

North County Transit District

Investment Policy - 2010

**NORTH COUNTY TRANSIT DISTRICT
INVESTMENT POLICY – 2010**

I. INTRODUCTION

The investment policies and practices of the North County Transit District (NCTD) are based on California State law and prudent money management. The primary goals of these policies are:

1. To assure compliance with federal, state, and local laws governing the investment of funds.
2. To protect the investment principal.
3. To meet liquidity needs.
4. To generate the maximum amount of investment income within the parameters of prudent risk management.

II. SCOPE

In accordance with Board Resolution and amendments by the Board thereto, the Director of Administration and Finance is the Treasurer and is responsible for investing surplus cash. This investment policy applies to the investment activities of NCTD. The daily management responsibility for the investment program is assigned to the Director of Administration and Finance who shall monitor and review investments for consistency with this investment policy.

III. DELEGATION OF AUTHORITY

The Director of Administration and Finance, as Treasurer, is responsible for carrying out the policies of the Board of Directors.

For the purposes of carrying out this investment policy, the Treasurer and one of the following individuals are hereby authorized to make investment decisions, in strict accordance with this investment policy, on behalf of NCTD:

Executive Director
Manager of Budgeting and Fare Collection
Controller

All accounts established for the purpose of investing NCTD funds shall require the written authorization of the Executive Director.

No single individual, acting alone, may initiate an investment activity.

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The Executive Director and/or the Treasurer may delegate investment management and decision authority, via written agreement, to one or more professional investment advisors/managers that are qualified and registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940. Agents engaged in this capacity shall make investment decisions and transactions in strict accordance with state law and this investment policy.

IV. PRUDENCE

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. Investment officials shall act with care, skill, prudence, and diligence under circumstances then prevailing, including, but not limited to, the general economic conditions and the 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.

V. OBJECTIVES

The goals of this policy are prioritized as:

1. **Safety**. Safety of principal is the foremost objective of the investment program. Investments of NCTD shall be undertaken in a manner that seeks to ensure preservation of capital in the portfolio.
2. **Liquidity**. The investment portfolio of NCTD will remain sufficiently liquid to enable NCTD to meet its cash flow requirements.
3. **Return on Investment**. The investment portfolio of NCTD 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.

VI. ETHICS (CONFLICT OF INTEREST)

Officers and employees 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.

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VII. SELECTION OF FINANCIAL INSTITUTIONS AND BROKER/DEALERS

NCTD shall transact business only with banks and registered investment securities dealers. The purchase by NCTD 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 National Association of Securities Dealers, 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.

All financial institutions and brokers who desire to become qualified bidders for investment transactions will be given a copy of the District's Investment Policy, and a return cover letter which must be signed indicating that the investment policy has been read and understood. Qualified financial institutions and brokers must supply the Treasurer with the following:

A. Financial Institutions.

Current audited financial statements.
Depository contracts, as appropriate.
Proof that commercial banks and savings banks are state or federally chartered.

In addition to the above, commercial banks and savings banks must maintain a minimum net worth to asset ratio of 3% (total regulatory net worth divided by total assets), and must have had positive net earnings for the last reporting period.

B. Brokers.

Current audited financial statements.
Proof that brokerage firms are members in good standing of a national securities exchange.

In addition, to be eligible for consideration to become an authorized provider, each broker/firm shall meet the following minimum requirements:

- 1) Have a net capital position in excess of \$10 million;
- 2) Have been in business for at least five years;
- 3) Are currently licensed as a broker-dealer or investment adviser in California; and,

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- 4) Must carry adequate insurance coverage including liability, errors and omissions, and workers' compensation (if applicable).

Firms providing only representation of money market funds are exempt from requirement #1, but must still comply with all other requirements, including those listed below.

The Treasurer shall evaluate the qualifications of all qualified firms, and choose (at least) the three most qualified firms based on evaluation criteria. The NCTD Board of Directors shall approve the initial authorization of any qualified firm. Renewal of authorization is at the discretion of the Treasurer, provided the minimum requirements stated above continue to be met.

All firms authorized to do business with NCTD must also comply with the following requirements:

- 1) Firms must submit audited financial statements annually, within six months of their fiscal year-end;
- 2) Firms must provide proof of their NASD certification, and must disclose to NCTD any regulatory actions or complaints against the broker assigned to the NCTD account;
- 3) Firms must provide proof of their registration/license to do business in the state of California, and shall immediately disclose to NCTD any change in that status;
- 4) Firms must certify in writing that they have received, read, and agree to comply with NCTD's most recently adopted Investment Policy.

If an external investment advisor is authorized to conduct investment transactions on NCTD's behalf, the investment advisor may use its own list of approved broker/dealers and financial institutions for investment purposes. These transactions must be consistent with the standards adopted by the NCTD Board.

VIII. PERMITTED INVESTMENT INSTRUMENTS

Treasury Obligations: Government obligations for which the full faith and credit of the United States are pledged for the payment of principal and interest. There is no limit to the percentage of the portfolio that can be invested in this category.

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Federal Agencies and U.S. 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. Although no percentage limitation applies, the standard of prudence shall be applied for any single agency name.

Repurchase Agreements: Repurchase Agreements used solely as short-term investments not-to-exceed 90 days. No more than 40 percent of NCTD's funds may be invested in Repurchase Agreements.

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 NCTD'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 NCTD for the term of the investment.

