

STAFF REPORT

SUBJECT: Review of the San Joaquin Council of Governments' Investment Policy

RECOMMENDED ACTION: By Motion to Adopt Resolution #R-20-21 Approving the Review of the San Joaquin Council of Governments' Investment Policy

DISCUSSION:

The San Joaquin Council of Governments, including its roles as the San Joaquin County Transportation Authority and SJCOG, Inc., has an Investment Policy that guides and constrains investment activities of agency funds. The primary funds involved are Measure K revenues and investments related to Measure K and fees paid to SJCOG, Inc. for conservation easements and required endowments. It is the responsibility of SJCOG to ensure that the policy complies with the California State Government Code. The Government Code restrictions can be augmented with local policy. It is the Council's goal to ensure the policy is consistent with the Government Code and prudent money management while tailoring investments to the needs of SJCOG.

The San Joaquin Council of Governments recently requested that PFM Asset Management review the current investment policy.

Attached is a memorandum from PFM Asset Management, SJCOG's investment advisor, stating the Investment Policy is in compliance with the sections of the California Government Code that governs investment of public funds.

PFM does not recommend any changes to the policy at this time.

FISCAL IMPACT:

The Investment Policy provides criteria and guidance for the SJCOG Chief Financial Officer and SJCOG's financial advisors while investing agency funds.

RECOMMENDATION:

That the Board adopts resolution R-20-21 reaffirming the attached Investment Policy for the SJCOG, SJCOG, Inc., and the Transportation Authority.



January 9, 2020

Memorandum

To: Steve Dial, Deputy Executive Director/CFO
San Joaquin Council of Governments

From: Lauren Brant, Managing Director
Allison Kaune, Sr. Client Representative
PFM Asset Management LLC

Re: San Joaquin Council of Governments Investment Policy Review 2020

We completed our review of San Joaquin Council of Governments ("SJCOG") Investment Policy (the "Policy") dated April 2019. As written, the Policy is in compliance with the sections of the California Government Code (the "Code") that govern the investment of public funds and we are recommending no changes at this time. However, we would like to make you aware of Assembly Bill 857 (AB 857)¹ and its impact on the Code.

Assembly Bill 857

AB 857 passed the State Senate and Assembly on September 13, 2019 and September 9, 2019, respectively, was signed by the Governor on October 2, 2019, and went into effect on January 1, 2020. This legislation allows local agencies to create their own public banks. This resulted in a change to the Code section 53601 by adding, as a permitted investment for local agencies, "(r) Commercial paper, debt securities, or other obligations of a public bank, as defined in Section 57600," which will provide a means to fund these banks. We do not recommend that SJCOG make any changes to the Policy in light of this legislation at this time. We will continue to monitor any ongoing developments in this area, and if, at a later date, we feel it would be prudent for SJCOG to add obligations of these public banks to its listing of permitted investment instruments, we will make a formal recommendation at that time.

Please let us know if you have any questions.

¹http://leginfo.ca.gov/faces/billNavClient.xhtml?bill_id=201920200AB857

INVESTMENT POLICY
SAN JOAQUIN COUNCIL OF GOVERNMENTS

October 27, 2016

Revised April 15, 2019

I. INTRODUCTION

The purpose of this document 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 San Joaquin Council of Governments (SJCOG), SJCOG Inc. (SJCOGI) and the San Joaquin County Transportation Authority (the Authority) are based on state law and prudent money management. All funds will be invested in accordance with the Authority's Investment Policy, and California Government Code Sections 53600 et. seq. The investment of bond proceeds will be governed by the provisions of relevant bond documents.

II. SCOPE

It is intended that this policy cover all funds (except retirement funds and bond proceeds) and investment activities under the direction of SJCOG, SJCOGI and the Authority.

III. PRUDENCE

Section 53600.3 of the Government Code identifies as trustees those persons authorized to make investment decisions on behalf of a local agency. As a trustee, the standard of prudence shall be 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.

Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

IV. OBJECTIVES

The primary objectives, in priority order, of the SJCOG, SJCOGI and Authority's investment activities shall be:

- 1) Safety. Safety of principal is the foremost objective of the investment program. The SJCOG, SJCOGI and Authority's investments shall be undertaken in a manner that seeks to ensure preservation of capital in the portfolio. The objective will be to mitigate credit risk and interest rate risk.
 - a) Credit Risk: The SJCOG, SJCOGI, and the Authority will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer, by:
 - Limiting investments to the types of securities listed in the Permitted Investment Instruments Section of this Investment Policy.
 - Diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.
 - b) Interest Rate Risk: The SJCOG, SJCOGI, and the Authority will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by:
 - Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.
- 2) Liquidity. The SJCOG, SJCOGI and Authority's investment portfolio will remain sufficiently liquid to enable the Authority to meet its cash flow requirements.
- 3) Return on Investment. The SJCOG, SJCOGI and Authority'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.

