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**Request for Proposals**

**Investment Management Services**

**Due Date: March 9, 2012**

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1111 East Main Street · Suite 1920 · Richmond · Virginia 23219 · (804) 644-3100

Notice: VRA does not discriminate on the basis of race, color, religion, sex, age, national origin, familial status, handicap or disability. VRA does not discriminate against faith-based organizations.

**REQUEST FOR PROPOSALS (RFP)**

**Issuing Authority:** Virginia Resources Authority (VRA)  
 1111 E. Main Street, Suite 1920  
 Richmond, VA 23219

**Sealed Proposals Will Be Received Until:** March 9, 2012, at 5:00 p.m., EST, for the services described herein.

**All Inquiries For Information Should Be Directed To:** Michael P. Cooper  
 (804) 644-3100, ext. 121

**This Entire Proposal Package Should Be Mailed To Or Hand Delivered To:** Virginia Resources Authority  
 Attn: Michael P. Cooper  
 1111 E. Main Street, Suite 1920  
 Richmond, VA 23219

In Compliance With This Request For Proposals And To All The Conditions Imposed Therein And Hereby Incorporated By Reference, The Undersigned Offers And Agrees To Furnish The Services In Accordance With The Attached Signed Proposal Or As Mutually Agreed Upon By Subsequent Negotiation.

|                                  |              |  |
|----------------------------------|--------------|--|
|                                  | <b>Date:</b> |  |
| <b>Name of Firm (“Offeror”):</b> |              |  |
| <b>Address:</b>                  |              |  |
| <b>City, State, Zip Code:</b>    |              |  |
| <b>Phone No.:</b>                |              |  |
| <b>Fax No.:</b>                  |              |  |
| <b>Email:</b>                    |              |  |
| <b>By and Title:</b>             |              |  |
| <b>Signature:</b>                |              |  |
| <b>FEI/FIN No.</b>               |              |  |

PLEASE COMPLETE AND RETURN THIS PAGE WITH YOUR PROPOSAL.

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## **REQUEST FOR PROPOSALS**

### **I. Purpose/Background.**

#### **A. Purpose**

The purpose of this Request for Proposals is to solicit proposals from qualified professionals (“Offerors”) to establish an agreement through competitive negotiations with firms to provide investment management services to the Virginia Resources Authority (“VRA”, “Authority”, “Owner”) as more fully described herein.

VRA intends to enter into a contract or contracts with the selected firm(s) for a term of one (1) year with four (4) one-year options, which may be exercised at VRA’s discretion.

#### **B. Background**

VRA was created in 1984 as a political subdivision of the Commonwealth of Virginia pursuant to the Virginia Resources Authority Act, being Chapter 21 of Title 62.1 of the Code of Virginia of 1950, as amended. VRA is governed by a Board of Directors (the “Board”), appointed by the Governor of Virginia. VRA’s Executive Director (the “Executive Director”), who is also appointed by the Governor of Virginia, administers, manages and directs the affairs of VRA, subject to the policies, control and direction of the Board.

VRA works with cities, towns, counties and service authorities to provide low cost loans for a number of project areas, including local government buildings, public safety, transportation, dam safety, wastewater, drinking water, solid waste, storm water drainage, federal facility development, and brownfield remediation projects, among others. In FY 2011, VRA closed over \$373 million in loans for 66 capital improvement projects across the Commonwealth. Since its creation by the General Assembly in 1984, VRA has funded more than 1,000 critical projects across the Commonwealth, representing more than \$5 billion of investment in Virginia’s communities.

VRA issues bonds and lends the proceeds to local governments, at a minimum, two times a year. VRA also serves as the financial administrator of four revolving loan funds: (1) Water Facilities Revolving Fund, (2) Water Supply Revolving Fund, (3) Airports Revolving Fund, and (4) Dam Safety and Flood Prevention Fund (collectively, the “RLFs”). These programs are funded from federal grants with a state match or state appropriations. These state and federal funds are used to make loans or buy down interest rates and craft below-market rate loans, some at 0%, in revolving loan funds. VRA pays its expenses from the income generated from its operations and programs.

Similar to the RLFs, VRA serves as the manager of the newly created Virginia Transportation Infrastructure Bank. VRA will make credit and structuring recommendations for loans made in this program.

## Investment Management Services

For evaluation purposes, Authority assets under management are:

- The Authority's General Fund which consists of approximately \$4.3 million. These monies represent the unrestricted and uncommitted assets of the Authority.
- The Authority's Operating Reserve Fund, currently internally managed, consists of approximately \$7.4 million. This fund is currently yield-restricted.
- The Virginia Aviation Revolving Fund is funded with state-only monies and consists of approximately \$7.9 million. This fund is unrestricted for investment purposes.
- The Authority's two federally-funded Revolving Loan Funds currently consist of: Virginia Wastewater Revolving Fund – \$51.3 million; Virginia Water Supply Revolving Fund – \$7.3 million. These funds are unrestricted for investment purposes.
- The Authority's Agriculture Best Management Practices funds of approximately \$2.3 million. This fund is unrestricted for investment purposes

The Authority intends to invest these funds in accordance with the Authority's current Investment Policy. A copy of the Investment Policy can be found as Attachment A.

## **II. Objectives.**

The Authority's general objectives from these accounts and funds are as follows:

1. **Safety.** Safety of principal is the foremost objective of the investment program. Investments in all asset groups shall be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio.
2. **Liquidity.** Each investment portfolio will remain sufficiently liquid to enable it to meet all operational requirements that might be reasonably anticipated.
3. **Return on Investment.** Each investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account its investment risk constraints and the cash flow characteristics of the portfolio.

The Authority's specific objectives for each of the funds can be found in Attachment A, the Virginia Resources Authority Investment Policy.

