

REGIONAL TRANSIT ISSUE PAPER

Agenda Item No.	Board Meeting Date	Open/Closed Session	Information/Action Item	Issue Date
11	10/22/12	Open	Action	09/27/12

Subject: Update Investment Policy

ISSUE

Whether to adopt an Investment Policy update for FY 2013

RECOMMENDED ACTION

Adopt Resolution No. 12-10-_____, Updating the Sacramento Regional Transit District (RT) Investment Policy for FY 2013

FISCAL IMPACT

None as a result of this action.

DISCUSSION

The Board of Directors initially adopted an Investment Policy for Surplus Funds in 1996. On March 17, 2003, the Board adopted Resolution No. 03-03-388, updating the Investment Policy. Although the Investment Policy governing the pension funds has separately been routinely reviewed and updated, the Investment Policy governing all other funds invested by RT is in need of updating and is the subject of this report. The California Government Code Section 53646(a)(2), requires that any change in the policy shall be considered by the legislative body of the local agency at a public meeting.

Staff has updated RT's Investment Policy to incorporate best investment practices as communicated by the California Government Code, the Association of Public Treasurers and the Government Finance Officers Association of the United States and Canada (GFOA). These organizations note that adherence to an investment policy signals to rating agencies, the capital markets and the public that a government entity is well managed and is earning interest income suitable to its situation and economic environment.

During the past year, there have been no legislative changes requiring revision to the Investment Policy for FY 2013; however, staff has amended the policy to make it more specific and tailored to RT activities. Staff recommends the adoption of the updated Investment Policy for FY 2013.

Exhibit A: Investment Policy for FY 2013.

Approved:

Presented:

Final 10/16/12

General Manager/CEO

Chief Financial Officer

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RESOLUTION NO. 12-10-_____

Adopted by the Board of Directors of the Sacramento Regional Transit District on this date:

October 22, 2012

**UPDATING THE SACRAMENTO REGIONAL TRANSIT DISTRICT
INVESTMENT POLICY FOR FY 2013**

BE IT HEREBY RESOLVED BY THE BOARD OF DIRECTORS OF THE
SACRAMENTO REGIONAL TRANSIT DISTRICT AS FOLLOWS:

THAT, the Investment Policy for FY 2013 for the Sacramento Regional Transit
District as set forth in attached Exhibit A, is hereby adopted.

BONNIE PANNELL, Chair

A T T E S T:

MICHAEL R. WILEY, Secretary

By: _____
Cindy Brooks, Assistant Secretary

Exhibit A

**SACRAMENTO REGIONAL TRANSIT DISTRICT
INVESTMENT POLICY**

October 22, 2012

SACRAMENTO REGIONAL TRANSIT DISTRICT INVESTMENT POLICY

I. POLICY

The purpose of the Sacramento Regional Transit District's (RT's) Investment Policy is to establish cash management and investment guidelines for the Investment Officer, who is responsible for the stewardship of RT's investment fund. RT's investments shall be invested in accordance with the provisions of Article 1 and 2 of Chapter 4 of Part 1 of Division 2 of Title 5 of the California Government Code (§§53600-53997) unless otherwise noted, all section references are to the California Government Code.

II. STATEMENT OBJECTIVES

The objectives of the Investment Policy include safety of principal, liquidity and meeting the cash flow needs of RT, and return on investment.

- A. Safety of Principal – Investments will be undertaken in a manner which first seeks to ensure the preservation of capital in the portfolio. Each investment transaction will be entered into seeking quality in issuer and in underlying security or collateral. Market risk will be reduced by diversifying the portfolio, by limiting the average maturity of the portfolio, by limiting the maximum maturity of any one security and by performing cash flow analyses to avoid the need to sell securities prior to maturity.
- B. Liquidity – Investments will be made with maturity dates compatible with cash flow requirements to permit conversion to cash without a significant loss in value.
- C. Return on Investment – The investment portfolio will be designed with the objective of attaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints, and the cash flow characteristics of the portfolio.

III. SCOPE

This investment policy applies to RT's invested funds as defined by Government Code Section 53601. The policy applies to those funds which are not required for RT's immediate necessities as defined in Section 53601. Excluded from this investment policy are guidelines for the investments of proceeds related to debt financing, defeased lease transactions, 457 Plan funds, and Other Post Employment Benefit and Pension Funds.

