

# INVESTMENT POLICY

## *Vermont Local Investment Advisory Committee*

Adopted March 30<sup>th</sup>, 2023 by Treasurer Mike Pieciak

### **I. Introduction**

The Treasurer has authority to establish a credit facility of up to 10% of the average daily cash balances of the state per 10 V.S.A. § 10. Investment of state funds, including amounts invested through the Treasurer's Credit Facility, must "be made in accordance with written guidelines adopted by the Treasurer," see 10 V.S.A. § 10 and 32 V.S.A. § 433(b)-(c). This document provides guidelines for investments made under the credit facility. These guidelines outline purpose, goals, allocation of responsibilities, risk parameters, standard interest rate tiers, the application process for investments, the capacity of the credit facility, and metrics and reporting.

### **II. Purpose**

The credit facility exists to support local investment in Vermont communities, and to address unmet capital needs within Vermont. All investments will be evaluated for their impact on diversity, equity, and inclusion, and for the ability to remove barriers to equal opportunity. In pursuit of these goals, the Treasurer may accept: lower yields, lower returns, lower liquidity, and greater risk than would be available on the open market for a comparable investment.

### **III. Goals**

All investments made under the credit facility will be made with prudence, judgment, and care, considering the risks and rewards of each investment. Investments must always consider the safety of funds and the preservation of principle. However, the primary objective of the credit facility is to advance the policy goals outlined below:

- Housing goals. Examples of investments could include those that provide funding for new housing projects (including affordable housing projects), renovation of existing housing stock, providing financing or other assistance to individuals seeking housing, or infrastructure that supports the development of more housing. Any investment that increases housing supply, increases housing affordability, or lowers barriers to obtaining housing may be considered.

- Environmental goals. These will have an emphasis on investments in projects that address climate change through mitigation, adaptation, or resilience. This could include projects that advance renewable energy, weatherization, energy efficiency, or greenhouse gas emissions reductions. Projects that advance environmental sustainability in other ways may also be considered.
- Social Equity Goals. The Treasurer will seek to invest funds in projects that advance environmental justice, decrease barriers to housing or otherwise promote the wellbeing of marginalized groups. This includes social or physical infrastructure projects and/or projects that advance access to work, education, and other opportunities in disadvantaged communities.

#### **IV. Allocation of responsibilities**

- The Treasurer. The Vermont State Treasurer has sole authority to make decisions regarding investments of funds drawn from the credit facility. Responsibility for the management and oversight of the portfolio rests with the Treasurer. The Treasurer also serves as chair of the Local Investment Advisory Committee.
- Local Investment Advisory Committee. The committee's role is to advise the Treasurer on matters related to investments made through the credit facility by:
  - o Reviewing prospective investments and making recommendations to the Treasurer concerning: whether to accept or reject investment proposals, amounts to be invested in each investment, and the terms of each investment (duration or term of loans, interest rates, etc.).
  - o Conducting an annual review of the standard interest rate tiers (as outlined later in this document) and making recommendations to the Treasurer for any changes to these rates.
  - o Periodically reviewing and making recommendations concerning changes to this investment policy.
  - o Giving advice on the execution of the policy goals detailed above, and recommending changes to these goals as needed. This includes providing input on how to best address unmet capital needs within Vermont.
  - o Reviewing and making recommendations concerning any proposed investment that requires an exception to any of the parameters laid out in this policy.
  - o Monitoring the performance of investments made under the credit facility.
  - o Reviewing and making recommendations concerning any consultants or advisors, should the Treasurer wish to employ any such partners in managing the credit facility.

- To review capacity analysis conducted by the Treasurer's Office and make recommendations concerning the size of the credit facility.
- Advice on any other related matters at the Treasurer's request.

