May 3, 2017

TO: Gold Coast Transit District Board of Directors

From: Steve L. Rosenberg
Director of Finance and Administration

RE: Consider Adoption of Resolution 2017-07 Approving the New Gold Coast Transit District Investment Policy

I. EXECUTIVE SUMMARY

From its inception GCTD (and its predecessors GCT and SCAT) has been fiscally managed in a very conservative manner. The District has incurred minimal debt and has had minimal investment needs. The District has operated well within the limitations of California Government Code Section 53600 et seq., which governs investment practices of governmental agencies. All investment vehicles employed by the District have been approved by the Board of Directors. As a result, the District has not adopted a formal Investment Policy.

In September 2016 this Board authorized the District to finance up to $22,000,000 to complete the financing of GCTD’s new Administration and Operations Facility (the “Facility”) with a Certificates of Participation (“COPs”) issue from the California Transit Finance Corporation (“CTFC”). The COPs were sold in March of 2017. As a result, the District’s investment requirements have become more complex. It is appropriate at this time for GCTD to adopt a formal Investment Policy.

The proposed investment management policy closely follows government code in relation to which investments GCTD may employ, establishes the objectives of safety, liquidity, and returns on investment in that priority order, establishes formal responsibilities for investment decisions and sets reporting requirements.

GCTD staff reviewed numerous investment policies from California public agencies and modeled the District’s after one found to be most suitable. Staff obtained reviews of this policy from Board General Counsel Best, Best and Krieger, investment bankers PFM and GCTD’s audit firm The Pun Group, and have incorporated comments into the final policy. The Board’s Fiscal Policy Committee reviewed the policy on April 19, 2017 and their recommendations have been incorporated. The policy includes a provision by which staff will bring the policy back to the board on an annual basis to modify or reaffirm.
II. SUMMARY AND RECOMMENDATIONS

IT IS RECOMMENDED that the Board consider adoption of Resolution 2017-07 approving the new Gold Coast Transit District Investment Policy dated May 3, 2017 (attached).

GENERAL MANAGER’S CONCURRENCE

Steven P. Brown
General Manager
RESOLUTION NO. 2017-07

RESOLUTION OF THE BOARD OF DIRECTORS OF THE
GOLD COAST TRANSIT DISTRICT ADOPTING THE
GOLD COAST TRANSIT DISTRICT INVESTMENT POLICY

WHEREAS, Gold Coast Transit District ("GCTD") is a public body duly
organized and validly existing under the laws of the State of California; and

WHEREAS; the legislative body of a local agency may invest surplus
monies not required for the immediate necessities of the local agency in accordance
with the provisions of California Government Code Section 53630 et seq.; and

WHEREAS; the Legislature of the State of California has declared that
the deposit and investment of public funds by local officials and local agencies is an
issue of statewide concern and has passed legislation to restrict permissible
investments and promote oversight procedures; and

WHEREAS; it is necessary to establish the policy and guidelines for the
District to invest public funds in a manner which will provide a high level of safety and
security of principal; and

WHEREAS; an Investment Policy for GCTD has been developed and is
presented for adoption to this Board this date;

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of
Gold Coast Transit District adopts the attached (EXHIBIT A) GCTD Investment Policy
and authorizes and directs the Director of Finance and Administration to use said Policy
in the investment of District funds.

PASSED, APPROVED AND ADOPTED this 3rd day of May, 2017.

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Bryan A. MacDonald
Board Chair
ATTEST:

I HEREBY CERTIFY that the above Resolution 2017-07 was duly introduced, read and adopted by the Board of Directors of Gold Coast Transit District at a regular meeting held on May 3, 2017.

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Steven P. Brown
Secretary of the Board
1. Introduction

The purpose of this document is to identify various policies and procedures that enhance opportunities for a prudent and systematic investment policy, and to organize and formalize investment-related activities.

The investment policies and practices of Gold Coast Transit District (GCTD) are based upon state law and prudent money management. All funds will be invested in accordance with the GCTD Investment Policy and the California Government Code. The investment of bond proceeds will be further governed by the provisions of relevant bond documents.

