AGENDA

Finance and Administration Committee Meeting

Committee Members
Michael Hennessey, Chairman
Richard Murphy, Vice Chairman
Andrew Do
Gene Hernandez
Steve Jones
Michelle Steel
Donald P. Wagner

Orange County Transportation Authority
Headquarters
550 South Main Street
Board Room – Conf. Room 07
Orange, California
Wednesday, June 12, 2019 at 10:30 a.m.

Any person with a disability who requires a modification or accommodation in order to participate in this meeting should contact the OCTA Clerk of the Board, telephone (714) 560-5676, no less than two (2) business days prior to this meeting to enable OCTA to make reasonable arrangements to assure accessibility to this meeting.

Agenda descriptions are intended to give members of the public a general summary of items of business to be transacted or discussed. The posting of the recommended actions does not indicate what action will be taken. The Committee may take any action which it deems to be appropriate on the agenda item and is not limited in any way by the notice of the recommended action.

All documents relative to the items referenced in this agenda are available for public inspection at www.octa.net or through the Clerk of the Board's office at the OCTA Headquarters, 600 South Main Street, Orange, California.

Call to Order

Pledge of Allegiance

Director Steel

1. Public Comments

Special Calendar

There are no Special Calendar matters.

Consent Calendar (Items 2 and 3)

All items on the Consent Calendar are to be approved in one motion unless a Committee Member or a member of the public requests separate action or discussion on a specific item.

2. Approval of Minutes

Approval of the minutes of the Finance and Administration Committee meeting of May 22, 2019.

3. Fiscal Year 2018-19 Third Quarter Budget Status Report
Anthony Baruch/Andrew Oftelie

Overview

The Orange County Transportation Authority's staff has implemented the fiscal year 2018-19 budget. This report summarizes the material variances between the budget and actual revenues and expenses through the third quarter of fiscal year 2018-19.

Recommendation

Receive and file as an information item.

Regular Calendar

4. Annual Update to Investment Policy
Sean Murdock/Andrew Oftelie

Overview

The Treasurer is presenting the Orange County Transportation Authority's Investment Policy for 2019. The Investment Policy sets forth the investment guidelines for all funds invested on and after June 10, 2019. As recommended under California Government Code Section 53646(a)(2), the Orange County Transportation Authority is submitting its Investment Policy to be reviewed at a public meeting. Further, the governing body of a local agency has the authorization to appoint, for a period of one year, a Treasurer to invest, reinvest, purchase, exchange, sell, or manage public funds.

Recommendations

A. Adopt the 2019 Investment Policy dated June 10, 2019.

B. Authorize the Treasurer to invest, reinvest, purchase, exchange, sell, and manage Orange County Transportation Authority funds during fiscal year 2019-20.

Discussion Items

5. Chief Executive Officer's Report

6. Committee Members' Reports

7. Closed Session

There are no Closed Session items scheduled.

8. Adjournment

The next regularly scheduled meeting of this Committee will be held at **10:30 a.m. on Wednesday, June 26, 2019,** at the Orange County Transportation Authority Headquarters, 550 South Main Street, Board Room - Conference Room 07, Orange, California.

Committee Members Present
Michael Hennessey, Chairman
Richard Murphy, Vice Chairman
Andrew Do
Gene Hernandez
Steve Jones
Michelle Steel
Donald P. Wagner

Staff Present
Darrell E. Johnson, Chief Executive Officer
Ken Phipps, Deputy Chief Executive Officer
Laurena Weinert, Clerk of the Board
Gina Ramirez, Deputy Clerk of the Board
James Donich, General Counsel
OCTA Staff and Members of the General Public

Committee Members Absent
None

Call to Order

The May 22, 2019 regular meeting of the Finance and Administration Committee was called to order by Committee Chairman Hennessey at 10:33 a.m.

Pledge of Allegiance

Director Wagner led in the Pledge of Allegiance.

1. Public Comments

No public comments were received.

Special Calendar

2. Taxable Sales Forecast - MuniServices - Doug Jensen, Senior Vice President, Client Services

Andrew Oftelie, Chief Financial Officer (CFO), provided opening comments and introduced Doug Jensen, Senior Vice President, Client Services, of MuniServices.

Mr. Jensen provided a PowerPoint presentation for this item as follows:

- Performance Comparison;
- Top 10 Segments;
- Quarterly Performance;
- Top 25 Sales Tax Generators (Alpha Order);
- Sales Tax Revenues Compared to Income;
- Employment Compared to Sales Tax Per Capita;
- Measure M2 (M2) Forecast Projections;
- Transportation Development Act (TDA) Local Transportation Fund (LTF) Forecast Projections; and
- Highlights of Forecast.

2. (Continued)

A discussion ensued regarding the following:

- Orange County Transportation Authority (OCTA) has relied on the MuniServices forecast since 2016. Previously OCTA used an average from three universities.
- Retail has accounted for almost 34 percent of the total M2 revenue growth.
- Auto sales declined because vehicle leasing is more popular.
- For the proposed fiscal year 2019-20 budget, included will be a 2.95 percent M2 growth.
- There are strong department store sales noted on slide 5 of the PowerPoint.
- The M2 revenue projections include the United States Supreme Court decision on Wayfair that took effect April 1, 2019.
- Assembly Bill 147 (AB 147) takes effect October 1, 2019. This bill defines “Doing business in California,” and applies to “marketplace facilitators,” such as eBay, Etsy, or Amazon. These entities must collect sales tax on all transactions they are processing regardless of who fulfills the order. AB 147 ensures sales tax is collected corresponding to the shipping address. This could double the amount of sales tax OCTA could receive from market facilitators.
- The TDA forecast is $184.5 million as opposed to $176.7 million that was budgeted.

Consent Calendar (Items 3 through 13)

3. Approval of Minutes

A motion was made by Director Hernandez, seconded by Director Jones, and declared passed by those present, to approve the minutes of the Finance and Administration Committee meeting of April 24, 2019.

4. Triennial Performance Audits

A motion was made by Director Hernandez, seconded by Director Jones, and declared passed by those present, to:

A. Direct staff to implement seven recommendations included in the Fiscal Year 2016-18 Triennial Performance Audit of the Orange County Transportation Authority.

B. Direct staff to monitor implementation of recommendations included in the Fiscal Year 2016-18 Triennial Performance Audit of Laguna Beach Municipal Transit Lines.

5. Investments: Compliance, Controls, and Reporting, July 1 through December 31, 2018

A motion was made by Director Hernandez, seconded by Director Jones, and declared passed by those present, to direct staff to implement two recommendations provided in Investments: Compliance, Controls, and Reporting, July 1 through December 31, 2018, Internal Audit Report No. 19-507.

6. Orange County Transportation Authority Investment and Debt Programs Report - April 2019

A motion was made by Director Hernandez, seconded by Director Jones, and declared passed by those present, to receive and file as an information item.

7. Fiscal Year 2018-19 Third Quarter Grant Reimbursement Status Report

A motion was made by Director Hernandez, seconded by Director Jones, and declared passed by those present, to receive and file as an information item.

8. Agreement with the California Highway Patrol for Enforcement Services on the 91 Express Lanes

A motion was made by Director Hernandez, seconded by Director Jones, and declared passed by those present, to authorize the Chief Executive Officer to negotiate and execute Agreement No. C-9-1172, between the Orange County Transportation Authority and California Highway Patrol, for a contract term of ten years, in an amount not to exceed $12,326,335, for toll and traffic enforcement services on the 91 Express Lanes.

9. Amendment to the 91 Express Lanes Riverside County Transportation Commission/Orange County Transportation Authority Facility Agreement

A motion was made by Director Hernandez, seconded by Director Jones, and declared passed by those present, to authorize the Chief Executive Officer to negotiate and execute Amendment No. 4 to Agreement No. C-5-3828 between the Orange County Transportation Authority and Riverside County Transportation Commission, in the amount of $917,000, for the reimbursement of shared operational expenses through June 30, 2020.

10. 91 Express Lanes Update for the Period Ending March 31, 2019

A motion was made by Director Hernandez, seconded by Director Jones, and declared passed by those present, to receive and file as an information item.

11. Resolution to Establish the Orange County Local Transportation Authority/Measure M2 Appropriations Limitation for Fiscal Year 2019-20

A motion was made by Director Hernandez, seconded by Director Jones, and declared passed by those present, to adopt Orange County Local Transportation Authority/Measure M2 Resolution No. 2019-027 to establish the Orange County Local Transportation Authority/Measure M2 appropriations limit at $1,821,701,129 for fiscal year 2019-20.

12. Resolution to Establish the Orange County Transportation Authority General Fund Appropriations Limitation for Fiscal Year 2019-20

A motion was made by Director Hernandez, seconded by Director Jones, and declared passed by those present, to adopt Orange County Transportation Authority Resolution No. 2019-028 to establish the Orange County Transportation Authority General Fund appropriations limit at $12,054,043 for fiscal year 2019-20.

13. Environmental Mitigation Program Endowment Fund Investment Report for March 31, 2019

A motion was made by Director Hernandez, seconded by Director Jones, and declared passed by those present, to receive and file as an information item.

Regular Calendar

14. Consultant Selection for the Implementation of the Federal Disadvantaged Business Enterprise Program

Andrew Oftelie, CFO, provided opening comments and introduced Virginia Abadessa, Director of Contracts Administration and Materials Management, who reported on the following:

- The procurement process.
- The recommendation of Padilla & Associates, Inc. (Padilla) as the firm to assist in administering the Federal Disadvantaged Business Enterprise (DBE) Program.
- Padilla’s experience and history of working with OCTA, LA Metro, Metrolink, and California Department of Transportation.
- Padilla’s role as a consultant as it relates to the DBE Program.

Ms. Abadessa explained the difference between an enterprise zone and enterprise program. She stated that Padilla’s role is to help manage the federal program as OCTA does not have any dedicated staff to set goals and monitor performance.

James Donich, General Counsel, stated that DBE Program’s are historically smaller businesses owned by minorities and a certain percentage of contracts must be awarded to Disadvantaged Businesses.

14. (Continued)

Darrell E. Johnson, Chief Executive Officer (CEO), stated because OCTA receives federal funds, OCTA must comply with the Federal Transit Administration and the Federal Highway Administration's policies.

A motion was made by Director Do, seconded by Director Hernandez, and declared passed by those present, to:

A. Approve the selection of Padilla & Associates, Inc., as the firm to provide assistance in administering the Federal Disadvantaged Business Enterprise Program for the Orange County Transportation Authority.

B. Authorize the Chief Executive Officer to negotiate and execute Agreement No. C-9-0987 between the Orange County Transportation Authority and Padilla & Associates, Inc., to provide assistance in administering the Federal Disadvantaged Business Enterprise Program for a five-year term, in the amount of $950,000.

15. Preview to the Public Hearing on Orange County Transportation Authority's Fiscal Year 2019-20 Budget and Personnel and Salary Resolution

Andrew Oftelie, CFO, referenced a handout listing questions and answers that resulted from the May 13, 2019 Board of Directors (Board) budget workshop. Mr. Oftelie stated that the public hearing is set for June 10, 2019 Board meeting on the proposed fiscal year 2019-20 budget and Personnel and Salary Resolution (PSR).

Committee Chairman Hennessey inquired if there were any changes since the May 13, 2019 Board Budget workshop. Mr. Oftelie stated as of today, no changes have been made.

Director Wagner inquired on the procedure for the Committee vote. Mr. Oftelie responded that the Committee will be voting on the recommendations to be moved forward to the June 10, 2019, Board meeting.

James Donich, General Counsel, discussed the Committee voting procedure.

15. (Continued)

Mr. Oftelie presented a PowerPoint on the following:

- Budget Themes;
- Budget Overview;
- Budget Sources and Uses;
- Staffing Levels;
- Employee Compensation Assumptions;
- PSR;
- Recommendations; and
- Next Steps.

A lengthy discussion ensued regarding:

- The use of prior fiscal year designations to pay for purchases this year.
- Fixed capital items are encumbered; however, time and materials are included in this fiscal year's budget.
- Administrative employees are not covered by a labor agreement and are governed by the PSR. The PSR is approved by the Board on an annual basis.
- There are 498.5 administrative employees in the 2019-20 budget.
- Vacation cash-out can be applied to Orange County Employee Retirement System (OCERS) retirement Plans A and B.
- The proposed increase in vacation accrual extends to new administrative employees.

Maggie McJilton, Executive Director, Human Resources and Organizational Development, addressed the committee regarding the following:

- Most OCTA employees fall into OCERS Plan B.
- Employees may cash-out up to 200 hours of vacation each calendar year.
- Each OCERS pension plan has different requirements regarding retirement age and maximum amount of calculation at retirement.
- Plan A is the most generous and ended in 1979. Plan B reduced the amount of what is pensionable. Plan U covers California Public Employees' Pension Reform Act and started in 2015. In addition, about 25 percent of OCTA's workforce is in Plan U.
- Administrative employees work under a performance plan, and merit increases are based on performance. The proposed four percent merit pool is based on a market study.

15. (Continued)

- Employees receive a performance review annually. This review is based on a five-point scale.
- Special Performance Award is a single lump sum payment and does not increase an employee's base salary.
- OCTA's turnover rate is currently 6.1 percent but has been as high as ten percent in the past.

Director Do requested a breakdown of the number of employees receiving a pay raise and the percentages. Mr. Jonson, CEO, explained the non-base salary and merit-based building for Administrative employees.

Committee Vice Chairman R. Murphy requested more detail on the Merit and Special Performance pools and be incorporated into the PowerPoint going on to the June 10, 2019 Board meeting.

Mr. Oftelie acknowledged the Committee's comments and suggestions and will incorporate the information into the PowerPoint for the public hearing set for June 10, 2019

A motion was made by Committee Vice Chairman R. Murphy, seconded by Director Hernandez, and declared passed, to:

A. Approve by Resolution the Orange County Transportation Authority's Fiscal Year 2019-20 Budget.

B. Approve the Personnel and Salary Resolution for Fiscal Year 2019-20.

C. Authorize the Chief Executive Officer to negotiate and execute the software and hardware licensing, maintenance, and emergency support purchase orders and/or agreements.

D. Approval of fiscal year 2019-20 Orange County Transportation Authority member agency contribution to the Southern California Regional Rail Authority, in an amount up to $30,287,870, including authorization of Federal Transit Administration funds, in an amount up to $8,500,000, to be drawn down directly by Southern California Regional Rail Authority. In addition, approve capital and rehabilitation expenditure budget contingent upon all member agencies approval of their respective capital and rehabilitation budgets. Orange County Transportation Authority portion of the costs for capital is $515,980 and $12,679,851 for rehabilitation.

Directors Do and Wagner voted to oppose the recommendations on this item.

Discussion Items

16. Chief Executive Officer's Report

Mr. Johnson, CEO, reported on the following:

- Olivia Salters, a participant in the Job Rotation Program, was introduced to the Committee.

- Bus Service Plan Community Hearings are ongoing for the October 2019 and February 2020 service changes. The first meeting was held May 2019, in the City of Brea. The next meet is May 22, 2019 in the City of Santa Ana. The final meeting is May 23, 2019, in the City of Irvine. A public meeting is scheduled for the June 10, 2019, OCTA Board meeting.

