

EXHIBIT W

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

AQUA PENNSYLVANIA, INC.

DOCKET NO. A-2024-3049015

GREENVILLE WATER AUTHORITY STATEMENT NO. 2

**DIRECT TESTIMONY OF
JASSON UREY**

April 2025

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1 **I. INTRODUCTION**

2 **Q. Please state your name and business address.**

3 A. Jasson Urey, 125 Main Street, Greenville, PA.

4

5 **Q. By whom are you employed and in what capacity?**

6 A. I am the Manger for the Borough of Greenville (“Borough” or “Greenville”).

7

8 **Q. How long have you served in that capacity?**

9 A. 13 years.

10

11 **Q. What are your duties as the Manager of the Borough?**

12 A. My duties include managing the day-to-day operations and overseeing all Borough
13 departments administrative functions.

14

15 **Q. On whose behalf are you testifying in this proceeding.**

16 A. I am testifying on behalf of the Borough and the Municipal Authority of the Borough of
17 Greenville (“GWA” or the “Authority”) and in support of Aqua Pennsylvania, Inc.’s
18 (“Aqua” or the “Company”) Application to purchase the Authority’s water system (the
19 “System”).

20

21

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1 **Q. Have you testified before the Pennsylvania Public Utility Commission (“PUC” or the**
2 **“Commission”) before?**

3 A. Yes, I provided testimony in support of Aqua Pennsylvania Wastewater, Inc.’s (“APW”)
4 application to acquire the wastewater assets of the Greenville Sanitary Authority, at PUC
5 Docket No. A-2023-3041695.

6
7 **Q. Please describe the purpose of your Direct Testimony and summarize the key points**
8 **you wish to address.**

9 A. The purpose of my Direct Testimony is to address the benefits of the proposed sale of the
10 System to the Borough and its residents.

11
12 **Q. Are you sponsoring any Exhibits with your Direct Testimony?**

13 A. Yes. Attached to my Direct Testimony as Appendix A is the Borough’s Strategy for
14 Investment and Administration of Proceeds of the Sale of the Sewer and Water System.

15
16 **II. BENEFITS OF THE PROPOSED TRANSACTION**

17 **Q. Please describe how the Borough intends to use the funds from the sale of the**
18 **Authority to benefit the Borough’s residents and surrounding communities.**

19 A. Once the sale has been completed the Council for the Borough will move to terminate the
20 Authority and take possession of its remaining assets which will include the net sales
21 proceeds, receivables, and real property.

22 With the anticipated sale proceeds, the Borough is planning to invest in the
23 redevelopment efforts of the Borough to bolster its tax base. The Borough recently created

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1 a Redevelopment Authority to coordinate its redevelopment efforts. Some of these funds
2 will be used to fund the Redevelopment Authority and its redevelopment planning efforts.

3 Through this transaction and by receiving the net sale proceeds, the Borough can
4 make application for grants that require matching funds that it has been unable to secure in
5 the past to assist with making a site attractive for a developer. This can include assessment
6 of environmental impacts of its former use, building removal, installation of infrastructure,
7 and site marketing.

8 The Borough will also be able to invest the funds to generate interest income to be
9 used toward capital projects. In the late 1990's the Borough lost much of its industrial base
10 causing serious financial conditions for the Borough eventually causing the Borough to be
11 designated a Distressed Community by Act 47.

12 Additionally, by selling the System to Aqua, the Brough will receive real estate
13 taxes that were previously not assessed against the Authority.

14

15 **Q. Please further describe in detail the benefits of the proposed transaction for the**
16 **Borough.**

17 A. For several decades the Borough was in the Act 47 Rehabilitation program. While the
18 Borough successfully exited the Plan in 2024, it was left with a depleted capital fund
19 balance as well as years of no active redevelopment. During those years, there was no
20 long-term planning other than exiting Act 47.

21 The task of jump-starting redevelopment was aided by legislative changes that now
22 permit small boroughs to create a Redevelopment Authority. Unfortunately, the Borough's
23 newly created Redevelopment Authority has no funding.

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1 The Borough's tax base continues to dwindle with its aging population and limited
2 employment opportunities. Additionally, like many other older boroughs, there are a
3 significant number of tax-exempt property owners (colleges, hospitals, schools and
4 churches) which limits the tax base.

