Resolution No. 2024-3

Board of Directors, San Mateo County Transportation Authority
State of California

***

Amending the Investment Policy for the San Mateo County Transportation Authority

Whereas, as encouraged by applicable State law and in accordance with best practices, the San Mateo County Transportation Authority (Authority) adopted a Statement of Investment Policy in November 1999; and

Whereas, the Authority may annually render a statement of said Investment Policy to the Board of Directors for review and approval pursuant to Section 53646 of the Government Code; and

Whereas, the Authority has amended or reaffirmed its Statement of Investment Policy over the years, most recently in August 2022, to align with descriptions of investments contained in California law and more clearly reflect the Authority's strategy for the investment of its funds; and

Whereas, in presenting the Statement of Investment Policy to the Board of Directors for this year, staff recommends amending the Statement of Investment Policy to reflect recent updates to state law, including Government Code Section 53600 et seq.

Now Therefore, Be It Resolved that the Board of Directors of the San Mateo County Transportation Authority hereby amends the Statement of Investment Policy, as reflected in Exhibit A, which is attached hereto, as follows:

- Amend the Investment Policy to clarify the delegation of investment authority provided by Government Code Section 53607;

- Amend the Investment Policy to increase, from 30 to 45 days, the time allowed for quarterly investment reporting to be made to the Board, per updates to Government Code Section 53646;
- Amend the Investment Policy's section on maturity to note that, while state law allows for investment in federal and federal agency securities with a maturity of up to 15 years, not more than 30 percent of the portfolio will be invested in securities with a maturity of more than five years;
- Add language to reflect an amendment to Government Code Section 53601(o), which took effect on January 1, 2024, and clarified that mortgage and lease backed securities issued by the federal government or its agencies are not subject to the AA minimum rating imposed on non-governmental issued securities;
- Update the language pertaining to realized losses to clarify that it is permitted to incur losses for the purpose of rebalancing the portfolio to increase overall earnings; and
- Update the table of authorized investments to denote that Shares of Beneficial Interest issued by diversified management companies must maintain the highest rating issued by at least two Nationally Recognized Statistical Rating Organization (NRSROs).

Regularly passed and adopted this 4th day of April, 2024 by the following vote:

Ayes: Beach, Mates, Medina, Nagales, Romero

Noes: None

Absent: Corzo, Mueller



Chair, San Mateo County Transportation Authority

Attest:

Authority Secretary

EXHIBIT A

SAN MATEO COUNTY TRANSPORTATION AUTHORITY

Statement of Investment Policy For The Investment of Transportation Authority Funds

I. PURPOSE

This Statement of Investment Policy (Investment Policy) sets forth the investment guidelines for the prudent investment and cash management of the San Mateo County Transportation Authority (the Authority) funds. It is the goal of this Investment Policy to establish investment objectives in accordance with the provisions of the *California Government Code, Section 53600 et seq.* (hereafter "*Code*"), and investment guidelines to ensure that the funds under its purview are prudently invested to preserve capital, provide necessary liquidity, and achieve a market-average rate of return over an economic cycle consistent with the Authority's goals of preserving principal and minimizing the risk of diminishing the principal.

Investments may only be made as authorized by this Investment Policy, and subsequent revisions. This Statement of Investment Policy may be reviewed annually by the Authority's Board of Directors at a public meeting. (*California Government Code Section 53646(a)*). Irrespective of these policy provisions, should the provisions of the Code be, or become, more restrictive than those contained herein, then such provisions will be considered immediately incorporated into this Statement of Investment Policy.

II. OBJECTIVE

The Authority's cash management system is designed to monitor and forecast accurately, expenditures and revenues, thus enabling the Authority to invest funds to the fullest extent possible. Idle funds of the Authority shall be invested in accordance with sound treasury management and in accordance with the provisions of the *Code* and this Investment Policy.

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 applied in the context of managing an overall portfolio. Authority officials shall act in accordance with written procedures and the Investment Policy, and should report deviations from expectations in a timely fashion and take appropriate action to control adverse developments.

The Authority's primary objective with respect to its invested funds is to safeguard the principal of the funds. The second objective is to meet the liquidity needs of the Authority. The third objective is to achieve a return on its invested funds.