- OCTA participated in Bike-to-Work week May 13-17, 2019. The annual bike ride and rally was rescheduled due to rain and was held on May 23, 2019. The three-mile ride started at the Orange Metrolink Station and concluded at the OCTA Headquarters.

17. Committee Members' Reports

There were no Committee Members' Reports

18. Closed Session

There were no Closed Session items scheduled.

19. Adjournment

The next regularly scheduled meeting of this Committee will be held at **10:30 a.m. on Wednesday, June 12, 2019,** at the Orange County Transportation Authority Headquarters, 550 South Main Street, Board Room - Conference Room 07, Orange, California.

ATTEST

Gina Ramirez
Deputy Clerk of the Board

Michael Hennessey
Committee Chairman

OCTA

June 12, 2019

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Subject: Fiscal Year 2018-19 Third Quarter Budget Status Report

Overview

The Orange County Transportation Authority's staff has implemented the fiscal year 2018-19 budget. This report summarizes the material variances between the budget and actual revenues and expenses through the third quarter of fiscal year 2018-19.

Recommendation

Receive and file as an information item.

Background

The Board of Directors (Board) approved the Orange County Transportation Authority (OCTA) Fiscal Year (FY) 2018-19 Budget on June 11, 2018. The approved budget itemized the anticipated revenues and expenses necessary to deliver OCTA's transportation programs and projects.

The balanced budget as originally approved by the Board in June was $1.31 billion. Sources of funds were comprised of $1.07 billion in current FY revenues and $237.8 million in use of prior year designations. Uses of funds were comprised of $1.23 billion of current FY expenditures and $80.3 million of designations.

The Board approved three amendments through the third quarter, increasing the expense budget by $132.8 million. These amendments increased the budget to $1.44 billion as summarized in Table 1 on the following page.

Table 1 - Working Budget

Date	Description	Amount*
7/1/2018	Adopted Budget	$1,305,861
8/13/2018	Purchase of eight streetcar vehicles and spare parts	51,528
9/24/2018	Construction of the OC Streetcar Project	81,000
10/22/2018	Administration of the OC Taxi Administration Program	251
	Subtotal Amendments	*132,779*
	Total Working Budget	**$1,438,640**

*in thousands

Discussion

Staff monitors and analyzes revenues and expenditures versus the working budget. The Quarterly Budget Status Report (Attachment A) provides a summary level overview of staffing levels and explanations for material budget-to-actual variances within each pertinent OCTA program. The OCTA programs included in Attachment A are Bus, Commuter Rail, 91 Express Lanes, Motorist and Taxi Services, and Measure M2 (M2).

Total salaries and benefits underran the budget by $7.7 million. This is primarily due to vacancies OCTA-wide. As a result, an underrun is anticipated to remain through this FY.

Table 2 below provides a year-to-date snapshot of advances for both the Local Transportation Authority (LTA) M2 Program and Local Transportation Fund (LTF) Bus Program sales tax revenues against the budget through the third quarter. For both programs, March sales tax receipts were significantly lower than anticipated. Staff is working with the California Department of Tax and Fee Administration to determine the cause of the underrun in sales tax receipts for the month and will include the information in the following quarterly report.

Table 2 - Third Quarter Year-to-Date LTA and LTF Sales Tax Revenue

	Budget	Actual	$ Variance	% Variance
LTA	$ 246,416,753	$ 240,124,901	$ (6,291,853)	-2.55%
LTF	$ 126,505,532	$ 126,592,651	$ 87,119	0.07%

Based on advances posted to-date, growth in LTA M2 Program sales tax is flat in comparison to the budgeted growth rate of 3.7 percent. LTF Bus Program sales tax has grown by approximately 1 percent in comparison to the budgeted growth rate of 3.1 percent.

Bus Program operating revenue overran the budget by $6.1 million, primarily due to the receipt of state transit operating assistance funds which were received earlier in the FY than anticipated. Bus Program operating expenses underran the budget by $7.6 million, primarily due to staffing vacancies. Contributing to the underrun is the Enhanced Mobility for Seniors and Disabled Grant Program, transit system security services, and OC Flex service. These underruns are largely due to the timing of billing and are expected to diminish as the FY progresses.

Bus Program capital revenue overran the budget by $3.4 million primarily due to state grant revenue received for the purchase of six 40-foot buses for a new Bravo! Route 529 service along Beach Boulevard. State Low Carbon Transit Operations Program grant revenue associated with this project was budgeted in the prior FY but received in the current FY. Also contributing to the overrun were federal grant funds received associated with security system upgrades at the Santa Ana and Garden Grove bus bases. Capital expenses underran the budget by $0.5 million due to contract execution timing for a bus platform and canopy revitalization project at the Fullerton Transportation Center.

Rail Program operating revenue overran the budget by $1.3 million primarily due to higher than anticipated interest earnings. Operating expenses underran by $5.8 million, primarily due to the quarterly operating subsidy payment to Southern California Regional Rail Authority (SCRRA) for OCTA's annual portion of the Metrolink operations. This underrun is the result of a credit received in the current FY based on prior year expenses finishing lower than originally anticipated. Also contributing to the operating expense underrun is a $1 million variance associated with on-call design review services for the design phase of the Placentia Metrolink Station project. Security services for passenger rail and rail right-of-way also contributed to the underrun due to the timing of invoices. The remainder of the underrun is associated with as-needed services such as right-of-way maintenance, public outreach, and project management services for multiple projects within the Rail Program.

Rail Program capital revenue overran by $14 million due to receipt of grant funds which were budgeted in a prior FY for construction of the Orange Transportation Center parking structure project, Laguna Niguel-San Juan Capistrano passing siding project, and Anaheim Canyon Metrolink station project. Capital expenses overran the budget by $10.1 million. The overrun is associated with the Laguna Niguel-San Juan Capistrano passing siding project. A construction contract was not anticipated to be executed until the fourth quarter of the FY, however due to the timely completion of the design phase, the contract was awarded in the third quarter.

The 91 Express Lanes Program operating revenue underran by $0.1 million, primarily due to lower than projected toll revenue received through the third quarter. The underrun was offset by overruns in fees collected for toll violations and account minimums, and interest on investments in the 91 Express Lanes Fund. Operating expenses underran by $4.2 million, due to the timing of the 6C protocol tolling infrastructure project, timing of a contract task order for the back-office system project, and invoices in arrears for the back-office system project. Additionally, the toll road operating contract underran the budget by $0.6 million due to a lower operating rate than anticipated.

Capital revenue and expenses for the 91 Express Lanes Program each underran the budget by $0.7 million primarily associated with the customer service center improvement project. The project is led by Riverside County Transportation Commission, and they have chosen to invoice OCTA at the end of the project in the next FY. However, at the time of budget development, billing for OCTA's portion was anticipated at regular intervals. Due to the underrun in capital expenses, less capital revenue was utilized to cover the expenses. The variances will continue throughout the balance of the FY.

Motorist Services Program revenue was in line with the budget through the third quarter. Expenses for the program underran the budget by $0.5 million due to lower than anticipated invoices for contracted tow service for the Freeway Service Patrol Program. This variance is anticipated to continue for the remainder of the FY.

Expenses for the M2 Program underran the budget by $94.3 million, primarily due to lower than anticipated project payment requests from the cities and county for the Regional Capacity and Regional Traffic Signal Synchronization programs. Contributing to the underrun in M2 Program expenses is right-of-way acquisition and right-of-way support services for the Interstate 405 (I-405) Improvement Project. Also contributing to the underrun is debt service expense based on the timing of payments associated with new debt issuance. These expenses were less than anticipated through the third quarter.

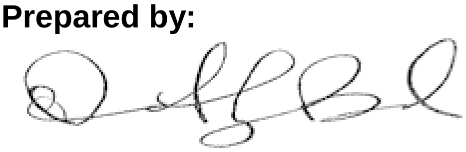
Summary

Overall, revenue overran the budget by $91 million, primarily due to prior FY grant revenues received in the current FY. LTA M2 Program sales tax is flat in comparison to the budgeted growth rate, while LTF Bus Program sales tax has grown by approximately one percent in comparison to the budgeted growth rate. Operating expenses underran the budget by $96 million, primarily due to an underrun in contributions to local agencies based on lower than anticipated project payment requests and lower than anticipated M2 debt service payments based on the timing of new debt issuance. Capital expenses underran the budget by $40 million, primarily due to right-of-way acquisition expenditures for the I-405 Improvement Project. Salaries and benefits underran by $8 million primarily due to vacancies OCTA-wide.

Attachment

A. Quarterly Budget Status Report Third Quarter of Fiscal Year 2018-19

Prepared by:



Anthony Baruch
Section Manager,
Financial Planning and Analysis
(714) 560-5332

Approved by:

Andrew Oftelie
Chief Financial Officer,
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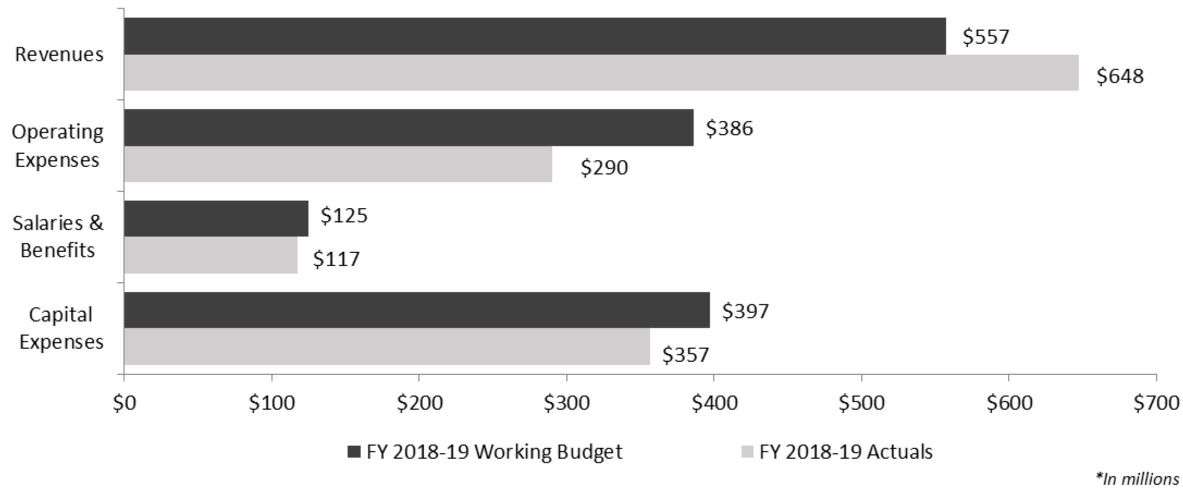
Quarterly Budget Status Report

Third Quarter of Fiscal Year 2018-19



STAFFING

A staffing plan of 1,353 full-time equivalent positions was approved by the Board of Directors (Board) for fiscal year (FY) 2018-19. At the end of the third quarter, 1,252.5 of these positions were filled, representing a vacancy rate of 7.4 percent.

Staffing Description	Budget	Filled	Vacant	% Vacancy
Coach Operators	639.0	592.0	47.0	7.4%
Maintenance	171.0	147.0	24.0	14.0%
TCU	37.0	36.0	1.0	2.7%
Union Subtotal	847.0	775.0	72.0	8.5%
Bus Operations Support	165.5	160.5	5.0	3.0%
Other Administrative	340.5	317.0	23.5	6.9%
Administrative Subtotal	506.0	477.5	28.5	5.6%
Total OCTA	1,353.0	1,252.5	100.5	7.4%

TOTAL SALARIES AND BENEFITS

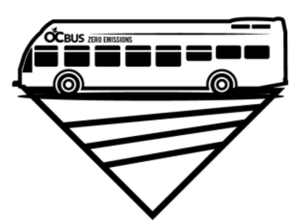
Total salaries and benefits of $117.4 million were $7.7 million lower than the budget of $125 million. This variance is comprised of a $4.8 million underrun in Bus Program salaries and benefits, as well as a $2.9 million underrun in General Fund salaries and benefits. In both groups, the underruns are the result of vacant positions.

	Budget	Actual	$ Variance	% Variance
Bus Program	$ 81,509	$ 76,742	$ 4,767	5.8%
General Fund	43,522	40,617	2,905	6.7%
Total	$125,031	$117,359	$ 7,673	6.1%

PROGRAM VARIANCES

Year-to-date material variances are listed below by program. All dollar amounts in tables are shown in thousands.

Bus Program



	Budget	Actual	$ Variance	% Variance
Operating				
Revenue	$ 198,889	$ 205,036	$ 6,146	3.1%
Expenses	182,842	175,261	7,581	4.1%
Net Operating	$ 16,048	$ 29,775		
Capital				
Revenue	5,703	9,121	3,418	59.9%
Expenses	5,703	5,216	487	8.5%
Net Capital	$ -	$ 3,905		

Operating Revenue: Operating revenue for the Bus Program overran the budget by $6.1 million primarily due to the receipt of state transit operating assistance funds which occurred earlier than anticipated in the FY. At the time of budget development, staff was unable to determine when the funds would be received, and so they were budgeted later in the FY. This variance is anticipated to be resolved in the fourth quarter when actuals align with the budget.

Operating Expenses: The $7.6 million underrun in Bus Program operating expenses can be primarily attributed to salaries and benefits ($4.8 million), Enhanced Mobility for Seniors and Disabled (EMSD) Grant Program ($1.1 million), transit system security services ($0.9 million), and OC Flex special service ($0.8 million).

Salaries and benefits underran the budget by $4.8 million. This is primarily due to vacant positions. The vacancy rate at the end of the third quarter was 8.5 percent for union employees and 3 percent for Bus Program administrative employees.

The EMSD Grant Program is contributing $1.1 million to the underrun due to contract execution timing. Contract negotiations and revisions between OCTA and some of the agencies participating in the new grant program have led to less than anticipated executed contracts through the third quarter. This variance is anticipated to diminish as more contracts are executed in the fourth quarter.

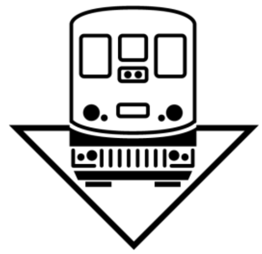
Security services underran by $0.9 million due to the timing of invoices. The police services, provided by the Orange County Sheriff's Department, monitor Orange County's bus system. The invoices from the vendor are not always received on a monthly basis, and can be received up to two months in arrears. Two monthly invoices for third quarter work were received and paid in the fourth quarter. This variance will be resolved by the end of the FY when all invoices for the FY have been received.

OC Flex service underran by $0.8 million due to additional review of vendor invoices. OCTA staff has been working with the service vendor to ensure proper data is received along with the invoice for payment. However, actuals are anticipated to align with the budget as the FY progresses.

Capital Revenue: Capital revenue overran the budget by $3.4 million. This is primarily due to $3 million in state grant funds associated with the purchase of six buses for a new Bravo! Route 529 service along Beach Boulevard. State Low Carbon Transit Operations Program grant revenue associated with this project was budgeted in the prior FY but received in the current FY. This variance is expected to remain throughout the FY. The remainder of the underrun is due to the timing of federal capital assistance grant funds received. The funds, associated with a project to upgrade security systems at the Santa Ana and Garden Grove bus bases, were budgeted in a prior FY and received in the current FY.