**III. Statement of Needs.**

VRA requires investment management services related to its loan programs. Such needs include:

- Assign a knowledgeable representative from the firm to serve as a contact for Authority staff and be available for consultation during normal business hours. Provide a name and phone number of designee and backup.
- Provide ongoing advice and assistance with respect to matters relating to the Authority's investments.
- Fully develop an Investment Strategy to meet the needs of the Authority.
- Periodically review VRA's Investment Policy for compliance with federal and state regulations, appropriate goals, and consistency; make recommendations for improvement where advisable.
- Ensure compliance with all requirements of the Authority's Investment Policy and any applicable federal and state laws and regulations.
- Regularly monitor the Authority's current investments and make recommendations for investments and alternatives based on market conditions.
- Develop and maintain a working relationship with the Authority's Custodian to provide accurate monthly custodian reports.
- Provide a portfolio summary of the Authority's investments. The summary should include information per Authority specifications.
  - Report monthly performance against the benchmarks established for the account by the tenth business day of the following month. Provide, at least quarterly, written reports concerning investment strategy and economic and investment outlook by the tenth business day of the following quarter.
  - Provide a quarterly accounting of any professional staff turnover that would impact the services or contract under which investment management services are being provided. Any material event that has an impact on the ownership or the management of this account must be reported immediately to the Authority.
  - Within 30 days of each month end, reconcile all transactions, market values, security holdings, and cash flows with the Custodian and provide a written report of all areas of discrepancy or disagreement with the Custodian.

## Investment Management Services

- Provide ongoing monitoring of the Authority's investments and investment strategy and make recommendations to improve strategy. Firm is expected to consult with the Authority's Financial Advisor as needed.
- Meet with the VRA Board of Directors, as requested, to review investment performance and strategy and make presentations.
- Attend quarterly meetings with Authority staff to review the current economic and market conditions, economic and market outlook, asset mix guidelines, and the investment goals and policies of the Authority.
- Attend semi-annual performance appraisal meetings with Authority staff (concurrent with the quarterly meeting) to review performance versus the established benchmarks.

### **IV. Proposal Preparation and Submission Instructions.**

#### **A. General Requirements.**

To be considered, proposals must be received by VRA no later than 5:00 p.m. EST, on March 9, 2012. Interested parties should submit proposals to:

Virginia Resources Authority  
Attn: Michael P. Cooper  
1111 E. Main Street, Suite 1920  
Richmond, VA 23219

VRA requests that each Offeror submit one (1) original and four (4) copies of its proposal. **Interested parties may submit written comments or questions on any aspect of this Request for Proposals on or before 5:00 p.m., EST, on March 2, 2012.** Such comments or questions shall be submitted to Michael P. Cooper by e-mail at [mcooper@virginiareources.org](mailto:mcooper@virginiareources.org) or by fax at 804-644-3109. VRA reserves the right to extend either of the foregoing deadlines or to issue addenda modifying this Request for Proposals, as it deems necessary. Notice of such extensions and/or modifications, as well as answers to questions or comments, will be provided on VRA's website at [www.VirginiaResources.org](http://www.VirginiaResources.org).

VRA shall have the sole right to determine whether any noncompliance by a proposal with any of the requirements herein is substantial in nature, to reject any proposal deemed by VRA in its discretion not to be in substantial compliance with the requirements herein, and to waive (or to allow an Offeror to correct) any noncompliance determined by VRA in its discretion not to be substantial in nature. VRA reserves the right to not select any proposal.

By submitting their proposals all Offerors are deemed to certify that they are not currently barred from submitting bids/proposals on contracts by any agency of the Commonwealth of Virginia.

All proposals shall become the property of VRA and will not be returned to the Offerors.

**B. Specific Proposal Instructions.**

The proposals must provide the following information and documents:

1. Identifying information, including:
  - a. Name and address of the firm
  - b. Name, email address and phone number of the individual(s) responsible for this proposal for the purpose of follow up contact related to questions, clarifications and/or notification
  - c. Location of the office at which the services to be provided hereunder will be performed
  - d. The type of firm and whether or not it is affiliated with any bank, insurance company or investment counselors. If your firm is not a bank, provide your principal bank name, address, contact person, telephone number, and the length of your relationship with the bank
2. Identify, by name and title, the individuals who will be responsible for this engagement (“Responsible Individuals”). Please also include:
  - a. The role of each individual
  - b. Summary resumes for all individuals
  - c. Identification of the primary point of contact for VRA
  - d. List at least four (4) comparable clients for whom the representatives listed above has managed the investment of funds. Please provide the name, type of accounts managed, contact name and telephone number, length of relationship and size of each portfolio as of June 30, 2011. We would prefer public sector clients, if possible.
3. Provide a **brief** description of your firm, including the organizational structure of your investment management group. Describe your firm’s and its Responsible Individuals’ experience providing investment management services, with emphasis on state level experience. Attach your firm’s most recent annual report to your proposal.
4. Provide a brief history of the firm including the year organized, the year in which it was SEC registered, and the year the firm began managing comparable investment accounts for clients. If broker/dealer is a parent or affiliate to your firm, identify the extent of trades for client accounts through this broker/dealer.
5. Provide a list of all clients lost within the last four (4) years, including:
  - a. Contact name and phone number
  - b. Length of service on account
  - c. Reason for loss

