



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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