Capital Expenses: Capital expenses underran the budget by $0.5 million, primarily associated with contract execution timing for a bus platform and canopy revitalization project at the Fullerton Transportation Center. A request for bids to revitalize bus platforms and canopies was conducted in the first half of the FY but was postponed due to non-responsive bidders. A rebidding of the contract will take place in the fourth quarter of the FY, with an encumbered contract anticipated to be executed before the end of the FY.

Rail Program



		Budget		Actual		$ Variance	% Variance
Operating							
Revenue	$	29,630	$	30,929	$	1,299	4.4%
Expenses		29,630		23,840		5,790	19.5%
Net Operating	$	-	$	7,088			
Capital							
Revenue		8,720		22,733		14,013	160.7%
Expenses		8,720		18,781		(10,061)	-115.4%
Net Capital	$	-	$	3,952			

Operating Revenue: Rail Program operating revenue overran the budget by $1.3 million, primarily due to higher than anticipated interest earnings. This is due to both a larger average cash balance than originally anticipated during the budget development and a more favorable interest rate than anticipated.

Operating Expenses: Rail Program operating expenses underran the budget by $5.8 million.

The underrun is primarily associated with a $3.4 million underrun in OCTA's member contribution to Southern California Regional Rail Authority (SCRRA) for its share of the annual Metrolink operating subsidy. The underrun is due to a credit received in the current FY. Each FY, the Metrolink operating subsidy is adjusted based on operating subsidy deficits or surplus from previous FYs. Due to prior FY expenses finishing lower than originally anticipated, actual contributions from OCTA are less than what was anticipated during current FY budget development. As a result, the variance will continue throughout the FY.

Also contributing to the variance is a $1 million underrun associated with on-call design review services for the design phase of the Placentia Metrolink station project. The underrun is due to the timing of a shared-use agreement between SCRRA and Burlington Northern Santa Fe Railway (BNSF), which has not been finalized. The design review by BNSF will begin when the agreement is reached. This item has been rebudgeted next FY.

Rail Program security services underran by $0.4 million due to invoice timing. The police services, provided by the Orange County Sheriff's Department, monitor Orange County's passenger rail and rail right-of-way. The invoices from the vendor are not always received on a monthly basis and can be received up to two months in arrears. Two monthly invoices for third quarter work were received and paid in the fourth quarter. This variance should be resolved by the end of the FY when all invoices for the FY have been received.

Right-of-way maintenance and review services ($0.4 million), as well as public outreach and project management services ($0.3 million), for multiple rail projects contributed to the underrun in Rail Program operating expenses. These services are utilized on an as-needed basis. Because the services are used as-needed, the frequency and magnitude of the services can be difficult to forecast.

Capital Revenue: The $14 million overrun in Rail Program capital revenue can be attributed to reimbursements associated with the Orange Transportation Center parking structure project, Laguna Niguel-San Juan Capistrano passing siding project, and Anaheim Canyon Metrolink station project. State and federal capital grant funds for the right-of-way and construction phases of these projects were budgeted in a prior FY and received in the current FY.

Capital Expenses: Rail Program capital expenses overran the budget by $10.1 million. This is due to the timing of a construction contract for the Laguna Niguel-San Juan Capistrano passing siding project. The contract was budgeted in the fourth quarter, but due to the timely completion of the design phase, the project was able to be bid for construction and a contract was awarded earlier than anticipated. This variance will be resolved in the fourth quarter.

91 Express Lanes Program

	Budget	Actual	$ Variance	% Variance
Operating				
Revenue	$ 43,580	$ 43,507	$ (73)	-0.2%
Expenses	16,710	12,485	4,225	25.3%
Net Operating	$ 26,870	$ 31,022		
Capital				
Revenue	1,023	303	(719)	-70.4%
Expenses	1,023	303	719	70.4%
Net Capital	$ -	$ -		

Operating Revenue: The 91 Express Lanes operating revenue underran the budget by $0.1 million due to offsetting factors.

Revenue from tolls underran the budget by $2.6 million through the third quarter due to lower actual toll revenue than forecasted projections from the 91 Express Lanes consultant. OCTA contracts with a consulting firm to project monthly traffic patterns and toll revenue for the express lanes. To be conservative, OCTA uses 95 percent of the monthly revenue projections for budgeting purposes. However, through the third quarter, toll revenue was below the forecasted budget.

The underrun in toll revenue was primarily offset by overruns in revenue from fees ($1.5 million) and interest on investments ($0.8 million). Fees such as toll violations and account minimum fees collected overran by $1.5 million due to the variable nature of this revenue source which can be difficult to forecast. The overrun of $0.8 million associated with interest earnings is due to both a higher cash balance than budgeted in the 91 Express Lanes Fund, and a more favorable interest rate environment.

Operating Expenses: The 91 Express Lanes operating expenses underran the budget by $4.2 million. The underrun is primarily due to the timing of the 6C protocol tolling infrastructure project ($1.4 million), services associated with the new back-office system project ($1 million), a lower than anticipated rate through the third quarter for the toll road operator contract ($0.6 million), and lower than anticipated utilization for account collection services ($0.5 million).

The 6C protocol tolling infrastructure project underran the budget by $1.4 million. The project, led by Riverside County Transportation Comission (RCTC), commenced later than anticipated in the FY. As a result, invoicing to OCTA for its portion of the project is underrunning the budget. Also, sales of new 6C protocol transponders and marketing for the transponders underran the budget. As a result, expenses for the project have been rebudgeted next FY.

An underrun of $1 million associated with the new back-office system project is due to contract execution timing for a contract task order, and invoice timing for the project management consultant contract.

An underrun of $0.6 million in the toll road operating contract is due to a lower than anticipated expense rate through the third quarter. This FY, a higher contracted expense rate with the toll road operator was expected to be negotiated and staff budgeted accordingly. However, based on ongoing negotiations through the third quarter, this has not occurred resulting in an underrun. A renegotiated contract is expected to occur in the fourth quarter, but a variance is likely to continue through the end of the FY.

An underrun of $0.5 million associated with account collection services is due to lower utilization than anticipated. This service is used on an as-needed basis and is difficult to forecast based on its variable nature.

Capital Revenue: Capital revenue for the 91 Express Lanes Program underran the budget by $0.7 million and is directly tied to capital expenses.

Capital Expenses: Capital expenses for the 91 Express Lanes Program underran the budget by $0.7 million primarily due to invoicing for customer service center improvements ($0.5 million), and computer equipment ($0.2 million).

The underrun of $0.5 million associated with customer service center improvements is due to invoices not being received in the current FY as expected. RCTC is the lead on this project, and at the time of budget development it was anticipated that OCTA would receive regular invoicing from RCTC. However, RCTC plans to invoice OCTA after the improvements are complete, which is anticipated to occur next FY. Accordingly, this item has been rebudgeted.

The underrun of $0.2 million for computer equipment is associated with the 6C transponder project led by RCTC. Billing is anticipated to be received later in the FY.

Motorist Services Program

	Budget	Actual	$ Variance	% Variance
Operating				
Revenue	$ 4,756	$ 4,750	$ (6)	-0.1%
Expenses	4,756	4,228	528	11.1%
Net Operating	$ -	$ 522		

Operating Revenue: Operating revenue for the Motorist Services Program was aligned with the budget through the third quarter.

Operating Expenses: Operating expenses for the Motorist Services Program underran the budget by $0.5 million. The underrun is associated with Freeway Service Patrol tow services under the Service Authority for Freeway Emergencies Program. For contracted tow services, invoices received were lower than anticipated. This variance is likely to continue for the remainder of the FY.

M2 Program

Revenue: M2 Program sales tax revenue underran the budget by $6.3 million through the third quarter. Based on advances posted to-date, growth in LTA M2 Program sales tax is flat in comparison to the budgeted growth rate of 3.7 percent.

Mode	Budget	Actual	$ Variance	% Variance
Streets & Roads	111,206	73,498	37,708	33.9%
Freeways	83,424	47,084	36,340	43.6%
Debt Service	44,365	28,795	15,570	35.1%
Administration	8,818	5,862	2,956	33.5%
Transit	8,274	6,581	1,693	20.5%
Total	$ 256,086	$ 161,820	$ 94,267	36.8%

Expenses: M2 Program expenditures underran the budget by $94.3 million. Streets and Roads contributed $37.7 million to the underrun due to lower than anticipated project payment requests from cities and the county for the Regional Capacity and Regional Traffic Signal Synchronization programs. Freeways contributed $36.3 million to the underrun, primarily due to right-of-way acquisition and support services for the I-405 Improvement Project. Debt Service underran $15.6 million due to the timing of debt service payments and the refinancing of existing debt. M2 Program administration expenses underran $3 million due to lower debt issuance services, advisor fees, federal compliance advisory services, and M2 technical support staff services through the third quarter than anticipated during the budget development. Transit contributed $1.7 million to the underrun, primarily due to actual as-needed rail program support services which were lower than anticipated. Typically, as-needed expenses can be difficult to project.

June 12, 2019

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Subject: Annual Update to Investment Policy

Overview

The Treasurer is presenting the Orange County Transportation Authority's Investment Policy for 2019. The Investment Policy sets forth the investment guidelines for all funds invested on and after June 10, 2019. As recommended under California Government Code Section 53646(a)(2), the Orange County Transportation Authority is submitting its Investment Policy to be reviewed at a public meeting. Further, the governing body of a local agency has the authorization to appoint, for a period of one year, a Treasurer to invest, reinvest, purchase, exchange, sell, or manage public funds.

Recommendations

A. Adopt the 2019 Investment Policy dated June 10, 2019.

B. Authorize the Treasurer to invest, reinvest, purchase, exchange, sell, and manage Orange County Transportation Authority funds during fiscal year 2019-20.

Background

The Investment Policy (Policy) sets forth the guidelines for all Orange County Transportation Authority (OCTA) investments that must conform to the California Government Code (Code). The main objectives of the Policy continue to be the preservation of capital, liquidity, diversification, and a market average rate of return through economic cycles.

The Policy is reviewed and approved by the Board of Directors (Board) at least annually. However, relevant changes to the Code may warrant amendments to the Policy throughout the year. In February, the Board approved the 2019 Investment Policy, which included one amendment to facilitate the investment of bond proceeds from the recent Measure M2 bond issuance. At that time, staff indicated that a more comprehensive review of the investment policy was being conducted and that amendments to the policy based on recommendations from OCTA's investment managers and Bond Counsel would be forthcoming.

Discussion

OCTA procured investment management services in January 2018. As a result of the procurement, three out of four incumbent investment management firms that manage OCTA's short-term portfolio were replaced by new firms. Given the new firms have had approximately one year of experience investing per OCTA's Investment Policy, OCTA contacted each investment management firm to seek their objective evaluation of the policy as it relates to effectiveness and risk. Based on their feedback and recommendations from Bond Counsel, staff is recommending changes be made to the policy.

Historically, OCTA's Policy has been more conservative than the Code and, despite the recommended changes, will remain more conservative than the Code in most areas. Recommended changes to the investment policy can be categorized primarily into three groups which are: changes that impact investment guidelines, language changes to improve clarity of the policy and to align definitions of investments to the Code, and organizational changes within the document to improve readability.

The most important changes to the policy are those that impact the investment guidelines, such as authorized investments, issuer concentrations, and maturity limitations. The primary changes to the policy that impact these areas can be found in Attachment A. The attachment describes the type of investment, current policy, recommended change, rationale for the recommended change, and the source of the recommended change. In addition, Attachment B provides detailed information comparing OCTA's Proposed Investment Policy to the Code. A high-level summary of the recommended changes and the source of the recommendation can be found as follows:

- Eliminate the language referring to the investment of bond proceeds and debt service reserve funds from the policy since those funds are governed by their respective bond indentures (Bond Counsel)
- Allow investment in Federal Agencies and Government Sponsored Entities consistent with the Code given the high credit quality of the investments (investment managers)
- Allow investment in non-California municipal debt, but require strong credit ratings and issuer limitations which are more restrictive than the Code (investment managers)

- Increase maturities on commercial paper and negotiable certificates of deposit to match the Code (investment managers)
- Require only one credit rating for investments in Medium-Term Notes and State of California and California Local Agency obligations, but maintain issuer limitation, which is more conservative than the Code (investment managers)
- Change requirements for mortgage-backed and asset-backed securities to match the Code by reducing credit rating requirements from AAA to AA and removing ten percent limitation on asset-backed securities (investment managers)
- Allow investments in Supranationals, consistent with the Code, based on the high credit quality of the issuers (investment managers)
- Allow investments in Joint Powers Authority Investment Pools, but maintain limitations on pooled investments as a percentage of the portfolio to ten percent, which is more conservative than the Code (100 percent).

Changes to the Policy to improve clarity and to align definitions of investments to the Code can be found in Attachment C, which is the black-lined version of the proposed Policy. The black-lined version of the proposed Policy also contains all the changes to the Policy since the Board approved the Policy on February 25, 2019.

Next Steps

If the Board approves the 2019 Policy, a copy of the final Policy will be provided to each portfolio manager. Each portfolio manager will be required to sign an acknowledgement letter confirming their receipt and understanding of the Policy.

Summary

California Government Code Section 53646(a)(2) recommends that local agencies annually review their Investment Policy at a public meeting. The Treasurer is submitting the Orange County Transportation Authority's 2019 Investment Policy for approval by the Board of Directors. Further, the Orange County Transportation Authority requests approval by the Board of Directors, authorizing the Treasurer, for a period of one year, to invest, reinvest, purchase, exchange, sell, and manage Orange County Transportation Authority funds during fiscal year 2019-20.