III. BENCHMARKS

Investment performance will be compared to the performance benchmark selected by the Authority, which approximates the Authority's portfolio and the specific restrictions on the Authority's portfolio in accordance with applicable current legislation by the State of California.

The benchmark will be reviewed periodically to ensure it remains appropriate and consistent with the Authority's risk and return expectations.

IV. POLICY

At all times, the Authority shall invest its funds in accordance with the rules and restrictions established by the law of the State of California (including the *Code.*). In addition, the Authority shall conduct its investments under 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." (*California Government Code Section 53600.3*).

The Board of Directors delegates, on an annual basis, the authority to invest funds to the Executive Director of the Authority, or designee, who shall serve as the Authority's trustee for purposes of placing investments pursuant to this Investment Policy. The Board of Directors shall review and specifically reauthorize this delegation of authority on an annual basis (*California Government Code Section 53607*).

1. **Criteria for Selecting Investments**. Criteria for selecting investments and the order of priority are:

   a. Safety. The safety and risk associated with an investment refer to the potential loss of principal, interest or a combination of these amounts. The Authority shall invest only in those investments that are considered safe. Investments in instruments and with institutions permitted under Section 2, Section 6, and Section 7, are deemed to constitute safe investments within the meaning of this Investment Policy.

   b. Liquidity. An adequate percentage of the portfolio, in the approximate amount of six months' operating expenses, should be maintained in liquid short-term investments which can convert to cash if necessary to meet disbursement requirements. For purposes of this Investment Policy, fixed income securities maturing in one year or more are considered investment term and fixed income securities maturing in less than one year are considered short-term cash equivalents. All funds available for investment shall be directed to the managers of the Authority's investment portfolio.

   c. Return on Investment. The Authority's investment portfolio shall be designed with the objective of attaining the safety and liquidity objectives first, and then attaining a market rate of return throughout the budgetary and economic cycles consistent with the portfolio's benchmark as described in the section entitled "Objective" (see above). This benchmark takes into account the Authority's investment risk constraints and the cash flow characteristics of the portfolio.

2. **Diversification**. The Authority will focus on diversification and invest in securities consistent with the diversification limits established by this policy and consistent with California Government Code.

3. **Safekeeping and Custody**. All security transactions, including collateral for repurchase agreements will be executed on a Delivery versus Pay Basis (DVP). The assets of the Authority shall be held in safekeeping by the Authority's safekeeping agent, or secured through third party custody and safekeeping procedures. A due bill or other substitution will not be acceptable.

4. **Maturity of Investments**. The specific security guidelines including maximum maturities and qualified Fixed Income instruments can be found in Section 9 "Summary of Instruments & Limitations" of this Investment Policy. For purposes of compliance with this Policy, an investment's term or remaining maturity shall be measured from the settlement date to final maturity. Although state law allows investment in U.S. Agencies or Government Sponsored Enterprises and U.S. Treasury obligations with a maturity of up to fifteen years, securities with term to maturity greater than five years shall not exceed 30% of the overall portfolio value.

The maximum dollar weighted average maturity of the fund is five years. This policy limitation leaves open the flexibility to take advantage of interest rate fluctuations as well as yield curve differences to maximize the return on investment. The imposed maximum dollar weighted five year average maturity limits the market risk to levels appropriate for an intermediate income fund. For the purposes of calculating the "average life" of the fund, callable and asset backed securities will be run to their stated final maturity.

5. **Deposit of Funds**. As far as possible, all money belonging to or in the custody of the Authority including money paid to the Authority to pay the principal, interest or penalties of bonds, shall be deposited for safekeeping in state or national banks, savings associations or federal associations, credit unions or federally insured industrial loan companies in California (as defined by *California Government Code Section 53630*). Pursuant to *California Government Code Sections 53635, 53637 and 53638*, the money shall be deposited in any authorized depository with the objective of realizing maximum return, consistent with prudent financial management.

