ORIGINAL

CONTRA COSTA
transportation
authority

RESOLUTION 17-25-A

RE: APPROVAL OF THE AUTHORITY'S INVESTMENT POLICY FOR FY 2017-18

WHEREAS, the Contra Costa Transportation Authority (Authority) is entrusted with the safeguarding and prudent use of funds it receives from the local sales tax and other sources; and

WHEREAS, California Government Code delineates permitted investments of these funds, as it relates to the Authority; and

WHEREAS, the Government Finance Officers Association recommends as a best practice that public agencies establish a policy on the investment of public funds; and

WHEREAS, the Authority has reviewed the Investment Policy to ensure that such policies are current and provides for reasonable safeguards for the investment of public fund.

NOW, THEREFORE, BE IT RESOLVED that the Authority adopts its Investment Policy for FY 2017-18 as included in Exhibit A to this resolution.

This RESOLUTION was entered into at a meeting of the Contra Costa Transportation Authority Board held July 19, 2017 in Walnut Creek, California by the following vote:

AYES:	Chair Butt, ~~Vice Chair Glover~~, and Commissioners Abelson, Arnerich, Haskew, Hudson, Mitchoff, Pierce, Romick, Taylor and Trotter
NOES:	None
ABSENT:	~~None~~ Vice Chair Glover
ABSTAIN:	None

Tom Butt, Chair

Attest:

Tarienne Grover, Clerk of the Board

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Investment Policy
Fiscal Year 2017-18

I. Introduction

The investment policies and practices of the Contra Costa Transportation Authority (the Authority) are based on the principles of prudent money management and on the California Government Code Sections regulating the investment of public funds.

Investment of Authority funds is to be done in accordance with this Investment Policy. The investment of certain funds such as bond reserve funds may be further restricted by covenants or provisions of the relevant agreements or documents.

The purpose of this document is: A) to identify the policies and procedures that guide the investment of Authority funds and B) to formalize the reporting requirements of investment-related activities.

II. Scope

It is intended that this Investment Policy will encompass all funds and investment activities that are under the direction of the Authority.

III. 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 the probable safety of their capital as well as the probable income to be derived.

The standard of prudence to be used by investment officials shall be the "prudent investor" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the Investment Policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

IV. Objectives

The primary objectives, in priority order, of the Authority's investment activities shall be:

1. Safety. Safety of principal is the foremost objective of the investment program. The Authority's investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the portfolio.

2. Liquidity. The Authority's investment portfolio will remain sufficiently liquid to enable the Authority to meet its cash flow requirements.

3. Return on Investment. The Authority's investment portfolio shall be designed with the objective of attaining a market rate of return on its investments consistent with the constraints imposed by its safety and liquidity objectives. The Authority purchases all its investments with the intent to hold to maturity, but does not preclude sales before maturity for cash flow purposes, or if it can be demonstrated that the transaction will benefit the portfolio and achieve the investment goals of the Authority prudently.

V. Delegation of Authority

The management responsibility for the investment program is hereby delegated to the Chief Financial Officer who shall monitor and review all investments for consistency with this investment policy. No person may engage in an investment transaction except as provided under the limits of this policy. The Authority may delegate its investment recommendation and execution authority to an investment advisor. The advisor shall follow the policy and such other written instructions as provided.

VI. Ethics and Conflict of Interest

Officers and employees involved in the investment process shall not participate in personal business activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial decisions.

VII. Internal Controls

The Authority shall establish a set of internal control procedures which shall be documented in writing. The internal controls will be reviewed by the Authority and with the independent auditor. The controls shall be designed to prevent employee error, misrepresentations by third parties, unanticipated changes in financial markets, or imprudent actions by officers or employees of the Authority.

VIII. Selection of Financial Institutions and Broker/Dealers

To provide for the optimum yield in the Authority's portfolio, the Authority's procedures shall be designed to encourage a competitive environment on transactions from an approved list of broker/dealers.

The Chief Financial Officer, or the Authority's investment advisor, shall maintain a list of authorized broker/dealers and financial institutions that are approved for investment purposes. This list will be developed after a comprehensive credit and capitalization analysis indicates the firm is adequately financed to conduct business with public entities. It shall be the policy of the Authority to purchase securities only from those authorized institutions or firms.

IX. Maximum Maturity

Investment maturities shall be based on a review of cash flow forecasts. Maturities will be scheduled so as to permit the Authority to meet all projected obligations.