Attachments

A. Proposed Changes to Authorized Investments, Issuer Concentrations and Maturity Restrictions
B. Proposed Authorized Investments, Issuer Concentration and Maturity Restrictions
C. Orange County Transportation Authority 2019 Investment Policy June 10, 2019
D. Black-line Copy of Orange County Transportation Authority 2019 Investment Policy June 10, 2019

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Type of Investment	Page	Current Policy	Recommendation	Rationale	Recommended By
Bond Proceeds Investments	4	States investment of bond proceeds and debt service reserve funds are subject to their indentures and investment policy.	Eliminate section	Investment of bond proceeds and debt service reserve funds are governed by their respective bond indenture thus this section is not necessary.	Bond Counsel
Investment Agreements – Bond Proceeds	4	Defines eligible investments for bond proceeds.	Eliminate section	Investment of bond proceeds and debt service reserve funds are governed by their respective bond indenture thus this section is not necessary.	Bond Counsel
Federal Agencies and Government Sponsored Entities (GSE)	6	Limits to specific Federal Agencies and Government Sponsored Entities with diversification limitations.	Match requirements to California Government Code (CGC)	Allows maximum flexibility to invest in Federal instruments and agencies.	Investment Manager
State of California and California Local Agency Obligations	7	Requires a rating in a category of A or A1 or equivalent by two Nationally Recognized Statistical Rating Organizations (NRSRO).	Reduce number of ratings required from two to one, which is consistent with CGC. Recommendation is still more restrictive than CGC and maintains a rating requirement of rating category of A or A1 or its equivalent or higher, and no more than 5% can be invested in any single issuer.	Allows flexibility since it is common for municipal bond deals to only come with one rating, particularly a small issuance.	Investment Manager
Non-California Municipal Obligations	7	Not allowed under current policy.	Allow investments but language is more restrictive than CGC. Limits investments to municipal obligations with a rating in a rating category of A, or its equivalent or higher, and no more than 5% can be invested in any single issuer.	Allows additional investment flexibility.	Investment Manager

Proposed Changes to Authorized Investments, Issuer Concentrations and Maturity Restrictions

Commercial Paper	9	Maximum term is 180 days.	Increase to 270 days.	Allows maximum flexibility and is consistent with CGC.	Investment Manager
Negotiable Certificates of Deposit	9	Maximum term is 180 days.	Increase to 5 years.	Allows maximum flexibility and is consistent with CGC.	Investment Manager
Medium Term Notes	10	Requires a rating in a category of A or equivalent by two NRSROs.	Reduce number of ratings required from two to one, which is consistent with CGC. Recommendation is still more restrictive than CGC by limiting investments to no more than 5% in any single issuer.	Allows additional flexibility by allowing investments in issuers that only receive a rating by one NRSRO.	Investment Manager
Mortgage or Asset-backed Securities	12	Policy limits investments in asset-backed securities to 10% and requires AAA or equivalent rating.	Match requirements to CGC which eliminates 10% limitation on asset-backed securities and lowers rating requirement to a rating category of AA or its equivalent or higher. Recommendation is still more restrictive than CGC by limiting investments to no more than 5% in any single issuer.	Allows additional flexibility by allowing investments in a rating category of AA, or its equivalent or higher, which is still considered high-grade credit. Provides the opportunity to invest in asset-backed securities up to 20%, which is consistent with CGC.	Investment Manager
Supranationals	12	Not allowed under current policy.	Allow investments in bonds issued by Supranationals. CGC requires rating in a rating category of AA or its equivalent or higher.	Allows additional investment flexibility. Issuers are highly rated credits, currently AAA rated, which is considered a prime credit.	Investment Manager
Joint Powers Authority (JPA) Investment Pools	13	Current policy limits investments to one pool with a maximum of 10%. Current pool is California Asset Management Pool (CAMP).	Allow investments in eligible investment pools per CGC. Maintains existing maximum investment of 10% of the portfolio.	CAMP was originally formed for the investment of bond proceeds but has changed to provide investment of operating funds and capital reserves. Recommendation allows investment flexibility into more investment pools than just CAMP that meet the CGC.	OCTA

Proposed Authorized Investments, Issuer Concentration and Maturity Restrictions

Type of Investment	CA Code Maximum Maturity	CA Code Maximum % of Portfolio	CA Code Minimum Quality Requirements	OCTA Maximum % of Portfolio*	OCTA Code Minimum Quality Requirements
OCTA Notes and Bonds	5 Years	100%	None	25%	Same as CA Code
U.S., Federal Agencies & U.S. Government Sponsored Enterprises	5 Years	100%	None	Same as CA Code	Same as CA Code
Municipal Debt	5 Years	100%	None	30% total, no more than 5% by any one issuer	"A" or "A-1" rating category, or its equivalent or higher, by an NRSRO
Bankers Acceptances	180 Days	40%, 30% of a single issuer	None	30%, no more than 5% any single issuer	"A-1" rating category, or its equivalent or higher, by 2 NRSROs
Commercial Paper	270 Days	25%, 10% of a single issuer	"A-1" rating category , or its equivalent or higher by an NRSRO	Same as CA Code	"A-1" rating category, or its equivalent or higher, by 2 NRSROs
Negotiable Certificates of Deposit	5 Years	30%	None	30%, no more than 5% in any single issuer	"A" or "A-1"rating category, or its equivalent or higher, by 2 NRSROs
Repurchase Agreements	1 Year	100%	None	75%	"A" or "A-1"rating category, or its equivalent or higher, by 2 NRSROs
Reverse Repurchase Agreements	92 days	20% of the base value of the portfolio	None	Only permitted as a permitted investment within a JPA investment pool	Only permitted as a permitted investment within a JPA investment pool
Medium Term Maturity Notes	5 Years	30%	"A" rating category, or its equivalent or higher, by an NRSRO	30% total, no more than 5% in any one issuer	Same as CA Code
Money Market/Mutual Funds	N/A	20%, 10% of any one mutual fund	"AAA" rated, or its equivalent, by 2 NRSROs	20%, 10% of fund's assets, 10% of any one mutual fund	Same as CA Code
Mortgage Pass-Through and Asset-backed Securities	5 Years	20%	"AA" rating category, or its equivalent or higher, by an NRSRO	20%, no more than 5% in any single issuer	"AA" rating category, or its equivalent or higher, by 2 NRSROs
Supranationals	5 Years	30%	"AA" rating category, or its equivalent or higher, by an NRSRO	30%, no more than 10% in any single issuer	Same as CA Code
Local Agency Investment Fund (LAIF)	N/A	$65 million per account	None	$65 million per account	Same as CA Code
Orange County Investment Pool (OCIP)	N/A	100%	None	10%	Same as CA Code
Joint Powers Authority (JPA) Investment Pools	N/A	100%	None	10%	Same as CA Code

* Additional portfolio restrictions include bank deposits (5%) and variable and floating rate securities (30%)

Orange County Transportation Authority
2019 Investment Policy
June 10, 2019

1. PURPOSE

This Investment Policy sets forth the investment guidelines for all funds of the Orange County Transportation Authority (OCTA) invested on and after June 10, 2019. The objective of this Investment Policy is to ensure OCTA's funds are prudently invested to preserve capital, provide necessary liquidity and to achieve a market-average rate of return through economic cycles.

Investments may only be made as authorized by this Investment Policy. The OCTA Investment Policy conforms to the California Government Code (the Code) as well as customary standards of prudent investment management. Irrespective of these policy provisions, should the provisions of the Code be or become more restrictive than those contained herein, such provisions will be considered immediately incorporated into the Investment Policy and adhered to.

2. SCOPE

The policy applies to the investment of all funds, excluding the investment of employees' retirement funds and separate trusts. Bond proceeds shall be invested in the securities permitted by the applicable bond documents. If the bond documents are silent as to the permitted investments, the bond proceeds will be invested in the securities permitted by this Policy. Notwithstanding the other provisions of this Policy, the percentage limitations listed in elsewhere in this Policy do not apply to bond proceeds.

3. INVESTMENT OBJECTIVES

The primary objectives, in priority order, of investment activities shall be:

a. **Safety of Principal --** Safety of principal is the foremost objective of the OCTA. Each investment transaction shall seek to ensure that capital losses are avoided, whether from institutional default, broker-dealer default, or erosion of market value of the securities.

b. **Liquidity --** It is important that the portfolio contain investments for which there is an active secondary market, and which offer the flexibility to be easily sold at any time with minimal risk of loss of either the principal or interest based upon then prevailing rates.

c. **Total Return --** The OCTA's portfolio shall be designed to attain a market-average rate of return through economic cycles.

d. **Diversification –** Finally, the OCTA shall diversify its portfolio(s) to avoid incurring unreasonable market risks.

4. PRUDENCE

OCTA’s Board of Directors or persons authorized to make investment decisions on behalf of OCTA are trustees and fiduciaries subject to the prudent investor standard.

The standard of prudence to be used by investment officials shall be the "prudent investor" standard as defined in the Code below and shall be applied in the context of managing an overall portfolio. OCTA’s investment professionals acting in accordance with written procedures and the 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 developments.

<u>The Prudent Investor Standard:</u> When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee 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 OCTA, 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.

5. ETHICS AND CONFLICTS OF INTEREST

OCTA's officers and employees involved in the investment process shall not participate in personal business activity that conflicts with the proper execution of OCTA’s investment program, or which impairs their ability to make impartial investment decisions. OCTA's investment professionals and Treasury/Public Finance Department employees are not permitted to have any material financial interests in financial institutions that conduct business with OCTA, and they are not permitted to have any personal financial/investment holdings that have a material effect on the performance of OCTA's investments.

6. DELEGATION OF AUTHORITY

Authority to manage OCTA's investment program is derived from an order of the Board of Directors. Management responsibility for the investment program is hereby delegated to OCTA's Treasurer pursuant to Section 53607 of the Code. On an annual basis, the Board of Directors is required to renew the authority of OCTA’s Treasurer to invest or reinvest OCTA funds. The Treasurer is hereby authorized to delegate his authority as he determines to be appropriate. No person may engage in an investment transaction except as provided under the terms of this Investment Policy and the procedures established by the Treasurer. The Treasurer shall be responsible for all actions undertaken and shall establish a system of controls to regulate the activities of subordinate professionals.

The Treasurer shall develop administrative procedures and internal control, consistent with this Investment Policy, for the operation of OCTA’s investment program. Such procedures shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, or imprudent actions by employees of OCTA.

7. RESPONSIBILITIES

The Finance and Administration Committee of the OCTA Board of Directors, subject to the approval of the OCTA Board of Directors, is responsible for establishing the Investment Policy and ensuring investments are made in compliance with this Investment Policy. This Investment Policy shall be reviewed annually by the Board of Directors at a public meeting.

The Treasurer is responsible for making investments and for compliance with this policy pursuant to the delegation of authority to invest funds or to sell or exchange securities and shall make a quarterly report to the Board of Directors in accordance with Section 53646 (b) of the Code. Under Section 53646 (b) the Code states that the Treasurer may make a quarterly report to the Board of Directors. OCTA also provides a monthly report to the Finance and Administration Committee and provides copies to the Board of Directors per section 53607 of the Code.

The Treasurer is responsible for establishing a procedural manual for OCTA's investment program and for having an annual independent audit performed on OCTA's investments.

8. COMPLIANCE

The OCTA has provided each of its portfolio managers with a copy of this Investment Policy as a part of their contract and expects its portfolio managers to invest each portfolio they manage for OCTA in accordance with the provisions of the Investment Policy. However, bond proceeds may be invested in approved short-term investments without regard to diversification limits. This may occur during the initial deposit of the bond proceeds portfolio, the final drawdown of the portfolio, or other times in between when appropriate due to drawdown requirements as requested by OCTA's Treasurer. When diversification limits are exceeded by a portfolio manager, the Treasurer will document the situation and report the circumstances to the Finance and Administration Committee monthly and include a write-up in the quarterly Debt and Investment report to the Board of Directors.

The OCTA Treasurer is responsible for verifying each portfolio manager's compliance as well as OCTA's entire portfolio's compliance with the provisions of the Investment Policy.

If OCTA's Treasurer, in his sole discretion, finds that a portfolio manager has made an investment that does not comply with the provisions of the Investment Policy, the Treasurer shall immediately notify the portfolio manager of the compliance violation. At that point, the portfolio manager is on probation for a period of one year. The second time a violation occurs while the portfolio manager is on probation, the Finance and Administration Committee shall review the error and may request that the portfolio manager responsible for the compliance violation meet with the Chair of the Finance and Administration Committee and the Treasurer as soon as practical at which time it will be decided whether the Board of Directors will be notified of the violation.

If OCTA's Treasurer finds that the portfolio manager has made a third investment while on probation that does not comply with the provisions of the Investment Policy, the Treasurer shall notify the Board of Directors of the compliance violations. OCTA may terminate services for its convenience any time by providing at least 30 days written notice.

9. FINANCIAL BENCHMARKS

In order to establish a basis for evaluating investment results, the Authority uses four nationally recognized fixed income security performance benchmarks to evaluate return on investments. The ICE/BAML 1-3-year Treasury Index and the ICE/BAML 1-3 year AAA-A U.S. Corporate and Government Index benchmarks are used for OCTA's short-term portfolios, the ICE/BAML 1-5 year Treasury Index and the ICE/BAML 1-5 year AAA-A U.S. Corporate and Government Index benchmarks are used for the extended fund, while a customized performance benchmark may be used for the bond proceeds portfolios.

10. PERMITTED INVESTMENTS

Maturity and Term

All investments, unless otherwise specified, are subject to a maximum stated term of five years. Maturity shall mean the stated final maturity or the mandatory redemption date of the security, or the unconditional put option date if the security contains such a provision. Term or tenure shall mean the remaining time to maturity from the settlement date.

The Board of Directors must grant express written authority to make an investment or to establish an investment program of a longer term no less than three months prior to the investment

Eligible Instruments and Quality

OCTA policy is to invest only in high quality instruments as permitted by the Code, subject to the limitations of this Investment Policy. If an eligible security already contained in the Authority's portfolio is subsequently placed on "Negative Credit Watch" by any of the three Nationally Recognized Statistical Rating Organizations (NRSROs), then the security will be handled under the provisions of Rating Downgrades. Percentage holding limits and credit quality minimums in this section are applicable at the time of purchase.

1. OCTA NOTES AND BONDS

Notes and bonds issued by OCTA, including notes and bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by OCTA or by a department, board, agency or authority of OCTA which may bear interest at a fixed or floating rate.

2. U.S., FEDERAL AGENCIES AND U.S GOVERNMENT-SPONSORED ENTERPRISES

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.

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 the U.S. government sponsored enterprises.

3. MUNICIPAL DEBT

Such instruments defined as being issued by a local or state agency, including:

A. Registered state warrants or treasury notes or bonds of this state, including bonds payable solely out of revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of the state.

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

C. Registered treasury notes or bonds of any of the other 49 states in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 states, in addition to California.

4. BANKERS ACCEPTANCES

Bankers' acceptances otherwise known as bills of exchange or time drafts that are drawn on and accepted by a commercial bank.

5. COMMERCIAL PAPER

The entity that issues commercial paper shall meet the following conditions:

B. be issued by corporations that have debt other than commercial paper, if any, that is rated in a rating category of A or its equivalent or higher by a NRSRO

C. be issued by corporations organized and operating within the United States and having total assets in excess of five hundred million dollars ($500,000,000), and

D. may not purchase more than 10 percent of the outstanding paper of the issuing corporation.

6. NEGOTIABLE CERTIFICATES OF DEPOSIT

Negotiable Certificates of Deposit issued by a nationally or state-chartered bank or state, a savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federally licensed or state licensed branch of a foreign bank.

7. REPURCHASE AGREEMENTS

Repurchase agreements collateralized by U.S. Treasuries or Agency securities as defined in the Investment Policy with any registered broker-dealer subject to the Securities Investors Protection Act or any commercial banks insured by the FDIC so long as at the time of the investment such dealer (or its parent) has an uninsured, unsecured and unguaranteed obligation rated in a rating category of A, or its equivalent or higher, by two NRSROs or a short-term rating of A-1, or its equivalent or higher, by two NRSRO's provided:

A. a Securities Industry and Financial Markets Association (SIFMA) master repurchase agreement and a tri-party agreement, if applicable, representing a custodial undertaking in connection with a master repurchase agreement, which governs the transaction and has been signed by OCTA; and

B. the securities are held free and clear of any lien by OCTA's custodian or trustee or an independent third party acting as agent "Agent" for the custodian or trustee, and such third party is (i) a Federal Reserve Bank, or (ii) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than $50 million and the custodian or trustee shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for OCTA's custodian or trustee; and

C. a perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. in such securities is created for the benefit of OCTA's custodian or trustee and OCTA; and

D. the Agent provides OCTA's custodian or trustee and OCTA with valuation of the collateral securities no less frequently than weekly and will liquidate the collateral securities if any deficiency in the required 102 percent collateral percentage is not restored within two business days of such valuation.