## Investment Management Services

6. Provide a fee schedule associated with the proposed services and the basis for deriving such fees.
7. Provide explicit information on performance of funds similar in duration and investment quality as those of the Authority, managed over the previous ten years or the life of the fund, whichever is greater.
8. Describe a sample Investment Strategy to meet the Authority's objectives. The strategy should be realistic and manageable by the Authority.
9. Using the Authority Investment Policy and the restrictions and guidelines therein, provide an example portfolio for Authority funds.
10. Provide evidence of adequate fidelity bond coverage.
11. Discuss your firm's capability to maintain compliance with the Virginia Security for Public Deposits Act. Include levels of insurance or protection against fraud/mismanagement.
12. Provide evidence that your firm has obtained all required licenses to operate as a broker/dealer in the Commonwealth of Virginia.
13. Identify regulatory agencies (FDIC, SEC, NYSE, Comptroller of Currency, Federal Reserve) that examine your firm and/or your firm is subject to their rules.
14. Identify any material litigation, administrative proceedings or investigations in which your firm or its Responsible Individuals are currently involved or which may be threatened against your firm. Indicate the current status or disposition of such litigation, administrative proceedings or investigations.
15. Provide a statement of assurance that your firm and its Responsible Individuals are not currently in violation of any regulatory agency rule or, if in violation, an explanation as to why the violation would not have a material adverse impact on your ability to perform under this contract.
16. Provide a statement of assurance that there are no known conflicts of interest that would prohibit the firm from entering into an agreement with VRA for the provision of investment management services or would otherwise adversely affect VRA, its operations or customers. In addition, provide a statement of commitment to disclose future actual or potential conflicts of interest. Identify how any such future conflicts would be identified and how your firm would resolve any such conflicts.

**V. Evaluation and Award Criteria.**

**A. Evaluation Criteria.**

The Offerors submitting proposals must have the capabilities and qualifications described below:

1. Capacity and Resources. The Offeror must have the capacity and resources to perform all of the above-described services in a prompt, responsive manner and with excellent quality of work in the timeframe needed.
2. Expertise and Experience. The Offeror's staff must have demonstrated expertise and significant experience in serving clients (such as governmental entities and authorities) similar to VRA.
3. Record of Performance. The Offeror and its staff must have a record of highly satisfactory performance in providing prompt, effective and responsive services of the type described above to clients similar to VRA.
4. Staff Qualifications. The Offeror's staff who will be assigned responsibilities for the performance of any of the above-described services under the contract must have the education, experience, knowledge, skill and qualifications necessary to perform properly the services for which they will be responsible.
5. Fees. The Offeror must propose a fee structure which is fair and reasonable for the services to be performed. Such estimates and fee structure shall be based upon a fixed schedule of fees for the initial term of the contract. Offeror must also propose a fixed schedule of fees for each of the additional annual terms.
6. Professional Liability Insurance. The Offeror must have in full force and effect professional liability insurance with an insurance company rated at least A- in Best's Guide in an amount acceptable to VRA.

**B. Award of Contract.**

1. Evaluation Factors. The Offerors will be evaluated by VRA based on the evaluation criteria listed above.
2. Selection Process. VRA shall rank each of the Offerors in accordance with the evaluation factors listed above. Based upon such ranking, VRA shall select two or more Offerors deemed fully qualified, responsible and suitable on the basis of the proposals to provide the above-described services. VRA shall thereafter engage in interviews and/or discussions with the Offerors so selected.

At this stage, VRA may obtain written and/or oral recommendations from one or more of the clients of each such Offeror listed as a reference in such Offeror's

proposal or otherwise identified therein or known to VRA. Also, VRA may require the Offeror to provide such additional information and documents as VRA may deem necessary or appropriate to conduct its review and evaluation of the proposal.

The review and evaluation of proposals and the interviews, discussions and negotiations with Offerors are to be conducted by a selection committee formed by VRA.

3. Award to Multiple Offerors. Selection shall be made of two or more Offerors deemed to be fully qualified and best suited among those submitting proposals on the basis of the evaluation factors included in the Request for Proposals, including fees. Negotiations shall be conducted with the Offeror(s) so selected. Fees shall be considered, but need not be the sole determining factor. After negotiations have been conducted with each Offeror so selected, the agency shall select the Offeror(s) which, in its opinion, has made the best proposal, and shall award the contract to that Offeror(s). VRA reserves the right to make multiple awards as a result of this solicitation. Further, should the agency determine in writing and in its sole discretion that only one Offeror is fully qualified, or that one Offeror is clearly more highly qualified than the others under consideration, a contract may be negotiated and awarded to that Offeror.

VRA may cancel this Request for Proposals or reject proposals at any time prior to an award, and is not required to furnish a statement of the reasons why a particular proposal was not deemed to be the most advantageous (*Code of Virginia, Section §2.2-4359D*). Should VRA determine in writing and in its sole discretion that only one Offeror is fully qualified, or that one Offeror is clearly more highly qualified than the others under consideration, a contract may be negotiated and awarded to that Offeror. The award document will be a contract incorporating by reference all the requirements, terms and conditions of the solicitation and the contractor's proposal as negotiated.

4. Accept and/or Reject In Whole or In Part. VRA reserves the right to accept and/or reject any proposal in whole or in part.
5. Approval of Subcontractors. VRA reserves the right to approve any subcontractors.

## **VI. General Terms and Conditions.**

Each Offeror agrees to the following terms and conditions:

1. The Offeror(s) selected as investment manager(s) to VRA may not receive any compensation directly or indirectly in its role as investment manager other than the advisory fees paid in connection therewith.