Unless otherwise specified in this section, no investment shall be made in any security, other than a security underlying a repurchase or reverse repurchase agreement as permitted by this policy, which at the time of the investment has a term remaining to maturity in excess of five years. The Authority may not invest in a security whose maturity exceeds five years from the date of purchase unless the Authority Board has provided approval for a specific purpose at least 3 months before the investment is made.

X. Permitted Investment Instruments

The Authority will limit investments in any one non-government issuer, except investment pools, to no more than 5% regardless of security type.

1. Government obligations for which the full faith and credit of the United States are pledged for the payment of principal and interest.

2. Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.

3. Repurchase Agreements used solely as short-term investments not to exceed 90 days to maturity.

   The following collateral restrictions will be observed: Only U.S. Treasury securities or Federal Agency securities, as described in Section X.1 and X.2 above, will be acceptable collateral. All securities underlying Repurchase Agreements must be delivered to the Authority's custodian bank versus payment or be handled under a tri-party repurchase agreement. The total of all collateral for each Repurchase Agreement must equal or exceed, on the basis of market value plus accrued interest, 102 percent of the total dollar value of the money invested by the Authority for the term of the investment. Since the market value of the underlying securities is subject to daily market fluctuations, the investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102 percent no later than the next business day. For any Repurchase Agreement with a term of more than one day, the value of the underlying securities must be reviewed on a regular basis. Market value must be calculated each time there is a substitution of collateral. The Authority or its trustee shall have a perfected first security interest under the Uniform Commercial Code in all securities subject to Repurchase Agreement.

The Authority may enter into Repurchase Agreements with (1) primary dealers in U.S. Government securities who are eligible to transact business with, and who report to, the Federal Reserve Bank of New York, and (2) California and non-California banking institutions having assets in excess of $1 billion and having obligations in the highest short-term rating category as provided by a Nationally Recognized Statistical Rating Organization (NRSRO). The Authority will have specific written agreements with each firm with which it enters into Repurchase Agreements.

Reverse repurchase agreements will not be offered without the prior specific consent of the Authority. If a reverse repurchase agreement is authorized, it may be utilized only if the security to be sold on reverse repurchase agreement has been owned and fully paid for by the Authority for a minimum of 30 days prior to the sale; the total of all reverse repurchase agreements on investments owned by the Authority does not exceed 20 percent of the base value of the portfolio; and the agreement does not exceed a term of 92 days, unless the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of the security using a reverse repurchase agreement and the final maturity date of the same security.

4. Obligations of the State of California or any local agency within the state, including bonds payable solely out of revenues from a revenue-producing property owned, controlled or operated by the state or any local agency or by a department, board, agency or authority of the state or any local agency.

5. Registered treasury notes or bonds of any of the other 49 states in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state, or by a department, board, agency, or authority of any of such states.

6. Bankers' Acceptances issued by domestic or foreign banks, which are eligible for purchase by the Federal Reserve System, the short-term paper of which is rated in the highest category by a NRSRO.

   Purchases of Bankers' Acceptances may not exceed 180 days maturity or 40 percent of the Authority's surplus money.

7. Commercial paper rated in the highest short-term rating category, as provided by a NRSRO. The entity that issues the commercial paper shall meet all of the following conditions in either of the paragraphs following:

   The entity meets the following criteria: (A) is organized and operating in the United States as a general corporation; (B) has total assets in excess of five hundred million dollars ($500,000,000); and (C) has debt other than commercial paper, if any, that is rated "A" or higher by a NRSRO.

   The entity meets the following criteria: (A) is organized within the United States as a special purpose corporation, trust, or limited liability company; (B) has program wide credit enhancements including, but not limited to, over collateralization, letters of credit, or surety bond; and (C) has commercial paper that is rated "A-1" or higher, or the equivalent, by a NRSRO.

   Eligible commercial paper shall have a maximum maturity of 270 days or less. No more than 25 percent of the Authority's portfolio may be invested in eligible commercial paper and the Authority may purchase no more than 10 percent of the outstanding commercial paper of any single issuer.

8. Medium-term notes, defined as all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the U.S. or any state and operating within the U.S.. Medium-term corporate notes shall be rated in a rating category "AA" or its equivalent or better by a NRSRO.

   Purchase of medium-term corporate notes may not exceed 30 percent of the agency's surplus money.

9. Any mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-back certificate, consumer receivable pass-through certificate, or consumer receivable-backed bond of a maximum of five years maturity. Eligible securities must be rated, by a nationally recognized rating service, as "AA" or higher, and the issuer of the security must have an "A" or higher rating for its debt as provided by a NRSRO. No more than 10 percent of the agency's surplus funds may be invested in this type of security.