## **V. Risk Parameters**

- Investments through the credit facility may accept more risk than is otherwise desired when managing the short-term cash needs of the State of Vermont. When making investments under the credit facility the Treasurer will consider that the credit facility consists of up to 10% of the average daily cash balances of the State. The Treasurer will also take into account the overall risk of the State's entire portfolio, which includes up to 10% invested through the credit facility, and also at least 90% retained for operating cash and short-term investments.
- The Treasurer may accept a lower return on investments made through the credit facility, given that at least 90% of the State's portfolio will be held for deposit or invested in instruments earning a market rate of return.
- In making investments through the credit facility the Treasurer will consider the economic and social benefits of the investment in addition to monetary returns.
- It is not required that investments through the credit facility earn a return equal to or greater than the State's cost of capital. Likewise, it is not required that investments through credit facility exceed the rate that would be earned if funds were held on deposit or invested in short-term investments as permitted in the short-term investment policy.
- Type of Investments: The credit facility portfolio will consist of loans which may be secured by collateral or unsecured.
- Loan terms: The credit facility portfolio should consist of loans of various terms with a maximum term of 30 years. The Treasurer should seek to achieve a balanced mix of loan terms and maturities.
- Concentration and diversification:
  - No more than 25% of the credit facility will be held in any one investment.
  - No more than 50% of the credit facility will be invested with any single investment partner.
- Liquidity: the investments made through the credit facility are unlikely to be tradable in the financial markets. This lack of liquidity is an acceptable risk given the objectives of the credit facility.

## **VI. Standard Interest Rate Tiers**

- The standard interest rates tiers are as follows:
  - Loans with terms not greater than 5 years: 1%

- Loans with terms greater than 5 years but not greater than ten years: 1.5%
- Loans with terms greater than 10 years but not greater than 20 years: 2%
- Loans with terms greater than 20 years but not greater than 30 years: 2.5%
- These rates are presumptive only, and the Treasurer may depart from them if, in the Treasurer's judgment, a particular investment's risk profile or other characteristics warrant such departure. The committee will review rates at least annually and recommend standard interest rate tiers to the Treasurer for use until the next annual review and recommendation. Rates may be reviewed more frequently and adjusted as needed.

## **VII. Application Process**

- The committee may review any application that advances the policy goals outlined above, and preferred applicants will include agencies or instrumentalities of the State of Vermont, Vermont municipalities, and nonprofit organizations.
- Preference may be given to applications for projects that are within one year of groundbreaking or implementation.
- Each applicant should provide the following to Treasurer for review by the committee:
  - Contact information for the primary contact for the investment, and background information on the organization applying for investment.
  - A write-up describing the nature and rationale of the investment and the project that it will fund.
  - The application will address how the project will meet the policy goals of the credit facility, including what metrics will be used to measure performance (housing units created, tons of carbon dioxide emission reduced, for example). The application should lay out a standard of performance for measuring the project's success in meeting policy goals.
  - The application should include information on how funds will be amplified, if applicable. Applicants should explain how the funding of the investment may leverage other funding sources, or how the proposed investment fits into a larger project that may utilize greater resources or have greater impact. This amplification is not required for all investments made under the credit facility, but if the applicant is able to leverage other resources, then these should be described in the application.

- Financial information: to include audited financial statements of the applicant, if available, and financial projections for the proposed project or investment.
- Collateral or security interest may be required for some applications.
- The Treasurer will conduct an initial review of all applications. If the Treasurer decides to bring an application before the committee for consideration, then the Treasurer will supply the committee with a credit memo.

### **VIII. Capacity Analysis**

- The Treasurer – with the committee’s assistance if requested – will conduct an analysis each year of the capacity of the credit facility. This is to ensure that the Treasurer does not exceed the statutory authority to make investments, which is limited to 10% of the State’s average daily cash balances.
- For the purpose of calculating 10% of the State’s average daily balance, the analysis will take the average of the last 365 days (from date of the analysis) of the State’s total cash as recorded daily by the Treasurer’s Office. This amount includes all cash balances as well as cash-equivalents and short-term investments (money market mutual funds, short-term treasury securities, short-term certificates of deposit).
- The analysis will provide an estimated capacity for the credit facility. This will provide a dollar figure considered prudent given expected future fluctuations in cash inflows and cash outflows and expected future cash balances.
- The committee will use this estimate to recommend a capacity for the credit facility to the Treasurer.
- After receiving the committee’s recommendation, the Treasurer will set a capacity for the credit facility (at no time to exceed 10% of the State’s average daily cash balances as per statute).
- The Treasurer will monitor the State’s average daily cash balances and the total value of all investments in the credit facility and compare these figures against the capacity of the credit facility. The Treasurer will provide this information to the committee regularly.

### **IX. Metrics and Reporting**

- The Treasurer will provide the committee with reports detailing how investments have performed, both financially and against metrics evaluating the effectiveness of meeting policy goals.

- The Treasurer will provide the committee with reports assessing the portfolio against the risk parameters outlined above.