## Investment Management Services

2. The solicitation and any resulting contract shall be governed in all respects by the laws of the Commonwealth of Virginia and any litigation with respect thereto shall be brought in the courts of the Commonwealth of Virginia.
3. By submitting its proposal, each Offeror certifies that its proposal is made without collusion or fraud and that it has not offered or received any kickbacks or inducements from any other Offeror in connection with its proposal and that it has not conferred on any public employee having official responsibility for this procurement transaction any payment, loan, subscription, advance, deposit of money, services or anything of nominal value, present or promised, unless consideration of substantially equal or greater value was exchanged.
4. The term of the contract shall be one (1) year with VRA to have the option to extend the contract for up to four (4) additional terms of one (1) year each. The contract may be terminated by either party, with or without cause, upon thirty (30) days' advance written notice to the other party.
5. The contract shall specify the fee structure agreed to by VRA and the Offeror and the manner and timing for the submission of bills. In the contract, the Offeror must agree to maintain the above-described professional liability insurance during the term of the contract. The contract shall require the prior approval of VRA for any change in the individuals or subcontractors who are designated in the proposal to serve on the VRA account or any change in their respective responsibilities. The contract shall provide that the contract shall not be assigned, and the performance of any services thereunder shall not be subcontracted, without the prior written approval of VRA. The Offeror's proposal and any modifications thereto required or approved by VRA will be incorporated into the contract. All other terms and conditions of the contract must be satisfactory to VRA.
6. The following provisions shall be included in the contract:

### **Non-Discrimination Against Faith-Based Organizations**

VRA does not discriminate against faith-based organizations.

### **Immigration Reform**

The Offeror, by signing the bid or proposal, certifies that it does not and will not during the performance of this contract violate the provisions of the Federal Immigration Reform and Control Act of 1986, which prohibits employment of illegal aliens.

### **Payment**

- a) If work hereunder is performed by a subcontractor, then, within seven days after receipt of amounts paid to Offeror by VRA for work performed

by the subcontractor, Offeror must either (i) pay the subcontractor for the proportionate share of the total payment received from VRA attributable to the work performed by the subcontractor under this contract, or (ii) notify VRA and the subcontractor, in writing, of its intention to withhold all or a part of the subcontractor's payment with the reason for nonpayment.

- b) Offeror must provide its social security number or its federal employer identification number.
- c) Offeror must pay interest to all subcontractors on all amounts owed by Offeror that remain unpaid after seven days following receipt by Offeror of payment from VRA for work performed by any subcontractors under this contract, except for amounts withheld as allowed in subsection (a) (ii).
- d) Unless otherwise provided under the terms of this contract, interest shall accrue at the rate of one percent per month.
- e) Offeror must include in each of its subcontracts a provision requiring each subcontractor to include or otherwise be subject to the same payment and interest requirements as are set forth in this Section with respect to each lower-tier subcontractor.

**Procedures for Consideration of Contractual Claims/Administrative Dispute Resolution**

**VRA and the Offeror will attempt in good faith to resolve any claim or dispute arising out of or in connection with this Contract by using an alternative dispute resolution proceeding as authorized by the Virginia Administrative Dispute Resolution Act, Code of Virginia §§ 2.2-4415 et seq.**

- a) In the event of a claim by Offeror arising out of the performance of this contract, the Offeror shall submit to VRA, no later than 60 days after final payment to the Offeror under the procurement contract, a written claim (hereinafter the "Written Claim") for money or other appropriate relief stating the facts and circumstances upon which the claim is based and the nature of the relief sought; provided, however, that unless the Offeror filed with VRA a written notice of intention (hereinafter "Notice of Intent") to file such Written Claim at the time of the occurrence or at the beginning of the work upon which the claim is based, then the Offeror shall be deemed to have waived his claim. For purposes of this paragraph, the phrase "at the beginning of the work" shall mean within 7 days after any goods or services are first provided pursuant to the procurement contract, and the phrase "at the time of the occurrence" shall mean within 7 days of the first event giving rise to the claim; provided, however, that in instances where the event giving rise to the claim is an alleged wrongful omission or

wrongful failure to act, the 7 day time period shall begin to run from the time that duty to act arose. For purposes of this Exhibit, a Written Claim and a Notice of Intent shall be deemed filed when it is received by VRA.

- b) Within 90 days of the filing of the Written Claim, VRA shall conduct an initial meeting with the Offeror who shall have the right to have his attorneys present. VRA shall establish the date, time and place of such initial meeting and shall give notice to the Offeror of such meeting at least 17 days prior thereto. (Such notice may be written or oral and shall be deemed to be given when received by the Offeror.) Failure by VRA to initially meet with the Offeror within said 90 days shall be deemed a denial of the Offeror's claim. If deemed necessary by VRA, additional meetings with the Offeror shall be held by VRA subsequent to said initial meeting. Such additional meetings may be held after the expiration of the above-described 90 day period. Failure by the Offeror to attend any meetings under this paragraph (b) shall be deemed a waiver of the Offeror's claim. The Offeror shall have the burden of proof with regard to the claim. The Offeror and his attorneys shall have the right to present witnesses, documents and other evidence in support of the claim. At each such meeting, VRA shall be represented by the Executive Director or a person appointed by the Executive Director. VRA shall also have the right to have its attorneys present at each meeting and to present witnesses, documents and other evidence.
- c) All such meetings shall be conducted on an informal basis, and the rules of evidence shall not apply. Witnesses shall not be sworn, nor shall recordings or transcripts be taken or made of any meeting. VRA and the Offeror may agree, pursuant to paragraph (f), to record or transcribe any meeting, however, such recording or transcript shall not be admissible in any court or any other tribunal unless the written agreement shall expressly so provide.
- d) Within 60 days after all such meetings have been completed, the Executive Director, or any person appointed by the Executive Director, shall present his/her recommendation regarding such claim in writing to the Board. The Offeror shall have the right to receive a copy of said recommendation. Within 75 days after the Executive Director or the Executive Director's appointee submits said recommendation to the Board, the Board shall render its decision in writing with regard to the claim. In the event that the Executive Director, or any person appointed by the Executive Director, does not present his/her recommendations within said 60-day period or in the event that the Board does not render such decision within said 75-day period, the Offeror's claim shall be deemed to have been denied. Nothing herein shall preclude the Executive Director or any person appointed by the Executive Director from con-

ducting informal negotiations with the Offeror on the claim or from settling the claim.