5 The Borough is limited geographically so there is little opportunity for new
6 development. The Borough needs to remove the substantial number of blighted properties
7 to make way for new development. Removing blight is expensive for the Borough as the
8 older and condemned buildings must be removed at a substantial cost to the taxpayers.
9 Some of the net sales proceeds will be used to fund the Redevelopment Authority so that
10 the process of taking properties, removing the blight and preparing the lots for
11 redevelopment can take place. Without the infusion of the funds from the sale of the System
12 to Aqua, it is not likely that the Borough could ever afford to address its blight issues.

13 A portion of the funds will be invested with the goal of sustaining a dedicated fund
14 long term. As set forth in the Borough's Investment Strategy document included as
15 Appendix A to my Direct Testimony, the Borough is planning on creating a dedicated fund
16 to support local development/redevelopment in the Borough. Capital projects may include
17 infrastructure projects for buildings, equipment, vehicles, roads, curbs, sidewalks, traffic
18 control, and parks and recreation facilities. Additionally, Aqua will be paying real estate
19 taxes on the System, which is a significant additional payment for a community that has
20 had almost no new additions to its taxing rolls in decades. I have also reviewed the
21 financial benefits to the Borough discussed by Mr. Packer, including the Public Benefits
22 Analysis in Table 1 of his Direct Testimony and agree with those benefits.

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1 The Borough Council has very diligently, thoroughly and patiently considered how
2 to use the net sales proceeds. They have retained their Act 47 coordinator for consulting
3 purposes as well as having sought assistance from other consultants. The proposed sale is
4 creating new opportunities for the Borough that otherwise would not be available or
5 realistic. It is not lost on the Council members how important this opportunity is to the
6 community.

7 The last comment that I have is the benefit that this sale will have on the Borough
8 and the surrounding communities. Both our sewer and water authorities have been sold to
9 Aqua, which will allow for coordination of projects where feasible between Aqua, APW
10 and the Borough.

11
12 **Q. How will GWA customers benefit from the sale?**

13 A. Aqua has programs to assist low-income customers with their water bills that the Authority
14 did not have. These programs include payment arrangements, discounts on water bills, and
15 the availability of hardship fund payments as more fully set forth in the Direct Testimony
16 of Rita Black. Aqua has available financial assistance for the qualifying customers. The
17 Borough has a significant number of households with income at or below poverty levels.
18 These programs will be a great benefit for those families.

19 Further, historically, the Borough Council has had a hard time sourcing qualified
20 individuals to serve on the Authority Board, relying solely on volunteers to serve on the
21 Authority Board. Through the acquisition of the GWA System by Aqua, the GWA will be
22 overseen by individuals with relevant experience in running and operating a water utility.

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1 The residents of the Borough will now have a system that is regulated by the
2 Commission guaranteeing oversight for rate increases. The GWA customers, the vast
3 majority of which are Borough residents, will see benefits of the transaction as described
4 above.

5

6 **III. CONCLUSION**

7 **Q. Please provide your concluding thoughts.**

8 A. The benefits from this potential sale cannot be overstated. Not only will the community
9 be served by a competent water operator, but the money from the sale will further the
10 Borough's goal of once again becoming a financially stable community.

11

12 **Q. Does this conclude your Direct Testimony?**

13 A. Yes. However, I reserve the right to supplement this testimony during the course of this
14 proceeding.



BOROUGH OF GREENVILLE

Investment and administration of the proceeds of the sale of the sanitary assets and potential sale of the water assets

This strategy and process for the use of the sale proceeds from the sewer assets and the potential sale of the water assets over the short-term and long-term, will provide significant investment into the community. Professional standards and guidance for governmental agencies as adopted by the Government Finance Officers Association (GFOA) are included in the policies and procedures presented.

Capital Infrastructure Trust Fund Objectives

The primary objective is creating a capital infrastructure trust fund held separately by the municipality that will support local development/redevelopment activities and/or the health, safety and welfare of the community and its residents. It is anticipated that some projects may provide public improvements that encourage private development as well as local capital expenditures for roads, structures, equipment and vehicles.

Secondly, the town will develop a strategy for the short and long-term investment of the funds to earn the maximum amount of interest within the parameters set by state statute for the prudent investment of municipal funds. Greenville shall seek investment options from institutions to further this objective.

