STAFF REPORT FOR CALENDAR ITEM NO. : 9
FOR THE MEETING OF: November 10, 2011

TRANSBAY JOINT POWERS AUTHORITY

BRIEF DESCRIPTION:

Annual review of Board Policy No. 009, Investment Policy, and approval of minor changes to the Policy in conformance with updates to California State Government Code.

SUMMARY:

The TJPA Board approved Board Policy No. 009 in 2006, and approved an amendment to the Policy in 2008 and 2011. The Policy requires an annual review by the TJPA Board. It was last reviewed in May 2011; however, the California Debt & Investment Advisory Commission (CDIAC) published its Local Agency Investment Guidelines update for 2011 in August 2011. Some of the updates offer additional flexibility in portfolio investment and TJPA staff recommends incorporating these updates into the TJPA Investment Policy at this time. Hereafter, the required annual review of the Investment Policy will occur after the CDIAC's publication of its annual update.

BACKGROUND:

The Government Finance Officers Association recommends that all governmental investors develop written investment policies, and the State of California also recommends that an investment policy be in place. The investment policy ensures that TJPA cash balances are safe, sufficiently liquid to meet cash flow needs, and maximize investment earnings. Board Policy No. 009 sets forth the scope of funds to be invested; establishes safety, liquidity and return on investment as primary objectives, in that priority order; and sets forth permitted investment instruments. The Policy delegates authority over the investment program to the TJPA Chief Financial Officer or his/her designee. Permitted investment instruments are those allowed by California State law.

The main State law update affecting TJPA is the removal of a maximum portfolio percentage amount for bank deposits. Previously, bank deposits were limited to 10 percent of an agency's portfolio. This limitation has been deleted in the 2011 update. Maximum maturities have also been increased for certain investment types.

The Policy does not describe actual investment practices, which may change over time and shall be summarized for the Board as part of the annual Policy review. In practice, TJPA currently adheres to the Policy by maintaining a cash balance in a U.S. Bank checking account sufficient to meet short-term obligations, and investing the balance with the City & County of San Francisco investment pool. The TJPA does not invest in other instruments at this time. TJPA also has trust accounts established with Deutsche Bank for tax increment and land sales proceeds, and the Trustee is required to adhere to all elements of the Policy.

ENCLOSURES:

1. Resolution
2. Board Policy No. 009, Investment Policy

TRANSBAY JOINT POWERS AUTHORITY
BOARD OF DIRECTORS

Resolution No. _____________

WHEREAS, The Transbay Joint Powers Authority (TJPA) is a joint powers agency organized and existing under the laws of the State of California; and

WHEREAS, Pursuant to the Joint Powers Agreement creating the TJPA, dated April 4, 2001 (Agreement), the TJPA has the authority to receive, collect, invest and disburse moneys; and

WHEREAS, The Agreement also establishes that the Chief Financial Officer will receive, invest, and disburse funds only in accordance with procedures established by the Board and in conformity with applicable law; and

WHEREAS, The TJPA adopts an Investment Policy to follow the recommendations of the Government Finance Officers Association and the State of California, and to ensure that cash balances are safe, sufficiently liquid to meet cash flow needs, and to maximize investment earnings; and

WHEREAS, The TJPA adopted an Investment Policy in conformance with federal, state, and other legal requirements on February 16, 2006 and approved revisions to that policy on May 15, 2008 and May 12, 2011; and

WHEREAS, The California Debt & Investment Advisory Commission (CDIAC) published its Local Agency Investment Guidelines Update for 2011 in August 2011, and it includes changes to permitted investment instruments that offer additional investment flexibility to TJPA that should be incorporated into the TJPA Investment Policy; and

WHEREAS, The TJPA Investment Policy will continue to require annual review by the TJPA Board and the next review will occur after the CDIAC publishes its next annual update; now, therefore, be it

RESOLVED, That the TJPA Board has reviewed the Investment Policy identified as Board Policy No. 009 with minor changes to align maximum maturities and portfolio percentages for various investment types with the maturities and maximum percentages allowable under State law.