- e) The decision of the Board shall be final and conclusive unless the Offeror appeals within six months of the final decision on the claim by the Board by instituting legal action as provided in Section 2.2-4364 of the Virginia Code.
- f) The provisions and procedures set forth in this section may be modified or amended by written agreement between the Offeror and VRA.
- g) Procedures set forth herein shall apply only to disputes arising out of the performance of a procurement contract and of a contractual nature. They shall not apply to disputes arising out of or relating to any other matters, including but not limited to, any of the following:
  - 1) Disqualification of Offerors from participation in the competitive negotiation process;
  - 2) Withdrawal of proposals; or
  - 3) Disputes concerning the award or proposed award of contracts.

**Non-Discrimination by Persons Contracting with VRA**

During the performance of this contract, the Offeror agrees as follows:

- a) The Offeror will not discriminate against any employee or applicant for employment because of race, religion, color, sex, national origin, age, disability or any other basis prohibited by state law relating to discrimination in employment, except where there is a bona fide occupational qualification reasonably necessary to the normal operation of the Offeror. The Offeror agrees to post in conspicuous places, available to employees and applicants for employment, notices setting forth the provisions of this non-discrimination clause.
- b) The Offeror, in all solicitations or advertisements for employees placed by or on behalf of the Offeror, will state that such Offeror is an equal opportunity employer.
- c) Notices, advertisements and solicitations placed in accordance with federal law, rule or regulation shall be deemed sufficient for the purpose of meeting the requirements set forth herein. The Offeror will include the provisions of the foregoing paragraphs (a), (b) and (c) in every subcontract or purchase order of over \$10,000, so that the provisions will be binding upon each subcontractor or vendor.

**Drug-Free Workplace**

During the performance of this contract, the Offeror agrees to (i) provide a drug-free workplace for the Offeror's employees; (ii) post in conspicuous places, available to employees and applicants for employment, a statement notifying employees that the unlawful manufacture, sale, distribution, dispensation, possession, or use of a controlled substance or marijuana is prohibited in the Offeror's workplace and specifying the actions that will be taken against employees for violations for such prohibition; (iii) state in all solicitations or advertisements for employees placed by or on behalf of the Offeror that the Offeror maintains a drug-free workplace; and (iv) include the provisions of the foregoing clauses in every subcontract or purchase order over \$10,000, so that the provisions will be binding upon each subcontractor or vendor.

For the purposes of this section, "drug-free workplace" means a site for the performance of work done in connection this contract by the Offeror, the employees of whom are prohibited from engaging in the unlawful manufacture, sale, distribution, dispensation, possession or use of any controlled substance or marijuana during the performance of this contract.

**Non-Discrimination**

VRA does not discriminate on the basis of race, color, religion, sex, age, national origin, familial status, handicap or disability. VRA does not discriminate against faith-based organizations.



**STATEMENT OF INVESTMENT POLICY**

REVISED AND APPROVED  
BY VRA BOARD OF DIRECTORS  
December 8, 2009  
Effective January 1, 2010

**Virginia Resources Authority**

## Statement of Investment Policy

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# Virginia Resources Authority

## Statement of Investment Policy

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### **I. PURPOSE**

The purpose of this policy is to set forth the investment and operational policies for the management of the public funds of the Virginia Resources Authority (the “Authority”). These policies have been adopted by, and can only be changed by the Authority’s Board of Directors.

These policies are designed to ensure the prudent management of public funds, the availability of operating and capital funds when needed, and an investment return competitive with comparable funds and financial indices.

Investments shall be made with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. Further it shall be the policy of the Authority that all investments and investment practices meet or exceed all statutes and guidelines governing the investment of public funds in Virginia and any investment requirements, authorizations, or restrictions imposed by covenants and provisions of, or related to, the financial and legal documents of the Authority’s loan and bond portfolio and any other similar transactions. Further, accounting for the Authority Portfolio shall be consistent with guidelines of the Governmental Accounting Standards Board (“GASB”).

The Authority shall take all possible precautions to minimize the credit risk of its investments. This includes monitoring the credit worthiness of the banks in which the Authority deposits its money.

### **II. POLICY GUIDELINES**

#### **A. SCOPE OF INVESTMENT POLICY**

This investment policy governs the administration and investment management of all funds held by the Authority. The Authority manages investments in several different asset groups based on the source of funds invested. The sources of funds and the designated asset groups include i) the unrestricted and uncommitted assets of the Authority, as well as the restricted and pledged assets of the Authority (collectively, “General Fund”), ii) the restricted assets of the direct loan programs of the Virginia Water Facilities Revolving Loan Fund (“VWFRF”) and the Virginia Water Supply Revolving Fund (“VWSRF”) (collectively, “Disbursement Funds”), and iii) monies appropriated, and investment earnings thereon, as state match for the VWFRF and VWSRF and as capitalization of the Virginia Airport Revolving Fund (“VARF”), (collectively, “Appropriated Funds”) iv) proceeds from and deposits related to the issuance of Authority bonds (“Bond Funds”), including any monies held in reserve for the benefit of bondholders.

The Executive Director is authorized to hire, through competitive selection, external investment managers, as needed, to provide investment advisory, management, and contractual services consistent with this Statement of Investment Policy.

## **B. INVESTMENT OBJECTIVES**

The primary investment objectives for all asset groups, shall be:

- 1. Safety.** Safety of principal is the foremost objective of the investment program. Investments in all asset groups shall be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio.
- 2. Liquidity.** Each investment portfolio will remain sufficiently liquid to enable it to meet all operational requirements, which might be reasonably anticipated.
- 3. Return on Investment.** Each investment portfolio shall be managed to maximize the return on investments within the context and parameters set forth by objectives 1 and 2 above.

Each asset group will have its own policy guidelines and priorities with respect to the primary investment objectives.