V. DELEGATION OF AUTHORITY

The management responsibility for the investment program is hereby delegated to the Deputy Executive Director/Chief Financial Officer who shall monitor and review all investments for consistency with this investment policy. No person may engage in an investment transaction except as provided under the limits of this policy. The Authority may delegate its investment decision-making and execution authority to an investment advisor. The advisor shall follow the policy and such other written instructions as are provided.

Delegation of authority is valid for one year and is good until the delegation expires or is revoked by action of the Board.

VI. 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.

VII. INTERNAL CONTROLS

The Authority shall establish a set of internal controls that can be documented in writing (Exhibit A). SJCOG, SJCOGI, and the Authority and the external independent auditor will review the internal controls. The controls shall be designed to prevent employee error, misrepresentations by third parties, unanticipated changes in financial markets, or imprudent actions by officers or employees of SJCOG, SJCOGI and the Authority.

VIII. PERMITTED INVESTMENT INSTRUMENTS

1. 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.
2. 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 of United States government-sponsored enterprises.
3. Repurchase Agreements used solely as short-term investments not to exceed one year.

SJCOG, SJCOGI and the Authority may enter in Repurchase Agreements with 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.

The following collateral restrictions will be observed: Only U.S. Treasury securities or Federal Agency securities, as described in VIII, 1 and 2, will be acceptable collateral. All securities underlying Repurchase Agreements must be delivered to SJCOG, SJCOGI and the Authority's custodian bank by book entry, physical delivery, or by a third party custodial agreement. The total market value of all collateral for each Repurchase Agreement must equal or exceed, on the basis of market value, 102 percent of the total dollar value of the money invested by SJCOG, SJCOGI and the Authority for the

term of the investment. For any Repurchase Agreement with a term of more than one day, the value of the underlying securities must be calculated at least weekly.

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

SJCOG, SJCOGI and the Authority or its trustee shall have a perfected first security interest under the Uniform Commercial Code in all securities subject to Repurchase Agreement.

SJCOG, SJCOGI and the Authority will have properly executed a PSA agreement with each counter party with which it enters into Repurchase Agreements.

4. Reverse repurchase agreements may be used only after prior approval of SJCOG, SJCOGI and the Authority's Board of Directors. If a reverse repurchase agreement is authorized, it may be utilized only if the security to be sold on reverse repurchase agreement has been owned and fully paid for by SJCOG, SJCOGI and the Authority for a minimum of 30 days prior to the sale; the total of all reverse repurchase agreements on investments owned by SJCOG, SJCOGI and the Authority does not exceed 20 percent of the base value of the portfolio; and the agreement does not exceed a term of 92 days, unless the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of the security using a reverse repurchase agreement and the final maturity date of the same security. The proceeds of the Reverse Repurchase Agreement may not be invested in securities whose maturity exceeds the term of the Reverse Repurchase Agreement.
5. Registered treasury notes or bonds of this or any of the other 49 United States, 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 this state or any of the other 49 United States.
6. 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.
7. Bankers' Acceptances otherwise known as bills of exchange or time drafts that are drawn on and accepted by a commercial bank, the short-term paper

of which is rated in the highest category by a nationally recognized statistical-rating organization.

Purchases of Banker's Acceptances may not exceed 180 days maturity or 40 percent of the Authority's surplus money. No more than 30 percent of SJCOG, SJCOGI and the Authority's surplus funds may be invested in the Banker's Acceptances of any one commercial bank.

8. Commercial paper of "prime" quality of the highest ranking or of the highest letter and number rating, as provided by a nationally recognized statistical-rating organization. The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (A) or paragraph (B):

- (A) The entity meets the following criteria: (i) Is organized and operating in the United States as a general corporation. (ii) Has total assets in excess of five hundred million dollars (\$500,000,000). (iii) Has debt other than commercial paper, if any, that is rated in a rating category of "A" or its equivalent or higher by a nationally recognized statistical-rating organization.

- (B) The entity meets the following criteria: (i) Is organized within the United States as a special purpose corporation, trust, or limited liability company. (ii) Has program wide credit enhancements including, but not limited to, over collateralization, letters of credit, or surety bond. (iii) 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 270 days maturity nor represent more than 10 percent of the outstanding paper of an issuing corporation.