I hereby certify that the foregoing resolution was adopted by the Transbay Joint Powers Authority Board of Directors at its meeting of November 10, 2011.

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Secretary, Transbay Joint Powers Authority

TRANSBAY JOINT POWERS AUTHORITY

Board Policy No. 009 Category: Financial Matters

INVESTMENT POLICY

I. Introduction

The purpose of this policy is to set forth the scope, objectives, standards of care, authorized financial institutions, permitted investment instruments and parameters, and reporting requirements for all investments made by the Transbay Joint Powers Authority (TJPA) and its Trustees. It is the policy of the TJPA to invest funds in a manner which will preserve capital, meet the daily cash flow demands of the TJPA, and provide investment return.

II. Governing Authority

The investment program shall be operated in conformance with federal, state, and other legal requirements including applicable provisions of Chapter 4 of Part 1 of Division 2 of Title 5 of the California Government Code (Sections 53600 et seq.).

III. Scope

This policy applies to the investment of all funds, excluding the investment of bond funds and employees' retirement funds, which are outside the scope of this policy. The investment of bond proceeds and retirement funds shall be governed by the relevant documents. All other investments will be managed to insure the safety of the portfolio by investing in high quality securities and by maintaining a mix of securities that will provide reasonable assurance that no single investment or class of investments will have a disproportionate impact on the total portfolio.

IV. Objectives

The primary objectives, in priority order, for the TJPA's investment activities are:

1. **<u>Safety</u>**. Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The safety of the portfolio is provided by investing in high quality securities and enhanced in three ways by maintaining a prudent mix (i.e., diversity) of investments:
   a. Spreading investments over different investment types minimizes the impact that any one industry/investment class can have on the portfolio;
   b. Spreading investments over multiple credits/issuers with an investment type minimizes the credit exposure of the portfolio to any single firm/institution; and

Adopted: ***2/16/2006***
Amended: ***5/15/2008***
Amended: ***5/12/2011***
Amended: ***11/10/2011***

c. Spreading investments over various maturities minimizes the risk of portfolio depreciation due to a rise in interest rates.

The portfolio shall contain a sufficient number and diversity of marketable securities so that a reasonable portion of the portfolio can be readily converted to cash without causing a material change in the value of the portfolio. Limitation and eligibility as to specific investments are to be determined by the TJPA Chief Financial Officer or his/her designee, and the Executive Director, collectively.

2. **Liquidity**. The investment portfolio shall remain sufficiently liquid to meet all cash flow requirements that may be reasonably anticipated. The TJPA will maintain a cash position anticipated to meet short-term obligations.

3. **Return on Investment**: The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs.

V. Standard of Prudence

In managing its overall portfolio, the TJPA shall observe the "Prudent Person Standard" as stated in California Government Code 53600.3. Investments shall be made 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 the TJPA, that a prudent person acting in a like capacity, and with familiarity of those matters, would use to safeguard the principal and maintain the liquidity needs of the TJPA. Investment officers acting in accordance with state and local law and this 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.

VI. Delegation of Authority

Management's responsibility for the investment program is derived from the TJPA Board of Directors and is hereby delegated to the TJPA Chief Financial Officer or his or her designee. The Board may rescind the delegation pursuant to this section.

The following individuals are authorized to sign investment documents and/or execute cash transfers and make investments of the TJPA's funds:

- Executive Director or his/her designee
- Chief Financial Officer or his/her designee

All investment documents and cash transfer authorization forms shall be approved by one of the two signature authorities from the above list.

VII. Ethics and Conflict of Interest

Officers and employees involved in the investment process will not engage in personal business activities that could conflict with the proper and lawful execution and management of the investment program, or that could impair their ability to make impartial decisions. Pursuant to the TJPA's Conflict of Interest code, employees shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the TJPA's investment portfolio.

