# Metropolitan Transportation Commission
# Administration Committee

**November 13, 2019** **Agenda Item 3a**

**MTC Resolution No. 4173, Revised –**
**Statement of Investment Policy for MTC Fund Management**

**Subject:** Staff requests that the Committee authorize the referral of MTC Resolution No. 4173, Revised to the Commission for the renewal of the MTC Statement of Investment Policy with one suggested change authorizing new Bond Repurchase Accounts (Section VIII).

**Background:** The statement of Investment Policy governs the investment of temporarily idle funds for MTC and all entities managed under MTC. The policy establishes rules and procedures for the administration of all funds, including:

- Permitted investments (Section II) – follows state law for eligible investments with local exceptions for specifically prohibited investments (Section III); and
- Liquidity levels (Section VI) sets minimum liquidity rules for all funds under management; and
- Brokerage firms (Section VII) – establishes minimum credit and asset standards for brokers trading for MTC; and
- Safekeeping (Section X) – establishes requirements that all securities retained in safekeeping "trust" independent of all brokers

The policy also includes requirements for audit of internal controls, investment reports on a quarterly basis at minimum as well as signature controls and the requirement for annual review and approval by the Commission.

The only change being requested is a new provision allowing MTC to open brokerage accounts specifically for the purpose of purchasing BATA debt offered by investors in the secondary market (Section VIII). Because these security purchases will be for purchase and delivery to MTC rather than purchase for delivery to MTC safekeeping, the brokers utilized for this purpose will not be required to meet the credit and asset requirements of Section VII.

**Issues:** No Issues Identified

**Recommendation:** Staff recommends that the Administration Committee refer MTC Resolution No. 4173, Revised to the Commission for approval.

**Attachments:** MTC Resolution No. 4173, Revised

Therese W. McMillan

Date: February 25, 2015
W.I.: 15.2.1
Referred by: Admin. Committee
Revised: 02/24/16-C 01/25/17-C
06/28/17-C 03/28/18-C
03/27/19-C 11/20/19-C

# ABSTRACT

Resolution No. 4173, Revised

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 MTC SAFE, BATA, BAIFA and BAHA; and for the Association of Bay Area Governments (ABAG), a separate joint powers authority, and its affiliated entities, for which MTC is accepting administrative responsibility for management of funds, effective July 1, 2017 pursuant to a contract for services between MTC and ABAG, dated May 30, 2017.

This resolution supersedes MTC Resolution No. 4115 and any other MTC resolutions to the extent that they may conflict with this policy.

Attachment A to this resolution was amended February 24, 2016 to renew the Statement of Investment Policy.

Attachment A to this resolution was amended January 25, 2017 to change the Statement of Investment Policy.

This resolution was revised on June 28, 2017 to add ABAG to the Statement of Investment Policy, and Attachment A to this resolution was amended June 28, 2017 to change the Statement of Investment Policy.

Attachment A to this resolution was amended on March 28, 2018 to renew the Statement of Investment Policy.

Attachment A to this resolution was amended on March 27, 2019 to renew the Statement of Investment Policy.

Attachment A to this resolution was amended on November 20, 2019 to change the Statement of Investment Policy to include Bond Repurchase Accounts.

Further discussion of these amendments is contained in the Executive Director's memoranda to the Administration Committee dated February 3, 2015, February 3, 2016, January 4, 2017, February 28, 2018 and February 27, 2019, June 7, 2017 and the Administration Committee Summary Sheet dated November 13, 2019.

Date: February 25, 2015
W.I.: 15.2.1
Referred by: Admin. Committee
Revised: 06/28/17-C

RE: Establishment of a Statement of Investment Policy.

METROPOLITAN TRANSPORTATION COMMISSION

RESOLUTION NO. 4173

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, BAHA and BAIFA funds; and

WHEREAS, MTC is accepting administrative responsibility for the Association of Bay Area Governments (ABAG), a separate joint powers authority, and its affiliated entities, for management of funds, effective July 1, 2017 pursuant to a contract for services between MTC and ABAG, dated May 30, 2017; and

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

WHEREAS, the ABAG Administrative Committee has authorized MTC to open new and manage or close existing accounts with banks, financial institutions, and government pooled investment funds as needed in order to manage ABAG's and all related entities cash and investments under MTC signatures utilizing ABAG's and all related entities' tax identification numbers; 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. 4173 supersedes MTC Resolution No. 4115; and, be it further

RESOLVED, that MTC's Executive Director or Treasurer or both, as applicable, are 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 herewith or with Attachment A.

METROPOLITAN TRANSPORTATION COMMISSION



Chair

The above resolution was entered into by
the Metropolitan Transportation Commission
at a regular meeting of the Commission held
in Oakland, California, on February 25, 2015.

# 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), the Regional Administrative Facility Corporation (RAFC), the Bay Area Headquarters Authority (BAHA) the Bay Area Infrastructure Financing Authority (BAIFA), and the Association of Bay Area Governments (ABAG) a separate joint powers authority, and its affiliated entities, for which MTC is accepting administrative responsibility for management of funds, effective July 1, 2017 pursuant to a contract for services dated May 30, 2017 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 C, 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, 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 years |

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 Corporations 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 received a copy of the approved policy.

VIII. Bond Repurchase Accounts

MTC will use licensed brokerage firms for the purpose of purchasing BATA bonds with the intent of retiring its debt when such debt is offered for sale in the secondary market. Such brokerage firms are for the specific purpose of purchasing and transferring BATA bonds to BATA and as such will be exempt from the requirements of Section VII, except that all firms shall be licensed brokers.

IX. 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 Corporations 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.

X. 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.

XI. 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.

XII. 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 all entities whose funds are subject to this policy. 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.

XIII. Financial Accounts:

Both the Executive Director and the Treasurer are required 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.

XIV. Authorized Signers

The following positions are authorized to sign on all accounts:

Executive Director

Deputy Executive Directors – all

Chief Financial Officer

Deputy Treasurer

At least two signatures are required to transfer funds out of such accounts.

XV. Renewal:

This investment policy shall be subject to review annually.