Critical to the process will be evaluating and prioritizing local capital infrastructure needs on a continuing basis. By mid 2026, (a) Greenville will have a revised 5-year capital improvements plan (CIP), (b) the Redevelopment Authority should have a completed Redevelopment Plan and (c) the Planning Commission will have completed work on the zoning ordinance revision and subdivision and land development ordinance. Greenville's Joint Comprehensive Plan was amended at the end of 2024 to incorporate the studies completed by Kirby Date (housing and commercial district assessment) and the EPA (brownfields). All of the above factors will help form the basis for the future allocation of the trust fund's earnings and resources.

Third, the Town Council shall appoint an Advisory Committee of experts in areas such as architecture, engineering, public finance and planning & development/redevelopment to render independent evaluations of proposed uses of the trust fund and make recommendations for public investments that will further the over-arching objective of the fund and the adopted plans and local ordinances. Those who serve shall not be associated with any project they review. Town Council will utilize the Advisory Committee's recommendations in its review and deliberations of proposed projects and decision-making process.

The creation of a capital infrastructure trust fund requires Greenville to consider and undertake several actions. Those actions are outlined in the following pages.

Capital Infrastructure Trust Fund Defined

A municipal trust fund for capital infrastructure projects refers to a dedicated fund established by a local government to collect and manage money specifically to pay for infrastructure improvements like roads, bridges, storm sewer systems, public buildings, machinery, equipment and vehicles. It is generally seen as a pool of money set aside to provide funding for essential infrastructure needs within a municipality. Within Pennsylvania, the Commonwealth's Highway Trust Fund, established in 2007, is an example of an on-going, capital infrastructure trust fund.

Factors associated with municipal capital infrastructure trust funds:

- **Funding source(s)**: The fund may be supported through short-term loans, the sale of municipal bonds, state, county or federal grants or a one-time cash infusion such as the proceeds from the sale of the Sanitary Authority. Year-end transfers of general fund surplus revenues could also contribute to fund assets. The general fund debt service payments for existing bonded debt that expires in 2025 might be considered as continuing allocation for capital improvements and transferred to the trust fund on an annual basis.
- **Purpose**: The creation of a trust fund provides a dedicated source of revenue for long-term infrastructure projects, allowing for planned investments in new or replacement projects and major maintenance without relying solely on annual budget allocations. A dedicated fund encourages long-term planning and decision-making as well support for participation in public-private economic development/redevelopment partnerships.
- **Investment strategy**: The trust fund may be invested in a portfolio of assets to generate returns that can be used for future infrastructure projects.

- Project examples: The trust fund can be used to finance costly and non-recurring investments in essential facilities and buildings, equipment, vehicles, roads curbs and sidewalks, traffic control mechanisms, and park and recreation facilities. The fund also support infrastructure necessary for housing and economic development or redevelopment to occur within the community.
- Benefits of using a municipal trust fund for infrastructure: Financial stability and long- term planning are cited as benefits resulting from an infrastructure trust fund. A trust fund provides financial stability by having a predictable and reliable source of funding for essential infrastructure needs, mitigating the risk of sudden budget cuts. A trust fund permits a local government to plan for and implement major infrastructure projects over a longer timeframe.
- Potential challenges: If the fund has been funded by short-term loans or bonded debt, careful management of fund assets is required to ensure the fund can meet its annual debt obligations. Secondly, local officials may face political pressure to use funds for non-infrastructure related projects. These non-infrastructure projects should be avoided as they do not provide long-term sustainability for the municipality. These non-infrastructure projects can include reductions in taxes, temporary reductions of fees, tax credits, on-going expenses, and boosting revenue loss for general expenses to name a few.

Planning for Capital Infrastructure Improvements

Two essential documents will serve as blueprints for the capital infrastructure improvements supported by the Capital Infrastructure Trust Fund; Greenville's 5-Year Capital Improvements Plan and the Redevelopment Authority's Redevelopment Plan. The current 5-Year Capital Improvements Plan (CIP) was adopted in the fall of 2024 and extends from 2025-2029. The CIP details the building, facility, infrastructure, equipment and vehicle acquisitions and replacements identified by the municipality's public safety, public works, parks and recreation and administrative departments. The plan contains a description of each project, its estimated costs and an implementation timeline.

The Redevelopment Plan is currently in progress. The plan will identify a redevelopment area(s) within the borough and recommend strategies for their reuse with special attention to the town's commercial district and the former Trinity property.

It is anticipated that funds, the "principal" will primarily be used to fund the capital improvements, while any earnings from the investment of the "principal" could be used to support professional services such as engineering, planning and administration that would have a direct association with projects supported by the trust fund.