VIII. Authorized Financial Institutions and Dealers

Banking and investment services will be procured competitively. No public deposits will be made except in a qualified public depository as established by state law. All broker/dealers must be Primary Government Securities Dealers or top-ten banking underwriters of U.S. Agencies (according to Bloomberg Underwriter Rankings, or a similar ratings service). All broker/dealers and custodial Trustees must annually review and abide by this Investment Policy.

Transbay Joint Powers Authority will not do business with a firm which has, within any consecutive 48-month period following January 1, 1996, made a political contribution in an amount exceeding the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board (MSRB), and any other relevant MSRB rules that may be promulgated, to the City & County of San Francisco Treasurer, any member of the TJPA Board, or any candidate for those offices.

Transbay Joint Powers Authority may choose a Trustee to hold custody of moneys gained by the sale of formerly State-owned land parcels, tax increment proceeds, and other moneys as deemed necessary by the Executive Director and the Chief Financial Officer. Moneys held by the Trustee shall be invested and reinvested by the Trustee solely at the direction of the TJPA in those certain investment securities listed in "Exhibit A" hereto entitled "Permitted Investments".

IX. Permitted Investment Instruments

In accordance with and subject to the restrictions in California Government Code Section 53601, the TJPA may invest in the following type of investments as described fully in Exhibit A below:

1. U.S. Treasury Obligations
2. U.S. Agency Obligations
3. Bankers Acceptances
4. Commercial Paper (domestic)
5. Negotiable Certificates of Deposit
6. Repurchase Agreements
7. Medium-Term Notes
8. Money Market Mutual Funds
9. Collateralized Bank/Time Deposits
10. City & County of San Francisco Investment Pool

11. Local Agency Investment Fund (LAIF)

The maximum percentage share of investments in these instruments as a share of the TJPA's portfolio, credit quality and the maximum maturities of investments shall conform to the restrictions in California Government Code Section 53601 and shall be domestic investments only.

X. Ineligible Investments

The TJPA shall not invest funds in instruments not specified in Section IX, Permitted Investment Instruments, above.

XI. Internal Controls

TJPA shall maintain a system of internal controls, which shall be documented in writing. The internal controls shall be provided to and reviewed by the independent auditor. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in the financial markets, or imprudent actions by employees and officers of the TJPA.

XII. Reporting Requirements

The TJPA Chief Financial Officer shall submit a list of investment transactions and an investment report to the TJPA Board of Directors on a quarterly basis. The report will include, at a minimum, investment types, issuer, maturity, par value, dollar amount invested, market value as of the date of the report and the source of the valuation.

In addition, the investment report shall state compliance of the portfolio with the investment policy and a statement noting the ability of TJPA to meet expenditure requirements for the next six months in accordance with California Government Code Section 53646 (b) (2) and (3).

XIII. Social and Environmental Concerns

Investments are encouraged in entities that support community well-being through safe and environmentally sound practices and fair labor practices. Investments are encouraged in entities that support equality of rights regardless of sex, race, age, disability or sexual orientation. Investments are discouraged in entities that manufacture tobacco products, firearms or nuclear weapons. In addition, investments are encouraged in entities that offer banking products to serve all members of the local community, and investments are discouraged in entities that finance high-cost check-cashing and deferred deposit (payday-lending) businesses.

XIV. Investment Policy Review

TJPA's investment policy shall be adopted by resolution of the TJPA Board of Directors. This policy shall be reviewed annually at a regular meeting of the TJPA Board. Any modifications to this policy must be approved by resolution of the TJPA Board.

Adopted: ***2/16/2006***
Amended: ***5/15/2008***
Amended: ***5/12/2011***
Amended: ***11/10/2011***

EXHIBIT A

Permitted Investments

Per State Government Code (As of January 1, 2011)[i]

