

03/14/94

OHIO TURNPIKE COMMISSION

Resolution Amending the Ohio Turnpike
Commission's Investment Policy

WHEREAS, on February 14, 1994, the Commission adopted an investment policy, entitled Ohio Turnpike Commission Investment Policy, ("Policy") by the passage of Resolution No. 6-1994;

WHEREAS, the Commission has determined that a certain provision of the policy is unduly restrictive as it relates to the combined capital and surplus of commercial banks and savings and loan associations; and the Commission has determined that it is in its best interest to amend such provision;

NOW, THEREFORE, BE IT

RESOLVED that the Ohio Turnpike Commission hereby amends Section 3.130 of the Policy, as follows:

"Bankers acceptances and fully insured and/or fully collateralized Certificates of Deposit or time deposits issued by designated commercial banks and savings and loan associations located within the State of Ohio which are members of the FDIC and have a combined capital and surplus of at least \$25 million in dollars of the United States of America (including any investment in pools of those bankers acceptances and certificates of deposit or time deposits owned by the bank or savings and loan association)."

FURTHER RESOLVED that a copy of the Policy, as amended by this resolution, is attached hereto and incorporated herein by reference as if fully rewritten. All other terms and provisions of Resolution No. 6-1994 shall remain in full force and effect.

(Resolution No. 25-1994 adopted March 14, 1994)

1.400 Investment Authority

All investments shall be made in compliance with the applicable laws of the State of Ohio including Chapter 5537 of the Ohio Revised Code. Any conflict between this policy and the statutory laws of Ohio shall be resolved in favor of the statutory laws.

Implementation of the Commission's investment policy shall be the responsibility of the Secretary-Treasurer of the Commission and/or the Assistant Secretary-Treasurer of the Commission. The day to day management, operation, and implementation of the policy shall be the responsibility of the Comptroller or Assistant Comptroller of the Commission. All of the above shall be collectively referred to as "Authorized Parties".

1.500 Prudence

The standard of prudence to be applied by the Authorized Parties shall be the "prudent person" rule and shall be applied in the context of managing the overall portfolio. All action by Authorized Parties under this policy shall be in compliance with applicable ethics and interest in contract legislation of the State of Ohio. None of the Authorized Parties nor members of the Commission acting in accordance with written procedures and exercising due diligence shall be held accountable for any loss occasioned by sales or liquidations of investments at prices lower than their costs.

1.600 Internal Controls

A system of internal controls that safeguard assets and provides reasonable assurance of proper recording of all financial transactions has been established and will be followed in the implementation of the investment policy. The internal control procedures relevant to the investment transactions have been designed to prevent losses arising from fraud, collusion, employee error, misrepresentation by third parties, or imprudent actions by employees and officers of the Commission.

Internal accounting control procedures shall be reviewed and updated, when necessary, by the Comptroller's office, as well as the Commission's independent auditors.

2.000

OBJECTIVES

2.100 Safety

Investments shall be undertaken to ensure preservation and safety of capital in the overall portfolio. Each investment transaction shall seek to ensure that capital losses are avoided, whether from defaults or erosion of market value.

2.200 Liquidity

Liquidity shall be assured through practices ensuring that the next disbursement date and payroll date are covered through maturing investments. Securities shall be purchased with the expectation that the security may be held to final maturity.

2.300 Yield

The investment portfolio of the Commission shall be designed to achieve a market average rate of return throughout the budgetary and economic cycles, taking into account the Commission's risk constraints and the cash flow characteristics of the Commission. Market average rate of return is defined as the simple average of the 91 day U.S. Treasury Bill discount rates based upon the number of weekly auctions during the month. The number of auctions for any given month is determined by the settlement date.

3.000

ELIGIBLE INVESTMENTS

3.100

Assets of all funds of the Commission shall be invested in the following securities:

3.110

Direct obligations of the United States Government including such obligations as Treasury Bills, Treasury Notes, Treasury Bonds, Farmers Home Administration Insured Notes (FHA's), and securities issued by the Government National Mortgage Association (GNMA). Long term zero coupon (stripped Treasury) U.S. Government obligations are excluded from the list of eligible investments of the Commission.

3.120

Obligations of certain United States Government agencies which are not guaranteed by the full faith and credit of the United States government, but which enjoy sufficiently broad and orderly markets to ensure easy and cost effective liquidation. Such obligations include but are not limited to Federal Home Loan Bank debt (FHLB), and Federal National Mortgage Association Debt (FNMA).

