



Agenda Item No. 6

To: Finance-Auditing Committee/Committee of the Whole
Meeting of March 22, 2007

From: Joseph M. Wire, Auditor-Controller
Celia G. Kupersmith, General Manager

Subject: **STATUS REPORT ON THE DISTRICT'S INVESTMENT POLICY**

Recommendation

The Finance-Auditing Committee recommends that the Board of Directors approve the Investment Policy as it currently stands.

Summary

There is no required change to the District's investment policy this year.

The California Government Code no longer requires public agencies to submit their investment policy on annual basis to their governing body for approval. Despite this change in California law, the annual review of the policy by the Board is still encouraged and is considered a prudent practice.

A copy of the investment policy is attached.

Fiscal Impact

There is no fiscal impact associated with this report.

JMW/CGK/jd

Attachment

RULE XI. INVESTMENT POLICY

A. Introduction

The purpose of this Rule is to identify various policies and procedures that enhance opportunities for a prudent and systematic investment policy and to organize and formalize investment-related activities.

The investment policies and practices of the Golden Gate Bridge, Highway & Transportation District are based on state law and prudent money management. All general funds will be invested in accordance with the District's Investment Policy and Article 2 of Chapter 4 of the California Government Code (commencing with Section 53600). The investment of bond or note proceeds will be governed by the provisions of the relevant bond documents. (Res. 01-148, 9/14/01.)

B. Scope

It is intended that this policy cover all funds (except retirement funds) and investment activities under the direction of the District.

C. Prudence

Investments shall be made with judgment and care—under 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 person" standard and shall be applied in the context of managing an overall portfolio. All persons investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds 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 District.

D. Objectives

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

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

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

3. Return On Investment. The District'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 objective and cash flow considerations.

E. Delegation of Authority

The management and oversight responsibility for the investment program is hereby delegated to the Auditor-Controller 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 Board may delegate the day-to-day investment decision making and execution authority to an investment advisor. The advisor shall follow the policy and such other written instructions as are provided.

F. Ethics and Conflict of Interest

Officers and employees involved in the investment process shall refrain from personal business activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial decisions. Officers and employees involved in the investment process shall abide by the District's Conflict of Interest Code, California Government Code Section 1090 *et seq.* and the California Political Reform Act (California Government Code Section 81000 *et seq.*)

G. Internal Controls

The Auditor-Controller shall establish a set of internal controls. The internal controls will be reviewed 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 employees or officers of the District.

H. Selection of Financial Institutions and Broker/Dealers

To provide for the optimum yield in the District's portfolio, the District's procedures shall be designed to encourage multiple bids and offers on investment transactions from an approved list of broker/dealers. The Auditor-Controller, or the District's investment advisor, shall maintain a list of authorized broker/dealers and financial institutions which are approved for investment purposes, and it shall be the policy of the District to purchase securities only from those authorized institutions or firms.

I. Permitted Investment Instruments

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. (Res. 02-027, 2/8/02.)

3. Bonds, notes, warrants, or other evidences of indebtedness issued by any local agency, or the state, including evidences of indebtedness, payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency or by a department, board, agency or authority of the local agency.

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

The following collateral restrictions will be observed: Only U.S. Treasury securities or Federal Agency securities, as described in subsections 1 and 2 above, will be acceptable collateral. All securities underlying Repurchase Agreements must be delivered to the District's custodian bank versus payment or be handled under a tri-party repurchase agreement. The market value of securities that underlay a Repurchase Agreement shall be valued at 102 percent or greater of the funds borrowed against those securities and the value shall be reviewed on a regular basis and adjusted no less than quarterly.

Market value must be calculated each time there is a substitution of collateral.

The District or its trustee shall have a perfected first security interest under the Uniform Commercial Code in all securities subject to Repurchase Agreement.

The District may enter into Repurchase Agreements only with primary dealers of the Federal Reserve Bank of New York.

The District 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 District's Board of Directors. 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 District for a minimum of 30 days prior to the sale; the total of all reverse repurchase agreements on investments owned by the District 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.

The District may enter into Reverse Repurchase Agreements only with primary dealers of the Federal Reserve Bank of New York.

5. 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 Moody's Investors Services or by Standard & Poor's Corporation.

Purchases of Banker's Acceptances may not exceed 180 days maturity or 40 percent of the District's surplus money. However, no more than 15 percent of the District's surplus funds may be invested in the Banker's Acceptance of any one commercial bank. (Res. 01-036, 2/23/01.)

6. Commercial paper of "prime" quality of the highest ranking or of the highest letter and number rating, as provided for by a nationally recognized statistical-rating organization (NRSRO). The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (a) or paragraph (b):

a. The entity meets the following criteria: (1) is organized and operating in the United States as a general corporation; (2) has total assets in excess of five hundred million dollars (\$500,000,000); and, (3) has debt other than commercial paper, if any, that is rated "A" or higher by a nationally recognized statistical-rating organization (NRSRO).

b. The entity meets the following criteria: (1) is organized within the United States as a special purpose corporation, trust, or limited liability company; (2) has program-wide credit enhancements including, but not limited to, over-collateralization, letters of credit, or surety bond; and, (3) has commercial paper that is rated "A-1" or higher, or the equivalent, by a nationally recognized statistical-rating organization (NRSRO).