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

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

NCTD may enter into Repurchase Agreements with (1) primary dealers in U.S. Government securities who are eligible to transact business with, and who report to, the Federal Reserve Bank of New York, and (2) California and non-California banking institutions having assets in excess of \$1 billion and in the highest short-term rating category as provided by Moody's Investors Service, Inc. or Standard & Poor's Corporation.

NCTD will have properly executed a Public Securities Association (PSA) agreement with each firm with which it enters into Repurchase Agreements.

Bankers Acceptances: 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 rating category by a nationally recognized statistical rating organization.

Purchases of Bankers Acceptances may not exceed 180 days maturity or 40 percent of NCTD's surplus funds. No more than 10 percent of NCTD's surplus funds may be invested in the Bankers Acceptances of any one commercial bank.

Commercial paper: Commercial paper rated in the highest short-term rating category, as provided by a nationally recognized statistical rating organization.

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The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (1) or paragraph (2):

- (1) The entity meets the following criteria: (A) is organized and operating in the United States as a general corporation. (B) Has total assets in excess of five hundred million dollars (\$500,000,000). (C) Has debt other than commercial paper, if any, that is rated "A" or higher by a nationally recognized statistical rating organization.
- (2) The entity meets the following criteria: (A) is organized within the United States as a special purpose corporation, trust, or limited liability company. (B) Has program wide credit enhancements including, but not limited to, over collateralization, letters of credit, or surety bond. (C) Has commercial paper that is rated "A-1" or higher, or the equivalent, by a nationally recognized statistical rating organization.

Purchases of eligible commercial paper may not exceed 180 days maturity nor represent more than 10 percent of the outstanding paper of an issuing corporation. No more than 10 percent of NCTD's surplus funds may be invested in Commercial Paper of any one U.S. corporation. Purchases of commercial paper may not exceed 15 percent of NCTD's surplus funds which may be invested.

Medium-Term Notes: Medium-term corporate notes, defined as all corporate and depository institution debt securities with a remaining maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the U.S. or any state and operating within the U.S. Medium-term corporate notes shall be rated in a rating category "AA" or its equivalent or better by a nationally recognized rating service.

Purchase of medium-term corporate notes may not exceed 30 percent of the agency's surplus funds. No more than 10 percent of NCTD's surplus funds may be invested in the medium-term notes of any one corporation.

Negotiable Certificates of Deposit: Negotiable certificates of deposit issued by a nationally or state-chartered bank or a state or federal savings bank or by a state-licensed branch of a foreign bank; provided that the senior debt obligations of the issuing institution are rated "AA" or better by a nationally recognized statistical rating organization.

Purchase of negotiable certificates of deposit may not exceed 30 percent of NCTD's surplus funds, except that the amount so invested shall be subject to the limitations of Section 53638 of the Government Code.

State of California's Local Agency Investment Fund: The State of California's Local Agency Investment Fund (LAIF) may be invested in for up to \$50 million.

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Savings Accounts: Agency funds may be held for safekeeping in state or national banks, savings associations, federal associations, credit unions, or federally insured industrial loan companies in this state selected by the Treasurer or other official having legal custody of the money. Any institution must have received an overall rating of not less than “satisfactory” in its most recent evaluation by the appropriate federal financial supervisory agency of its record of meeting the credit needs of California’s communities, including low- and moderate-income neighborhoods, pursuant to Section 2906 of Title 12 of the United States Code.

Mortgage and Asset-Backed Obligations: Any mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate, or consumer receivable-backed bond of a maximum of 5 years maturity. Such obligations must be rated AA or higher by two national rating agencies and the issuer of such obligations must be rated AA or higher by two of the national rating agencies as well. Purchases of securities authorized by this section may not exceed 20 percent of NCTD’s surplus funds that may be invested.

San Diego County Investment Pool: Any amount may be invested in the pool by NCTD.

Credit criteria and maximum percentages listed in this section are calculated at the time the security is purchased.

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

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

IX. MAXIMUM MATURITY

Investment maturities shall be based upon a review of cash flow forecasts and State of California law. Maturities will be scheduled so as to permit NCTD to meet projected obligations. The maximum maturity will be no more than five years from purchase date to maturity date.

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X. PERFORMANCE STANDARDS

The investment performance of any professional investment advisors/managers shall be evaluated and compared to appropriate indices to determine the success of the investment program. The comparable benchmarks should consider maturity and portfolio composition, including credit quality and security type.

XI. REPORTING REQUIREMENTS

The Treasurer shall submit to the Board annually a statement of investment policy, which the Board shall consider at a public meeting.

Quarterly investment reports shall be submitted to the Board within 30 days following the end of the quarter covered by the report. The reports should include the following information:

- Description of investment instrument
- Interest rate or yield to maturity
- Book value
- Current market value
- If applicable: Name of issue, Coupon rate, Purchase date, Maturity date, Purchase price

The quarterly report shall state whether the portfolio is in compliance with this investment policy, or describe whether the portfolio is not in compliance. The Treasurer shall include a statement on the ability of NCTD to meet its expenditure requirements for the next six months.

XII. SAFEKEEPING AND CUSTODY

The financial assets of NCTD shall be secured through third-party custody and safekeeping procedures. Bearer instruments shall be held only through third-party institutions. Collateralized securities such as repurchase agreements shall be purchased using the delivery vs. payment procedure.