3.130

Bankers acceptances and fully insured and/or fully collateralized Certificates of Deposit or time deposits issued by designated commercial banks and savings and loan associations located within the State of Ohio which are members of the FDIC and have a combined capital and surplus of at least \$25 million in dollars of the United States of America (including any investment in pools of those bankers acceptances and certificates of deposit or time deposits owned by the bank or savings and loan association).

3.140

Investments in the State treasurer's investment pool, State Treasurer's Asset Reserve (STAR), pursuant to Chapter 135.45 of the Ohio Revised Code.

3.150

Investments in a designated depository's overnight sweep account. The sweep account will provide for automatic daily transfer of available cash balances from a demand deposit account to an investment earnings vehicle. The rate bid will be based on the number of basis points below the current Federal Funds Rate.

3.155

Investment in a designated depository's government money market mutual fund which is rated in the highest rating category and registered with the SEC.

3.160

A repurchase agreement with any bank and its affiliates which is secured by purchased securities of the type specified in Section 3.110 and 3.120 above. Investments in repurchase agreements shall be made only pursuant to a properly executed master repurchase agreement in the form of the Master Repurchase Agreement prepared by the Commission. Pursuant to the master repurchase agreement purchase securities shall 1) be in the possession of the Commission, or

third party custodian pursuant to the custodian agreement between the Commission, its depository bank and the custodian; 2) not be subject to any third party claims; and 3) have a market value (determined at least once every 14 days) at least equal to the following minimum ratios of market value of purchased securities, under the terms of a specific repurchase agreement, to the principal dollar amount of such investments:

- U.S. Treasury Bills, Notes, and Bonds which mature in 1 year or less: 101%
- U.S. Treasury Notes and Bonds which mature in 1 to 10 years: 102%
- U.S. Government Agency securities which mature in 1 year or less: 102%
- U.S. Government Agency securities which mature in 1 to 10 years: 103%
- U.S. Treasury Bonds and Agency securities that mature in more than 10 years: 105% or more at the discretion of the Commission

3.170 General obligations of the State, provided that such general obligations are rated as "AA" or higher by a rating service.

3.180 Obligations of any state of the United States or any subdivision of any state which are rated "AAA" by a rating service.

3.200 All purchased securities with the exception of investments in the State Treasurers Asset Reserve Fund, a designated depository's overnight repurchase account ("sweep account"), and a designated depository's government money market mutual fund shall be held in accordance with the master custodian agreement between the Commission, the Commission's depository bank and the custodian.

4.000

**RELATIONSHIP WITH DEPOSITORY BANKS
AND BROKER DEALERS**

4.100

Depository banks and broker dealers shall be selected through the Commission's banking services and broker dealer selection process. In the selection of banking and investment services, the credit worthiness of institutions shall be considered and the Comptroller shall conduct a review of the prospective depositories and broker dealer's financial history.

4.200

Before accepting funds or engaging in investment transactions with the Commission, an authorized officer of each depository and broker dealer shall submit an affidavit (See Exhibit A). The affidavit will certify that the officer has reviewed the investment policies and objectives and agrees to disclose potential conflicts or risks to public funds that may arise out of business transactions between the depository/broker dealer and the Commission. All depositories and broker dealers shall agree to undertake reasonable efforts to preclude imprudent transactions regarding the Commission's funds.

4.300

The supervising officer shall agree to exercise due diligence in monitoring the activities of other officers and subordinate staff members engaged in transactions with the Commission. Employees of any broker dealer offering securities or investments to the Commission shall be trained in the precautions appropriate to public sector investments and to adhere to the Commission's investment objectives, policies and constraints.

4.400

The depository bank or broker dealer shall agree to provide audited financial statements to the Commission for each fiscal year.

