



Agenda Item No. (6)

To: Finance-Auditing Committee/Committee of the Whole  
Meeting of February 27, 2020

From: Alice Ng, Director of Fiscal Resources  
Joseph M. Wire, Auditor-Controller  
Denis J. Mulligan, General Manager

Subject: **RENEW ANNUAL DELEGATION OF INVESTMENT MANAGEMENT  
AUTHORITY TO THE AUDITOR-CONTROLLER AS PER RULE XI,  
INVESTMENT POLICY, OF THE RULES OF THE BOARD**

### **Recommendation**

The Finance-Auditing Committee recommends that the Board of Directors renew the annual delegation of investment management authority to the Auditor-Controller for FY 20/21 as per RULE XI, **INVESTMENT POLICY, Section E, Delegation of Authority**, of the *Rules of the Board*, and as provided for in California Government Code Section 53607.

This matter will be presented to the Board of Directors at its February 28, 2020, meeting for appropriate action.

### **Summary**

In accordance with Section E of RULE XI, **INVESTMENT POLICY**, of the *Rules of the Board*, the delegation of investment management authority by the Board to the Auditor-Controller is for a one-year period and is subject to annual Board review and renewal, as provided for in California Government Code Section 53607. Accordingly, Staff recommends that the Finance-Auditing Committee recommend that the Board of Directors renew the annual delegation of investment management authority to the Auditor-Controller for FY 20/21.

As per the attached memo by the Golden Gate Bridge, Highway and Transportation District's (District) investment advisor, Public Finance Management, Inc. ("PFM"), and as further summarized below. PFM has completed its review of the District's Investment Policy ("Policy") and has concluded that there have been no changes to the California Government Code ("Code") provisions on investments that would require an amendment to the District Policy. The District's counsel also concurs with PFM's findings. A copy of the current Policy (last amended by the Board in February 2018) is attached for your reference.

Effective January 1, 2020, the deposit limit for Local Agency Investment Fund ("LAIF") has increased from \$65 million to \$75 million. Since the District's Policy indicates that the District is authorized to invest in LAIF "up to the maximum amount allowed by the State Treasurer," no change is required to the Policy.

PFM's memo also points out Assembly Bill No. 857 and Assembly No. 945, both of which took affect January 1, 2020. In early 2009, the District amended its Policy such that the Policy references California Government Code 53601 with respect to the District's "Permitted Investment Instruments," subject to certain additional restrictions, rather than repeating this section of Code verbatim. Thus, the resulting changes to Code as a result of Assembly Bill No. 857 and Assembly Bill No. 945 do not necessitate any changes to the District's Policy. They are briefly described below as information only.

**Assembly Bill No. 857** provides for the establishment of public banks by local agencies, subject to approval by the Department of Business Oversight ("DBO") and Federal Deposit Insurance Corporation ("FDIC"). As a part of this bill, subsection (r) was added to Code Section 53601, which permits local agencies to invest in the commercial paper, debt securities, or other obligations of such public banks. PFM is not aware of any public banks that are currently in operation and, at this time, do not anticipate making any such investments.

**Assembly Bill No. 945** relates to Code Section 53601.8, which allows public agencies to invest in deposits at certain types of financial institutions that use a private sector entity to assist in the placement of deposits. Assembly Bill No. 945, from January 1, 2020 until January 1, 2026, increases the maximum percentage of funds that a public agency may invest in these instruments from 30% to 50%. On or after January 1, 2026, the maximum percentage of funds that a public agency may invest in these instruments shall be 30%.

### **Fiscal Impact**

There is no fiscal impact associated with this report.

Attachments: Rule XI. Investment Policy  
Annual Investment Policy Review Memo

**RULE XI. INVESTMENT POLICY****A. Introduction**

The purpose of this Rule 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 the Golden Gate Bridge, Highway & Transportation District are based on state law and prudent money management. All general funds will be invested in accordance with the District's Investment Policy and shall be consistent with the provisions of Articles 1 and 2 of Chapter 4 of the California Government Code (commencing with Section 53600). The investment of bond or note proceeds will be governed by the provisions of the relevant bond documents. (Res. 01-148, 9/14/01; Res. 2011-047, 5/27/11; Res. 2012-044, 6/22/12.)

**B. Scope**

It is intended that this policy cover all funds (except retirement funds) and investment activities under the direction of the District.

**C. Prudence**

Investments shall be made with judgment and care—under circumstances then prevailing—which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

The standard of prudence to be used by investment officials shall be the “prudent investor” standard and shall be applied in the context of managing an overall portfolio. All persons investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds shall act with care, skill, prudence and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and anticipated needs of the District, 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 District. (Res. 2011-047, 5/27/11.)

**D. Objectives**

The primary objectives, in priority order, of the District's investment activities shall be:

1. Safety. Safety of principal is the foremost objective of the investment program. The District's investments shall be undertaken in a manner that seeks to ensure preservation of capital in the portfolio.