10. FDIC insured or fully collateralized time certificates of deposit in financial institutions located in California.

11. Negotiable certificates of deposit or deposit notes issued by a nationally or state-chartered bank or a state or federal savings and loan association or by a federally-licensed or state-licensed branch of a foreign bank; provided that the issuing entity is domiciled senior debt obligations of the issuing institution are rated "AA" or better by a NRSRO. Purchase of negotiable certificates of deposit may not exceed 30 percent of the Authority's surplus money.

12. State of California's Local Agency Investment Fund (LAIF). The LAIF portfolio should be reviewed periodically.

13. Insured savings account or money market account.

14. Shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7 that invests in the securities and obligations authorized in subdivisions (a) to (q), inclusive. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible under this section, the joint powers authority issuing the shares shall have retained an investment adviser that meets all of the following criteria: (1) is registered or exempt from registration with the Securities and Exchange Commission; (2) has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (q), inclusive; and (3) has assets under management in excess of five hundred million dollars ($500,000,000).

15. Shares of beneficial interest issued by diversified management companies that are money market funds registered with the federal Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1, et seq.). To be eligible for investment pursuant to this subdivision, these companies shall either: (1) attain the highest ranking or the highest letter and numerical rating provided by not less than two NRSROs; or (2) retain an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years of experience managing money market mutual funds with assets under management in excess of five hundred million dollars ($500,000,000). The purchase price of shares shall not exceed 20 percent of the Authority's surplus money. No more than 5% can be invested in any one mutual fund.

Credit criteria listed in this section refer to the credit of the issuing organization at the time the security is purchased. If a credit rating falls below the criteria stated, Authority should be notified. In the event a rating drops below “A,” the Authority’s investment manager should notify the Chief Financial Officer along with a recommendation of whether to hold or sell the particular security.

Additional investment requirements may be included in the provisions of relevant bond documents. The percentage limitation for a particular category of investment refers to the percentage on the date the security is purchased.

XI. Ineligible Investments

Any security type or structure not specifically approved by this policy is hereby specifically prohibited. Security types which are thereby prohibited include, but are not limited to:

1. "Complex" derivative structures such as range notes, dual index notes, inverse floaters, leveraged or de-leveraged floating-rate notes, or any other complex variable-rate or structured note.

2. Interest-only strips that are derived from a pool of mortgages, or any (non-Discount) security that could result in zero interest accrual if held to maturity.

XII. Reporting Requirements

Within 60 days following the end of each calendar quarter, the Chief Financial Officer shall prepare and submit a quarterly investment report to the Executive Director, the Administration and Projects Committee, and the Authority Board. The quarterly report shall include summaries of the specific transactions and an analysis of the Authority's portfolio including composition, credit quality, and maturity distribution. The Chief Financial Officer shall annually submit to the Board a statement of investment policy, which the Board shall consider at a public meeting.

XIII. Safekeeping and Custody

The assets of the Authority shall be secured through the third-party custody and safekeeping procedures and arrangements under a trust agreement approved by the Board. Bearer instruments shall be held only through third-party institutions. Collateralized securities such as repurchase agreements shall be purchased using the delivery versus payment procedure.

Glossary

Bankers' Acceptances are short-term credit arrangements to enable businesses to obtain funds to finance commercial transactions. They are time drafts drawn on a bank by an exporter or importer to obtain funds to pay for specific merchandise. By its acceptance, the bank becomes primarily liable for the payment of the draft at maturity. An acceptance is a high-grade negotiable instrument.

Benchmark. A market index used as a comparative basis for measuring the performance of an investment portfolio. A performance benchmark should represent a close correlation to investment guidelines, risk tolerance and duration of the actual portfolio's investments.

Broker-Dealer is a person or a firm who can act as a broker or a dealer depending on the transaction. A broker brings buyers and sellers together for a commission. They do not take a position. A dealer acts as a principal in all transactions, buying and selling for his own account.

Certificates Of Deposit

1. **Negotiable Certificates of Deposit** are large-denomination CDs. They are issued at face value and typically pay interest at maturity, if maturing in less than 12 months. CDs that mature beyond this range pay interest semi-annually. Negotiable CDs are issued by U.S. banks (domestic CDs), U.S. branches of foreign banks (Yankee CDs), and thrifts. There is an active secondary market for negotiable domestic and Yankee CDs. However, the negotiable thrift CD secondary market is limited. Yields on CDs exceed those on U.S. treasuries and agencies of similar maturities. This higher yield compensates the investor for accepting the risk of reduced liquidity and the risk that the issuing bank might fail. State law does not require the collateralization of negotiable CDs.