2. Scope

It is intended that this policy cover all funds and investment activities under the direction or care of GCTD. Investment of bond proceeds shall additionally be subject to the conditions and restrictions of bond documents and Treasury regulations related to arbitrage restrictions on tax-exempt bonds.

3. Prudence

All persons authorized to make investment decisions on behalf of GCTD are trustees and therefore fiduciaries subject to the prudent investor standard: “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 the agency, 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.”

Investment officers 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 adverse developments.

4. Objectives

4.1 Safety. Safety of principal is the foremost objective of the investment program. Investments of GCTD shall be undertaken in a manner that seeks to ensure preservation of capital in the portfolio.

4.2 Liquidity. The investment portfolio of GCTD will remain sufficiently liquid to enable GCTD to meet its cash flow requirements.

4.3 Return on Investment. The investment portfolio of GCTD shall be designed with the objective of attaining a market rate of return on its investments consistent with the constraints imposed by its safety objective and cash flow considerations.

5. Delegation of Authority
5.1. The GCTD Board of Directors delegates the authority to invest or to reinvest funds, or to sell or exchange securities so purchased, to the Director of Finance and Administration for a one-year period. The Director of Finance and Administration shall assume full responsibility for investment transactions, with the oversight of the General Manager, until the delegation of authority is revoked or expires. In accordance with GCTD internal controls, all investment transactions of GCTD require the signature of two authorized individuals.

5.2. For the purposes of carrying out this investment policy, the General Manager and the Director of Finance and Administration are hereby authorized to make investment decisions, in strict accordance with this investment policy, on behalf of GCTD. In the absence of either the General Manager or the Director of Finance and Administration, a designee may sign for one of the approvals.

Individuals delegated per Section 5.5 are also authorized to make investment decisions, in strict accordance with this investment policy, on behalf of GCTD.

5.3. All accounts established for the purpose of investing GCTD funds shall require the written authorization of the General Manager.

5.4. No single individual, acting alone, may engage in an investment activity, except for an authorized investment advisor/manager with discretionary authority delegated per Section 5.5.

5.5. The Director of Finance and Administration, with the concurrence of the General Manager, may delegate investment management and decision authority, via written agreement, to one or more professional investment advisors/managers who are duly qualified and registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940. All agents engaged in this capacity shall make all investment decisions and transactions in strict accordance with state law and this investment policy.

5.6. The daily management responsibility for the investment program is assigned to the Director of Finance and Administration, who shall monitor and review all investments for consistency with this investment policy.

5.7. The daily management responsibility for GCTD financial activities is assigned to the Director of Finance and Administration, who, along with the General Manager, is authorized to transfer funds between bank accounts for the purpose of conducting ongoing District business. The Director of Finance and Administration may delegate other GCTD individuals to make such transfers with written concurrence from the General Manager. All transfers will be reviewed by two individuals; the individual making the transfer and one additional individual who has been authorized to make transfers.

6. Ethics (Conflict of Interest)

Officers, employees and agents thereof involved in the investment process shall comply with state law and refrain from personal business activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial decisions.

7. Selection of Financial Institutions and Broker/Dealers
7.1. GCTD shall transact business only with banks, savings and loan associations, and registered investment securities dealers. The purchase by GCTD of any investment other than those purchased directly from the issuer shall be either from an institution licensed by the State as a Broker/Dealer, as defined in Section 25004 of the Corporation Code, who is a member of the Financial Industry Regulatory Authority, or a member of a federally regulated securities exchange, a national or State-chartered Bank, a Federal or State Association (as defined by Section 5102 of the Financial Code), or a brokerage firm designated as a Primary Government Dealer by the Federal Reserve Bank. The Director of Finance and Administration shall investigate all institutions that wish to do business with GCTD, in order to determine if they are adequately capitalized, make markets in securities appropriate to the needs of GCTD, and agree to abide by the conditions set forth in the GCTD Investment Policy.