8. MEDIUM TERM NOTES

Medium term notes are defined as all corporate and depository institution debt securities, issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States, and

9. MONEY MARKET AND MUTUAL FUNDS

Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940. Shares may not represent more than 10 percent of the money market fund's assets.

Shares of beneficial interest issued by diversified management companies, commonly called mutual funds. Shares may not represent more than 10 percent of the fund’s or pool’s asset and no more than 10% of the total portfolio may be invested in shares of any one mutual fund.

10. MORTGAGE OR ASSET-BACKED SECURITIES

Any mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate, or consumer receivable-backed bond.

11. SUPRANATIONALS

US Dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank. No more than 10% of the portfolio may be invested in any single issuer.

12. STATE OF CALIFORNIA LOCAL AGENCY INVESTMENT FUND (LAIF)

LAIF is a pooled fund managed by the State Treasurer referred to in Section 16429.1 of the Code. All securities are purchased under the authority of the Code Section 16430 and 16480.4.

13. ORANGE COUNTY TREASURY INVESTMENT POOL (OCIP)

The OCIP is a pooled fund managed by the Orange County Treasurer and is comprised of two funds, the Money Market Fund and Extended Fund. The Money Market Fund is invested in cash equivalent securities. The Extended Fund is for cash requirements past one year and is based on the Code Sections 53601 and 53635. These pools are based on the investment requirements detailed in Government Code Sections 53600 et seq. and 53630 et seq.

14. INVESTMENT POOLS

Shares of beneficial interest issued by a joint powers authority organized pursuant to Government Code Section 6509.7 that invests in the securities and obligations as authorized under this investment policy and that comply with the investment restrictions of Government Code Sections 53600 through 53610 and Section 53630.

15. VARIABLE AND FLOATING RATE SECURITIES

Variable and floating rate securities are restricted to investments in securities with a final maturity of not to exceed five years as described above, must utilize traditional money market reset indices such as U. S. Treasury bills, Federal Funds, commercial paper or LIBOR (London Interbank Offered Rate) or SOFR (Secured Overnight Financing Rate), and must meet all minimum credit requirements previously detailed in the Investment Policy. Investments in floating rate securities whose reset is calculated using more than one of the above indices are not permitted, i.e. dual index notes.

16. BANK DEPOSITS

Bank deposits in California banks which have a minimum short-term rating of A-1, or its equivalent or higher, by a NRSRO. The Treasurer shall draft and execute a contract describing provisions for bank deposits.

17. DERIVATIVES

Derivatives are to be used as a tool for bonafide hedging investments only where deemed appropriate. Derivatives shall not be used for the purpose of interest rate speculation.

Derivative products in any of the eligible investment categories listed above may be permitted. The Treasurer has the sole responsibility for determining which prospective investments are derivatives. Each prospective investment in a derivative product must be documented by the Treasurer as to the purpose and specific financial risk being hedged. Each such investment must be approved by the Finance and Administration Committee prior to entering into such investment.

No investments shall be permitted that have the possibility of returning a zero or negative yield if held to maturity. In addition, the investment in inverse floaters, range notes, strips derived from mortgage obligations, step-up notes and dual index notes are not permitted investments.

Rating Downgrades

OCTA may from time to time invest in a security whose credit rating is down-graded below the minimum credit quality criteria permitted by this Investment Policy.

Any security held as an investment whose credit rating falls below the minimum requirements of this Investment Policy guidelines or whose rating is put on notice for possible downgrade shall be immediately reviewed by the Treasurer for action, and notification shall be made to the Board of Directors in writing as soon as practical and/or included in the monthly Orange County Transportation Authority Investment and Debt Programs report. The decision to retain the security until maturity, sell (or put) the security, or other action shall be approved by the Treasurer.

Diversification and Maturity Restrictions

Diversification and maturity restrictions ensure the portfolio is not unduly concentrated in the securities of one type, industry, entity, or specific maturity thereby assuring adequate portfolio liquidity should one sector or company experience difficulties.

Outside portfolio managers must review the portfolios they manage to ensure compliance with OCTA's diversification guidelines on an ongoing basis.

AUTHORIZED INVESTMENTS, ISSUER CONCENTRATION & MATURITY RESTRICTIONS

Type of Investment	CA Code Maximum Maturity	CA Code Maximum % of Portfolio	CA Code Minimum Quality Requirements	OCTA Maximum % of Portfolio*	OCTA Code Minimum Quality Requirements
OCTA Notes and Bonds	5 Years	100%	None	25%	Same as CA Code
U.S., Federal Agencies & U.S. Government Sponsored Enterprises	5 Years	100%	None	Same as CA Code	Same as CA Code
Municipal Debt	5 Years	100%	None	30% total, no more than 5% by any one issuer	"A" or "A-1" rating category, or its equivalent or higher, by an NRSRO
Bankers Acceptances	180 Days	40%, 30% of a single issuer	None	30%, no more than 5% any single issuer	"A-1" rating category, or its equivalent or higher, by 2 NRSROs
Commercial Paper	270 Days	25%, 10% of a single issuer	"A-1" rating category , or its equivalent or higher by an NRSRO	Same as CA Code	"A-1" rating category, or its equivalent or higher, by 2 NRSROs
Negotiable Certificates of Deposit	5 Years	30%	None	30%, no more than 5% in any single issuer	"A" or "A-1"rating category, or its equivalent or higher, by 2 NRSROs
Repurchase Agreements	1 Year	100%	None	75%	"A" or "A-1"rating category, or its equivalent or higher, by 2 NRSROs
Reverse Repurchase Agreements	92 days	20% of the base value of the portfolio	None	Only permitted as a permitted investment within a JPA investment pool	Only permitted as a permitted investment within a JPA investment pool
Medium Term Maturity Notes	5 Years	30%	"A" rating category, or its equivalent or higher, by an NRSRO	30% total, no more than 5% in any one issuer	Same as CA Code
Money Market/Mutual Funds	N/A	20%, 10% of any one mutual fund	"AAA" rated, or its equivalent, by 2 NRSROs	20%, 10% of fund's assets, 10% of any one mutual fund	Same as CA Code
Mortgage Pass-Through and Asset-backed Securities	5 Years	20%	"AA" rating category, or its equivalent or higher, by an NRSRO	20%, no more than 5% in any single issuer	"AA" rating category, or its equivalent or higher, by 2 NRSROs
Supranationals	5 Years	30%	"AA" rating category, or its equivalent or higher, by an NRSRO	30%, no more than 10% in any single issuer	Same as CA Code
Local Agency Investment Fund (LAIF)	N/A	$65 million per account	None	$65 million per account	Same as CA Code
Orange County Investment Pool (OCIP)	N/A	100%	None	10%	Same as CA Code
Joint Powers Authority (JPA) Investment Pools	N/A	100%	None	10%	Same as CA Code

* Additional portfolio restrictions include bank deposits (5%) and variable and floating rate securities (30%)

Issuer/Counter-Party Diversification Guidelines For All Securities Except U.S. Treasuries and U.S. Government Agency Securities

Unless otherwise specified in this policy, any one corporation, bank, local agency, special purpose vehicle or other corporate issuer name for one or more series of securities shall not exceed 5% of the portfolio.

Issuer/Counter-Party Diversification Guidelines for OCTA's Debt

The Authority can purchase all or a portion of the Orange County Transportation Authority's debt, including notes and bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by OCTA or by a department, board, agency or authority of OCTA which may bear interest at a fixed or floating rate, providing the purchase does not exceed 25% of the Maximum Portfolio and when authorized by the Internal Revenue Service.

11. SECURITIES SAFE KEEPING

All deliverable security transactions, including collateral for repurchase agreements, entered into by OCTA shall be conducted on a delivery-versus-payment basis. Deliverable securities shall be held by a third-party custodian designated by the Treasurer, evidenced by safe keeping receipts and in compliance with Code Section 53608.

12. BROKER DEALERS

The Treasurer, and investment professionals authorized by the Treasurer, may buy securities from a list of broker dealers and financial institutions that will be periodically reviewed.

Outside portfolio managers must certify that they will purchase securities from broker/dealers (other than themselves) or financial institutions in compliance with this Investment Policy.

13. INVESTMENT POLICY REVIEW

This Investment Policy shall be reviewed annually by the Finance and Administration Committee of the OCTA Board of Directors to ensure its consistency with the overall objectives of preservation of principal, liquidity, yield and diversification and its relevance to current law and economic trends.

14. DEFINITION OF TERMS

ACCRUED INTEREST: The amount of interest that is earned but unpaid since the last interest payment date.

AGENCY SECURITIES: (See U.S. Government Agency Securities)

ASK PRICE: (Offer Price) The price at which securities are offered from a seller.

ASSET BACKED SECURITIES (ABS): Securities collateralized or backed by receivables such as automobile loans and credit card receivables. The assets are transferred or sold by the company to a Special Purpose Vehicle and held in trust. The SPV or trust will issue debt collateralized by the receivables.

BANKERS ACCEPTANCES (BAs): Time drafts which a bank "accepts" as its financial responsibility as part of a trade finance process. These short-term notes are sold at a discount and are obligations of the drawer (the bank's trade finance client) as well as the bank. Once accepted, the bank is irrevocably obligated to pay the BA upon maturity if the drawer does not.

BASIS POINT: When a yield is expressed as X.YZ%, the YZ digits to the right of the decimal point are known as basis points. One basis point equals 1/100 of one percent. Basis points are used more often to describe changes in yields on bonds, notes and other fixed-income securities.

BID PRICE: The price at which a buyer offers to buy a security.

BOOK ENTRY: The system, maintained by the Federal Reserve, by which most securities are "delivered" to an investor's custodian bank. The Federal Reserve maintains an electronic record of the ownership of these securities and records any changes in ownership corresponding to payments made over the Federal Reserve wire (delivery versus payment). These securities do not receive physical certificates.

BOOK VALUE: The original cost of the investment.

CALLABLE BONDS: A bond issue which all or part of its outstanding principal amount may be redeemed before maturity by the issuer under specified conditions.

CAPITAL GAIN/LOSS: The profit or loss realized from the sale of a security.

CERTIFICATES OF DEPOSIT (NEGOTIABLE CDs): A negotiable (marketable or transferable) receipt for a time deposit at a bank or other financial institution for a fixed time and interest rate.

COLLATERAL: Securities or cash pledged by a borrower to secure repayment of a loan or repurchase agreement. Also, securities pledged by a financial institution to secure deposits in an Investment Agreement.

COMMERCIAL PAPER (CP): Unsecured promissory notes issued by companies and government entities usually at a discount. Commercial paper is negotiable, although it is typically held to maturity.

COUPON: The annual rate of interest received by an investor from the issuer of certain types of fixed-income securities. Also known as “interest rate.”

CURRENT YIELD: The annual income from an investment divided by the current market value. Since the mathematical calculation relies on the current market value rather than the investor's cost, current yield is unrelated to the actual return the investor will earn if the security is held to maturity.

CUSTODIAN: A bank or other financial institution that keeps custody of assets in the name of the depositor.

DELIVERY VERSUS PAYMENT (DVP): Delivery of securities with a simultaneous exchange of money for the securities.

DERIVATIVE SECURITY: Financial instrument created from, or whose value depends upon, one or more underlying assets or indexes of asset values.

DISCOUNT: The difference between the par value of a bond and the cost of the bond, when the cost is below par. Some short-term securities, such as Treasury bills and bankers' acceptances, are known as discount securities. They sell at a discount from par and return the par value to the investor at maturity without additional interest. Other securities, which have fixed coupons, trade at a discount when the coupon rate is lower than the current market rate for securities of that maturity and/or quality.

DIVERSIFICATION: An investment principal designed to spread the risk in a portfolio by dividing investments by sector, maturity and quality rating.

DOLLAR-WEIGHTED AVERAGE MATURITY: A calculation that expresses the "average maturity" of an investment portfolio using each investment's maturity weighted by the size or book-value of that investment.

DURATION: A measure of the timing of cash flows, such as the interest payments and principal repayment, to be received from a given fixed-income security.

FEDERAL FUNDS RATE: Interest rate at which banks lend federal funds to each other.

FEDERAL OPEN MARKET COMMITTEE (FOMC): A committee within the Federal Reserve System that makes short-term monetary policy for the Fed. The committee decides either to sell securities to reduce the money supply, or to buy government securities to increase the money supply. Decisions made at FOMC meetings will cause interest rates to either rise or fall.

FEDERAL RESERVE SYSTEM: A U.S. centralized banking system which has supervisory powers over the 2 Federal Reserve banks and about 3,000-member banks.

FITCH Ratings referred to as Fitch: (See Nationally Recognized Statistical Rating Organizations)

INTEREST: The amount earned while owning a debt security, generally calculated as a percentage of the principal amount.

INTEREST RATE RISK: The risk associated with declines or rises in interest rates, which causes the market price of a fixed-income security to increase or decrease in value.

LIQUIDITY: The speed and ease with which an investment can be converted to cash.

MARK-TO-MARKET: The process by where the value of a security is adjusted to reflect current market conditions.

MARKET RISK: The risk that the value of a security will rise or decline as a result in changes in market conditions.

MARKET VALUE: The current market price of a security.

MATURITY: The date that the principal or stated value of an investment becomes due and payable.

MEDIUM TERM MATURITY CORPORATE SECURITIES: Notes issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States.

MONEY MARKET: The market in which short-term debt instruments (Treasury bills, discount notes, commercial paper, bankers' acceptances, etc.) are issued and traded.

MONEY MARKET MUTUAL FUNDS: An investment company that pools money from investors and invest in a variety of short-term money market instruments.

MOODY'S INVESTORS SERVICE, INC. referred to as Moody's: (See Nationally Recognized Statistical Rating Organizations)

MORTGAGE-BACKED SECURITY: A debt instrument with a pool of real estate loans as the underlying collateral. The mortgage payments of the individual real estate assets are used to pay interest and principal on the bonds.

MUNICIPAL DEBT: Issued by public entities to meet capital needs.

NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATIONS (NRSRO's): Firms that review the creditworthiness of the issuers of debt securities, and express their opinion in the form of letter ratings (e.g. AAA, AA, A, BBB, etc.) The primary rating agencies include Standard & Poor's Corporation; Moody's Investor Services, Inc., Fitch Ratings and Kroll Bond Rating Agency, Inc.

NEGOTIABLE CD: (See Certificates of Deposit)

NET ASSET VALUE (NAV): The market value of one share of an investment company, such as a mutual fund. This figure is calculated by totaling the fund's assets which includes securities, cash and accrued earnings, then subtracting this from the fund's liabilities and dividing by the total number of shares outstanding. This is calculated once a day based on the closing price for each security in the fund's portfolio.

NON-CALLABLE: Bond that is exempt from any kind of redemption for a stated time period.

OCTA BONDS: Bonds, notes, warrants, or other evidences of indebtedness.

