OCTA

February 13, 2019

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Subject: Adopt the 2019 Investment Policy

Overview

The 2019 Investment Policy sets forth the investment guidelines for funds invested by the Orange County Transportation Authority. Changes are recommended to the 2019 Investment Policy to better align the guidelines with current market conditions for the upcoming investment of Measure M2 bond proceeds.

Recommendation

Adopt the 2019 Investment Policy.

Background

The Investment Policy (Policy) sets forth the guidelines for Orange County Transportation Authority (OCTA) investments that must conform to the California Government 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, with the 2018 Policy having been approved by the Board on June 11, 2018.

On January 28, 2019, the OCTA Board approved the issuance of $400 million in Measure M2 (M2) sales tax bonds to support the Interstate 405 Improvement Project. The bond issuance is anticipated to close on or around February 26, 2019. A firm will be selected to invest the bond proceeds and release portions of the proceeds to OCTA on a monthly-basis over a two-year period based on a schedule provided by OCTA. OCTA will be guaranteed a fixed rate of return on the invested proceeds over the two-year period based on the scheduled draw down of funds.

Discussion

Staff is recommending three changes to the Policy to better reflect current market conditions for the investment of the M2 bond proceeds. The primary changes can be found in "Section X. Investment Agreements – Bond Proceeds" of the Policy. The first change is to remove the requirement that the only agencies that can rate credit obligations of firms interested in investing OCTA bond proceeds are Moody's and Standard & Poors (S&P). Staff recommends allowing four credit rating agencies to be eligible to rate the credit obligations of firms that may be interested in investing OCTA bond proceeds. The rating agencies would be Moody's, S&P, Fitch Ratings (Fitch), and Kroll Bond Rating Agency, Inc. (KBRA). OCTA requires two agencies to rate a firm's credit obligations in order to be permitted to enter into an investment agreement for bond proceeds. This change would allow firms that have credit obligations rated by Fitch and KBRA to be eligible in the event their credit obligations may not have a rating from Moody's or S&P.

The second change would be to add KBRA to the Policy as a nationally recognized statistical rating organization (NRSRO). OCTA's current Policy includes a definition of NRSROs which includes Moody's, S&P, and Fitch, but does not include KBRA. Having KBRA as an eligible rating agency will be valuable as the agency continues to grow and rate more credit obligations.

The third change is to lower the rating requirement for credit obligations for insurance companies or corporations interested in investing OCTA bond proceeds. The current Policy requires a credit obligation rating of "AAA" or equivalent. Staff recommends lowering this requirement to a credit rating category of "AA" or equivalent. This change primarily impacts insurance companies that may be interested in bidding on investment agreements for OCTA's bond proceeds. Currently, most large insurance firms are rated in the "A" and "AA" ratings categories, with none rated in the "AAA" category. This change enables "AA" rated insurance companies, which still maintain strong credit ratings, to be eligible to bid on investment agreements and will enable more competition from non-bank firms.

Summary

Staff recommends adoption of the 2019 Investment Policy to better align the guidelines with current market conditions for the upcoming investment of Measure M2 bond proceeds. In addition, staff is working with its investment managers on additional revisions that will be presented as changes to the 2019 Investment Policy, which is anticipated to come to the Board of Directors in June 2019.

Attachments

A. Orange County Transportation Authority 2019 Investment Policy February 25, 2019
B. Black-line Copy of Orange County Transportation Authority 2019 Investment Policy February 25, 2019

Prepared by:

Sean Murdock
Director,
Finance and administration
(714) 560-5685

Approved by:

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