2. **Non-negotiable Certificates of Deposit** are time deposits with financial institutions that earn interest at a specified rate for a specified term. Liquidation of the CD prior to maturity incurs a penalty. There is no secondary market for these instruments, therefore, they are not liquid. They are classified as public deposits, and financial institutions are required to collateralize them. Collateral may be waived for the portion of the deposits that are covered by FDIC insurance.

Collateral refers to securities, evidence of deposits, or other property that a borrower pledges to secure repayment of a loan. It also refers to securities pledged by a bank to secure deposits. In California, repurchase agreements, reverse repurchase agreements, and public deposits must be collateralized.

Commercial Paper is a short term, unsecured, promissory note issued by a corporation to raise working capital.

Duration. Measure of the sensitivity of the price (the value of principal) of a fixed income investment to a change in interest rates.

Federal Agency Obligations are issued by U.S. Government Agencies or Government Sponsored Enterprises (GSE). Although they were created or sponsored by the U.S. Government, most Agencies and GSEs are not guaranteed by the United States Government. Examples of these securities are notes, bonds, bills and discount notes issued by Fannie Mae (FNMA), Freddie Mac (FHLMC), the Federal Home Loan Bank system (FHLB), and Federal Farm Credit Bank (FFCB). The Agency market is a very large and liquid market, with billions traded every day.

Issuer means any corporation, governmental unit, or financial institution that borrows money through the sale of securities.

Liquidity refers to the ease and speed with which an asset can be converted into cash without loss of value. In the money market, a security is said to be liquid if the difference between the bid and asked prices is narrow and reasonably sized trades can be done at those quotes.

Local Agency Investment Fund (LAIF) is a special fund in the State Treasury that local agencies may use to deposit funds for investment. There is no minimum investment period and the minimum transaction is $5,000, in multiples of $1,000 above that, with a maximum of $50 million for any California public agency. It offers high liquidity because deposits can be converted to cash in twenty-four hours and no interest is lost. All interest is distributed to those agencies participating on a proportionate share determined by the amounts deposited and the length of time they are deposited. Interest is paid quarterly via direct deposit to the agency's LAIF account. The State keeps an amount for reasonable costs of making the investments, not to exceed one-quarter of one per cent of the earnings.

Market Value is the price at which a security is trading and could presumably be purchased or sold.

Maturity is the date upon which the principal or stated value of an investment becomes due and payable.

Medium-Term Notes are debt obligations issued by corporations and banks, usually in the form of unsecured promissory notes. These are negotiable instruments that can be bought and sold in a large and active secondary market. For the purposes of California Government Code, the term "Medium Term" refers to a maximum remaining maturity of five years or less. They can be issued with fixed or floating-rate coupons, and with or without early call features, although the vast majority are fixed-rate and non-callable. Corporate notes have greater risk than Treasuries or Agencies because they rely on the ability of the issuer to make payment of principal and interest.

Money Market Fund is a type of investment comprising a variety of short-term securities with high quality and high liquidity. The fund provides interest to shareholders and must strive to maintain a stable net asset value (NAV) of $1 per share.

Principal describes the original cost of a security. It represents the amount of capital or money that the investor pays for the investment.

Repurchase Agreements are short-term investment transactions. Banks buy temporarily idle funds from a customer by selling him U.S. Government or other securities with a contractual agreement to repurchase the same securities on a future date at an agreed upon interest rate. Repurchase Agreements are typically for one to ten days in maturity. The customer receives interest from the bank. The interest rate reflects both the prevailing demand for Federal Funds and the maturity of the Repo. Repurchase Agreements must be collateralized.

Total Return. Investment performance measured over a period of time that includes coupon interest and interest on interest net of amortization of premiums or discounts, as well as both realized and unrealized gains or losses. Total return includes, therefore, any market value appreciation/depreciation on investments held at period end.

U.S. Treasury Issues are direct obligations of the United States Government. They are highly liquid and are considered the safest investment security. U.S. Treasury issues include:

1. **Treasury Bills** which are non-interest-bearing discount securities issued by the U.S. Treasury to finance the national debt. Bills are currently issued in one, three, six, and twelve month maturities.

2. **Treasury Notes** that have original maturities of one to ten years.

3. **Treasury Bonds** that have original maturities of greater than 10 years.

Yield to Maturity is the rate of income return on an investment, minus any premium above par or plus any discount with the adjustment spread over the period from the date of the purchase to the date of maturity of the bond.