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**FINANCE, BUDGET AND AUDIT COMMITTEE
JANUARY 16, 2013**

SUBJECT: INVESTMENT POLICY

ACTION: ADOPT UPDATED INVESTMENT POLICY

RECOMMENDATION

- A. Adopt the Investment Policy.
- B. Approve the Financial Institutions Resolution authorizing financial institutions to honor signatures of LACMTA Officials, Attachment C.
- C. Delegate to the Treasurer or his/her designees, the authority to invest funds for a one-year period, pursuant to California Government Code (the Code) Section 53607.

ISSUE

Section 53646 of the Code, requires that the Board, on an annual basis and at a public meeting, review and approve the Investment Policy. Section 53607 of the Code, requires that the Board delegate investment authority to the Treasurer on an annual basis.

Section 10.8 of the Investment Policy requires that the Treasurer submit the Financial Institutions Resolution to the Board annually for approval.

DISCUSSION

Policy Implications

The Board approves the objectives and guidelines that direct the investment of operating funds. Revisions to the current Investment Policy are presented in two attachments. Attachment A lists the editorial changes and Attachment B is Section 5.1A the List of Authorized Investments Types and Restrictions reformatted to display maturity requirements in a separate column. Excluding the editorial changes noted in Attachment A, the requirements in Section 5.1A did not change.

Financial Institutions require Board authorization to establish custody, trustee and commercial bank accounts.

BACKGROUND

The Investment Policy establishes guidelines for staff and external investment managers to enable the agency to maximize its return on investments subject to the primary objectives of safety and liquidity. The delegation of investment authority transfers to the Treasurer the responsibility and accountability to perform the investment function for a one-year period.

The approval of the Financial Institutions Resolution gives staff the tool needed to implement the administrative duties arising from policy directives such as opening, closing and changing bank accounts.

To streamline this board report, the following reference materials may be found on the internet:

Current Investment Policy:

http://www.metro.net/about_us/finance/images/investment_policy_2012.pdf

California Government Code: Section 53600 to 53609, Section 53646, Section 53652, Section 16429.1 to 16429.4:

<http://www.leginfo.ca.gov/cgi-bin/calawquery?codesection=gov&codebody>

DETERMINATION OF SAFETY IMPACT

Approval of this item will result in no impact on safety.

FINANCIAL IMPACT

The funds required to update the Investment Policy are included in the FY13 budget in cost center 5210 and project number 610340.

Impact to Bus and Rail Operating and Capital Budget

The sources of funds budgeted to manage assets in accordance with the Investment Policy are Prop A, C, Measure R and TDA Admin funds. These funds are not eligible for bus and rail operating and capital expenses.

ALTERNATIVES CONSIDERED

The Investment Policy and the Code require an annual review and adoption of the Investment Policy, the delegation of investment authority and the annual approval of the Financial Institutions Resolution. Should the Board elect not to delegate the investment authority annually or approve the Financial Institutions Resolution, the Board would assume daily responsibility for the investment of working capital funds and for the approval of routine administrative actions.

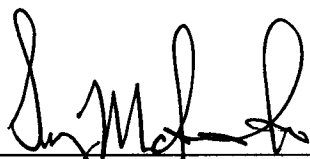
NEXT STEPS

Upon Board approval, distribute the Investment Policy to external investment managers and broker-dealers. Issue copies of the Investment Policy and Financial Institutions Resolution to our financial institutions.

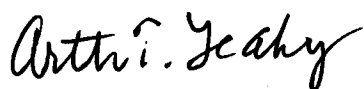
ATTACHMENTS

- A: Editorial Changes
- B: Reformatted Section 5.1A List of Authorized Investment Types and Restrictions
- C: Financial Institutions Resolution

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Terry Matsumoto
Chief Financial Services Officer



Arthur T. Leahy
Chief Executive Officer

ATTACHMENT A

Editorial Changes to List of Authorized Investment Types and Restrictions in Section 5.1A

Section Change	Current Text	Proposed Text	Rationale
Section 5.1A Item #3	Registered state warrants or treasury notes or bonds of the State of California or any of the other 49 United States.	Registered state warrants or treasury notes or bonds of the State of California other 49 states <i>in addition to California</i> .	To conform to California Government Code.
Section 5.1A Item #8	Negotiable certificates of deposits issued by a nationally or state-chartered bank or a state or federal savings and loan association, a state or federal credit union, or by a state licensed branch of a foreign bank, or (effective January 1, 2012) a federally licensed branch of a foreign bank.	Negotiable certificates of deposits issued by a nationally or state-chartered bank or a state or federal savings and loan association, a state or federal credit union, or by a state licensed branch of a foreign bank, or (effective January 1, 2012) a federally licensed branch of a foreign bank.	To remove obsolete text.