OFFER PRICE: An indicated price at which market participants are willing to sell a security.

PAR VALUE: The amount of principal that must be paid at maturity. Also referred to as the face amount of a bond, normally quoted in $1,000 increments per bond.

PHYSICAL DELIVERY: The delivery of an investment to a custodian bank in the form of a certificate and/or supporting documents evidencing the investment (as opposed to "book entry" delivery).

PORTFOLIO: A group of securities held by an investor.

PREMIUM: The amount by which the price paid for a security exceeds the security's par value.

PRIME RATE: A preferred interest rate charged by commercial banks to their most creditworthy customers.

PRINCIPAL: The face value or par value of an investment.

PURCHASE DATE: See (Trade Date)

REINVESTMENT RISK: The risk that coupon payments (or other payments received) cannot be reinvested at the same rate as the initial investment.

REPURCHASE AGREEMENTS (REPOS): A purchase of securities under a simultaneous agreement to sell these securities back at a fixed price on some future date. This is in essence a collateralized investment, with the difference between the purchase price and sales price determining the earnings.

SAFEKEEPING: Holding of assets (e.g. securities) by a financial institution.

SECURITES & EXCHANCE COMMISSION (SEC): The federal agency responsible for supervising and regulating the securities industry.

SETTLEMENT DATE: The date on which the purchase or sale of securities is executed. For example, in a purchase transaction, the day securities are physically delivered or wired to the buyer in exchange for cash is the settlement date.

SPECIAL PURPOSE VEHICLE (SPV): A trust or similar structure created specifically to purchase securities and reprofile cash flows and/or credit risk. Mortgage or Asset-backed securities may be issued out of the SPV and secured by the collateral transferred from the corporation.

STANDARD & POOR'S CORPORATION referred to as Standard and Poor's or S & P: (See Nationally Recognized Statistical Rating Organizations)

SUPRANATIONAL: A supranational is a multi-national organization whereby member states transcend national boundaries or interests to share in the decision making to promote economic development in member countries.

THIRD-PARTY CUSTODIAL AGREEMENT: (See Custodian)

TOTAL RETURN: The sum of all investment income plus changes in the capital value of the portfolio.

TRADE DATE: The date and time corresponding to an investor's commitment to buy or sell a security.

U.S. GOVERNMENT AGENCY SECURITIES or FEDERAL AGENCIES: U.S. Government related organizations, the largest of which are government financial intermediaries assisting specific credit markets (housing, agriculture).

U.S. TREASURY SECURITIES: Securities issued by the U.S. Treasury and backed by the full faith and credit of the United States. The Treasury issues both discounted securities and fixed coupon notes and bonds.

> **Treasury bills:** non-interest bearing discount securities of the U.S. Treasury with maturities under one year.
>
> **Treasury notes:** interest-bearing obligations of the U.S. Treasury with maturities ranging from two to ten years from the date of issue.
>
> **Treasury bond:** interest-bearing obligations issued by the U.S. Treasury with maturities ranging from ten to thirty years from the date of issue.
>
> **Treasury STRIPS:** U.S. Treasury securities that have been separated into their component parts of principal and interest payments and recorded as such in the Federal Reserve book entry record-keeping system.
>
> **Treasury TIPS:** U.S. Treasury securities whose principal increases at the same rate as the Consumer Price Index. The interest payment is then calculated from the inflated principal and repaid at maturity.

VARIABLE AND FLOATING RATE SECURITIES: Variable and floating rate securities are appropriate investments when used to enhance yield and reduce risk. They should have the same stability, liquidity and quality as traditional money market securities.

VOLATILITY: The degree of fluctuation in the price and valuation of securities.

YIELD: The current rate of return on an investment security generally expressed as a percentage of the securities current price.

ZERO COUPON SECURITIES: Security that is issued at a discount and makes no periodic interest payments. The rate of return consists of a gradual accretion of the principal of the security and is payable at par upon maturity.

Orange County Transportation Authority

2019 Investment Policy
~~February 25~~June 10, 2019

1. PURPOSE

This Investment Policy sets forth the investment guidelines for all funds of the Orange County Transportation Authority (OCTA) invested on and after June~~February~~ 10~~25~~, 2019. The objective of this Investment Policy is to ensure OCTA's funds are prudently invested to preserve capital, provide necessary liquidity and to achieve a market-average rate of return through economic cycles.

Investments may only be made as authorized by this Investment Policy. The OCTA Investment Policy conforms to the California Government Code (the Code) as well as customary standards of prudent investment management. Irrespective of these policy provisions, should the provisions of the Code be or become more restrictive than those contained herein, such provisions will be considered immediately incorporated into the Investment Policy and adhered to.

2. SCOPE

The policy applies to the investment of all funds, excluding the investment of employees' retirement funds and separate trusts. Bond proceeds shall be invested in the securities permitted by the applicable bond documents. If the bond documents are silent as to the permitted investments, the bond proceeds will be invested in the securities permitted by this Policy. Notwithstanding the other provisions of this Policy, the percentage limitations listed in elsewhere in this Policy do not apply to bond proceeds.

3. INVESTMENT OBJECTIVES

The primary objectives, in priority order, of investment activities shall be:

a. **Safety of Principal --** Safety of principal is the foremost objective of the OCTA. Each investment transaction shall seek to ensure that capital losses are avoided, whether from institutional default, broker-dealer default, or erosion of market value of the securities.

b. **Liquidity --** It is important that the portfolio contain investments for which there is an active secondary market, and which offer the flexibility to be easily sold at any time with minimal risk of loss of either the principal or interest based upon then prevailing rates.

c. **Total Return --** The OCTA's portfolio shall be designed to attain a market-average rate of return through economic cycles.

d. **Diversification –** Finally, the OCTA shall diversify its portfolio(s) to avoid incurring unreasonable market risks.

4. PRUDENCE

OCTA’s Board of Directors or persons authorized to make investment decisions on behalf of OCTA are trustees and fiduciaries subject to the prudent investor standard.

The standard of prudence to be used by investment officials shall be the "prudent investor" standard as defined in the Code below and shall be applied in the context of managing an overall portfolio. OCTA’s investment professionals acting in accordance with written procedures and the 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 developments.

<u>The Prudent Investor Standard:</u> When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee 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 OCTA, 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.

5. ETHICS AND CONFLICTS OF INTEREST

OCTA's officers and employees involved in the investment process shall not participate in personal business activity that conflicts with the proper execution of OCTA’s investment program, or which impairs their ability to make impartial investment decisions. OCTA's investment professionals and Treasury/Public Finance Department employees are not permitted to have any material financial interests in financial institutions that conduct business with OCTA, and they are not permitted to have any personal financial/investment holdings that have a material effect on the performance of OCTA's investments.

6. DELEGATION OF AUTHORITY

Authority to manage OCTA's investment program is derived from an order of the Board of Directors. Management responsibility for the investment program is hereby delegated to OCTA's Treasurer pursuant to Section 53607 of the Code. On an annual basis, the Board of Directors is required to renew the authority of OCTA’s Treasurer to invest or reinvest OCTA funds. The Treasurer is hereby authorized to delegate his authority as he determines to be appropriate. No person may engage in an investment transaction except as provided under the terms of this Investment Policy and the procedures established by the Treasurer. The Treasurer shall be responsible for all actions undertaken and shall establish a system of controls to regulate the activities of subordinate professionals.

The Treasurer shall develop administrative procedures and internal control, consistent with this Investment Policy, for the operation of OCTA’s investment program. Such procedures shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, or imprudent actions by employees of OCTA.

7. RESPONSIBILITIES

The Finance and Administration Committee of the OCTA Board of Directors, subject to the approval of the OCTA Board of Directors, is responsible for establishing the Investment Policy and ensuring investments are made in compliance with this Investment Policy. This Investment Policy shall be reviewed annually by the Board of Directors at a public meeting.

The Treasurer is responsible for making investments and for compliance with this policy pursuant to the delegation of authority to invest funds or to sell or exchange securities and shall make a quarterly report to the Board of Directors in accordance with Section 53646 (b) of the Code. Under Section 53646 (b) the Code states that the Treasurer may make a quarterly report to the Board of Directors. OCTA also provides a monthly report to the Finance and Administration Committee and provides copies to the Board of Directors per section 53607 of the Code.

The Treasurer is responsible for establishing a procedural manual for OCTA's investment program and for having an annual independent audit performed on OCTA's investments.

8. COMPLIANCE

The OCTA has provided each of its portfolio managers with a copy of this Investment Policy as a part of their contract and expects its portfolio managers to invest each portfolio they manage for OCTA in accordance with the provisions of the Investment Policy. However, bond proceeds may be invested in approved short-term investments without regard to diversification limits. This may occur during the initial deposit of the bond proceeds portfolio, the final drawdown of the portfolio, or other times in between when appropriate due to drawdown requirements as requested by OCTA's Treasurer. When diversification limits are exceeded by a portfolio manager, the Treasurer will document the situation and report the circumstances to the Finance and Administration Committee monthly and include a write-up in the quarterly Debt and Investment report to the Board of Directors.

The OCTA Treasurer is responsible for verifying each portfolio manager's compliance as well as OCTA's entire portfolio's compliance with the provisions of the Investment Policy.

If OCTA's Treasurer, in his sole discretion, finds that a portfolio manager has made an investment that does not comply with the provisions of the Investment Policy, the Treasurer shall immediately notify the portfolio manager of the compliance violation. At that point, the portfolio manager is on probation for a period of one year. The second time a violation occurs while the portfolio manager is on probation, the Finance and Administration Committee shall review the error and may request that the portfolio manager responsible for the compliance violation meet with the Chair of the Finance and Administration Committee and the Treasurer as soon as practical at which time it will be decided whether the Board of Directors will be notified of the violation.

If OCTA's Treasurer finds that the portfolio manager has made a third investment while on probation that does not comply with the provisions of the Investment Policy, the Treasurer shall notify the Board of Directors of the compliance violations. OCTA may terminate services for its convenience any time by providing at least 30 days written notice.

9. FINANCIAL BENCHMARKS

In order to establish a basis for evaluating investment results, the Authority uses four nationally recognized fixed income security performance benchmarks to evaluate return on investments. The ICE/BAML 1-3-year Treasury Index and the ICE/BAML 1-3 year AAA-A U.S. Corporate and Government Index benchmarks are used for OCTA's short-term portfolios, the ICE/BAML 1-5 year Treasury Index and the ICE/BAML 1-5 year AAA-A U.S. Corporate and Government Index benchmarks are used for the extended fund, while a customized performance benchmark may be used for the bond proceeds portfolios.

~~10. BOND PROCEEDS INVESTMENTS~~

~~Bond proceeds from OCTA's capital project financing programs are to be invested in accordance with the provisions of their specific indenture and are further limited by the maturity and diversification guidelines of this Investment Policy. Debt service reserve funds of bond proceeds are to be invested in accordance with the maturity provision of their specific indenture.~~

~~11. INVESTMENT AGREEMENTS – BOND PROCEEDS~~

~~Investment agreements must be approved and signed by OCTA's Treasurer. Investment agreements are permitted with any bank, insurance company or broker/dealer, or any corporation if:~~

~~A. At the time of such investment,~~

- ~~such bank has an unsecured, uninsured and unguaranteed obligation rated in a category of AA or better, or equivalent rating by two NRSROS or~~

- ~~such insurance company or corporation has an unsecured, uninsured and unguaranteed claims paying ability rated in a category of AA or better, or equivalent rating by two NRSROs, or~~

- ~~such bank or broker/dealer has an unsecured, uninsured and unguaranteed obligation rated in a category of AA or better, or equivalent rating by two NRSROs (and rated in a category of A-1 or equivalent in the short-term rating category from two NRSROS ; provided that if, such broker/dealer or bank is rated in a category of A or equivalent also collateralize the obligation under the investing agreement with U.S. Treasuries, Government National Mortgage Association securities, Federal National Mortgage Association securities or Federal Home Loan Mortgage Association securities meeting the following requirements:~~

    1. ~~the securities are held free and clear of any lien by OCTA's custodian or trustee or an independent third party acting as agent~~

~~"Agent" for the custodian or trustee, and such third party is (i) a Federal Reserve Bank, or (ii) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than $50 million and the custodian or trustee shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for OCTA's custodian or trustee; and~~

~~2. a perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. in such securities is created for the benefit of OCTA's custodian or trustee and OCTA; and~~

~~3. the Agent provides OCTA's custodian or trustee and OCTA with valuation of the collateral securities no less frequently than weekly and will liquidate the collateral securities if any deficiency in the required 102 percent collateral percentage is not restored within two business days of such valuation.~~

~~B. The agreement shall include a provision to the effect that if any rating of any such bank, insurance, broker-dealer or corporation is downgraded below a minimum rating to be established at the time the agreement is executed, OCTA shall have the right to terminate such agreement.~~

10~~11~~. PERMITTED INVESTMENTS ~~FOR NON-BOND PROCEEDS~~

Maturity and Term

All investments, unless otherwise specified, are subject to a maximum stated term of five years. Maturity shall mean the stated final maturity or the mandatory redemption date of the security, or the unconditional put option date if the security contains such a provision. Term or tenure shall mean the remaining time to maturity from the settlement date.

The Board of Directors must grant express written authority to make an investment or to establish an investment program of a longer term no less than three months prior to the investment

Eligible Instruments and Quality

OCTA policy is to invest only in high quality instruments as permitted by the Code, subject to the limitations of this Investment Policy. If an eligible security already contained in the Authority's portfolio is subsequently placed on "Negative Credit Watch" by any of the three Nationally Recognized Statistical Rating Organizations (NRSROs), then the security will be handled under the provisions of Rating Downgrades. Percentage holding limits and credit quality minimums in this section are applicable at the time of purchase.

1.~~)~~ OCTA NOTES AND BONDS

Notes and bonds issued by OCTA, including notes and bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by OCTA or by a department, board, agency or authority of OCTA which may bear interest at a fixed or floating rate.

2.~~)~~ U.S., FEDERAL AGENCIES AND U.S GOVERNMENT-SPONSORED ENTERPRISES

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.

~~Direct obligations of the United States of America and securities which are fully and unconditionally guaranteed as to the timely payment of principal and interest by the full faith and credit of the United States of America.~~

~~U.S. Treasury coupon and principal STRIPS (Separate Trading of Registered Interest and Principal of Securities) and TIPS (Treasury Inflation Protected Securities) are permitted investments pursuant to the Investment Policy.~~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 the U.S. government sponsored enterprises.