7.2. The Director of Finance and Administration shall maintain a list of authorized Broker/Dealers and financial institutions which are approved for investment purposes, and it shall be the policy of GCTD to purchase securities only from those authorized institutions and firms. If an external investment advisor is authorized to conduct investment transactions on GCTD’s behalf, the Director of Finance and Administration may approve a list of authorized Broker/Dealers provided by the investment advisor/manager.

8. Permitted Investment Instruments

8.1. The Government Code provides basic investment limits and guidelines for government entities. In the event an apparent discrepancy is found between the GCTD Investment Policy and the Government code, the more restrictive parameters will take precedence. The portfolio shall be diversified by security type and institution to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions. Government Code §53601 states that where there is a percentage limitation for a particular category of investment, that percentage is applicable only at the date of purchase. Credit requirements listed in the investment policy apply at the time of purchase. In the event a security held by GCTD is subject to a credit rating change that brings it below the minimum credit ratings specified for purchase, the Director of Finance and Administration shall review the security. The course of action to be followed will then be decided by the Director of Finance and Administration and the General Manager on a case-by-case basis, considering such factors as the reason for the change, prognosis for recovery or further rate drops, and the market price of the security. Any credit rating changes below the minimum credit ratings specified for purchase will be reported to the Board of Directors with the next Quarterly Investment Report, along with the findings and any actions taken.

8.2. Treasury Obligations: notes, bonds, bills, or certificates of indebtedness, or those for which the full faith and credit of the United States are pledged for the payment of principal and interest.

8.3. Federal Agencies and United States 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.

8.4. State Municipal Obligations: Registered treasury notes or bonds of any of the 50 United States, including bonds payable solely out of 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 states. Such obligations must be rated A-1/P-1, or equivalent or better short-term; or Aa/AA or better long-term by at least one of the nationally recognized statistical-rating organizations (NSRO).

8.5. Local Agency Obligations: Bonds, notes, warrants, or other evidences of indebtedness issued by any local agency within the State, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency. Such obligations must be rated A-1/P-1, or equivalent or better short-term; or Aa/AA or better long-term by one of the NSROs.

8.6. Repurchase Agreements: Repurchase Agreements (as defined in Government Code §53601) used solely as short-term investments not to exceed 90 days.

8.6.1 The following collateral restrictions will be observed: Only U.S. Treasury securities or federal agency securities will be acceptable collateral. All securities underlying Repurchase Agreements must be delivered to GCTD’s custodian bank or handled under a properly executed tri-party repurchase agreement. The total of all collateral for each Repurchase Agreement must equal or exceed, on the basis of market value plus accrued interest, 102 percent of the total dollar value of the money invested by GCTD for the term of the investment. Since the market value of the underlying securities is subject to daily fluctuation, the investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102 percent no later than the next business day.

8.6.2 Market value must be calculated each time there is a substitution of collateral.

8.6.3 GCTD or its trustee shall have a perfected first security interest under the Uniform Commercial Code in all securities subject to Repurchase Agreement.

8.6.4 GCTD may enter into Repurchase Agreements with (1) primary dealers in United States government securities who are eligible to transact business with, and who report to, the Federal Reserve Bank of New York, and (2) state banking institutions having assets in excess of $1 billion and in the highest short-term rating category, as provided by one of the nationally recognized statistical-rating organizations.

8.6.5 GCTD will have properly executed a Securities Industry and Financial Markets Association (SIFMA) agreement with each firm with which it enters into Repurchase Agreements.

