



Agenda Item No. (7)

To: Finance-Auditing Committee/Committee of the Whole
Meeting of March 23, 2023

From: Joseph M. Wire, Auditor-Controller
Denis J. Mulligan, General Manager

Subject: **APPROVE ACTIONS RELATIVE TO THE ANNUAL REVIEW OF RULE XI, INVESTMENT POLICY, OF THE RULES OF THE BOARD**

Recommendation

The Finance-Auditing Committee recommends that the Board of Directors approve the following actions relative to the annual review of RULE XI, **INVESTMENT POLICY**, of the *Rules of the Board*:

1. Renew the annual delegation of investment management authority to the Auditor-Controller for Fiscal Year (FY) 23/24 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.
2. Approve an amendment to RULE XI, **INVESTMENT POLICY**, of the *Rules of the Board* as set forth below.

This matter will be presented to the Board of Directors at its March 24, 2023, meeting for appropriate action.

Summary

Renew Delegation of Investment Management Authority to Auditor-Controller

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. 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 23/24.

Amendment to Investment Policy

The attached memo by the Golden Gate Bridge, Highway and Transportation District's (District)

investment advisor, Public Finance Asset Management LLC, (“PFMAM”) summarizes PFMAM’s review of the District’s Investment Policy and changes to the Government Code relative to Senate Bill 1489 Local Government Omnibus Act of 2022 (“SB 1489”), which took effect on January 1, 2023 and shall be in effect until January 1, 2026, and impacts the investment of public funds and the reporting practices of public agencies.

PFMAM’s memo provides a recommendation to amend Section O. Reporting Requirements of RULE XI, **INVESTMENT POLICY**, to increase the number of days when the monthly investment report shall be provided to the General Manager, the Finance-Auditing Committee and the District Board, from within 30 days, to 45 days following the end of the month. This amendment will bring the Investment Policy up to date with the recent SB 1489 changes to the Government Code, and this change is marked up in the Investment Policy attached as Attachment 2.

PFMAM’s memo also points out other SB 1489 changes to the Government Code, including language stating that an investment’s term or remaining maturity shall be measured from the settlement date to final maturity, and that a security purchased in accordance with Government Code section 53601 shall not have a forward settlement date exceeding 45 days from the time of investment. Because the Investment Policy references California Government Code section 53601 with respect to the District’s “Permitted Investment Instruments,” subject to certain additional restrictions, rather than repeating sections of the Government Code verbatim, these resulting changes to the Government Code do not necessitate any changes to the District’s Investment Policy and were summarized in PFMAM’s memo as informational only.

Fiscal Impact

There is no fiscal impact associated with this report.

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

February 21, 2023

Memorandum

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

From: Wale Kajopaiye, Senior Managing Consultant
PFM Asset Management LLC

RE: Annual Investment Policy Review

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. This year, our proposed change to the Policy is minor and is designed to reflect recent updates to Code and/or to provide additional clarity to the Policy.

Additionally, we want to make the district aware of several recent changes to the sections of California Government Code that govern the investment of public agency funds.

We have also included a redlined version of the Policy with our proposed modifications.

Information and Recommended Modifications Related to Code Chang

Senate Bill 1489 Local Government Omnibus Act of 2022– Overview

Senate Bill 1489 (“SB 1489”), which took effect on January 1, 2023 and shall be in effect until January 1, 2026, made a number of changes to Code, including several that impact the investment of public funds and the reporting practices of public agencies. Changes made to Code section 53601, the section of Code that governs the investment of public funds, include language stating that an investment’s term or remaining maturity shall be measured from the settlement date to final maturity, and, that a security purchased in accordance with Code section 53601 shall not have a forward settlement date exceeding 45 days from the time of investment. These amendments to Code do not necessitate changes to the District’s Policy.

SB 1489 also modified Code section 53646 and its quarterly reporting requirements. Per Code, producing a quarterly report is optional for public agencies. However, should an agency choose to produce a quarterly report, certain requirements must be met. One of those requirements was to produce the quarterly report within thirty (30) days following the end of the quarter. With SB 1489

that time has been extended to forty-five (45) days. Instead of quarterly reports, the District's Policy explicitly requires monthly reports to be submitted within 30 days following the end of the month.

Recommendation: In section "O" of the policy under *Reporting Requirements*, we recommend updating the requirement to 45 days to reflect this change.

RULES 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 annually during the external financial statement audit. 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.

2. Reverse Repurchase Agreements

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

3. 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.)

4. 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.)

5. 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 (LAIF) 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,

- Range notes, dual index notes, inverse floaters, leveraged or deleveraged floating-rate notes, and mortgage-derived, interest-only strips.
- Any security that could result in zero interest accrual if held to maturity, except that, in the event of, and for the duration of, a period of negative interest rates, the District may invest in securities issued by, or backed by, the United States government that could result in zero- or negative-interest accrual. This limitation shall not apply to the District's investments in shares of beneficial interest issued by diversified management companies registered under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1 et seq.) that are authorized for investment pursuant to subdivision (l) of Section 53601.

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~~45 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 that will include the Chair of the Finance-Auditing Committee, plus two other Directors and the Auditor-Controller, shall be established periodically, as needed, to review the District's investment strategy and investment policy. (Res. 81-197, 5/29/81; Res. 2012-044, 6/22/12.)