercial paper market collapsed in the fourth quarter of 2008. The 20% limitation by issuer is a District imposed policy and is not a requirement of the Public Funds Investment Act.

2. Maximum Maturities

Increased maximum maturity of investments from three (3) to five (5) years to maximize investment yield for funds which require less liquidity. Includes reserve funds and other funds that are not matched to a specific cash expenditure schedule.

SECTION VII – REPORTING AND PERFORMANCE MEASURES

2. Performance Standards

Changed frequency of average investment interest rate comparison to 90-day Treasury Bill rate from monthly to quarterly. This comparison is included in the Report on Investment Inventory Statistics presented to the Board of Commissioners each quarter.

SECTION VIII – INVESTMENT PARAMETERS

2. Amendments

Changed frequency of amendment to the Policy from an annual basis to be amended as necessary. This policy is long-term in nature and should only require update upon a legislative change or change in the nature of approved investments.

Removed wording requiring individuals charged with maintaining internal controls. This requirement includes the Treasurer and the Board of Commissioners which are already included in the statement that, “Any changes must be approved by the Treasurer and Board of Commissioners.”