METROPOLITAN
TRANSPORTATION
COMMISSION

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Memorandum

TO: Administration Committee

DATE: December 31, 2013

FR: Deputy Executive Director, Policy

W. I. 1233

RE: MTC Resolution No. 4115, Revised – Reauthorization of MTC Investment Policy

Government Code §53646, as embodied in MTC Resolution No. 4115, requires that agency's Statement of Investment Policy be submitted annually to the legislative body for review, comment and renewal. The Investment Policy was adopted to specifically include investment of funds for the Metropolitan Transportation Commission (MTC), the MTC Service Authority for Freeways and Expressways (SAFE), the Bay Area Toll Authority (BATA), the Regional Administrative Facility Corporation (RAFC), the Bay Area Infrastructure Financing Authority (BAIFA) and the Bay Area Headquarters Authority (BAHA) in accordance with the provisions of §53600 *et seq*. of the Government Code and the provisions of the attached investment policy.

Staff is proposing three changes to the policy adopted by the Commission in July 2013:

1) Currently, we require mutual funds to maintain the highest letter and numerical ranking from at least one nationally recognized rating organization. We are recommending that the requirement be increased to the highest letter and numerical rating from at least two nationally recognized rating organizations in order to be in line with the provisions of §53600 *et seq*. of the Government Code.

2) Policy allows investment in bankers' acceptances which are required to have maturities of 270 days or less and not to exceed 20% of surplus funds. Bankers' acceptances are no longer a general short term instrument and, therefore, we are recommending that bankers' acceptances be excluded from the listed permitted investments.

3) Current policy requires minimum liquidity levels as follows:

30 Days	180 Days	1 Year	Maximum Weighted Maturity
10%	15%	25%	5 years

We are recommending liquidity levels be maintained at:

30 Days	90 Days	1 Year	Maximum Weighted Maturity
10%	15%	30%	5 years

We are changing the 180 days threshold to 90 days, increasing the one year threshold to 30% of the portfolio, and accumulating 30-day and 90-day investments toward the one-year threshold given increased needs in debt and operating requirements.

Staff recommends that the Committee refer Resolution No. 4115, Revised, to the Commission for approval.

Ann Flemer

Ann Flemer

AF/BM

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Date: July 24, 2013
W.I.: 15.2.1
Referred by: Admin. Committee
Revised: 01/22/14-C

ABSTRACT

Resolution No. 4115

This resolution authorizes the establishment of a new Statement of Investment Policy for the management of MTC funds. This resolution also accepts administrative responsibility for management of the funds of the MTC Service Authority for Freeways and Expressways (SAFE), the Bay Area Toll Authority (BATA), the Bay Area Infrastructure Financing Authority (BAIFA) and the Bay Area Headquarters Authority (BAHA), as delegated to MTC by the MTC SAFE, BATA, BAIFA and BAHA.

This resolution supersedes MTC Resolution No. 4083 and any other MTC resolutions to the extent that they may conflict with this policy.

Further discussion of this amendment is contained in the Executive Director's memorandum dated July 3, 2013.

Attachment A to this resolution was amended January 22, 2014 to revise the minimum rating requirements for mutual funds and minimum liquidity levels in MTC's investment policy and to remove bankers' acceptances from the listed permitted investments.

Date: July 24, 2013
W.I.: 15.2.1
Referred by: Admin. Committee

RE: Establishment of a Statement of Investment Policy.

METROPOLITAN TRANSPORTATION COMMISSION

RESOLUTION NO. 4115

WHEREAS, the Metropolitan Transportation Commission (MTC) is the Regional Transportation Planning Authority for the San Francisco Bay Area pursuant to Government Code §§ 66500 *et seq.*; and

WHEREAS, the MTC has the responsibility to manage funds received in accordance with the provisions of Government Code §§ 53600 *et seq.* and a Statement of Investment Policy adopted pursuant to those statutory provisions; and

WHEREAS, the MTC Service Authority for Freeways and Expressways (MTC SAFE), created pursuant to Streets and Highways Code §§ 2250-2556; the Bay Area Toll Authority (BATA), created pursuant to Streets & Highways Code §§ 30950 *et seq.;* the Bay Area Headquarters Authority (BAHA), created pursuant to a Joint Exercise of Powers Agreement between MTC and BATA dated September 28, 2011, and the Bay Area Infrastructure Financing Authority (BAIFA) created pursuant to the joint exercise of powers between MTC and BATA dated August 1, 2006 have requested MTC to assume administrative responsibility for MTC SAFE, BATA, and BAHA funds; and

WHEREAS, MTC intends to manage all funds for which it is responsible pursuant to a single comprehensive investment policy; now, therefore, be it

RESOLVED, that MTC hereby adopts the Statement of Investment Policy as set forth in Attachment A to this Resolution, attached hereto and incorporated herein as though set forth at length; and, be it further

RESOLVED, Attachment A shall be applicable to all funds delegated to MTC; and, be it further

RESOLVED, that the Resolution No. 4115 supersedes MTC Resolution No. 4083 and, be it further

RESOLVED, that MTC's Executive Director or Treasurer is directed to manage MTC funds and funds delegated to MTC's administrative responsibility in conformance with said policy; and, be it further

RESOLVED, that this policy shall remain in effect unless modified by MTC; and, be it further

RESOLVED, that this Resolution shall take precedent over any prior MTC Resolutions to the extent that they may conflict with Attachment A.