2. Liquidity. The District's investment portfolio will remain sufficiently liquid to enable the District to meet its cash flow requirements.

3. Return On Investment. The District's investment portfolio 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.

E. Delegation of Authority

The management and oversight responsibility for the Investment Program is hereby delegated for a one-year period to the Auditor-Controller who shall monitor and review all investments for consistency with this Investment Policy and provide monthly reports of investment transactions to the Board. The Board shall review, and may renew the delegation of authority to the Auditor-Controller on an annual basis. (Res. 2017-023, 2/24/17.) No person may engage in an investment transaction except as provided under the limits of this policy. The Board may delegate the day-to-day investment decision making and execution authority to an investment advisor. The advisor shall follow the policy and such other written instructions as are provided. (Res. 2011-047, 5/27/11.)

F. Ethics and Conflict of Interest

Officers and employees involved in the investment process shall 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. Officers and employees involved in the investment process shall abide by the District's Conflict of Interest Code, California Government Code Section 1090 et seq. and the California Political Reform Act (California Government Code Section 81000 et seq.)

G. Internal Controls

The Auditor-Controller shall establish a set of internal controls. The internal controls will be reviewed with the independent auditor. The controls shall be designed to prevent employee error, misrepresentations by third parties, unanticipated changes in financial markets or imprudent actions by employees or officers of the District.

H. Selection of Financial Institutions and Broker/Dealers

To provide for the optimum yield in the District's portfolio, the District's procedures shall be designed to encourage multiple bids and offers on investment transactions from an approved list of broker/dealers. The Auditor-Controller, or the District's investment advisor, shall maintain a list of authorized broker/dealers and financial institutions which are approved for investment purposes, and it shall be the policy of the District to purchase securities only from those authorized institutions or firms.

I. Permitted Investment Instruments

California Government Code Section 53601 (Section 53601) sets forth the securities that public agencies, such as the District, are permitted to invest in. The Board of Directors authorizes the investment of District funds in the categories of securities authorized by Section 53601, as it may be amended from time to time, subject to the following additional restrictions:

1. Repurchase Agreements

Repurchase agreements may be used solely as short-term investments not to exceed 90 days.

Only U.S. Treasury securities or Federal Agency securities, as defined in the subdivisions of Section 53601, will be acceptable collateral.

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

The District or its trustee shall have a perfected first security interest under the Uniform Commercial Code in all securities subject to repurchase agreement.

The District may enter into repurchase agreements only with primary dealers of the Federal Reserve Bank of New York.

The District will have specific written agreements with each firm with which it enters into repurchase agreements.

The District may enter into reverse repurchase agreements only with primary dealers of the Federal Reserve Bank of New York.

2. Bankers' Acceptances

The District may invest in bankers' acceptances issued by domestic or foreign banks, which are eligible for purchase by the Federal Reserve System, the short-term paper of which is rated in the highest category by a nationally recognized statistical rating organization (NRSRO). (Res. 2011-047, 5/27/11.)

Purchases of bankers' acceptances may not exceed 180 days maturity or 40 percent of the District's surplus money. (Res. 2018-016, 2/23/18.)

3. Negotiable Certificates of Deposit

The senior debt obligations of institutions issuing negotiable certificates of deposit must be rated in one of the three highest categories by a NRSRO. (Res. 2011-047, 5/27/11; Res. 2012-044, 6/22/12; Res. 2015-021, 03/13/15.)

4. Shares of Beneficial Interest

The purchase price of shares of beneficial interest issued by diversified management companies, including those 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.), investing in the securities and obligations authorized by the subdivisions of Section 53601, shall not exceed 15 percent of the District's surplus money. (Res. 2009-019, 2/27/09; Res. 2018-016, 2/23/18.)

J. Local Agency Investment Fund

“The District is also authorized to invest in the State of California’s Local Agency Investment Fund pursuant to *California Government Code Section 16429.1*, up to the maximum amount allowed by the State Treasurer.” (Res. 2010-037, 5/19/10)

K. Diversification

Except as provided below, no more than five percent (5%) of the District’s surplus funds may be invested in any one institution, inclusive of all sectors. The types of investments which are excluded from this limitation are:

- United States Treasury, federal agency, and United States government-sponsored enterprise obligations;
- Supranational obligations;
- Money market funds and local government investment pools, including LAIF and the California Investment Management Program (CAMP).

(Res. 2018-016, 2/23/18.)

L. Maximum Maturity

Investment maturities shall be based on a review of cash flow forecasts. Maturities will be scheduled so as to permit the District to meet all projected obligations as provided by the Auditor-Controller. (Res. 2018-016, 2/23/18.)

Unless otherwise specified in this section, no investment shall be made in any security, other than a security underlying a repurchase or reverse repurchase agreement as authorized by this section, that at the time of the investment has a term remaining to maturity in excess of five years. (Res. 96-151; Res. 00-155, 7/28/00; Res. 2018-016, 2/23/18.)

