



May 23, 2018

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 2018. The Investment Policy sets forth the investment guidelines for all funds invested on and after June 11, 2018. 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 2018 Investment Policy.
- B. Authorize the Treasurer to invest, reinvest, purchase, exchange, sell, and manage Orange County Transportation Authority funds during fiscal year 2018-19.

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.

Discussion

The 2018 Policy is being submitted for review and adoption by the Board. The Treasurer and staff met with representatives from OCTA's investment advisory firm and newly-appointed investment management firms to evaluate the effectiveness of the Policy and address any potential changes for 2018. There was no new legislation affecting the Code.

The four investment management firms performed an objective evaluation of the policy as it relates to effectiveness and risk. Historically, OCTA's Policy has been more conservative than the Code, by design. While there was some sentiment to reduce the minimum credit quality of corporate securities to match the Code, each firm agreed that the current structure is a good match for the risk tolerance of OCTA, while providing sufficient latitude to navigate the fixed-income market.

An additional benefit of engaging three new firms that are very active in the California local agency investment market is their familiarity with investment policies of other agencies. There were several style changes, updates, and one deletion of a reference to "general obligation debt" in this year's update. By deleting the broad reference to general obligation debt that restricts investing in debt issued by revenue issuers, OCTA would now be able to purchase both high-quality municipal general obligation and revenue bonds in the portfolio. Municipal revenue bonds comprised 75 percent of the 2017 debt issuance in California.

Next Steps

If the Board approves the 2018 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. OCTA currently uses four portfolio managers to actively manage the short-term portfolio.

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 2018 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 2018-19.

Attachments

- A. Orange County Transportation Authority 2018 Investment Policy June 11, 2018
- B. Black-line Copy of Orange County Transportation Authority 2018 Investment Policy June 11, 2018

Prepared by:



Rodney Johnson
Deputy Treasurer
Treasury/Public Finance
(714) 560-5675

Approved by:



Andrew Oftelie
Executive Director,
Finance and Administration
(714) 560-5649