Several other documents also will have a role in the assessment of capital infrastructure improvement projects. One is the municipalities recently amended Joint Comprehensive Plan (with Hempfield) that incorporated the community housing analysis and brownfields assessments undertaken over the last several years. The others are the zoning ordinance revision and subdivision and land development ordinance that are currently being developed by the Planning Commission with the assistance of a planning consultant.

Infrastructure Trust Fund Investment Principles – Safety, Liquidity and Yield

Local governments in Pennsylvania are expected to abide by the "prudent person" standard when investing public funds. Essentially, investment choices are made in accordance with those a reasonable person would make. Local officials are advised to balance safety, liquidity and yield in making investment decisions. In terms of safety, reliance on investment instruments that do not risk a loss of principal are advocated. (When the amount invested exceeds the FDIC limit, risk to principal is generally mitigated when it is collateralized by the financial institution.) Liquidity focuses on selecting investment terms of maturity that allow the municipality to have cash available to pay expenditure obligations in a timely manner. In terms of yield, the municipality should seek the highest rate of return on its investments within the parameters set by law.

Capital Infrastructure Trust Fund Investment Program

The development of an investment program by the borough is essential to effectively administer the capital infrastructure trust fund and fulfill its fiduciary responsibility to act in the best interests of the community in the management of the fund's monetary assets. A public funds investment program acts as a structure to effectively set policy, make decisions, and safeguard a government's financial assets (GFOA, 2018).

To establish an investment program for the capital infrastructure trust fund, GFOA recommends the following steps be undertaken.

- Review all applicable laws and regulations related to investment of public funds – The Pennsylvania Borough Code “Section 1316 – Investment of Funds” specifies the six categories of instruments Greenville may use for the investment of public funds. (A copy of Section 1316 is included in the Appendix to this document.)
- Establish a capital infrastructure investment leadership team – The municipal investment leadership team provides oversight, sets policy and strategy, and identifies financial institutions to administer the investment program. Typically, the investment leadership team includes senior-level administrative and finance staff and members from the local governing body. This group will participate in establishing the public funds investment program.
- Create an investment policy for the fund – A written investment policy that documents investment guidelines for the capital investment trust fund and outcome expectations should be adopted by the governing body.
- Identify an investment management team – The capital infrastructure trust fund investment management team will be composed of members of the borough administrative staff, council and the institution where the funds are invested. Should there be a need for education, training or legal consultation related to the investment of the trust funds, the Town Manager in consultation with Council will initiate actions to meet the needs as they arise.
- Create an annual cash flow forecast for the fund – An estimate of capital infrastructure fund expenditures and the timing of those expenditures over the course of the year should be identified. The estimates should form the basis for the fund’s investment strategy.
- Establish investment return objectives for the fund – The capital infrastructure trust fund investment management team should, within existing legal investment constraints, set annual earnings targets for the trust fund and identify a process for evaluating the trust fund’s investment return each year. In the initial years of the trust fund’s existence when

drawdowns from the fund may not occur, there should be consideration of the potential for the realization of substantially greater earnings.

Investment Policy - Governs/Guides Capital Infrastructure Trust Fund

The Government Finance Officers Association (GFOA) in 2016 recommended that municipal governing bodies on an annual basis review and adopt an investment policy. The policy defines the boundaries for investing government funds and sets forth the "...investment objectives, preferences or tolerance for risk, constraints on the investment portfolio, and how the investment program will be managed and monitored," while "...the document serves as a communication tool for the staff, elected officials, the public, rating agencies, bondholders, and any other stakeholders on investment guidelines and priorities." The goal of an investment policy is to enhance the quality of decision making and demonstrate a commitment to the fiduciary care of public funds. The borough can adapt this perspective for the investment and management of the Capital Infrastructure Trust Fund.

Development and adoption of an investment policy would include the following considerations:

- Scope and investment objectives: the policy would apply to the funds generated from the sale of the sewer assets and potential sale of the water assets and the fund's annual earnings. In addition, any other funds from grants, loans and general fund surpluses deposited into the fund would also be governed by the policy unless restricted by contracts, agreements or local, state or federal regulations.

The capital infrastructure fund would be a separate fund of the Borough of Greenville and would be accounted for in a self-balancing set of accounting records within the broader scope of the borough's financial management system. The fund would be a component of Greenville's annual financial audit.