~~3) Federal Agency and Government Sponsored Enterprises Instrumentality Securities (Government Sponsored Enterprises)~~

~~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.~~

~~Debentures, discount notes, callable and step-up securities, with a final maturity not exceeding five years from the date of trade settlement issued by the following:~~

- ~~Federal Home Loan Bank (FHLB)~~
- ~~Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac)~~
- ~~Federal National Mortgage Association (FNMA or Fannie Mae)~~
- ~~Federal Farm Credit Bank (FFCB)~~
- ~~Federal Agricultural Mortgage Corporation (Farmer Mac)~~

~~4) Federal Agencies~~

~~Mortgage-backed securities and debentures with a final maturity not exceeding five years from the date of trade settlement issued by the following:~~

- ~~Government National Mortgage Association (GNMA or Ginnie Mae)~~
- ~~Small Business Administration (SBA)~~
- ~~Export-Import Bank of the United States (EXIMBANK)~~
- ~~Maritime Administration~~
- ~~Washington Metro Area Transit~~

- ~~U.S. Department of Housing & Urban Development~~
- ~~Federal Deposit Insurance Corporation (FDIC)~~
- ~~National Credit Union Administration (NCUA)~~

~~Any Federal Agency and U.S. Government Sponsored Enterprise security not specifically mentioned above is not a permitted investment.~~

34~~5~~.~~)~~ ~~State of California and Local Agency Obligations~~MUNICIPAL DEBT

Such instruments defined as being issued by a local or state agency, including:

A. Registered state warrants or treasury notes or bonds of this state, including bonds payable solely out of revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of the state.

B. ~~Registered state warrants, treasury notes or bonds of the State of California and bonds, notes, warrants or other evidences of indebtedness of any local agency within the State of California, other than OCTA, of the State,~~ Bonds, notes, warrants, or other evidences of indebtedness of a local agency within this state, including bonds payable solely out of revenues from a revenue-~~-~~producing property owned, controlled, or operated by the state or local agency or by a department, board, agency or authority of the~~the State or~~ local agency.

C. Registered treasury notes or bonds of any of the other 49 states in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 states, in addition to California.

~~A. Such obligations must be issued by an entity whose debt is rated in a rating category of A (long-term) or A-1 (short term) or their equivalents at least A-1 or better by two of the three NRSROs for short-term obligations., or A or the equivalent for long-term debt.~~

~~B.~~

~~C. OCTA may also purchase defeased state and local obligations as long asif the obligations have been legally defeased with U.S. Treasury securities and such obligations mature or otherwise terminate within five years of the date of purchase.~~

~~D.~~

~~E. Public agency bonds issued for private purposes (industrial development bonds) are specifically excluded as allowable investments.~~

4.~~6)~~ BANKERS ACCEPTANCES

Bankers' acceptances otherwise known as bills of exchange or time drafts that are drawn on and accepted by a commercial bank. ~~which:~~

~~A. are eligible for purchase by the Federal Reserve System, and~~

~~B. are rated by at least two of the NRSROs with at least A-1 or the equivalent for short-term deposits, and~~

~~C. may not exceed the 5 percent limit on any one commercial bank.~~

~~Maximum Term: 180 days (Code)~~

5.~~7)~~ COMMERCIAL PAPER

The entity that issues commercial paper shall meet the following conditions~~Commercial Paper must~~:

~~A.~~ ~~be rated at least A-1 or the equivalent by two of the three NRSRO's, and~~

B. be issued by corporations that haves~~s~~ debt other than commercial paper, if any, that is rated in a rating category of ~~at least~~ A~~-~~ or its~~the~~ equivalent or higher ~~rating~~ by a NRSRO ~~for issuer's debt, other than commercial paper, and~~

C. be issued by corporations organized and operating within the United States and having total assets in excess of five hundred million dollars ($500,000,000), and

D. may not purchase more than ~~not represent more than~~ 10 percent of the outstanding paper of the issuing corporation.

~~Maximum Term: 180 days (Code 270 days)~~

6.~~8)~~ NEGOTIABLE CERTIFICATES OF DEPOSIT

Negotiable Certificates of Deposit issued by a nationally or state-chartered bank or state, a savings association or a federal association~~ or by a federally licensed~~ (as defined by Section 5102 of the Financial Code), a state or federally licensed or~~or~~ state licensed branch of a foreign bank. ~~, which have been rated in a rating category of A (long-term) or A-1 (short-term) or their equivalents by at least two of the NRSRO's. at least A-1 or the equivalent for short-term deposits.~~

~~Maximum Term: 270 days~~

7.~~9)~~ REPURCHASE AGREEMENTS

Repurchase agreements collateralized by U.S. Treasuries or Agency securities as defined in the Investment Policy with any registered broker-dealer subject to the Securities Investors Protection Act or any commercial banks insured by the FDIC so long as at the time of the investment such dealer (or its parent) has an uninsured, unsecured and unguaranteed obligation rated in a rating category of A, or its equivalent or higher, by two NRSROs or a short-term rating of A-1, or its equivalent or higher, by two NRSRO's~~P-1 short-term or A2 long-term or better by Moody's, and A-1 short-term or A long-term or better by Standard & Poor's,~~ provided:

A. a Securities Industry and Financial Markets Association (SIFMA) master repurchase agreement and a tri-party agreement, if applicable, representing a custodial undertaking in connection with a master repurchase agreement, which governs the transaction and has been signed by OCTA; and

B. the securities are held free and clear of any lien by OCTA's custodian or trustee or an independent third party acting as agent "Agent" for the custodian or trustee, and such third party is (i) a Federal Reserve Bank, or (ii) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than $50 million and the custodian or trustee shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for OCTA's custodian or trustee; and

C. a perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. in such securities is created for the benefit of OCTA's custodian or trustee and OCTA; and

D. the Agent provides OCTA's custodian or trustee and OCTA with valuation of the collateral securities no less frequently than weekly and will liquidate the collateral securities if any deficiency in the required 102 percent collateral percentage is not restored within two business days of such valuation.

~~Maximum Term: 30 days (Code 1 year)~~

~~Reverse repurchase agreements are not permitted unless used as a permitted investment in the Local Agency Investment Fund~~

8.~~1)~~ MEDIUM TERM NOTES~~Maturity Corporate Securities~~

Medium term notes are defined as all c~~C~~orporate and depository institution debt securities, ~~which:~~

~~A. are rated in a rating category of A or its equivalent by at least one NRSRO, and are rated A- or better by two of the three NRSRO's, and~~

~~B. are~~ issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States, and

~~A. C. may not represent more than ten percent (10%) of the issue in the case of a specific public offering. This limitation does not apply to debt that is "continuously offered" in a mode similar to commercial paper, i.e. medium termmedium-term notes ("MTNs"). Under no circumstance can any one corporate issuer represent more than 5 percent of the portfolio.~~

~~B. Maximum Term: Five (5) years. (Code)~~

9.~~1)~~ MONEY MARKET AND MUTUAL FUNDS

Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment ~~C~~Company Act of 1940. Shares ~~(commonly called money market funds) which:~~

~~A. are rated AAA (or the equivalent highest ranking) by two of the three NRSRO's, and~~

~~B.~~ may not represent more than 10 percent of the money market fund's assets.

~~**1) Other Mutual Funds**~~

Shares of beneficial interest issued by diversified management companies, ~~(~~ commonly called mutual funds. Shares ~~) which:~~

~~A. are rated AAA (or the equivalent highest ranking) by two of the three NRSRO's, and~~

~~B.~~ may not represent more than 10 percent of the fund's or pool's asset and no ~~s~~

~~C. no~~ more than 10% of the total portfolio may be invested in shares of any one mutual fund. ~~may not represent more than 10 percent of the fund's or pool's assets.~~

10~~1~~.~~)~~ MORTGAGE OR ASSET-BACKED SECURITIES

Any mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate, or consumer receivable-backed bond.~~ which:~~

~~A. is rated AAA or equivalent (excluding US Government/Agency/Instrumentality backed structured product which will be permitted with their prevailing ratings even if those ratings are below AAA) by a NRSRO, or be rated at least A-1 or the equivalent by two of the three NRSRO's for money-market asset-backed securities, and~~

~~B. is issued by an issuer having at least an A or equivalent rating by a NRSRO for its long-term debt.~~

~~Maximum Term: Five year stated final maturity. (Code)~~

~~Asset-backed securities, excluding mortgages, may not exceed 10 percent of the allocation~~

1~~1~~.~~)~~ SUPRANATIONALS

US Dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank.

~~are rated AA- or by an NRSRO, and~~

~~may not represent more than 30 percent of the fund's or pool's assets, and~~

N~~n~~o~~o~~ more than 10% of the portfolio may be invested in any single issuer.

12.~~4)~~ STATE OF CALIFORNIA LOCAL AGENCY INVESTMENT FUND (LAIF)

LAIF is a pooled fund managed by the State Treasurer referred to in Section 16429.1 of the Code. All securities are purchased under the authority of the Code Section 16430 and 16480.4.

13.~~5)~~ ORANGE COUNTY TREASURY INVESTMENT POOL (OCIP)

The OCIP is a pooled fund managed by the Orange County Treasurer and is comprised of two funds, the Money Market Fund and Extended Fund. The Money Market Fund is invested in cash equivalent securities. The Extended Fund is for cash requirements past one year and is based on the Code Sections 53601 and 53635. These pools are based on the investment requirements detailed in Government Code Sections 53600 et seq. and 53630 et seq.

14.~~6)~~ INVESTMENT POOLS~~California Asset Management Program (CAMP)~~

Shares of beneficial interest issued by a joint powers authority organized pursuant to Government Code Section 6509.7 that invests in the securities and obligations as authorized under this investment policy~~53601 (a) to (o), inclusive,~~ and that comply with the investment restrictions of Government Code Sections 53600 through 53610 and Section 53630.

~~CAMP is a California Joint Powers Authority ("JPA") established in 1989 to provide California public agencies with professional investment services. CAMP investments must be rated AA or better by two of the three NRSRO's.~~

15~~7~~.~~)~~ VARIABLE AND FLOATING RATE SECURITIES

Variable and floating rate securities are restricted to investments in securities with a final maturity of not to exceed five years as described above, must utilize traditional money market reset indices such as U. S. Treasury bills, Federal Funds, commercial paper or LIBOR (London Interbank Offered Rate) or SOFR (Secured Overnight Financing Rate), and must meet all minimum credit requirements previously detailed in the Investment Policy. Investments in floating rate securities whose reset is calculated using more than one of the above indices are not permitted, i.e. dual index notes.

16.~~8)~~ BANK DEPOSITS

Bank deposits in California banks which have a minimum short-term rating of A-1, or its equivalent or higher, by a NRSRO~~Standard and Poor's and a minimum short-term rating of P-1 by Moody's~~. The Treasurer shall draft and execute a contract describing provisions for bank deposits.

~~1~~17.2~~9)~~ DERIVATIVES

Derivatives are to be used as a tool for bonafide hedging investments only where deemed appropriate. Derivatives shall not be used for the purpose of interest rate speculation.

Derivative products in any of the eligible investment categories listed above may be permitted. The Treasurer has the sole responsibility for determining which prospective investments are derivatives. Each prospective investment in a derivative product must be documented by the Treasurer as to the purpose and specific financial risk being hedged. Each such investment must be approved by the Finance and Administration Committee prior to entering into such investment.

No investments shall be permitted that have the possibility of returning a zero or negative yield if held to maturity. In addition, the investment in inverse floaters, range notes, strips derived from mortgage obligations, step-up notes and dual index notes are not permitted investments.

Rating Downgrades

OCTA may from time to time invest in a security whose credit rating is down-graded below the minimum credit quality criteria permitted by this Investment Policy.

Any security held as an investment whose credit rating falls below the minimum requirements of this I~~i~~nvestment Policy guidelines or whose rating is put on notice for possible downgrade shall be immediately reviewed by the Treasurer for action, and notification shall be made to the Board of Directors in writing as soon as practical and/or included in the monthly Orange County Transportation Authority Investment and Debt Programs report. The decision to retain the security until maturity, sell (or put) the security, or other action shall be approved by the Treasurer.

Diversification and Maturity Restrictions ~~Guidelines~~

Diversification and maturity restrictions ensure the portfolio is not unduly concentrated in the securities of one type, industry, ~~or~~ entity, or specific maturity thereby assuring adequate portfolio liquidity should one sector or company experience difficulties.

Outside portfolio managers must review the portfolios they manage to ensure compliance with OCTA's diversification guidelines on an ongoing basis.

AUTHORIZED INVESTMENTS, ISSUER CONCENTRATION & MATURITY RESTRICTIONS

~~Instruments~~	~~At All Times Maximum % Portfolio~~
~~1) OCTA Note and Bonds ……………………………………………………………..~~	~~25%~~(Code 100%)
~~2) U.S. Treasuries (including U.S. Treasury STRIPS & TIPS)…………………....~~	~~100%~~(Code)
~~3) Federal~~ Agency and Government Sponsored Enterprises… ~~Instrumentality Securities………………………………………………….~~	~~100%~~(Code) ~~100%~~
~~4) Federal Agencies ....~~	
~~45) State of California and~~ CA ~~Local Agencies~~ 5) Non-CA Municipal Obligations	~~25%~~(Code 100%)
~~6) Bankers Acceptances ....~~	~~30% (Code 40%)~~
~~7) Commercial Paper ……………………………………………………………~~	~~25% (Code)~~
~~8) Negotiable CDs ....~~	~~30% (Code)~~
~~9) Repurchase Agreements ....~~	~~75%~~ (Policy)
~~10) Medium Term Maturity Corporate Securities ....~~	~~30% (Code)~~
~~11) Money Market Funds and 12) Other Mutual Funds (in total)....................~~	~~20% (Code)~~
~~13) Mortgage and Asset-backed Securities ....~~	~~20% (Code)~~
~~14) Supranationals…………………………………………………………………~~	~~30% (Code)~~
~~154) LAIF ....…~~	~~$6540mm maximum per entity~~
~~165) OCIP ....~~	~~$40mm maximum per entity~~
~~176) Investment PoolsCAMP…………………………………………………… ....~~	~~210%~~
~~187) Variable and Floating Rate Securities ....~~	~~30%~~
~~198) Bank Deposits…………………………………………………………………… ……………………………………………………………………...~~	~~5%~~
~~2019) Derivatives (hedging transactions only) and subject to prior approval ....~~	~~5%~~
~~20) Investment Agreements pursuant to indenture……………………………….~~	~~100%~~

Type of Investment	CA Code Maximum Maturity	CA Code Maximum % of Portfolio	CA Code Minimum Quality Requirements	OCTA Maximum % of Portfolio*	OCTA Code Minimum Quality Requirements
OCTA Notes and Bonds	5 Years	100%	None	25%	Same as CA Code
U.S., Federal Agencies & U.S. Government Sponsored Enterprises	5 Years	100%	None	Same as CA Code	Same as CA Code
Municipal Debt	5 Years	100%	None	30% total, no more than 5% by any one issuer	"A" or "A-1" rating category, or its equivalent or higher, by an NRSRO
Bankers Acceptances	180 Days	40%, 30% of a single issuer	None	30%, no more than 5% any single issuer	"A-1" rating category, or its equivalent or higher, by 2 NRSROs
Commercial Paper	270 Days	25%, 10% of a single issuer	"A-1" rating category , or its equivalent or higher by an NRSRO	Same as CA Code	"A-1" rating category, or its equivalent or higher, by 2 NRSROs
Negotiable Certificates of Deposit	5 Years	30%	None	30%, no more than 5% in any single issuer	"A" or "A-1"rating category, or its equivalent or higher, by 2 NRSROs
Repurchase Agreements	1 Year	100%	None	75%	"A" or "A-1"rating category, or its equivalent or higher, by 2 NRSROs
Reverse Repurchase Agreements	92 days	20% of the base value of the portfolio	None	Only permitted as a permitted investment within a JPA investment pool	Only permitted as a permitted investment within a JPA investment pool
Medium Term Maturity Notes	5 Years	30%	"A" rating category, or its equivalent or higher, by an NRSRO	30% total, no more than 5% in any one issuer	Same as CA Code
Money Market/Mutual Funds	N/A	20%, 10% of any one mutual fund	"AAA" rated, or its equivalent, by 2 NRSROs	20%, 10% of fund's assets, 10% of any one mutual fund	Same as CA Code
Mortgage Pass-Through and Asset-backed Securities	5 Years	20%	"AA" rating category, or its equivalent or higher, by an NRSRO	20%, no more than 5% in any single issuer	"AA" rating category, or its equivalent or higher, by 2 NRSROs
Supranationals	5 Years	30%	"AA" rating category, or its equivalent or higher, by an NRSRO	30%, no more than 10% in any single issuer	Same as CA Code
Local Agency Investment Fund (LAIF)	N/A	$65 million per account	None	$65 million per account	Same as CA Code
Orange County Investment Pool (OCIP)	N/A	100%	None	10%	Same as CA Code
Joint Powers Authority (JPA) Investment Pools	N/A	100%	None	10%	Same as CA Code

* Additional portfolio restrictions include bank deposits (5%) and variable and floating rate securities (30%)

Issuer/Counter-Party Diversification Guidelines For All Securities Except ~~Federal Agencies, Federal Instrumentalities, Investment Agreements, Repurchase Agreements and OCTA Debt~~U.S. Treasuries and U.S. Government Agency Securities

~~Any one corporation, bank, local agency, special purpose vehicle or other corporate name for one or more series of securities. 5%~~
Unless otherwise specified in this policy, any one corporation, bank, local agency, special purpose vehicle or other corporate issuer name for one or more series of securities shall not exceed 5% of the portfolio.