### **General Fund**

The investment objective of the General Fund, the majority of which will be externally managed, is to generate an investment return as well as long-term growth in the portfolio, which will provide the Authority with income to meet budgetary requirements and develop and provide security to the Authority's lending programs as approved by the Board of Directors ("Board"). In seeking higher investment returns, the portfolio manager of the General Fund will be cognizant of the overall objectives of safety of principal and liquidity. At all times, approximately one year's budgeted expenses payable from the General Funds will be invested short-term. While the preferred short-term investment vehicle will be the Commonwealth of Virginia Local Government Investment Pool ("LGIP"), other similar short-term investment programs may be utilized at the Executive Director's discretion upon discussion, analysis, and with the Director of Finance and Administration's recommendation.

### **Disbursement Funds**

The primary objective of the Disbursement Funds is to preserve the perpetual nature of the VWFRF and VWSRF by ensuring the safety of principal and to provide sufficient liquidity to meet the cash flow needs. Return on investment will be subordinated to the need for safety and liquidity. Based on cash flow analysis, Authority staff will determine the amount of funds to be externally managed. The LGIP, due to its liquidity, investment earnings history, and low fees, will be the primary investment vehicle for the internally managed funds. However, other similar short-term investment programs may be utilized at the Executive Director's discretion upon discussion, analysis, and with the Director of Finance and Administration's recommendation.

**Appropriated Funds**

The investment objective of the Appropriated Funds investments is to ensure the safety of principal and generate an investment return until monies are needed. Based on cash flow analysis, Authority staff will determine the amount of funds to be externally managed. The LGIP, due to its liquidity, investment earnings history, and low fees, will be the primary investment vehicle. However, other similar short-term investment programs may be utilized at the Executive Director's discretion upon discussion, analysis, and with the Director of Finance and Administration's recommendation.

**Bond Funds**

Bond Proceeds are held in trust by the various trustee banks under a separate Indenture of Trust and, under certain circumstances, a Supplemental Indenture of Trust (collectively, "Indentures") for each bond issue. The primary investment objective of the Bond Funds portfolio is to provide for the cash flow of the accounts and sub-accounts established under Indentures. Where appropriate, US Treasury and US Agency securities, due to the certainty of investment return, will be the primary investment vehicles.

Bond Funds include the following:

Acquisition/Project Funds, which hold the bond proceeds that will be utilized for the projects funded through the bond issuance.

Revenue Funds, which hold the related local bond payments and any other amounts as provided under Indentures.

Debt Service Funds, which hold funds for payment of principal and interest on or before each payment date.

General Reserve Funds, which hold amounts in excess of the amounts needed for debt service.

Rebate Funds, which hold amounts necessary to provide for the payment of any rebate liability to the Internal Revenue Service.

Cost of Issuance Funds, which hold amounts necessary to pay the fixed and variable costs incurred in connection with the issuance of the related Bonds.

Debt Service Reserve Funds, which hold the maximum aggregate annual debt service requirement for any year remaining until the bonds reach maturity to be used in the event that pledged revenues are insufficient to satisfy the debt service requirements.

Capital Reserve Funds, which secures the payment of principal and interest on the bonds for which it was established.

Investment of Bond Proceeds will be governed by the section of the Indentures related to permitted investments. Sinking fund investments will be limited to those securities authorized by §2.2-4500 of the Code of Virginia.

The Authority intends to comply with all applicable sections of the Internal Revenue Code of 1986, Arbitrage Rebate Regulations and bond covenants with regard to the investment of bond proceeds. Accounting records will be maintained in a form and for a period of time sufficient to document compliance with these regulations.

**C. STANDARDS OF CARE**

1. Standard of Prudence - Investments shall be made with judgment and care, under the circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering first the safety and liquidity of capital and next the probable income to be derived.
2. Ethics and Conflicts of Interest - Employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose any material financial interest in financial institutions with which they conduct business, and they shall further disclose any personal financial or investment positions that could be related to the performance of the investment portfolio. Employees shall refrain from undertaking personal investment transactions with the same broker or account representative with whom business is conducted on behalf of the Authority.

**D. AUTHORIZED INVESTMENTS (with exceptions noted)**

To the extent permitted by law, the Authority may invest in the following types of securities:

1. Obligations issued by the U.S. Government or Agencies thereof, or guaranteed by the U.S. Government. These securities can be held directly, in the form of repurchase agreements collateralized by such debt securities, and the form of a registered money market or mutual fund provided that the portfolio of the fund is limited to such evidences of indebtedness. The foregoing types of investments include, but are not limited to:
  - U.S. Treasury Obligations
  - Federal Farm Credit Banks (FFCB)
  - Federal Home Loan Banks (FHLB)
  - Federal National Mortgage Association (FNMA)
  - Government National Mortgage Association (GNMA)
  - Student Loan Marketing Association (SLMA)
  - Federal Home Loan Mortgage Corp. (FHLMC)
2. Municipal Obligations including bonds, notes and other evidences of indebtedness of the Commonwealth of Virginia, or any county, city, town, district, authority or public body of the Commonwealth of Virginia.

3. Negotiable Certificates of Deposit and Negotiable Bank Deposit Notes of FDIC-insured domestic banks not exceeding five years in term and which are fully secured or collateralized in accordance with §2.2-4509 of the Code of Virginia.
4. Repurchase Agreements collateralized by securities listed in 1. above. The collateral on overnight or one day repurchase agreements is required to be at least 102% of the value of the repurchase agreement. Longer-term repurchase agreements are also required to have collateralization of at least 102% of the value of the repurchase agreement. Structured notes are excluded as acceptable collateral. Collateral must be marked to market weekly.
5. U.S. dollar denominated Bankers' Acceptances with major U.S. money center banks and domestic offices of international banks.
6. U.S. dollar denominated Prime Quality Commercial Paper issued by domestic corporations with a maturity of 270 days or less as permitted by §2.2-4502 of the Code of Virginia.
7. U.S. dollar denominated high quality Corporate Notes of domestic corporations as permitted by §2.2-4510 of the Code of Virginia.
8. Mortgage-backed Securities issued by the U.S. Government of Federal Agencies and/or Guaranteed by the U.S. Government.
9. State Pool. The pooled investment fund known as the Virginia Local Government Investment Pool "LGIP" as provided for in §2.2-4600 et seq. of the Code of Virginia.
10. Money Market Funds which trade on a constant net asset value and are registered under the Securities Act of the Commonwealth of Virginia or the Federal Investment Co. Act of 1940 and which invest solely in instruments otherwise permitted under 1. through 6. above.
11. Guaranteed Investment Contracts (GICs) of the credit quality defined in Section G below. GICs will be competitively bid based on the terms and conditions appropriate to the related bond issue. Collateralization requirements will be 100% if collateral is cash, and 105% if collateral is with investments.