- Roles, responsibilities, and standards of care: Identify the roles of all persons involved in the investment program by title and responsibility. Standards of care should include language on prudence (i.e., the prudent person rule), due diligence, ethics and conflicts of interest, delegation and authority, and knowledge and qualifications. The Town Manager; the Fiscal Assistant; the Assistant Manager; Budget and Finance Committee of Council; and a designated representative(s) of the financial institutions where funds are invested.

- Authorized investments: All investments will be in accordance with Section 1316 of the PA Borough Code.
- Investment diversification: The fund's assets will be invested to maximize earnings with consideration for the constraints set by Section 1316 of the PA Borough Code and the short and longer-term expectations for the expenditure of funds on an annual basis.
- Safekeeping, custody, and internal controls: The borough will, in consultation with its independent auditors, develop guidelines to enhance the separation of duties and protect the fund from any risk of fraud.
- Authorized financial institutions, depositories, and broker/dealers: The borough will create a list of potential financial institutions that are able to provide the primary services necessary for executing the investment program.
- Risk and performance standards: Establish one or more appropriate benchmarks against which the fund's earnings should be evaluated on an annual basis.
- Reporting and disclosure standards: Interim monthly and annual financial reporting on the fund will be part of the overall financial reporting process. The capital infrastructure fund should be included in the quarterly public review of the municipality's financial performance. The fund will also be audited annually by the borough's independent auditors.

Capital Infrastructure Advisory Committee – Appointment, Roles and Responsibilities

The creation of an advisory committee to assess the capital infrastructure projects that may qualify for funding by the Capital Infrastructure Trust Fund is under the authority of the Town Council. The committee comprised of 5 to 7 members and appointed by council for terms of 3 years, as noted, earlier, will evaluate potential projects for their contribution to the health, safety, and welfare of the community overall and/or their contribution to housing and economic development/redevelopment activities. The committee members will not be compensated but will be reimbursed for expenses related to their work with prior approval by the Town Manager and/or Council.

While the role of the committee is advisory, its responsibility to independently evaluate proposed expenditures/funding commitments through the lens of the

professional expertise committee members bring to their work will be instrumental in helping to sustain the viability of the community in the short and longer term. Individuals with backgrounds and experience in planning, engineering, development, business development, public finance, architecture and construction would be encouraged to serve on the committee.

It is anticipated that the committee will rely on the borough's Administrative Staff, Planning Commission and Redevelopment Authority for their input on the proposed projects and administrative support. The committee's work, as necessary and appropriate, will coincide with any timelines that may be stipulated by state law or local ordinances that the borough must adhere to in its planning and development processes.

Request for Proposals (RFP) for the Investment of Infrastructure Trust Funds

A local government issues an "RFP," a request for proposals, for public investment services to seek proposals from financial institutions for the investment of their public funds. The institutions are asked to compete for the opportunity to handle the investment of funds by describing the investment options they offer, their investment experience and any fees that may be charged.

Greenville, in the RFP, will include the following:

- **Purpose:** The borough wishes to identify an institution for the investment of the proceeds associated with the sale of the sanitary assets and potential sale of the water assets that will provide an opportunity for the borough to prudently invest the funds as it identifies capital improvements that will be undertaken over the short and long-term.
- **Parameters:** The borough expects the institution to provide investment options that conform to the prevailing state statutes for the investment of municipal funds. Detailed information about the public entity's investment goals, risk tolerance, and asset allocation strategy.
- **Investment Goals:** The borough's intent is to invest the proceeds, on a continuing basis to meet its fiduciary responsibilities and to time the terms of the investment of funds to generate the greatest yield possible. The borough expects to treat the proceeds as a capital infrastructure endowment and utilize the investment earnings to support the planning and implementation of the capital improvements.

- Questions for Respondents: Specific questions about the institution's investment options, experience with managing investments for municipalities in similar circumstances (influx of a large volume of money), investment performance for municipal clients over the past few years, fee structure, if any, and the designation/identification of those within the institution who will be working with the borough.
- Evaluation Criteria for assessing proposals, including factors like investment philosophy, compliance practices, and client service.

Steps in the Capital Infrastructure Trust Fund RFP Process:

- Issue the RFP: The borough will issue the RFP document outlining their requirements and submission guidelines to financial institutions.
- Responses to the RFP: Interested financial institutions review the RFP and submit a proposal describing how they would meet the stated needs.
- Evaluation of the RFPS: The borough evaluates the proposals based on the criteria outlined in the RFP. The evaluation will be conducted by borough administrative staff in conjunction with Council's Budget and Finance Committee.
- Selection: The borough will select the institution that best aligns with its needs and requirements.