~~**Issuer/Counter-Party Diversification Guidelines For Federal Agencies, Federal Instrumentalities and Repurchase Agreements**~~

~~Any one Federal Agency or Federal Instrumentalities 35%~~
~~Any one repurchase agreement counter-party name~~

~~If maturity/term is ≤ 7 days 50%~~
~~If maturity/term is > 7 days 35%~~

Issuer/Counter-Party Diversification Guidelines for OCTA's Debt

The Authority can purchase all or a portion of the Orange County Transportation Authority's debt, including notes and bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by OCTA or by a department, board, agency or authority of OCTA which may bear interest at a fixed or floating rate, providing the purchase does not exceed 25% of the Maximum Portfolio and when authorized by the Internal Revenue Service.

11.~~XII~~ S~~s~~ECURITIES S~~s~~AFE K~~k~~EEPING

All deliverable security transactions, including collateral for repurchase agreements, entered into by OCTA shall be conducted on a delivery-versus-payment basis. Deliverable s~~S~~ecurities shall be held by a third-party custodian designated by the Treasurer, evidenced by safe keeping receipts and in compliance with Code Section 53608.

~~XIII.~~12. BROKER DEALERS

The Treasurer, and investment professionals authorized by the Treasurer, may buy securities from a list of broker dealers and financial institutions that will be periodically reviewed.

Outside portfolio managers must certify that they will purchase securities from broker/dealers (other than themselves) or financial institutions in compliance with this Investment Policy.

13~~XIV~~. INVESTMENT POLICY REVIEW

This Investment Policy shall be reviewed annually by the Finance and Administration Committee of the OCTA Board of Directors to ensure its consistency with the overall objectives of preservation of principal, liquidity, yield and diversification and its relevance to current law and economic trends.

~~XV~~14. DEFINITION OF TERMS

ACCRUED INTEREST: The amount of interest that is earned but unpaid since the last interest payment date.

AGENCY SECURITIES~~: (~~**: (**See U.S. Government Agency Securities)

ASK PRICE~~: (~~**: (**Offer Price) The price at which securities are offered from a seller.

ASSET BACKED SECURITIES (ABS): Securities collateralized or backed by receivables such as automobile loans and credit card receivables. The assets are transferred or sold by the company to a Special Purpose Vehicle and held in trust. The SPV or trust will issue debt collateralized by the receivables.

BANKERS ACCEPTANCES (BAs): Time drafts which a bank "accepts" as its financial responsibility as part of a trade finance process. These short-term notes are sold at a discount and are obligations of the drawer (the bank's trade finance client) as well as the bank. Once accepted, the bank is irrevocably obligated to pay the BA upon maturity if the drawer does not.

BASIS POINT: When a yield is expressed as X.YZ%, the YZ digits to the right of the decimal point are known as basis points. One basis point equals 1/100 of one percent. Basis points are used more often to describe changes in yields on bonds, notes and other fixed-income securities.

BID PRICE: The price at which a buyer offers to buy a security.

BOOK ENTRY: The system, maintained by the Federal Reserve, by which most securities are "delivered" to an investor's custodian bank. The Federal Reserve maintains an electronic record of the ownership of these securities and records any changes in ownership corresponding to payments made over the Federal Reserve wire (delivery versus payment). These securities do not receive physical certificates.

BOOK VALUE: The original cost of the investment.

CALLABLE BONDS: A bond issue which all or part of its outstanding principal amount may be redeemed before maturity by the issuer under specified conditions.

CAPITAL GAIN/LOSS: The profit or loss realized from the sale of a security.

CERTIFICATES OF DEPOSIT (NEGOTIABLE CDs): A negotiable (marketable or transferable) receipt for a time deposit at a bank or other financial institution for a fixed time and interest rate.

COLLATERAL: Securities or cash pledged by a borrower to secure repayment of a loan or repurchase agreement. Also, securities pledged by a financial institution to secure deposits in an Investment Agreement.

COMMERCIAL PAPER (CP): Unsecured promissory notes issued by companies and government entities usually at a discount. Commercial paper is negotiable, although it is typically held to maturity. ~~The maximum maturity is 270 days, with most CP issued for terms of less than 30 days.~~

COUPON: The annual rate of interest received by an investor from the issuer of certain types of fixed-income securities. Also known as “interest rate.”

CURRENT YIELD: The annual income from an investment divided by the current market value. Since the mathematical calculation relies on the current market value rather than the investor's cost, current yield is unrelated to the actual return the investor will earn if the security is held to maturity.

CUSTODIAN: A bank or other financial institution that keeps custody of assets in the name of the depositor.

DELIVERY VERSUS PAYMENT (DVP): Delivery of securities with a simultaneous exchange of money for the securities.

DERIVATIVE SECURITY: Financial instrument created from, or whose value depends upon, one or more underlying assets or indexes of asset values.

DISCOUNT: The difference between the par value of a bond and the cost of the bond, when the cost is below par. Some short-term securities, such as Treasury bills and bankers’ acceptances, are known as discount securities. They sell at a discount from par and return the par value to the investor at maturity without additional interest. Other securities, which have fixed coupons, trade at a discount when the coupon rate is lower than the current market rate for securities of that maturity and/or quality.

DIVERSIFICATION: An investment principal designed to spread the risk in a portfolio by dividing investments by sector, maturity and quality rating.

DOLLAR-WEIGHTED AVERAGE MATURITY: A calculation that expresses the "average maturity" of an investment portfolio using each investment's maturity weighted by the size or book-value of that investment.

DURATION: A measure of the timing of cash flows, such as the interest payments and principal repayment, to be received from a given fixed-income security.

FEDERAL FUNDS RATE: Interest rate at which banks lend federal funds to each other.

FEDERAL OPEN MARKET COMMITTEE (FOMC): A committee within the Federal Reserve System that makes short-term monetary policy for the Fed. The committee decides either to sell securities to reduce the money supply, or to buy government securities to increase the money supply. Decisions made at FOMC meetings will cause interest rates to either rise or fall.

FEDERAL RESERVE SYSTEM: A U.S. centralized banking system which has supervisory powers over the 2 Federal Reserve banks and about 3,000-member banks.

FITCH Ratings referred to as Fitch: (See Nationally Recognized Statistical Rating Organizations)

INTEREST: The amount earned while owning a debt security, generally calculated as a percentage of the principal amount.

INTEREST RATE RISK: The risk associated with declines or rises in interest rates, which causes the market price of a fixed-income security to increase or decrease in value.

LIQUIDITY: The speed and ease with which an investment can be converted to cash.

MARK-TO-MARKET: The process by where the value of a security is adjusted to reflect current market conditions.

MARKET RISK: The risk that the value of a security will rise or decline as a result in changes in market conditions.

MARKET VALUE: The current market price of a security.

MATURITY: The date that the principal or stated value of an investment becomes due and payable.

MEDIUM TERM MATURITY CORPORATE SECURITIES: Notes issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States.

MONEY MARKET: The market in which short-term debt instruments (Treasury bills, discount notes, commercial paper, bankers' acceptances, etc.) are issued and traded.

MONEY MARKET MUTUAL FUNDS: An investment company that pools money from investors and invest in a variety of short-term money market instruments.

MOODY'S INVESTORS SERVICE, INC. referred to as Moody's: –(See Nationally Recognized Statistical Rating Organizations)

MORTGAGE-BACKED SECURITY: A debt instrument with a pool of real estate loans as the underlying collateral. The mortgage payments of the individual real estate assets are used to pay interest and principal on the bonds.

MUNICIPAL DEBT: Issued by public entities to meet capital needs.

NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATIONS (NRSRO's): Firms that review the creditworthiness of the issuers of debt securities, and express their opinion in the form of letter ratings (e.g. AAA, AA, A, BBB, etc.) The primary rating agencies include Standard & Poor's Corporation; Moody's Investor Services, Inc., Fitch Ratings and Kroll Bond Rating Agency, Inc.

NEGOTIABLE CD: (See Certificates of Deposit)

NET ASSET VALUE (NAV): The market value of one share of an investment company, such as a mutual fund. This figure is calculated by totaling the fund's assets which includes securities, cash and accrued earnings, then subtracting this from the fund's liabilities and dividing by the total number of shares outstanding. This is calculated once a day based on the closing price for each security in the fund's portfolio.

NON-CALLABLE: Bond that is exempt from any kind of redemption for a stated time period.

OCTA BONDS: Bonds, notes, warrants, or other evidences of indebtedness.

OFFER PRICE: An indicated price at which market participants are willing to sell a security.

PAR VALUE: The amount of principal that must be paid at maturity. Also referred to as the face amount of a bond, normally quoted in $1,000 increments per bond.

PHYSICAL DELIVERY: The delivery of an investment to a custodian bank in the form of a certificate and/or supporting documents evidencing the investment (as opposed to "book entry" delivery).

PORTFOLIO: A group of securities held by an investor.

PREMIUM: The amount by which the price paid for a security exceeds the security's par value.

PRIME RATE: A preferred interest rate charged by commercial banks to their most creditworthy customers.

PRINCIPAL: The face value or par value of an investment.

PURCHASE DATE: See (Trade Date)

REINVESTMENT RISK: The risk that coupon payments (or other payments received) cannot be reinvested at the same rate as the initial investment.

REPURCHASE AGREEMENTS (REPOS): A purchase of securities under a simultaneous agreement to sell these securities back at a fixed price on some future date. This is in essence a collateralized investment, with the difference between the purchase price and sales price determining the earnings.

SAFEKEEPING: Holding of assets (e.g. securities) by a financial institution.

SECURITES & EXCHANCE COMMISSION (SEC): The federal agency responsible for supervising and regulating the securities industry.

SETTLEMENT DATE: The date on which the purchase or sale of securities is executed. For example, in a purchase transaction, the day securities are physically delivered or wired to the buyer in exchange for cash is the settlement date.

SPECIAL PURPOSE VEHICLE (SPV): A trust or similar structure created specifically to purchase securities and reprofile cash flows and/or credit risk. Mortgage or Asset-backed securities may be issued out of the SPV and secured by the collateral transferred from the corporation.

STANDARD & POOR'S CORPORATION referred to as Standard and Poor's or S & P~~: (~~**: (**See Nationally Recognized Statistical Rating Organizations)

SUPRANATIONAL: A supranational is a multi-national organization whereby member states transcend national boundaries or interests to share in the decision making to promote economic development in member countries.

THIRD-PARTY CUSTODIAL AGREEMENT~~: (~~**: (**See Custodian)

TOTAL RETURN: The sum of all investment income plus changes in the capital value of the portfolio.

TRADE DATE: The date and time corresponding to an investor's commitment to buy or sell a security.

U.S. GOVERNMENT AGENCY SECURITIES or FEDERAL AGENCIES~~**AND U.S. FEDERAL INSTRUMENTALITIES**~~**:** U.S. Government related organizations, the largest of which are government financial intermediaries assisting specific credit markets (housing, agriculture). ~~Often simply referred to as "Agencies", they include:~~

- ~~Federal Home Loan Bank (FHLB)~~
- ~~Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac)~~
- ~~Federal National Mortgage Association (FNMA or Fannie Mae)~~
- ~~Federal Farm Credit Bank (FFCB)~~
- ~~Federal Agricultural Mortgage Corporation (Farmer Mac)~~
- ~~Government National Mortgage Association (GNMA or Ginnie Mae)~~
- ~~Small Business Administration (SBA)~~
- ~~Export-Import Bank of the United States~~
- ~~Maritime Administration~~
- ~~Washington Metro Area Transit~~
- ~~U.S. Department of Housing & Urban Development~~
- ~~Federal Deposit Insurance Corporation (FDIC)~~

- ~~National Credit Union Administration (NCUA)~~

~~Any Federal Agency and U.S. Government Sponsored Enterprise security not specifically mentioned above is not a permitted investment.~~

U.S. TREASURY SECURITIES: Securities issued by the U.S. Treasury and backed by the full faith and credit of the United States. The Treasury issues both discounted securities and fixed coupon notes and bonds.

Treasury bills: non-interest bearing discount securities of the U.S. Treasury with maturities under one year.

Treasury notes: interest-bearing obligations of the U.S. Treasury with maturities ranging from two to ten years from the date of issue.

Treasury bond: interest-bearing obligations issued by the U.S. Treasury with maturities ranging from ten to thirty years from the date of issue.

Treasury STRIPS: U.S. Treasury securities that have been separated into their component parts of principal and interest payments and recorded as such in the Federal Reserve book entry record-keeping system.

Treasury TIPS: U.S. Treasury securities whose principal increases at the same rate as the Consumer Price Index. The interest payment is then calculated from the inflated principal and repaid at maturity.

VARIABLE AND FLOATING RATE SECURITIES: Variable and floating rate securities are appropriate investments when used to enhance yield and reduce risk. They should have the same stability, liquidity and quality as traditional money market securities.

~~For the purposes of this Investment Policy, a Variable Rate Security, where the variable rate of interest is readjusted no less frequently than every 762 calendar days, shall be deemed to have a maturity equal to the period remaining until the next readjustment of the interest. A Floating Rate Security shall be deemed to have a remaining maturity of one day.~~

VOLATILITY: The degree of fluctuation in the price and valuation of securities.

YIELD: The current rate of return on an investment security generally expressed as a percentage of the securities current price.

ZERO COUPON SECURITIES: Security that is issued at a discount and makes no periodic interest payments. The rate of return consists of a gradual accretion of the principal of the security and is payable at par upon maturity.