

## Inter Office Memo

To: Administration and Finance Committee

Date: August 27, 2012

From: Kathy Casenave, Director of Finance *KC*

Reviewed by:

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### **SUBJECT: Investment Policy**

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#### **Summary of Issues:**

On August 27, 1997, CCCTA adopted a Statement of Investment Policy (Resolution No. 98-002) in accordance with California government Code Section 53646.

The Board reviewed and approved the Statement of Investment Policy on September 17, 1998 (Resolution No. 99-005). At the September 16, 1999 Board Meeting, the Board approved the changes to the Statement of Investment Policy. These changes were incorporated into the attached Policy, and Resolution No. 2000-003 was revised.

Since then the Board has reviewed the Investment Policy and no changes have been made. At the September 17, 2009 Board meeting the Board approved the Statement of Investment Policy to remain in effect until September 30, 2012.

A copy of the policy and the current resolution are attached.

State law no longer requires an annual review and there have been no legislative changes this year that would mandate revisions to the Statement of Investment Policy.

#### **Recommendation:**

Staff is recommending that the A&F bring the matter to the Board with the recommendation that the Investment Policy be approved until September 30, 2015.

#### **Options:**

- 1) Approve recommendation
- 2) Decline recommendation
- 3) Other

- SUBJECT:** Statement of Investment Policy
- PURPOSE:** This Statement provides guidelines for the prudent investment and cash management of the Authority's funds.
- OBJECTIVE:** The Authority's cash management system is designed to monitor and forecast accurately expenditures and revenues, thus enabling the Authority to invest funds to the fullest extent possible. The Authority's primary objective is to safeguard the principal of the funds; the second objective is to meet the liquidity needs of the Authority; and the third objective is to achieve a return on the invested funds.
- POLICY:** This policy shall apply to all public funds held by the Authority. At all times, the Authority shall invest its funds in accordance with the rules and restrictions established by the laws of the State of California (Government Code Section 53600 *et. seq.*). The Authority shall conduct its investments under the "prudent investor standard": "When investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds, a trustee shall act with care, skill, prudence and diligence under the circumstances then prevailing 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 Authority." (California Government Code Section 53600.3)

The General Manager of the Authority shall serve as the Authority's trustee for purposes of placing investments pursuant to this Policy. The Policy shall be reviewed every three years by the Authority's Board of Directors at a public meeting. [California Government Code Section 53646(a)]

1. Criteria for Selecting Investments. Criteria for selecting investments and the order of priority are:
  - a. Safety. The safety risk associated with an investment refers to the potential loss of principal, interest, or a combination of these amounts. The Authority shall operate only in those investments that are allowable under Section 6 below.
  - b. Liquidity. An adequate percentage of the portfolio should be maintained in liquid, short-term investments, which can be converted to cash if necessary to meet disbursement requirements. A short-term investment is defined as any investment, which matures within a one-year period.
  - c. Yield. Yield becomes a consideration only after the basic requirements of safety and liquidity have been met.
2. Delivery of Securities. Securities shall be delivered by book entry, physical delivery, or by third-party custodial agreement. (California Government Code Section 53601)
3. Diversification. The portfolio should consist of a mix of authorized types of investments described in this Policy. As a general rule, long-term maturities should not represent a significant percentage of the total portfolio, as the principal risk involved can outweigh the potential for higher earnings. With the exception of investments in the California State Local Agency Investment Fund, no more than fifty percent (50%) of the Authority's portfolio shall be deposited or invested in a single security type or with a single financial institution.

4. Terms of Investments. No investment shall be made in a security with a term remaining to maturity in excess of five years. (California Government Code Section 53601)
5. Deposit of Funds. All money belonging to or in the custody of the Authority, including money paid to the Authority to pay the principal, interest or penalties of bonds, shall be deposited for safekeeping in state or national banks, savings associations or federal associations, credit unions or federally insured industrial loan companies in California (as defined by California Government Code Section 53630); unless otherwise invested pursuant to Sections 6 and 7 of this Policy.

Pursuant to California Government Code Sections 53635, 53637 and 53638, the money shall be deposited in any authorized depository with the objective of realizing maximum return, consistent with prudent financial management.

Pursuant to California Government Code Section 53638, the maximum deposit shall not exceed the shareholder's equity in any depository bank; to the total net worth of any depository savings association; or the total or unimpaired capital and surplus of any credit union or industrial loan company.