APPENDIX A

Pennsylvania Borough Code – Section 1316 Investment of Funds

- (a) Duty of council.--Council shall invest borough funds consistent with sound business practice.
- (b) Investment program.--Council shall provide for an investment program subject to restrictions contained in this part and in another applicable statute and any rules and regulations adopted by council.
- (c) Authorized types of investments.--Authorized types of investments for borough funds are:
- (1) United States Treasury bills.
 - (2) Short-term obligations of the United States Government or its agencies or instrumentalities.
 - (3) Deposits in savings accounts or time deposits, other than certificates of deposit, or share accounts of institutions insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund to the extent that the accounts are so insured, and, for the amounts above the insured maximum, if approved collateral as provided by law shall be pledged by the depository.
 - (4) Obligations of:
 - (i) the United States or its agencies or instrumentalities backed by the full faith and credit of the United States;
 - (ii) the Commonwealth or its agencies or instrumentalities backed by the full faith and credit of the Commonwealth; or
 - (iii) a political subdivision of the Commonwealth or its agencies or instrumentalities backed by the full faith and credit of the political subdivision.
 - (5) Shares of an investment company registered under the Investment Company Act of 1940 (54 Stat. 789, 15 U.S.C. § 80a-1 et seq.), whose shares are registered under the Securities Act of 1933 (48 Stat. 74, 15 U.S.C. § 77a et seq.), if the only investments of the company are in the authorized investments for borough funds listed in paragraphs (1), (2), (3) and (4).

(6) Certificates of deposit purchased from institutions insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund to the extent that the accounts are so insured. For amounts above the insured maximum, the certificates of deposit must be collateralized by a pledge or assignment of assets of the institution, and the collateral may include loans, including interest in pools of loans, secured by first mortgage liens on real property. Certificates of deposit purchased from commercial banks must be limited to an amount equal to 20% of a bank's total capital and surplus. Certificates of deposit purchased from savings and loan associations or savings banks must be limited to an amount equal to 20% of an institution's assets minus liabilities.

(7) An investment authorized by 20 Pa.C.S. Ch. 73 (relating to municipalities investments) must be an authorized investment for a pension or retirement fund.

(8) Bonds of a municipal authority or parking authority created solely by the borough for the purpose of either investment or possible retirement of the bonds and acquisition of authority projects at an earlier date than originally contemplated, using for the purpose either surplus funds of the borough or money appropriated in the annual budget for the purpose.

(9) An investment authorized by the act of July 25, 1973 (P.L.217, No.53), entitled "An act authorizing cities of the first class and second class to invest all funds received and deposited with the city treasurer in certain commercial paper under certain terms and conditions; and providing for investment of public corporation or municipal authority funds."

(d) Authority of council.--In making investments of borough funds, council has authority to:

(1) Permit assets pledged as collateral under subsection (c)(3), to be pooled in accordance with the act of August 6, 1971 (P.L.281, No.72), entitled "An act standardizing the procedures for pledges of assets to secure deposits of public funds with banking institutions pursuant to other laws; establishing a standard rule for the types, amounts and valuations of assets eligible to be used as collateral for deposits of public funds; permitting assets to be pledged against deposits on a pooled basis; and authorizing the appointment of custodians to act as pledgees of assets."

(2) Combine money from more than one fund under borough control for the purchase of a single investment, if each of the funds combined for the purpose shall be accounted for separately in all respects and the earnings from the investment are separately and individually computed and recorded and credited to the accounts from which the investment was purchased.

(3) Join with one or more other political subdivisions and municipal authorities in accordance with 53 Pa.C.S. Ch. 23 Subch. A (relating to intergovernmental cooperation) in the purchase of a single investment, provided the requirements of paragraph (2) are adhered to regarding separate accounting of individual funds and separate computation, recording and crediting of the earnings from the funds.

(Mar. 28, 2024, P.L.2, No.2, eff. 60 days)

2024 Amendment. Act 2 added subsec. (c)(9).

Cross References. Section 1316 is referred to in sections 1202, 24A04 of this title.