IV. PRUDENT INVESTOR STANDARD

Persons authorized to make investment decisions on behalf of RT under this policy are trustees subject to the prudent investor standard set out under Section 53600.3. When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing RT's funds, the Board and those to whom investment authority has been delegated shall act with care, skill, prudence, and diligence under the

circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of RT, 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 RT.

V. DELEGATION OF AUTHORITY

- A. Governing Body – The Board of Directors will retain ultimate fiduciary responsibility for the portfolio. The Board of Directors will receive an annual report, designate investment officers and annually review the investment policy making any changes necessary by adoption.
- B. Investment Officers – Authority to manage the investment portfolio is granted to the Chief Financial Officer hereinafter referred to as Investment officer as designated by the Board of Directors.

Responsibility for the operation of the investment portfolio is delegated to the Chief Financial Officer who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this Investment Policy.

All participants in the investment process shall seek to act responsibly as custodians of the public trust. No officer or designee may engage in an investment transaction except as provided under the terms of this policy and supporting procedures.

- C. Investment Adviser – RT may engage the services of one or more external investment managers to assist in the management of RT's investment portfolio in a manner consistent with RT's objectives. Such external managers may be granted discretion to purchase and sell investment securities in accordance with this Investment Policy. Such managers must be registered under the Investment Advisors Act of 1940.

VI. ANNUAL INVESTMENT POLICY AND ANNUAL REPORT ON INVESTMENTS

The Investment Officer shall be responsible for the preparation of the annual statement of investment policy and the annual report on investments as permitted under Section 53646. The annual statement of investment policy and the quarterly report on investments shall be presented to the Board of Directors for review and approval. The quarterly report shall include a complete description of the portfolio, the type of investments, the issuers, maturity dates, par values and the current market value of each component of the portfolio, including funds managed for RT by third party contracted managers.

Pursuant to Section 53646(e), if all funds are placed in Local Agency Investment Fund (LAIF), FDIC-insured accounts and/or a county investment pool, the foregoing report elements may be placed by copies of the latest statements from such institutions. The report must also include a certification that: (1) All investment actions executed since the last report have been made in full compliance with the Investment Policy; and (2) RT will meet its expenditure obligations for the next six months as required by Section

53646(b)(2) and (3), respectively. The Investment Officer shall maintain a complete and timely record of all investment transactions.

Management shall establish an annual process of independent review by the external auditor to assure compliance with internal controls. Such audit will include tests deemed appropriate by the auditor.

VII. AUTHORIZED INVESTMENTS

Authorized investments shall be those authorized under Article 1 and Article 2 of Chapter 4 of the California Government Code. Pursuant to Section 16429.1, authorized investments shall include investments in the State Local Agency Investment Fund (LAIF). The table below illustrates the investments authorized by the California Government Code. The table also identifies certain provisions of the California Government Code that address interest rate risk, credit risk, and concentration of credit risk. Interest rate risk is the risk that the value of fixed income securities will decline because of rising interest rates, on the table below, interest rate risk corresponds to the maximum maturity. Credit risk relates to the potential that bond issuers will fail to make interest or principal payments. Credit risk is related to the minimum rating section on the table below. Finally, concentration of credit risk is the risk associated with a lack of diversification within an entities investments. To address this risk there are limits on the maximum percentage of the portfolio and maximum investments in one issuer an entity can hold at a given time. Note that in some cases the table below is more restrictive than the state requirements when deemed prudent by RT.

Authorized Investment Type	Maximum Maturity	Minimum Rating	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local agency bonds	5 years	N/A	None	None
U.S. Treasury obligations	5 years	N/A	None	None
U.S. Agency securities	5 years	N/A	None	None
Bankers' acceptances	180 days	N/A	40%	30%
Commercial paper	270 days	A1/P1	25%	10%
Negotiable certificates of deposit	5 years	N/A	30%	None
Reverse repurchase agreements	92 days	N/A	20% of base value	None
Medium-term notes	5 years	A	30%	None
Mutual funds investing in eligible securities	N/A	AAA	20%	10%
Mortgage pass-through securities	5 years	AA	20%	None
Local Agency Investment Fund	N/A	N/A	None	None
JPA pools (other investment pools)	N/A	N/A	None	None

IMPORTANT NOTE: If the credit rating of a security is subsequently downgraded below the minimum rating level for a new investment of that security, the Investment Officer shall evaluate the downgrade on a case-by-case basis in order to determine if the security should be held or sold. The Investment Officer will apply the general objectives of safety, liquidity, yield and legality to make the decision.