**E. PROHIBITED INVESTMENTS (All funds)**

1. Collateralized Mortgage Obligations, Inverse floaters, interest only, principal only, residual and Z-tranche securities.
2. Futures, options, options on futures, margin buying and commodities.
3. Investments in reverse repurchase agreements.
4. Investments in complex derivatives such as collateralized debt obligation range notes, dual index notes, inverse floating rate notes and deleveraged c notes, or notes linked to lagging indices or to long-term indices.

5. Investments permitting a deferral of interest or conversion to perpetual securities.
6. Any security not strictly authorized above must be approved in advance, by resolution of the VRA Board of Directors.

**F. CREDIT QUALITY**

The Authority will in all cases place emphasis on securities of high credit quality and marketability. Holdings are subject to the following credit quality limitations at time of purchase. Should a security fail to meet the following credit quality limitations after purchase (i.e., credit downgrades), the portfolio manager shall notify the Authority, in writing, within one business day of each security that fails to meet the credit quality limitations and the manager's reasoning for continuing to hold the security in the portfolio. Such security must then be sold within 30 calendar days, or earlier if so directed by the Authority, unless the external portfolio manager's, or Financial Advisors reasoning to postpone is approved in writing by the Executive Director of the Authority. If manager is allowed to retain an out of compliance security, the manager will provide a monthly write up to the Executive Director with the rationale for continuing approval to hold the security.

1. Bankers' Acceptances. Both domestic and international bankers' acceptances must be rated no lower than "P-1" by Moody's Investors Service and "A-1" by Standard & Poor's Ratings Group.
2. Commercial Paper. Commercial paper notes of domestic corporations must have a short-term debt rating of no less than "P-1" (or its equivalent) by two nationally recognized rating agencies, one of which must be either Moody's Investors Service, Inc. or Standard & Poor's Ratings Group, at least A-1.
3. Corporate Notes and Bonds. Must be rated at least in the double-A category by Moody's Investors Service and Standard & Poor's Ratings Group with a maximum maturity of five years.
4. Municipal Obligations. Must be rated at least in the double-A category by Moody's Investors Service and Standard & Poor's Ratings Group.
5. Negotiable certificates of deposit and negotiable bank notes. Negotiable certificates of deposit and negotiable bank notes of FDIC-insured domestic banks must be rated at least "P-1" by Moody's Investor Service and "A-1" by Standard and Poor's Rating Group for maturities of one year or less; and must be rated "Aa" by Moody's Investor Service and "AA" by Standard and Poor's for maturities over one year and not exceeding five years.

**G. CREDIT QUALITY- GICS**

The Authority will in all cases place emphasis on securities of high credit quality and marketability. Holdings are subject to the following credit quality limitations at time of purchase.

1. GICs are limited to financial institutions with long-term credit rates at least in the double-A category by Moody's and Standard and Poor's Rating Group, or whose obligations are unconditionally guaranteed by a financial institution with said long-term credit ratings.

Should an underlying GIC issuer subsequently fail to meet the credit quality rating requirements (i.e., credit downgrades), the portfolio manager shall notify the Authority, in writing, within five business days. The manager shall provide the Authority with their plan to obtain collateral of suitable quality within thirty calendar days, or earlier if so directed by the Authority. The collateral must equal 102% of the GIC principal plus accrued interest. Additionally, the manager will provide a monthly report of collateralization to the Executive Director until the credit quality rating of the underlying GIC issuer meets credit quality rating requirements.

**H. DIVERSIFICATION**

Compliance with diversification shall be demonstrated at the time of investment acquisition. When market value fluctuations result in non-compliance with diversification requirements, repositioning will occur within sixty calendar days, or earlier if so directed by the Authority, unless the external portfolio manager's or financial advisor's reasoning to continue to hold the security is approved in writing by the Executive Director of the Authority.

**General Fund, Appropriated and Disbursement Funds (excluding any funds invested in LGIP)**

These Funds will be diversified by security type and by issuer and the following shall apply:

1. The portfolio will be diversified with no more than 3% of the value of the funds invested in the securities of any single issuer. This limitation shall not apply to securities of the U.S. Government, or Agencies thereof, and fully insured and/or collateralized certificates of deposit, repurchase agreements that are collateralized by U.S. Government/Agency securities, and mutual funds provided that the portfolio of the fund is limited to U.S. Government/Agency securities. However, no more than 35% of the value of the funds invested shall be in the securities of any single U.S. Government Agency issuer.
2. The maximum percentages in each eligible security type is limited as follows:

**Maximum**

|   |      |
|---|------|
| U.S. Treasury Securities and Agencies Securities  | 100% |
| Certificates of Deposit   | 10%  |
| Repurchase Agreements   | 25%  |
| Bankers' Acceptances  | 25%  |
| Prime Quality Commercial Paper  | 25%  |
| Corporate Bonds/Notes (including GICs)  | 25%  |
| Municipal Obligations (General obligations and water/sewer revenue bonds with reserve funds)                          | 25%  |
| Mortgage-backed Securities issued by the U.S. Government or Federal Agencies and/or Guaranteed by the U.S. Government | 25%  |
| Money Market Funds (excluding transitional cash)  | 10%  |

3. All money market assets shall be invested in a high quality short-term investment fund otherwise permitted hereunder and designated by the Authority and made available by the custodian.