APPENDIX B –

Agreement for Investment Advisory Services

Under either agreement type, the government maintains control of its investment program by establishing the guidelines and policies to which the adviser must adhere.

GFOA recommends that state and local governments exercise caution and prudence in their selection of investment advisers. Because fiduciary responsibility for the safety and liquidity of government funds cannot be delegated to an investment adviser, the implementation of a safe and effective investment program must be carefully coordinated with the adviser.

The GFOA urges state and local governments that are considering retaining an investment adviser to define and control the procurement process and assure periodic reviews of investment advisory services. Adhering to defined due diligence in selecting a qualified investment adviser and establishing proper controls will help a government achieve its objectives for hiring an adviser while protecting its funds and reducing risk to its reputation.

Within the scope of Securities and Exchange Commission (SEC) regulations, state and local laws, and any other requirements, relationships with investment advisers should address the following:

- Identification of adviser responsibilities. The responsibilities of the investment adviser should be identified before the selection process. During the process these should be clearly defined and communicated.
- Impartial procurement. The responsible government official or the governing board should appoint a consultant and/or internal review committee to conduct the search process. Such staff, consultant, and/or review committee members should be independent of any interest in or relationship with any investment advisory firm. The procurement process should be competitive, and merit based.
- On-going review. Investment advisory services should be reviewed on an on-going basis. The on-going review, monitoring and evaluation of the investment adviser are as important as the due diligence undertaken during the initial selection process. The responsible government official or the

governing board and/or review committee should determine the scope and frequency of such review process.

Criteria - The responsible government official or the governing board and/or review committee should determine the criteria to be used in the selection process. Identifying relevant criteria upfront promotes transparency in the selection process. Assigning weightings to these criteria can create a workable method to rank or quantify the importance of each. Criteria should include:

- the investment adviser's understanding of the government's investment program, objectives and constraints
- the investment adviser's background, including the experience, resources, and qualifications of the firm in general, that of the individuals assigned to handle the government's account, and the firm's experience in managing state and local government operating funds
- the investment adviser's recommended approach to management of the portfolio: Is this approach
- appropriate for the government?
- fees and fee basis

Risk Control - As part of the procurement process and prior to a final decision on the investment adviser, the government entity should have made decisions regarding its risk tolerance and developed corresponding risk control requirements, including:

- the level of discretion afforded the investment adviser
- prohibitions against self-dealing for trade execution
- competitive trade execution
- trade confirmations
- delivery versus payment trade settlement
- independent third-party custody of securities (no investment adviser custody)
- timely reconciliations of trade confirmations and custodial statements
- monthly reporting that complies with industry standards and local requirements

- ongoing compliance reviews
- allowance for independent audits

Selection Process - Once the government defines the services it seeks to obtain and the criteria it will use to make its selection, a Request for Proposal (RFP) is useful to gather information for the decision-making process.

Information that might be part of the RFP include:

- SEC licenses
- quantitative information (e.g., financial stability and performance review)
- organizational structure of firm including any business affiliations
- experience and depth of personnel in firm, including turnover and single versus team management
- reporting standards (Global Investment Performance Standards or GIPS)
- firm-specific investment philosophy and portfolio management strategies
- trading process
- interviews with finalists
- understanding of current or historic regulatory censure or litigation

The sources for potential candidates may include:

- references from other governments
- consultants' database(s) on investment advisory firms
- association databases
- industry reports and articles
- marketing materials

Final decisions will require an objective compilation and analysis of the results of the RFP. Most importantly, the investment adviser and the services offered must match the needs of the particular government entity.

Advisory Agreement - A well-constructed agreement containing specific instructions concerning objectives and risk parameters, allowable investment instruments and strategies, and required reporting procedures is critical to a

successful outcome. After a recommendation regarding the selection of an investment adviser has been made, the contractual agreement should include:

- scope of services
- appointment of the investment adviser and fiduciary responsibilities
- establishment of account responsibilities
- definition of accounts and custody
- definition of discretionary or non-discretionary services with appropriate limitations
- definition of standards (Prudent Expert)
- establishment of objectives, restrictions and benchmarks
- definition and processing of transaction procedures in accordance with policy including brokerage limitations
- representations by entity and investment adviser
- determination of reasonable liability insurance for errors and omissions
- establishment of invoicing and payment
- procedure for termination by either party
- specifications related to nondiscrimination in contracting and ethics rules
- certification of the government's policy by the investment adviser
- all provisions of the RFP as part of the contract