**Los Angeles County Metropolitan Transportation Authority
Section 5.1A**

List of Authorized Investment Types and Restrictions

Allowable Investment Instruments as per California Government Code (as of January 1, 2013)^a

*The percentage of portfolio is based on market value.

#	Investment Type	Maximum Maturity	Maximum Allowable Percentage of Portfolio*	Minimum Quality and Other Requirements
1	Bonds Issued by the LACMTA	5 years ^b	100%	None
2	U.S. Treasury notes, bonds, bills or certificates of indebtedness or those for which the full faith and credit of the United States are pledged for payment of principal and interest	5 years ^b	100%	None
3	Registered state warrants or treasury notes or bonds of the other 49 states in addition to California.	5 years ^b	25%	Such obligations must be rated "A1" or better short term; or "AA" or better long term, by a nationally recognized statistical rating organization
4	Bonds, notes, warrants, or other evidences of indebtedness of any local agency within the State of California	5 years ^b	25%	Such obligations must be rated "A1" or better short term; or "AA" or better long term, by a nationally recognized statistical rating organization
5	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	5 years ^b	50% ^d	See Footnote d
6	Bills of exchanges or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers' acceptances	180 days	40% ^c	The issuer's short-term debt must have the highest letter and numerical rating as provided for by a nationally recognized statistical rating organization
7	Commercial paper	270 days	25% ^c	Of the highest ranking or of the highest letter and numerical rating as provided for by a nationally recognized statistical rating organization See Footnote e

**Los Angeles County Metropolitan Transportation Authority
Section 5.1A**

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#	Investment Type	Maximum Maturity	Maximum Allowable Percentage of Portfolio*	Minimum Quality and Other Requirements
8	Negotiable certificates of deposits issued by a nationally or state-chartered bank or a state or federal savings and loan association, a state or federal credit union, or by a state licensed branch of a foreign bank, or a federally licensed branch of a foreign bank.	5 years ^b	30% ^c	See Footnote f
9	Investments in repurchase agreements	90 days	20%	Limited to no more than 90 days. See Footnote g
10	Medium-term 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	5 years ^b	30% ^c	Must be rated "A" or better by a nationally recognized statistical rating organization. If rated by more than one rating agency, both ratings must meet the minimum credit standards
11	Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission, as authorized by Code Section 53601	Not applicable	20% ^c	See Footnote h
12	State of California Local Agency Investment fund (LAIF) Code Section 16429.1 through 16429.4 or other Local Government Investment Pool (LGIP) established by public California entities pursuant to Section 53684	Not applicable	Set by LAIF and LGIP	See Footnote i
13	Asset-backed Securities	5 years ^b	15% combined with mortgage-backed securities	See Footnote j
14	Mortgage-backed Securities	5 years ^b	15% combined with asset-backed securities	See Footnote k

**Los Angeles County Metropolitan Transportation Authority
Section 5.1A**

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Table of Footnotes for Section 5.1A

a	Sources: California Government Code Sections 16429.1, 53601, 53601.8, 53635 and 53638
b	Maximum maturity of five (5) years unless a longer maturity is approved by Board of Directors, either specifically or as part of an investment program, at least three (3) months prior to purchase
c	Limited to no more than 10% of the portfolio in any one issue (i.e. bankers' acceptances, commercial paper, negotiable certificates of deposit, medium-term notes, and money market funds)
d	No more than 15% of portfolio in any one Federal Agency or government-sponsored issue
e	Eligible paper is further limited to 10% of the outstanding paper of an issuing corporation, the issuing corporation must be organized and operating within the United States and having total assets in excess of \$500,000,000 and have an "A" or higher rating for the issuer's debentures, other than commercial paper, if any, as provided for by a nationally recognized statistical rating organization. Issuing corporations that are organized and operating within the United States and have total assets in excess of \$500 million dollars and having an "A" or higher rating for the issuer's debentures, other than commercial paper, if any, as provided by a nationally recognized statistical rating organization
f	The legislative body of the local agency, the treasurer or other official of the local agency having custody of the money are prohibited from investing in negotiable certificates of deposit of a state or federal credit union if a member of the legislative body or any other specified city officer or employee also serves on the board of directors or certain committees of that credit union
g	Repurchase agreements shall be executed through Primary Broker-Dealers. The repurchase agreement must be covered by a master repurchase agreement. Repurchase agreements shall be collateralized at all times. Collateral shall be limited to obligations of the United States and Federal Agencies with an initial margin of at least 102% of the value of the investment, and shall be in compliance if brought back up to 102% no later than the next business day. Collateral shall be delivered to a third party custodian in all cases. Collateral for term repurchase agreements shall be valued daily by the LACMTA's investment manager (for internal funds) or external investment manager. Investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102% no later than the next business day. The LACMTA shall obtain a first lien and security interest in all collateral
h	Companies must have either 1) the highest ranking or the highest letter and numerical rating provided by not less than two of the nationally recognized statistical rating organizations, or (2) retained an investment advisor registered or exempt with the Securities and-Exchange Commission, with no less than five years experience investing in the securities and obligations authorized by California Government Code 53601 a-k inclusive and m-o inclusive and with assets under management in excess of five hundred million dollars (\$500,000,000). The purchase price may not include any commissions charged by these companies