VIII. PROHIBITED INVESTMENTS AND DIVESTMENT

The Investment Officer shall not make any investment prohibited under Article 1 or 2 of Chapter 4 of the California Government Code (See e.g. Section 53601.6 and 53631.5).

Investments authorized when made, but no longer permitted by applicable law, may be divested from the RT investment portfolio in accordance with the investment statement, investment objectives, and prudent investor standard.

IX. AUTHORIZED FINANCIAL INSTITUTIONS AND DEALERS

The Investment Officer will maintain a list of financial institutions, selected on the basis of credit worthiness, financial strength, experience and adequate capitalization that are authorized to provide investment services. In addition, a list will also be maintained of approved security broker/dealers selected by credit worthiness who are authorized to provide investment and financial advisory services in the State of California. No public deposit shall be made except in a qualified public depository as established by state laws.

For brokers/dealers of government securities and other investments, the Investment Officer shall select only brokers/dealers who are licensed and in good standing with the California Department of Securities, the Securities and Exchange Commission, the National Association of Securities or other applicable self-regulatory organizations.

Before engaging in investment transactions with a broker/dealer, the Investment Officer shall have received from said firm a signed Certification Form. This form shall attest that the individual responsible for RT's account with that firm has reviewed the policy and intends to present investment recommendations and transactions to RT that are appropriate under the terms and conditions of the Investment Policy. Selection of financial institutions and broker/dealers authorized to engage in transactions with RT shall be at the sole discretion of RT. RT will utilize a competitive bidding process to determine the best possible financial institution or broker/dealer to serve the needs of the District.

X. SAFEKEEPING AND CUSTODY

All trades of marketable securities will be executed (cleared and settled) on a delivery vs. payment (DVP) basis to ensure that securities are deposited in RT's safekeeping institution prior to the release of funds.

Securities will be held by an independent third-party safekeeping institution selected by RT. All securities will be evidenced by safekeeping receipts in RT's name. The safekeeping institution shall annually provide a copy of its most recent report on internal controls – Service Organizations Control Reports (formerly SAS 70) prepared in accordance with the Statement on Standards for Attestation Engagements (SSAE) No. 16 (effective June 15, 2011).

XI. INTERNAL CONTROLS

Management is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of RT are protected from loss, theft, or misuse. Specifics for the internal controls are documented in various process specific memos that shall be reviewed and updated periodically, as needed, by the Investment Officers.

The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and the valuation of costs

and benefits requires estimates and judgments by management. The internal controls shall address the following points at a minimum:

- Control of collusion
- Custodial safekeeping
- Clear delegation of authority to subordinate staff members
- Written confirmation of transactions for investment and wire transfers
- Dual authorization of wire transfers and ACH payments
- Staff training and
- Review, maintenance, and monitoring of security procedures both manual and automated

XII. DIVERSIFICATION

RT will diversify the investments by security type and institution. It is the policy of RT to diversify its investment portfolio. Assets shall be diversified to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer or a specific class of securities. Diversification strategies shall be determined and revised periodically. In establishing specific diversification strategies, the following general policies and constraints shall apply:

- A. Portfolio maturities shall be matched versus liabilities to avoid undue concentration in a specific maturity sector.
- B. Maturities selected shall provide for stability of income and liquidity.
- C. Disbursement and payroll dates shall be covered through LAIF, marketable U.S. Treasury bills or other cash equivalent instruments such as money market mutual funds.

XIII. ETHICS AND CONFLICTS OF INTEREST

The Investment Officer shall comply with RT's adopted Conflict of Interest Code and Code of Ethics. The Investment Officer shall not engage in any activity that would conflict with the proper execution of this investment policy that would create the appearance of such a conflict, or that would impair the Investment Officer's ability to make impartial investment decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. In the event any provision of this policy is in conflict with any of the statutes referred to herein or any other state or federal statute, the provision of such statutes will govern.