METROPOLITAN TRANSPORTATION COMMISSION

Amy Rein Worth

Amy Rein Worth, Chair

The above resolution was entered into by
the Metropolitan Transportation Commission
at a regular meeting of the Commission held
in Oakland, California, on July 24, 2013.

Statement of Investment Policy

The Treasurer of the Metropolitan Transportation Commission (MTC) shall invest all funds over which MTC is administratively responsible, including those of MTC, MTC Service Authority for Freeways and Expressways (SAFE), the Bay Area Toll Authority (BATA) Regional Administrative Facility Corporation (RAFC), the Bay Area Headquarters Authority (BAHA) and the Bay Area Infrastructure Financing Authority (BAIFA), in accordance with the provisions of §§ 53600 *et seq.* of the Government Code and the provisions of this investment policy.

I. Prudent Investor Rule:

Funds shall be managed under the "prudent investor standard" which requires all agencies investing public funds to be trustees of those funds, and therefore, fiduciaries subject to the prudent investor standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling or managing public funds, a trustee shall act with care, skill, prudence and diligence under circumstances then prevailing, including, but not limited to, the general economic conditions and anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. All funds shall be invested within the following objectives, in order of priority:

1. Safety: Preservation and safeguard of capital.
2. Liquidity: Funds shall be invested in a manner consistent with operating needs of the agency.
3. Yield: Funds shall be invested to earn a secured and safe return without compromising the objectives of safety and liquidity.

II. Permitted Investments:

Investments authorized under this policy shall be limited to:

A. United States treasury notes, bonds or bills for which the full faith and credit of the United States are pledged for the payment of principal and interest.

B. Bonds, notes, bills, warrants or obligations issued by an agency of the United States.

C. Commercial Paper of "prime" quality of the highest ranking or of the highest letter and numerical rating provided by Moody's Investor Services or Standard & Poor's Corporation.

Eligible paper is further limited to issuing corporations organized and operating in the United States and having total assets in excess of five hundred million dollars ($500,000,000) and having an "A" or higher rating for the issuers' debt, other than commercial paper, if any, as provided by Moody's Investor Services or Standard & Poor's Corporation or the equivalent of other nationally recognized rating services that may be allowed by statute. Purchases shall not exceed 180 days maturity, 10% of the outstanding commercial paper of a single issuing corporation and 10% of the agency's surplus money.

D Negotiable certificates of deposit issued by a nationally or State chartered bank, not to exceed 10% of surplus agency funds.

E Medium-Term notes of a maximum five years maturity issued by corporations meeting criteria in Section D, not to exceed 10% of agency's surplus funds.

F. Mutual funds registered with the Securities and Exchange Commission, having attained the highest letter and numerical ranking by at least two Nationally recognized statistical rating organizations. Such investments shall not exceed 20% of surplus funds, with no more than 10% invested in any single mutual fund.

G. Local Agency Investment Fund (LAIF) as authorized by Government Code §§ 16429.1.

H. The Alameda County Treasury local agency investment fund authorized under Government Code §§ 53684.

I. Repurchase agreements collateralized by securities of the United States Government or an agency of the United States Government.

J. Municipal Obligations issued by State or Local agencies:

a) Such bonds can include the obligations of the Bay Area Toll Authority and the Bay Area Infrastructure Financing Authority;

b) The maturity does not exceed 5 years from the date of purchase;

c) With regards to Municipal Obligations in the form of variable rate demand bonds, the obligations shall have mandatory investor tender rights supported by a third-party liquidity facility from a financial institution with short-term ratings of at least A-1 by S&P or P-1 by Moody's. The maturity of these bonds shall be equivalent to the investor's tender option supported by the liquidity facility.

K. All other investments authorized under §§ 53600 *et seq.* of the California Government Code as appropriate for public fund investments and not specifically prohibited by this policy.