Purchase of commercial paper may not exceed 25 percent of SJCOG, SJCOGI and the Authority's surplus money that may be invested. No more than 5 percent of the Authority's investment portfolio may be invested in any one commercial paper issuer.

9. Medium-term corporate notes, defined as all corporate and depository institution debt securities 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 of "A" or its equivalent or better by a nationally recognized statistical-rating organization.

Purchases of medium-term corporate notes may not exceed 30 percent of SJCOG, SJCOGI and the Authority's surplus money. No more than 5 percent of the Authority's investment portfolio may be invested in any one medium-term note issuer.

10. FDIC insured or fully collateralized time certificates of deposit in a state or national bank, savings association or federal association, federal or state credit union located in California, including U.S. branches of foreign banks licensed to do business in California

To be eligible to receive local agency deposits, a financial institution must have received a minimum overall satisfactory rating for meeting the credit needs of California Communities in its most recent evaluation.

11. Negotiable certificates of deposit issued by a nationally or state-chartered bank, a savings association or a federal association, a state or federal credit union, or by a federally licensed or state-licensed branch of a foreign bank.

Purchase of negotiable certificates of deposit may not exceed 30 percent of SJCOG, SJCOGI and the Authority's surplus money. No more than 5 percent of the Authority's investment portfolio may be invested in any one negotiable CD issuer.

The legislative body of a local agency and the treasurer or other official of the local agency having legal custody of the moneys are prohibited from investing local agency funds, or funds in the custody of the local agency, in negotiable certificates of deposit issued by a state or federal credit union if a member of the legislative body of the local agency, or a person with investment decision making authority in the administrative office manager's office, budget office, auditor-controller's office, or treasurer's office of the local agency also serves on the board of directors, or any committee appointed by the board of directors, or the credit committee or the supervisory committee of the state or federal credit union issuing the negotiable certificates of deposit.

12. State of California's Local Agency Investment Fund

The LAIF portfolio should be reviewed periodically. The maximum balance that can be held in the fund is the maximum amount permitted by the Local Investment Advisory Board.

13. Insured savings account or money market account.

To be eligible to receive local agency deposits, a financial institution must have received a minimum overall satisfactory rating for meeting the credit needs of California Communities in its most recent evaluation.

14. Shares of beneficial interest issued by a joint powers authority organized pursuant to Government Code Section 6509.7 that invests in the securities and obligations authorized in Government Code Section 53601 subdivisions (a) to (q), inclusive. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible under this section, the joint powers authority issuing the shares shall have retained an investment adviser that meets all of the following criteria:
 - (1) The adviser is registered or exempt from registration with the Securities and Exchange Commission.
 - (2) The adviser has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (q), inclusive.
 - (3) The adviser has assets under management in excess of five hundred million dollars (\$500,000,000).
15. Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940. To be eligible for investment pursuant to this subdivision these companies must:
 - (1) Attain the highest ranking or highest letter and numerical rating provided by not less than two nationally recognized statistical rating services
 - (2) Have an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of five hundred million dollars (\$500,000,000).

The purchase price of shares of beneficial interest purchased shall not include any commission that these companies may charge and shall not exceed 20 percent of SJCOG, SJCOGI and the Authority's surplus money that may be invested pursuant to 53601 of the California Government Code
16. Asset Backed Securities, defined as all mortgage pass-through securities, collateralized mortgage obligations, mortgage-backed or other pay-through bonds, equipment lease-backed certificates, consumer receivable pass-through certificates, and consumer receivable-backed bonds, with a maximum remaining maturity of five years or less.

Asset backed securities shall be rated in a rating category of “AA” or its equivalent or better by a NRSRO.

Purchase of asset backed securities may not exceed 20 percent of the Authority’s investment portfolio. No more than 5 percent of the Authority’s investment portfolio may be invested in asset backed securities of any one issuer.

17. Supranationals, defined as 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. Supranationals shall be rated in a rating category of “AA” or its equivalent or better by a NRSRO.

Purchase of Supranationals may not exceed 30 percent of the Authority’s investment portfolio.

The security type and issuer percentage limitations listed in this section refer to the allocation of the Authority’s investment portfolio at the time the security is purchased. Credit criteria listed in this section refers to the credit of the issuing organization at the time the security is purchased. If a credit rating falls below the criteria stated, SJCOG, SJCOGI and the Authority shall be notified. Maximum percentage limitations also apply at the time of purchase.