8.7. Bankers’ Acceptances: Bankers’ acceptances issued by domestic banks or domestic branches of foreign banks, which are eligible for purchase by the Federal Reserve System, the short-term paper of which is rated in the highest rating category by one of the NSROs. Purchases of Bankers’ Acceptances may not exceed 180 days maturity or 40 percent of GCTD surplus money. No more than 10 percent of GCTD surplus funds may be invested in the Bankers’ Acceptances of any one commercial bank.
8.8. Commercial Paper: Commercial paper of “prime” quality of the highest ranking or of the highest letter and number rating as provided for by a NSRO. The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (a) or paragraph (b):

a) The entity meets the following criteria: (i) is organized and operating in the United States as a general corporation. (ii) has total assets in excess of five hundred million dollars ($500,000,000). (iii) has debt other than commercial paper, if any, that is rated “A” its equivalent or higher by a NSRO.

b) The entity meets the following criteria: (i) is organized within the United States as a special purpose corporation, trust, or limited liability company. (ii) has program wide credit enhancements including, but not limited to, over collateralization, letters of credit, or a surety bond. (iii) has commercial paper that is rated “A-1” or higher, or the equivalent, by a NSRO. Purchases of eligible commercial paper may not exceed 270 days maturity nor represent more than 10 percent of the outstanding paper of an issuing corporation. No more than 10 percent of GCTD surplus funds may be invested in commercial paper of any one U.S. corporation. Purchases of commercial paper may not exceed 25 percent of GCTD surplus money which may be invested.

8.9. Medium-Term Notes: Medium-term notes, defined as all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or depository institutions licensed by the United States or any state and operating within the United States. Medium-term notes shall be rated in a rating category of “A” or its equivalent or better by a NSRO.

Purchase of medium-term notes may not exceed 30 percent of GCTD surplus money. No more than 10 percent of GCTD surplus funds may be invested in the medium-term notes of any one corporation.

8.10. Certificates of Deposit: The maximum term for certificates of deposit shall be five years. The combined amount invested in negotiable certificates of deposit and certificates of deposit shall not exceed 30 percent of GCTD surplus money.

8.10.1 Negotiable Certificates of Deposit: Negotiable certificates of deposit issued by a nationally or state-chartered bank or a state or federal savings and loan association or by a state-licensed branch of a foreign bank or by a federally licensed branch of a foreign bank; provided that the senior debt obligations of the issuing institution are rated “A” or better by one of the NSROSs,

8.10.2 Nonnegotiable Certificates of Deposit: Nonnegotiable certificates of deposit shall meet the conditions in either paragraph (a) or paragraph (b):

(a) Certificates of deposit shall meet the requirements for deposit under Government Code Section 53635 et. seq. To be eligible to receive GCTD deposits, the financial institution must have received a minimum overall satisfactory rating for meeting the credit needs of California communities in its most recent evaluation, as provided in Government Code Section 53635.2. Deposits are required to be collateralized as specified under Government Code Section 53630 et. seq. The Director of Finance and Administration, at his or her discretion, may waive the
collateralization requirements for any portion that is covered by federal deposit insurance. GCTD shall have a signed agreement with the depository per Government Code Section 53649.

(b) Certificates of deposit placed through a deposit placement service shall meet the requirements of Government Code Section 53601.8. The full amount of the principal and the interest that may be accrued during the maximum term of each certificate of deposit shall at all times be insured by federal deposit insurance.

8.11. State of California’s Local Agency Investment Fund: State of California’s Local Agency Investment Fund (LAIF) may be invested in for the benefit of local agencies up to the current limit set by LAIF for regular accounts. For ongoing due diligence, the Director of Finance and Administration shall maintain on file a copy of LAIF’s current investment policy and its requirements for participation, including limitations on deposits or withdrawals.

8.12. Ventura County Treasury Investment Pool: Deposits in the County pooled investment fund shall be limited to the dollar maximums of the State LAIF. For ongoing due diligence, the Director of Finance and Administration shall maintain on file a copy of the County pool’s current investment policy and its requirements for participation, including limitations on deposits or withdrawals.

8.13. Savings/Money Market Accounts: Savings/money market accounts deposits placed with commercial banks and savings and loans associations in California. The amount on deposit shall not exceed the shareholder’s equity in the financial institution. To be eligible to receive GCTD deposits, the financial institution must have received a minimum overall satisfactory rating for meeting the credit needs of California Communities in its most recent evaluation, as provided in Government Code Section 53635.2. Deposits are required to be collateralized as specified under Government Code Section 53630 et. seq. The Director of Finance and Administration, at his or her discretion, may waive the collateralization requirements for any portion that is covered by federal insurance. GCTD shall have a signed agreement with the depository per Government Code Section 53649.