### **Bond Funds**

Investments of Bond Funds and associated agreements will be governed by the section of the individual Indentures related to permitted investments. At all times, the investment of Bond Funds shall be diversified in such a manner to ensure the preservation of principal.

## **I. MATURITY LIMITATIONS**

### **General Fund, Appropriated and Disbursement Funds (excluding any funds invested in LGIP)**

To the extent necessary, investments will be matched with anticipated cash requirements. At all times, funds will be invested at maturities determined to be most beneficial to the portfolio. The following maturity limitations shall apply:

#### General Fund

1. The average maturity for any single security may not exceed five years from the date of purchase or acquisition
2. The average maturity of the portfolio shall not exceed three years.

### **Disbursement Funds – Water Supply and Water Facilities AgBMP-**

1. The maximum maturity for any single security may not exceed one year from the date of purchase or acquisition

- The average maturity of the portfolio shall not exceed 180 days.

**Disbursement Funds – Water facilities State Match (Wastewater State Match and Appropriated Funds)**

- The maximum maturity for any single security may not exceed one year from the date of purchase or acquisition -
- The average maturity of the portfolio shall not exceed 120 days.

For the categories above, the maximum allowable percentage of funds permitted in each maturity range is as follows:

|              | <u>Target</u> | <u>Maximum</u> |
|--------------|---------------|----------------|
| Overnight    | 5%            | 100%           |
| 2 - 30 days  | 20%           | 90%            |
| 31 - 90 days | 35%           | 50%            |
| 91 - 1 year  | 40%           | 50%            |

Disbursements Funds Water Facilities

The following maturity limitations shall apply to the VWFRF (Water Facilities):

- The maximum maturity for any single security may not exceed three years from the date of purchase or acquisition
- The average maturity of the portfolio shall not exceed one year.
- The maximum allowable percentage of funds permitted in each maturity range is as follows:

|              | <u>Target</u> | <u>Maximum</u> |
|--------------|---------------|----------------|
| Overnight    | 5%            | 100%           |
| 2 - 30 days  | 5%            | 90%            |
| 31 - 90 days | 10%           | 50%            |
| 91 - 1 year  | 70%           | 50%            |
| 1 – 3 year   | 10%           | 15%            |

**Bond Funds**

Investments of Bond Proceeds will be governed by the section of the individual Indentures and associated agreements related to permitted investments. Funds will be invested at maturities determined to match the individual bond issue cash flow needs and the objective of the individual accounts and sub-accounts established by the Indentures.

### III. SAFEKEEPING AND CUSTODY

All investment securities purchased by the Authority or held as collateral on deposits or investments shall be held in third-party safekeeping at a qualified public depository, which may not otherwise be a counterparty to the investment transaction. (A qualified public depository is defined under Virginia law as a national banking association, federal savings and loan association or federal savings bank located in Virginia and any bank, trust company or savings institution organized under Virginia law that receives or holds public deposits which are secured pursuant to Section 2.2-4400 et. seq. of the Code of Virginia.)

All securities shall be held in the name of the Authority and will be free and clear of any lien. Further, all investment transactions will be conducted on a delivery versus payment basis, wherein security delivery is simultaneous with payment. The depository shall issue a safekeeping receipt to the Authority listing the specific instrument, rate, maturity and other pertinent information. On a monthly basis, the depository will also provide reports, which list all securities held for the Authority, the book value of holdings and the market value as of month-end.

Appropriate Authority officials and representatives of the depository responsible for, or in any manner involved with, the safekeeping and custody process of the Authority shall be bonded in such a fashion as to protect the Authority from losses from malfeasance and misfeasance.

### IV. STANDARDS OF INVESTMENT PERFORMANCE

Performance results shall be time-weighted and measured net of investment management fees. For each fund program the expected performance target is 20bps above the minimum comparative standard.

| <u>Fund/Program</u>                 | <u>Minimum Comparative Standard</u>  |
|-------------------------------------|--|
| General Fund                        | Merrill Lynch 1-3 Year Government Index  |
| VWSRF & VWFRF AgBMP                 | Merrill Lynch 6-Month Treasury Bill Index  |
| VWFRF                               | Treasury 1-Year Constant Maturity  |
| VWFRF State Match, VARF<br>& VDSFPF | Composite weighted 50% 91-day U.S. Treasury Bill,<br>50% Merrill Lynch 6-Month Treasury Bill Index |
| Bond Funds                          | Arbitrate yield for each bond issue  |

## V. REPORTING REQUIREMENTS

### Authority Responsibilities

The Director of Finance and Administration, as directed by the Executive Director, is charged with the responsibility of reporting to the Board of Directors on a quarterly basis. This report is consistent with our Comprehensive Annual Financial Report, and shall include a listing of the existing portfolio in terms of investment securities, amortized book value, maturity date, market yield, and other features deemed relevant. The market values presented in these reports will be consistent with accounting guidelines in GASB Statement 31 pertaining to the valuation of investments and the treatment of unrealized gains/losses. In addition, the investment report summarizes (i) recent market conditions, economic developments and anticipated investment conditions, (ii) a description of all securities held in investment portfolio at quarter end, (iii) the total rate of return for the quarter and year-to-date versus appropriate benchmarks, (iv) investment manager compliance with this Policy, and (v) any areas of policy concern warranting possible revisions to current or planned investment strategies.

This Statement of Investment Policy & Goals shall be reviewed at least annually by Authority staff and, if appropriate, amended at such times as the Authority's Board of Directors shall determine.