IX. INELIGIBLE INVESTMENTS

SJCOG, SJCOGI and the Authority shall not invest any funds in inverse floaters, range notes, or interest-only strips that are derived from a pool of mortgages, or in any security that could result in zero interest accrual if held to maturity.

X. MAXIMUM MATURITY

Investment maturities shall be based on a review of cash flow forecasts. Maturities will be scheduled so as to permit SJCOG, SJCOGI and the Authority to meet all projected obligations.

The maximum maturity will be no more than five years from purchase date to maturity date, unless the legislative body has granted express authority to make that investment either specifically or as a part of an investment program approved by the legislative body no less than three months prior to the investment.

XI. SALES PRIOR TO MATURITY

Securities shall not be purchased for the specific purpose of trading. However, sales prior to maturity are permitted under the following circumstances: (1) to meet an unanticipated disbursement, or (2) reinvesting the proceeds to improve the quality, yield, return or target duration in the portfolio. Certain opportunities may involve the recognition of value losses.

XII. REPORTING REQUIREMENTS

The Deputy Executive Director/Chief Financial Officer shall render to the Executive Director and the Board of Directors an investment report each quarter, which shall include, at a minimum, the following information for each individual investment:

- Type of investment instrument
- Issuer name
- Purchase date
- Maturity date
- Purchase price
- Par Value
- Current market value and the source of the valuation
- Overall portfolio yield based on cost
- Sale Date of any investment sold prior to maturity

The quarterly report also shall (i) include a monthly list of transactions, (ii) state compliance of the portfolio to the statement of investment policy, or manner in which the portfolio is not in compliance, (iii) include a description of any of SJCOG, SJCOGI and the Authority's funds, investments or programs that are under the management of contracted parties, including lending programs, and (iv) include a statement denoting the ability of SJCOG, SJCOGI and the Authority 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 quarterly report shall be submitted within 30 days following the end of the quarter.

The Deputy Executive Director/Chief Financial Officer shall annually render to the Board a statement of investment policy, which the Board shall consider at a public meeting.

XIII. SAFEKEEPING AND CUSTODY

All security transactions, including collateral for repurchase agreements, shall be executed by delivery vs. payment (DVP). This means that the securities shall be

delivered to SJCOG, SJCOGI and the Authority or their designated custodian upon receipt of payment. The only exception to the foregoing shall be depository accounts and securities purchases made with: (i) local government investment pools; (ii) time certificates of deposit, and, (iii) money market mutual funds, since the purchased securities are not deliverable. Evidence of each these investments will be held by the Deputy Executive Director/Chief Financial Officer.

All securities that may be purchased, including collateral for repurchase agreements, shall be held by a third party custodian designated by SJCOG, SJCOGI, and the Authority. These securities shall be held in the entity's name and control and third party custody shall be evidenced by safekeeping receipts. The third party custodian shall send SJCOG, SJCOGI, and the Authority, on a monthly basis, a statement of what is safekept and this statement shall be reconciled on a monthly basis. Securities held in custody for SJCOG, SJCOGI, and the Authority shall be independently audited on an annual basis to verify investment holdings.



RESOLUTION SAN JOAQUIN COUNCIL OF GOVERNMENTS

R-20-21

RESOLUTION OF THE SAN JOAQUIN COUNCIL OF GOVERNMENTS ADOPTING AN INVESTMENT POLICY

WHEREAS, the San Joaquin Council of Governments receives revenues including but not limited to local sales tax under the initiative identified as Measure K, developer fees from SJCOG, Inc.; and

WHEREAS, under law and regulation in the California Government Code, Sections 53600, et. seq., the San Joaquin Council of Governments is required to comply with an investment policy adopted by its policy board and in accordance with the statutes referenced previously; and

WHEREAS, the purpose of the investment policy is to identify various policies and procedures that enhance opportunities for a prudent and systematic method of investing and to organize and formalize investment-related activities; and

WHEREAS, the California Government Code recommends policy boards review and reaffirm the investment policy annually even if no changes are made; and

WHEREAS, the San Joaquin Council of Governments has requested its investment advisory firm, Public Financial Management Asset Management, review the investment policy to determine the need for any changes to the policy; and

WHEREAS, PFM has determined the investment policy current and compliances with state statutes.

NOW THEREFORE, BE IT RESOLVED that the Board of the San Joaquin Council of Governments reaffirms the attached Investment Policy as reviewed by Public Financial Management Asset Management to govern the investment-related activities of the agency.

PASSED AND ADOPTED this 23rd day of January, 2020 to wit:

AYES:

NOES:

ABSENT:

DOUG KUEHNE
Chair