Eligible commercial paper shall have a maximum maturity of 270 days or less. Local agencies, other than counties or a city and county, may invest no more than 25 percent of their money in eligible commercial paper. Local agencies, other than counties or a city and county, may purchase no more than 10 percent of the outstanding commercial paper of any single issuer. Counties or a city and county may invest in commercial paper pursuant to the concentration limits in subdivision (a) of Section 53635. (Res. 02-027, 2/8/02; Res. 04-023, 3/12/04.; Res. 05-016, 3/11/05)

7. Medium-term notes are 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 United States or any state operating within the United States. Medium-term corporate notes shall be rated in a rating category "A" or its equivalent or better by a nationally recognized rating service.

Purchase of medium-term notes may not exceed 30 percent of the District's surplus money. (Res. 00-041, 2/25/00.)

8. FDIC-insured or fully collateralized time certificates of deposit in financial institutions located in California, including U.S. branches of foreign banks licensed to do business in California. All time deposits must be collateralized in accordance with California Government Code Section 53651, either at 150 percent by promissory notes secured by first mortgages and first trust deeds upon improved residential property in California eligible under section (m) or at 110% by eligible marketable securities listed in subsections (a) through (l) and (n) and (o). The District, at its discretion and by majority vote of the Board of Directors, on a quarterly basis, may waive the collateralization requirements for any portion of the deposit that is covered by federal insurance. (Res. 03-035, 4/11/03)

Purchase of FDIC insured of fully collateralized time certificates shall not exceed a total of \$2 million.

9. 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 state-licensed branch of a foreign bank; provided that the senior debt obligations of the issuing institution are rated "AA" or better by Moody's or Standard & Poor's.

Purchase of negotiable certificates of deposit may not exceed 30 percent of the District's surplus money.

10. Any mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or any 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. Securities eligible for investment under this subdivision shall be issued by an issuer having an "A" or higher rating for the issuer's debt as provided by a nationally recognized rating service and rated in a rating category of "AA" or its equivalent or better by a nationally recognized rating service. Purchase of securities authorized by this subsection may not exceed 20 percent of the District's surplus money that may be invested pursuant to this section.

11. State of California's Local Agency Investment Fund. Investment in LAIF may not exceed \$40 million. (Res. 01-054, 3/23/01; Res. 02-027, 2/8/02.)

12. Shares of beneficial interest issued by diversified management companies, as defined in Section 23701m of the Revenue and Taxation Code, investing in the securities and obligations authorized by sections a through l of Government Code section 53601. To be eligible for investment pursuant to this subdivision these companies shall either: (1) attain the highest ranking letter or numerical rating provided by not less than two of the three largest nationally recognized rating services; or, (2) have an investment advisor registered with the Securities and Exchange Commission with not less than five years experience investing in securities and obligations authorized by Government Code Section 53601 and with assets under management in excess of \$500,000,000.

The purchase price of shares shall not exceed 15 percent of the District's surplus money.

Credit criteria listed to 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, the Auditor-Controller shall notify the General Manager. In the event a rating drops below "A," the Auditor-Controller shall notify the General Manager, the Finance and Auditing Committee, and the Board along with a recommendation of whether to hold or sell the particular security.

J. Diversification

The District shall attempt to limit the District's investments in any one bank or corporation to no more than 15 percent of the District's total investments at the time of purchase.

K. Maximum Maturity

Investment maturities shall be based on a review of cash flow forecasts. Maturities will be scheduled so as to permit the District 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 authorized by this section, that at the time of the investment has a term remaining to maturity in excess of five years.

Generally, not less than 20 percent of the District's portfolio, or a sufficient amount to enable the District to meet its cash flow requirements, whichever amount is greater, shall be placed in investments with maturity dates that do not exceed one year, with the understanding that the Chair of

the Finance-Auditing Committee and the Auditor-Controller may approve jointly a lesser percentage on an investment by investment basis. (Res. 96-151; Res. 00-155, 7/28/00.)

L. 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 deleveraged 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 security that could result in zero interest accrual if held to maturity.

M. Sales Prior to Maturity

Sales prior to maturity are permitted. Certain investment opportunities may involve the recognition of value losses. Book value trading losses are permitted. Any trading loss greater than 1 percent of principal value of any investment holding requires the following: (1) explanation of source of loss; (2) rationale for transactions resulting in recognition of loss; and, (3) estimation of time necessary to recoup the loss.

N. Reporting Requirements

The Auditor-Controller shall provide to the General Manager, the Finance-Auditing Committee and the Board a monthly investment report, which shall include, at a minimum, the following information for each individual investment:

- Type of investment instrument;
- Issuer name;
- Maturity date;
- Par value;
- Purchase price; and,
- Current market value and the source of the valuation. (Res. 03-035, 4/11/03)

The monthly report also shall: (1) state compliance of the portfolio to the statement of investment policy, or manner in which the portfolio is not in compliance; (2) include a description of any of the District's funds, investments or programs that are under the management of contracted parties, including lending programs; and, (3) include a statement denoting the ability of the District to meet its expenditure requirements for the next six months, or provide an explanation as to why sufficient money shall, or may, not be available.

This monthly report shall be submitted within 30 days following the end of the month.

The Auditor-Controller shall annually render to the Board a statement of investment policy, which the Board shall consider at a public meeting.

O. Safekeeping and Custody

All securities, whether negotiable, bearer, registered, or nonregistered, whether purchased for the District by financial advisors, consultants or managers, shall be delivered, either by book entry or physical delivery, to the District's third party custodian.

P. Investment Sub-Committee

An Investment Sub-Committee shall be established that will include the Chair of the Finance-Auditing Committee, plus two other Directors and the Auditor-Controller, to periodically (at least quarterly) review the District's investment strategy and investment policy. (Res. 81-197, 5/29/81.)