M. Ineligible Investments

Any security type or structure not specifically approved by this policy is hereby specifically prohibited. Security types which are thereby prohibited include, but are not limited to,

1. "Complex" derivative structures such as range notes, dual index notes, inverse floaters, leveraged or deleveraged floating-rate notes, or any other complex variable-rate or structured note.
2. 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.

N. Sales Prior to Maturity

Sales prior to maturity are permitted. Certain investment opportunities may involve

the recognition of value losses. Book value trading losses are permitted. Any trading loss greater than 1 percent of principal value of any investment holding requires the following: (1) explanation of source of loss; (2) rationale for transactions resulting in recognition of loss; and, (3) estimation of time necessary to recoup the loss.

O. Reporting Requirements

The Auditor-Controller shall provide to the General Manager, the Finance-Auditing Committee and the Board a monthly investment report, which shall include, at a minimum, the following information for each individual investment:

- Type of investment instrument;
- Issuer name;
- Maturity date;
- Par value;
- Purchase price; and,
- Current market value and the source of the valuation. (Res. 03-035, 4/11/03)

The monthly report also shall: (1) state compliance of the portfolio to the statement of investment policy, or manner in which the portfolio is not in compliance; (2) include a description of any of the District's funds, investments or programs that are under the management of contracted parties, including lending programs; and, (3) include a statement denoting the ability of the District to meet its expenditure requirements for the next six months, or provide an explanation as to why sufficient money shall, or may, not be available.

This monthly report shall be submitted within 30 days following the end of the month.

The Auditor-Controller shall annually render to the Board a statement of investment policy, which the Board shall consider at a public meeting.

P. Safekeeping and Custody

All securities, whether negotiable, bearer, registered, or nonregistered, whether purchased for the District by financial advisors, consultants or managers, shall be delivered, either by book entry or physical delivery, to the District's third party custodian.

Q. Investment Sub-Committee

An Investment Sub-Committee shall be established that will include the Chair of the Finance-Auditing Committee, plus two other Directors and the Auditor-Controller, to periodically review the District's investment strategy and investment policy as needed. (Res. 81-197, 5/29/81; Res. 2012-044, 6/22/12.)

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February 5, 2020

## Memorandum

To: Joseph M. Wire, Auditor-Controller  
 Alice Ng, Director of Fiscal Resources  
*Golden Gate Bridge, Highway & Transportation District*

From: Lesley Murphy, Senior Managing Consultant  
*PFM Asset Management LLC*

Re: Annual Investment Policy Review

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We have completed our annual review of the Investment Policy (the “Policy”) for the Golden Gate Bridge, Highway & Transportation District (the “District”). The Policy remains in compliance with all applicable California Government Code (Code) statutes regulating the investment of public funds, and there have been no recent changes to the relevant Code statutes that would require the District to update its Policy. Therefore, we are not recommending any changes to the District’s Policy at this time.

However, we do want to make the District aware of several recent changes related to public funds investing in the State of California.

### **Increase in the Deposit Limit for the Local Agency Investment Fund (LAIF)**

In late 2019, California’s State Treasurer, Fiona Ma, announced that, effective January 1, 2020, LAIF’s deposit limit for regular accounts will increase to \$75 million from the previous limit of \$65 million.

Since the District’s Policy indicates that the District is authorized to invest in LAIF “up to the maximum amount allowed by the State Treasurer,” no change is required to the Policy.

### **Assembly Bill No. 857**

Assembly Bill No. 857, which took effect on January 1, 2020, provides for the establishment of public banks by local agencies, subject to approval by the Department of Business Oversight (DBO) and Federal Deposit Insurance Corporation (FDIC). As a part of this bill, subsection (r) was added to Code section 53601, which permits local agencies to invest in the commercial paper, debt securities, or other obligations of such public banks.



We would like to note that we do not anticipate making any such investments in the near term. We are not aware of any public banks that are currently in operation. Thus, we are not currently investing any client assets in the debt obligations of these public banks. Furthermore, we would review the operational history and credit quality of any public bank before we would invest client assets in the debt obligations of such banks.

**Assembly Bill No. 945**

Assembly Bill No. 945, which also took effect on January 1, 2020, relates to Code Section 53601.8, which allows public agencies to invest in deposits at certain types of financial institutions that use a private sector entity to assist in the placement of deposits. Assembly Bill No. 945, from January 1, 2020 until January 1, 2026, increases the maximum percentage of funds that a public agency may invest in these instruments from 30% to 50%. On or after January 1, 2026, the maximum percentage of funds that a public agency may invest in these instruments shall be 30%.

**No Changes Recommended to the District's Investment Policy ("Policy") Related to Assembly Bill No. 857 or Assembly Bill No. 945**

In early 2009, the District amended its Policy such that the Policy references California Government Code 53601 with respect to the District's "Permitted Investment Instruments," subject to certain additional restrictions, rather than repeating this section of Code verbatim. Thus, the resulting changes to Code as a result of Assembly Bill No. 857 and Assembly Bill No. 945 do not necessitate any changes to the District's Policy.

Please contact us if you have any questions.