6. **Allowable Investment Instruments**. The Authority also may invest in any investment instrument as authorized by the *California Government Code*, as it may be amended from time to time, and subject to any conditions set forth in the *California Government Code*. This Policy may be more restrictive than *California Government Code* regarding the limitations of certain investment types, as shown in the table in Section 9. These investment instruments include but are not limited to:

a. United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for

the payment of principal and interest, pursuant to *California Government Code Section 53601(b)*.

b. 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, pursuant to *California Government Code Section 53601(f)*.

c. Bankers' acceptances otherwise known as bills of exchange or time drafts that are drawn on and accepted by a commercial bank. Purchases of bankers' acceptances shall not exceed 180 days' maturity or 40 percent of the agency's moneys that may be invested pursuant to this section. However, no more than 30 percent of the agency's moneys may be invested in the bankers' acceptances of any one commercial bank pursuant to this section. This subdivision does not preclude a municipal utility district from investing moneys in its treasury in a manner authorized by the Municipal Utility District Act (*California Public Utilities Code Section 11501, et seq.*). Pursuant to *California Government Code Section 53601(g).*

d. Commercial paper of "prime" quality of the highest ranking or of the highest letter and number rating as provided for by a nationally recognized statistical rating organization (NRSRO). Eligible commercial paper shall have a maximum maturity of 270 days or less. No more than 40 percent of the agency's money may be invested in eligible commercial paper. The agency may invest no more than 10 percent of its total investment assets in the commercial paper and medium-term notes of any single issuer pursuant to *California Government Code Section 53601(h)*.

e. Negotiable certificates of deposit issued by a nationally or state-chartered bank, a savings association or a federal association (as defined by *California Financial Code Section 5102*), a state or federal credit union, or by a federally licensed or state-licensed branch of a foreign bank. Purchases of negotiable certificates of deposit shall not exceed 30 percent of the agency's moneys that may be invested pursuant to *California Government Code Section 53601(i)*.

f. Investments in repurchase agreements or reverse repurchase agreements or securities lending agreements as defined in *California Government Code Section 53601(j)*.

g. 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 by depository institutions licensed by the United States or any state and operating within the United States. Notes eligible for investment under this subdivision shall be rated in a rating category of "A" or its equivalent or

better by an NRSRO. Purchases of medium-term notes shall not include other instruments authorized by this section and may not exceed 30 percent of the agency's moneys that may be invested pursuant to *California Government Code Section 53601(k)*. The agency may invest no more than 10 percent of its total investment assets in the commercial paper and the medium-term notes of any single issuer.

h. Shares of beneficial interest issued by diversified management companies that invest in the securities and obligations as described by *California Government Code Section 53601(l)*.

i. Local government investment pools. Shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7 as described by *California Government Code Section 53601(p)*. The Board of Directors has authorized the Authority to invest in the Local Agency Investment Fund (LAIF) pursuant to California Government Code Section 16429.1 and in the San Mateo County Investment Fund (SMCIF).

j. A mortgage passthrough security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable passthrough certificate, or consumer receivable-backed bond. For securities eligible for investment under this subdivision that are not issued or guaranteed by an agency or issuer identified in subdivision (a) or (b) of this Policy, the following limitations apply: 1) The security shall be rated in a rating category of "AA" or its equivalent or better by an NRSRO and have a maximum remaining maturity of five years or less; 2) Purchase of securities authorized by this subdivision may not exceed 20 percent of the agency's surplus moneys that may be invested pursuant to this *California Government Code Section 53601(o)*.

k. Registered state warrants or treasury notes or bonds of this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of the state. Pursuant to *California Government Code 53601(c)*.

Registered treasury notes or bonds of any of the other 49 states in addition to California, including bonds payable solely out of the 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 other 49 states, in addition to California. Pursuant to *California Government Code 53601(d).*

Bonds, notes, warrants, or other evidences of indebtedness of any local agency within this 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. Pursuant to *California Government Code 53601(e).*

l. Supranational obligations including United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated in a rating category of "AA" or its equivalent or better by an NRSRO and shall not exceed 30 percent of the agency's moneys that may be invested pursuant to *California Government Code Section 53601(q*).

m. Collateral is defined in this Investment Policy to mean property (as securities) pledged by a borrower to protect the interest of the lender. For purposes of this Investment Policy, the following investments are considered to have collateral backing: Certificates of Deposit protected by either the FDIC or pledged securities in conformance with California Codes and this Investment Policy; or Bankers' Acceptances (protected by an irrevocable time draft or bill of exchange) whereby the accepting bank incurs an irrevocable primary obligation thus guaranteeing payment on the draft or bill. A secondary obligation rests with the issuing company; Commercial Paper (protected by an unsecured promissory note from the issuer who must be rated A1/P1/F1 or better) thereby guaranteeing that the earning power and/or liquidity had been established to fulfill the obligation to pay; and, asset backed securities which are rated AAA by both Moody's and Standard & Poor's.