Los Angeles County Metropolitan Transportation Authority

Section 5.1A

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i	<p>Maximum investment per individual pool limited to the amount for LAIF as set by the State Treasurer's Office. Limit does not include funds required by law, ordinance, or statute to be invested in pool. Each pool must be evaluated and approved by the Treasurer, as to credit worthiness, security, and conformity to state and local laws. An evaluation should cover, but is not limited to establishing, a description of who may invest in the program, how often, what size deposit and withdrawal; the pool's eligible investment securities, obtaining a written statement of investment policy and objectives, a description of interest calculations and how it is distributed; how gains and losses are treated; a description of how the securities are safeguarded and how often the securities are priced and the program audited. A schedule for receiving statements and portfolio listings. A fee schedule, when and how fees are assessed</p>
j	<p>Limited to senior class securities with stated maturities of no more than 5 years. Further limited to securities rated in a rating category of "AAA", and issued by an issuer having an "A" or higher rating for the issuer's debt as provided for by a nationally recognized statistical rating organization. Further limited to fixed rate, publicly offered, generic credit card and automobile receivables only. Deal size must be at least \$250 million, and tranche size must be at least \$25 million</p>
k	<p>Pass-Through securities: Limited to Government Agency or Government Sponsored issuers, fixed rate, stated maturity no more than 5 years. CMOS: Limited to Government Agency or Government Sponsored Issuers "AAA" rated by a nationally recognized statistical rating organization. Planned Amortization Classes (PAC) only. The following are prohibited: ARMS, floaters, interest or principal (IOs, POs), Targeted Amortization Classes, companion, subordinated, collateral classes, or zero accrual structures</p>

FINANCIAL INSTITUTIONS RESOLUTION

RESOLVED, that any financial institutions, including all banks and their correspondent banks doing business with the Los Angeles County Metropolitan Transportation Authority (LACMTA), are hereby authorized, requested and directed to honor all checks, drafts, wires, or other orders for payment of money drawn in the LACMTA's name on its account(s) (including those drawn on the individual order of any person or persons whose names appear thereon as a signer or signers thereof) when bearing the original and/or facsimile signature of the Chair; Chief Executive Officer; Deputy Chief Executive Officer; Chief Financial Services Officer; Chief Administrative Services Officer; Treasurer; or Assistant Treasurer (collectively, LACMTA Officials). LACMTA Officials are the only representatives empowered to open, close or authorize changes to accounts on behalf of LACMTA. LACMTA Officials may designate individuals as Official Signatories for financial accounts. The duties of Official Signatories shall be limited to check signing, wire or fund transfers, balance reporting and/or monitoring of bank processes.

And, those financial institutions, including correspondent banks, currently doing business with LACMTA shall be entitled to honor and charge LACMTA for all such checks, drafts, wires, or other orders for the payment of money, regardless of by whom or by what means when the actual or facsimile signature or signatures resemble the specimens filed with those financial institutions by the Secretary or other officer of LACMTA.

CERTIFICATION

The undersigned, duly qualified and acting as Secretary of the Los Angeles County Metropolitan Transportation Authority, certifies that the foregoing is a true Resolution adopted at a legally convened meeting of the Board of Directors of the Los Angeles County Metropolitan Transportation Authority held on _____.

Dated: _____

Michele Jackson
Board Secretary

(SEAL)