8.14. California Asset Management Program (CAMP): Shares in a portfolio of the CAMP, so long as the portfolio is rated among the top two rating categories by one of the NSROs. For ongoing due diligence, if GCTD is invested in CAMP, the Director of Finance and Administration shall maintain on file a copy of the Program’s current information statement to include its requirements for participation, including limitations on deposits or withdrawals.

8.15. Money Market 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 (15 U.S.C. Sec. 80a-1 et seq.). To be eligible for investment pursuant to this subdivision, these companies shall either: (1) attain the highest ranking letter or numerical rating provided by not less than two NSROs, or (2) have an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years experience managing money market mutual funds with assets under management in excess of $500,000,000.

The purchase price of shares shall not include any commission that the companies may charge. The purchase of shares may not exceed 20 percent of GCTD surplus money.
For ongoing due diligence, the Director of Finance and Administration shall maintain on file a copy of the money market fund’s current information statement to include its requirements for participation, including limitations on deposits or withdrawals.

8.16. Ineligible Investments: Security types which are thereby prohibited include, but are not restricted to:

(a) Reverse repurchase agreements.

(b) “Complex” derivative securities such as range notes, dual index notes, inverse floating-rate notes, leveraged or deleveraged floating-rate notes, or any other complex variable-rate or structured note.

(c) Interest-only strips that are derived from a pool of mortgages, or any security that could result in zero interest accrual if held to maturity.

(d) Securities lending.

In the event that GCTD possesses ineligible investments purchased prior to the adoption of this policy, GCTD may hold these investments to their maturity dates. The limitation in this section shall not apply to GCTD investments in shares of beneficial interest issued by diversified management companies registered under the Investment Company Act of 1940.

9. Maximum Maturity

9.1. Investment maturities shall be based upon a review of cash flow forecasts. Maturities will be scheduled so as to permit GCTD to meet all projected obligations.

9.2. Where the investment policy does not specify a maximum remaining maturity at the time of the investment, no investment shall be made in any security, other than a security underlying a repurchase agreement, that at the time of the investment has a term remaining to maturity in excess of five years, unless the Board has granted express authority to make that investment either specifically or as a part of an investment program approved by the Board no less than three months prior to the investment. The Board authorizes the investment of endowment funds in securities exceeding five (5) years, as long as the investment has been approved by the Director of Finance and Administration and the General Manager, and the maturity of such investments does not exceed the expected use of funds.

10. Performance Standards
The investment performance of the GCTD portfolio shall be evaluated and compared to appropriate indices in order to assess the success of the investment program. The comparable benchmarks should be consistent with the GCTD portfolio in terms of maturity and composition, which includes credit quality and security type.

11. Reporting Requirements
11.1. The Director of Finance and Administration shall submit to the Board of Directors annually a statement of investment policy, which the Board of Directors shall consider at a public meeting.

11.2. A monthly report of all investment transactions shall be submitted to the Board of Directors.

11.3. A quarterly investment report shall be submitted to the Board of Directors. The reports should include information in accordance with Section 53646(b) of the California Government Code.

12. Safekeeping and Custody

12.1. All security transactions, including collateral for repurchase agreements, entered into by GCTD shall be conducted on a delivery-versus-payment (DVP) basis. Securities shall be held by a third party custodian and evidenced by safekeeping receipts.

12.2. The only exception to the foregoing shall be securities purchases made with: (i) LAIF, (ii) Ventura County Treasury Investment Pool, (iii) CAMP pool, (iv) Nonnegotiable Certificates of Deposit, (v) bank deposits, and, (vi) money market mutual funds, since the purchased securities are not deliverable. The Director of Finance and Administration shall keep a record of any funds in any of these investments.