Investment Type	Maximum Maturity	Maximum Specified Percentage of Portfolio	Minimum Quality Requirements
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Obligations	5 years	None	None
Bankers Acceptances	180 days	40% [ii]	None
Commercial Paper	270 days	40% [iii]	"A-1"; if the issuer has issued long-term debt it must be rated "A" without regard to modifiers[iv]
Negotiable Certificates of Deposit	5 years	30% [v]	None
Repurchase Agreements	1 year	None	None
Medium-Term Notes[vi]	5 years	30%	"A" rating
Money Market Mutual Funds	n/a	20% [vii]	Multiple[viii]
Collateralized Bank/Time Deposits	5 years	None	None
City & County of San Francisco Equity in Pool (County Pooled Investment Funds) [ix]	n/a	None	None
Local Agency Investment Fund (LAIF) [x]	n/a	None	None

Prohibited investments include securities not listed above, as well as inverse floaters, range notes, interest only strips derived from a pool of mortgages, and any security that could result in zero interest accrual if held to maturity.[xi]

See endnotes next page.

[i] Sources: Government Code Sections 16429.1, 53601, 53601.8, 53635, 53635.2 and 53638.
[ii] No more than 30 percent of the agency's money may be in Bankers Acceptances of any one commercial bank.
[iii] No more than 10 percent of the agency's money may be invested in the commercial paper of any one corporate issuer.
[iv] Issuing corporation must be organized and operating within the U.S. and have assets in excess of $500,000,000.
[v] No more than 30 percent of the agency's total funds may be invested in CDs authorized under Sections 53601.8, 53635.8, and 53601(i).
[vi] "Medium-term notes" are defined in Government Code Section 53601 as "all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating with the U.S. or by depository institutions licensed by the U.S. or any state and operating within the U.S."
[vii] No more than 10 percent invested in any one mutual fund.
[viii] A mutual fund or a money market mutual fund must receive the highest ranking by not less than two nationally recognized statistical rating organizations or retain an investment advisor registered with the SEC or exempt from registration with assets under management in excess of $500 million who has not less than five years experience investing in instruments authorized by Sections 53601 and 53635 (mutual funds) or not less than five years experience investing in money market instruments.
[ix] Not a permitted investment for Trustee Accounts.
[x] Not a permitted investment for Trustee Accounts.
[xi] Zero interest accrual means the security has the potential to realize zero interest depending upon the structure of the security. Zero coupon bonds and similar investments that start at a level below the face value are legal because their value does increase.

Glossary of Terms

U.S. Agencies: Federal agency securities and/or Government-sponsored enterprises.

Annual Financial Report: The official annual, audited financial report for the TJPA.

Bankers Acceptance (BA): A draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

Benchmark: A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

Broker: A broker brings buyers and sellers together for a commission.

Certificate of Deposit (CD): A time deposit with a specific maturity evidenced by a Certificate. Large-denomination CD's are typically negotiable.

Collateral: Securities, evidence of deposit or other property, which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

Dealer: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

Depository Institutions: These institutions hold agency monies in the forms of certificates of deposit (negotiable or term), public time deposits and public demand accounts.

Discount: The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

Discount Securities: Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value, e.g., U.S. Treasury Bills.

Federal Credit Agencies: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., S&L's, small business firms, students, farmers, farm cooperatives, and exporters.

Federal Deposit Insurance Corporation (FDIC): A federal agency that insures bank deposits, currently up to $100,000 per deposit.

Federal Home Loan Banks (FHLB): Government sponsored wholesale banks (currently 12 regional banks), which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district Bank.

Liquidity: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value.

Money Market: The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

Primary Dealer: A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.

Prudent Person Rule: An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state – the so-called legal list. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

Repurchase Agreement (RP or REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date.

Safekeeping: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

Securities and Exchange Commission (SEC): a federal agency which holds primary responsibility for enforcing the federal securities laws and regulating the securities industry, the nation's stock and options exchanges, and other electronic securities markets in the United States.

State and Local Government Investment Pools: The aggregate of all funds from political subdivisions that are placed in the custody of the local or State Treasurer for investment and reinvestment.

Treasury Bills: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months or one year.

Treasury Bonds: Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than 10 years.

Treasury Notes: Medium-term coupon bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to 10 years.

Adopted: ***2/16/2006***
Amended: ***5/15/2008***
Amended: ***5/12/2011***
Amended: ***11/10/2011***