5.000 SAFEKEEPING OF DEPOSITS AND CUSTODY OF SECURITIES

- 5.100 Before the Comptroller will initially deposit or continue to maintain a deposit in a designated depository, the designated depository shall be required to pledge and deposit with the Commission, as security for the repayment of all monies so deposited, eligible securities which have an aggregate market value equal to or greater than the aggregate amount of Commission moneys which at anytime shall be so deposited. Further, the Commission may require that additional securities be deposited to provide for any depreciation which may occur in the market value of any securities so deposited.
- 5.200 The Federal Reserve Bank of Cleveland may act as the safekeeping agent of both the Commission and the designated depository which is pledging the collateral to secure the Commission's deposits. Upon proper transfer by the pledging bank into a "joint custody account", the Federal Reserve Bank will issue a joint custody receipt to both the pledging bank and the Commission. Thereafter, the Federal Reserve will not release the securities prior to their maturity (for purposes of reassignment or liquidation) without the express consent of both parties.
- 5.300 Certificates of deposit will be purchased through designated depositories that have pledged collateral to secure the certificates of deposit. When purchasing a certificate of deposit from the Commission's designated depository, the amount of collateral held in the Commission's name must secure all uninvested moneys in all the Commission's funds, in addition to all investments in certificates of deposit purchased from the designated depository.
- 5.400 All investments shall be made only through a member of the National Association of Securities Dealers, Inc. (NASD) or through an institution regulated by the Superintendent of Banks, Superintendent of Savings and Loan Association, Comptroller of the Currency, Federal Deposit Insurance Corporation, Board of Governors of the Federal Reserve System, or Federal Home Loan Bank Board. Payment for securities purchased shall be made only upon delivery to the Commission of securities represented by such investments. If the securities purchased are not represented by a certificate, payment shall be made by the Commission only upon receipt of confirmation of transfer from the custodian.
- 5.500 The Commission has entered into a master custodian agreement with its depository bank and a third party custodian. The agreement establishes specific procedures to be followed in investment purchases and sales and established a custodian account at a third party custodian bank. When securities are purchased, they are purchased on a delivery vs. payment basis and are delivered to the third party custodian account registered in the name of the Commission as owner.

5.600

All securities and certificates of deposit purchased from designated depositories/broker dealers and repurchase agreements will be held so that the deposits and investment will be categorized in risk category 1 of the Governmental Accounting Standards Board (GASB) Statement No. 3 - Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements.

5.700

All purchases of securities will be made through an informal quotation process, whereby the Commission will obtain offerings from at least three eligible banks or broker dealers. Investment transactions will be executed with the bank or broker dealer offering the highest bond equivalent yield to the Commission after consideration of the fees to be charged for wiring of funds, if needed.

7.000

INVESTMENT REPORTING - INTERIM AND ANNUAL

7.100

The Comptroller shall submit a monthly report, by fund, of all investment transactions, including purchases, early sales, maturities, and swaps to the Commission members, and Assistant Secretary Treasurer.

7.200

For new securities purchased, the report will contain the type of security purchased, the amount purchased, the purchase date, the maturity date, the cost, and yield to maturity.

7.300

For securities sold prior to maturity date, the report will list the type of security sold, the face amount sold, the purchase date, the maturity date, the actual sale date, the proceeds received, the gain or loss realized on the sale, and the yield to maturity.

7.400

For securities that matured during the month, the report will list the type of security that matured, the face amount, the purchase date, the maturity date, the total proceeds received, the interest received, if applicable, and the yield earned.

7.500

For securities swapped (securities sold prior to maturity in order to purchase another security that earns a higher yield) the report will list the type of security sold, the amount sold, the purchase date, the maturity date, the sale date, the proceeds received, the gain or loss realized, and the yield to maturity. For the new security purchased, the report will list the type of security purchased, the amount purchased, the cost, the purchase date, the maturity date, and the yield to maturity.

7.600

In addition, the Comptroller's monthly report will contain a summary of investment revenue earned by fund for the month reported and investment revenue earned year to date by fund.

The Commission's monthly financial statements contain schedules of outstanding investments by fund as of month end. The schedules list the type of security purchased, the interest rate, the maturity date, the principal amount purchased, the cost, the amortization of the discount or premium and the current book value of the security. Also, a schedule of investment revenue is included for each fund.

**EXHIBIT A
AFFIDAVIT**

TO: THE OHIO TURNPIKE COMMISSION

FROM: _____

ADDRESS: _____

TELEPHONE: _____

FAX: _____

The undersigned bidder acknowledges having reviewed the Ohio Turnpike Commission's Investment Policy and agrees to disclose any potential conflicts or risks to public funds which may arise from securities recommended to the Commission or that may arise out of business transactions between the depository/broker dealer and the Commission.

The undersigned signatory for the depository/broker dealer represents and warrants that he has full and complete authority to submit this affidavit to the Commission and to provide the investment services enumerated in the Commission's Investment Policy.

Dated: _____, 1994

By: _____
(Signature)

(Typed Name)

(Title)

7.700

Comprehensive Annual Financial Report

With the publication of the Commission's Comprehensive Annual Financial Report, the Comptroller will present an annual report on the investment program and activity in the previous fiscal year. The annual report shall describe the portfolio in terms of investment strategies, securities, maturities, risk characteristics, and other features.