7. **Prohibited Investments**. The Authority shall not invest any funds in inverse floaters, range notes or mortgage derived interest-only strips. The Authority shall not invest any funds in any security that could result in zero interest accrual if held to maturity; however, the Authority may hold this prohibited instrument until its maturity date. The limitation does not apply to investments in shares of beneficial interest issued by diversified management companies as set forth in *California Government Code Section 53601.6*.

8. **Portfolio Transactions**. The Authority's investment advisors are expected to seek best execution for all portfolio transactions. Best execution relates to the expected realized price net of commissions and is not necessarily synonymous with the lowest commission rate. Investment advisors are to obtain three independent bids from SEC licensed brokerage institutions, licensed by the state as a broker-dealer, as defined in *California Government Code Section 53601.5*, or from a brokerage firm designated as a primary government dealer by the Federal Reserve Bank, prior to the execution of each portfolio transaction. The investment advisors, at their sole discretion and authority, will choose which broker-dealers or brokerage firms from which to solicit bids and final selection is to be made based on the best interests of the Authority. Investment advisors may incur realized capital losses as part of their management of the portfolio in order to maximize overall earnings through reinvestment into different securities.

9. **Summary of Instruments & Limitations**. Subject to the limitations set forth in *California Government Code Sections 53600 et seq*. which may be amended from time to time, the Executive Director or his designee may invest in the following instruments, subject to the limits of flexibility described above and in the table below. Limitations set in this Policy may be more restrictive than required by *California Government Code:*

10. **Oversight**.

Instrument	Credit Rating	% of Fund	% of Fund per Issuer	Maximum Maturity
(a) U.S. Treasury Obligations		100	N/A	15 years
(b) Obligations of U.S. Agencies or Government Sponsored Enterprises		100	N/A	15 years
(c) Bankers' Acceptances		40	30	180 days
(d) Commercial Paper	A1/P1/F1	40	10	270 days
(e) Negotiable Certificates of Deposit		30	N/A	5 years
(f) Repurchase Agreements		100	N/A	1 year
Reverse Repurchase Agreements & Securities Lending		20	N/A	92 days
(g) Medium Term Corporate Notes	"A" category (split rated issues not allowed)	30	10	5 years
(h) Shares of beneficial interest issued by diversified management companies	Highest rating by two NRSROs	20	10	N/A
(i) Local Government Investment Pools		100	N/A	N/A
(j) Asset-backed and mortgage-backed securities	"AA" category	20	N/A	5 years
(k) Municipal Obligations		100	N/A	10 years
(l) Supranational Obligations	"AA" category	30%	N/A	5 years
Local Agency Investment Fund		Up to current state limit		
San Mateo County Investment Fund		Up to current state limit		

a. Quarterly, the Executive Director shall submit an investment report to the Board of Directors within 45 days of the end of the quarter. The report shall include the following information:

1. type of investment, issuer, date of maturity, par and dollar amount invested in all securities, investments and money held by the Authority;

2. description of any of the Authority's funds, investments or programs that are under the management of contracted parties, including lending programs;

3. for all securities held by the Authority or under management by any outside party that is not a local agency or the State of California LAIF, a current market value as of the date of the report and the source of this valuation;

4. statement that the portfolio complies with the Investment Policy or the manner in which the portfolio is not in compliance; and

5. statement that the Authority has the ability to meet its pool's expenditure requirements (cash flow) for the next six months or provide an explanation as to why sufficient money shall or may not be available.

b. Annually, the Executive Director shall perform, or cause to be performed, an independent audit of the Authority's assets as reported for the investment program's activities. It is to be conducted in such a way as to determine compliance with the Authority's Investment Policy and the State Codes. Such independent auditors will express an opinion whether the statement of assets is presented fairly and in accordance with generally accepted accounting principles.

c. If the Authority places all of its investments in the LAIF, FDIC-insured accounts in a bank or savings and loan association, or the SMCIF (or any combination of these three), the Executive Director can simply submit, on at least a quarterly basis, the most recent statements from these institutions to meet the requirements of items 1-3 above, with a supplemental report addressing items 4 and 5 above. (*California Government Code Section 53646(b)-(e)*).