III. Prohibited Investments:

In addition to any prohibited investments listed in California Code §§ 53601.6 and 53631.5, the following are specifically prohibited:

A. Reverse repurchase agreements.

B. Financial futures.

C. Option contracts.

D. Mortgage interest strips.

E. Inverse floaters.

F. Securities lending.

G. Repurchase agreements purchased for "yield enhancement" purposes and not required for banking and liquidity purposes.

H. Any investment that fails to meet credit or portfolio limits at the time of investment.

IV. Sales Prior To Maturity:

A. The primary strategy of this investment policy is to "buy and hold" securities to maturity, however, a security may be sold prior to maturity if the sale is necessary to avoid further erosion of market value or meet operational or project liquidity needs. All sales prior to maturity shall be detailed in the investment report.

B. A security whose market or credit quality falls outside the investment policy parameters after purchase may be held to maturity without violation of this policy provided the fact is disclosed in the investment report.

V. Investment Pools:

Investment pools operated by LAIF and Alameda County as permitted investments under Section II of this policy, whose portfolios contain specific securities not permitted under this policy, but none-the-less permitted under the law or approved investment policy of the respective pool, are permitted under this policy. The make-up of such portfolios shall be submitted as part of the investment report at least quarterly.

VI. Fund and liquidity Levels:

A. Funds for MTC, MTC-SAFE and BATA operating requirements shall be commingled for investment purposes. The liquidity level shall be maintained in an appropriate manner but not less than:

30 Days	90 Days	1 Year	Maximum Weighted Maturity
10%	15%	30%	5 yrs

The percentages within the 30 and 90 day counts are cumulative towards the one year minimum.

B. Reserve Funds:

Specifically designated reserve funds may have a maximum maturity of 40 years or less, provided each fund is clearly identified in the investment report.

C. All funds under management shall be combined for the purpose of evaluating credit and portfolio limits.

VII. Brokerage Firms:

Only firms meeting all of the following criteria shall be authorized to buy or sell securities:

A. Firms licensed to conduct business as a broker-dealer under §§ 25004 of the Corporation's Code, licensed and registered under the Securities Exchange Commission, a Federally or State chartered bank, or designated a "primary dealer" by the Federal Reserve Bank and with offices located in California.

B. The firm must have a minimum rating of "A-" from a nationally recognized credit rating agency.

C. Corporate assets or assets under management of at least fifty million dollars ($50,000,000).

D. Provided written certification that they meet the above criteria and, in addition, have read, understand and agree to offer securities that are consistent with this policy and State law.

VIII. Investment Management Services:

Only firms meeting all of the following criteria shall be authorized to manage investment funds.

A. Firms licensed to conduct business as an investment advisor under § 25009 of the Corporation's Code, licensed and registered under the Securities Exchange Commission.

B. Firms licensed to conduct business as a Registered Investment Advisor under the Investment Advisors Act of 1940.

C. Firms must have assets under management of at least five billion dollars ($5,000,000,000) and the investment fund must be rated at least an "A".

D. Firms must provide certification of an annual audit or certification of internal cash controls (i.e. SAS 70 or equivalent) satisfactory to the Chief Financial Officer.

E. Firms must have a minimum of 10 years experience of investment advisory experience in the public sector.

F. Firms must carry errors and omission insurance of at least ten million dollars ($10,000,000).

G. Firms must provide written certification that they meet all of the above criteria.

IX. Safekeeping:

A. All securities shall be maintained in a safekeeping account, independent from all broker accounts, with securities held in the name of the agency. Banks with independent "trust" or safekeeping departments shall qualify as independent safekeeping accounts.

B. Safekeeping accounts shall be maintained with firms or banks with at least fifty million dollars ($50,000,000) in trust and safekeeping accounts under management and a minimum rating in the "A" category from a nationally recognized rating service.

C. The Treasurer or assignee designated by the MTC Executive Director is authorized to sign documents providing for the sale and purchase of securities, as well as all documents required to provide for safekeeping and trust.

X. Internal Controls:

The Treasurer shall be responsible for developing a system of internal controls that maintain appropriate records of all transactions as well as individual fund ownership of all investments and interest earnings and shall also be subject to the annual independent audit process.

XI. Investment Reports:

In accordance with § 53646 of the Government Code, at least quarterly, the Treasurer shall submit an investment report to the Executive Director who shall forward the report to agency Authority. The report shall detail all securities, par value, market value, maturity, liquidity and credit limit thresholds, as well as any sales prior to maturity, any securities no longer meeting policy standards, and any investment policy violations. Portfolio detail for LAIF, Alameda County or other authorized Government Investment Pools, shall be included on a quarterly basis.

XII. Financial Accounts:

The Executive Director or the Treasurer is authorized to sign documents to open financial accounts with banks, financial institutions and government pooled investment funds as needed in order to manage MTC's investments as described within this investment policy provided that all such accounts meet policy standards and require at least two signatures to transfer funds out of such accounts.

XIII. Renewal:

This investment policy shall be subject to review annually.