6. Allowable Investment Instruments. With prior Board approval, the Authority may invest in any of the investment instruments authorized by the California Government Code, subject to any conditions set forth in the California Government Code. Without prior Board approval, the General Manager shall limit the investment instruments utilized to the following:
  - a. United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest.
  - b. Negotiable certificates of deposit issued by a nationally or state-chartered bank of a state or federal association (as defined by California Financial Code Section 5102) or by a state-licensed branch of a foreign bank. Purchases of negotiable certificates of deposit may not exceed thirty percent (30%) of the Authority's surplus funds to be invested. The maximum investment in a certificate of deposit shall not exceed the shareholder's equity in any depository bank; the total net worth of any depository savings association; or the total or unimpaired capital and surplus of any credit union or industrial loan company.
7. Local Agency Investment Fund. In addition to the investment instruments set forth in Section 6, the General Manager may invest Authority funds in the Local Agency Investment Fund pursuant to California Government Code Section 16429.1.
8. Prohibited Investments. The Authority shall not invest any funds in inverse floaters, range notes, or interest-only strips that are derived from a pool of mortgages. The Authority shall not invest any funds in any security that could result in zero interest accrual if held to maturity. The limitation does not apply to investments in shares of beneficial interest issued by diversified management companies as set forth in California Government Code Section 53601.6.

REPORTING: At least quarterly, the General Manager shall submit an investment report to the Board of Directors within thirty (30) days of the end of the quarter. The report shall include the following information:

1. Type of investment, issuer, date of maturity, par and dollar amount invested in all securities, investments, and money held by the Authority;
2. Description of any of the Authority's funds, investments, or programs that are under the management of contracted parties, including lending programs;
3. For all securities held by the Authority or under management by any outside party that is not a local agency or the State of California Local Agency Investment Fund, a current market value as of the date of the report and the source of this valuation;
4. Statement that the portfolio complies with the Investment Policy or the manner in which the portfolio is not in compliance; and
5. Statement that the Authority has the ability to meet its pool's expenditure requirements (cash flow) for the next six months or provide an explanation as to why sufficient money shall or may not be available.

If the Authority places all of its investments in the Local Agency Investment Fund, Federal Deposit Insurance Corporation-insured accounts in a bank or savings and loan association or county investment pool (or any combination of these three), the General Manager can simply submit, on at least a quarterly basis, the most recent statements from these institutions to meet the requirements of items 1-3 above, with a supplemental report addressing Items 4 and 5 above. [California Government Code Section 53646(b)-(e)]

DATE OF ADOPTION: August 21, 1997

DATE OF REVISION: September 16, 1999  
September 17, 2009, pursuant to Resolution No. 2010-007

**RESOLUTION NO. 2010-007**

**BOARD OF DIRECTORS  
CENTRAL CONTRA COSTA TRANSIT AUTHORITY  
STATE OF CALIFORNIA**

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**APPROVES THE STATEMENT OF INVESTMENT POLICY  
AND REAUTHORIZES THE DELEGATION OF INVESTMENT AUTHORITY  
TO THE GENERAL MANAGER**

WHEREAS, the County of Contra Costa and the Cities of Clayton, Concord, the Town of Danville, Lafayette, Martinez, the Town of Moraga, Orinda, Pleasant Hill, San Ramon and Walnut Creek (hereinafter "Member Jurisdictions") have formed the Central Contra Costa Transit Authority ("CCCTA"), a joint exercise of powers agency created under California Government Code Section 6500 *et seq.*, for the joint exercise of certain powers to provide coordinated and integrated public transportation services within the area of its Member Jurisdictions; and

WHEREAS, pursuant to California Government Code Section 53646, the Authority is required to adopt a Statement of Investment Policy; and

WHEREAS, pursuant to Resolution No. 2004-009, dated September 18, 2003, the Authority reviewed and approved the Statement of Investment Policy; and

WHEREAS, the Board of Directors has completed a review of the Statement of Investment Policy.

NOW, THEREFORE, IT IS HEREBY RESOLVED that the Board of Directors of the Central Contra Costa Transit Authority approves the Statement of Investment Policy in accordance with California Government Code Section 53646 and reauthorizes the delegation of investment authority to the General Manager until September 30, 2012.

Regularly passed and adopted this 17th day of September 2009 by the following vote.

AYES: Directors Dessayer, Horn, Hudson, Manning, Mitchoff,  
Rainey, Schroder, Stepper, Uilkema and Worth

NOES: None


ABSTAIN: None

ABSENT: Director Hoffmeister



David E. Hudson, Vice Chair, Board of Directors

ATTEST:

  
Janet Madrigal, Clerk to the Board