

# **LONG BEACH TRANSIT STATEMENT OF INVESTMENT POLICY**

## **I. INTRODUCTION**

The purpose of this statement is to outline various policies and procedures that enhance the efficiency of Long Beach Transit's (LBT) cash management system and prudent systematic Investment Policy and to provide guidelines for other related cash and investment activities. Ultimately, the goal is to enhance the economic status of LBT, while protecting public funds.

## **II. SCOPE**

This Investment Policy applies to the financial assets of LBT under the direct authority of the Board of Directors excluding pension plan assets which are covered under a separate Investment Policy. These assets are invested in accordance with the California Government Code, Sections 53600 et seq., and all other applicable federal, state and local laws, as well as using prudent money management. They are accounted for under enterprise funds and in accordance with the principles of Governmental Accounting Auditing and Financial Reporting (GAAFR).

Activities which comprise prudent cash management include accurate cash projections, the expeditious collection of revenue, the control of disbursements, cost-effective banking relations and a short-term borrowing program, if necessary, which includes coordinating working capital requirements and investment opportunity. Connected with the scope of these requirements are the many facets of an appropriate and secure short-term investment program.

## **III. OBJECTIVES**

### **A. Safety**

Safety of principal is the primary objective of LBT. Each investment transaction shall seek to ensure capital losses are avoided, whether from securities default, broker/dealer default, or erosion of the market value. It is explicitly recognized herein, however, that in a diversified portfolio, occasional measured losses are inevitable and must be considered within the context of the overall investment return. LBT shall seek to preserve principal by mitigating the two types of risk: credit risk and market risk.

1. Credit Risk. It is hereby defined as the risk of loss due to failure of an issuer of a security. Credit risk shall be mitigated by investing in only very safe institutions and by diversifying the fund so that the failure of any one institution would not unduly harm LBT's cash flow.
2. Market Risk. In money matters, it is defined as the risk of market value fluctuations due to overall changes in the economy and level of interest rates. The market risk shall be mitigated by limiting the weighted average maturity of the securities to two (2) years. Further, no investment shall be made which at the time of investment has a term remaining to maturity in excess of five (5) years. This excludes those securities underlying a repurchase or reverse repurchase agreement.

B. Liquidity

Liquid short-term accounts represent vital objectives by which an adequate percentage of the portfolio should be maintained. They can be easily converted to cash, if necessary, to meet disbursement requirements. LBT may experience unexpected or unusual circumstances that result in some investments needing to be sold to meet a contingency. Emphasis should be on marketable securities with low sensitivity to market risk.

C. Return on Investment

LBT's investment portfolio shall be designed to attain a market-average rate of return through economic cycles. The market-average rate of return is defined as the average return on three (3)-month U.S. Treasury Bills. Whenever possible, and consistent with risk limitations, as defined herein, and prudent investment principals, LBT shall seek to augment returns above the market average rate of return. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. Securities shall not be sold prior to maturity with the following exceptions: (1) a security with declining credit may be sold early to minimize loss of principal; (2) a security swap would improve the quality, yield, or target duration in the portfolio; or (3) liquidity needs of the portfolio require the security be sold.

D. Prudence

The investment shall be made exercising a degree of judgment and care, under prevailing circumstances, not for speculation but for investment, while considering the safety of the capital, as well as the probable income to be derived. Investment officers acting in accordance with written procedures and this Investment Policy and exercising due diligence shall be relieved of personal responsibility for an individual securities credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this Policy.

E. Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interest in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the Agency.

#### IV. INVESTMENT LIMITATIONS

LBT adheres to its internal policy and context of the “prudent investor” rule by which its obligation and fiduciary responsibility are maintained within the statutory limits of the California Government Code, Sections 53600 et seq. Investments in any security or fund other than Local Agency Investment Fund requires concurrence from the President and Chief Executive Officer or his/her designee. Within the scope and content of these limitations, the following investments are authorized, as further limited herein:

- A. Local Agency Investment Fund (LAIF) established by the State Treasurer for the benefit of local agencies in which funds can be deposited up to the maximum permitted by the State. Monies deposited into LAIF are pursuant to California Government Code Sections 16429.1 – 16429.4 and cannot be impounded or seized by any state official or state agency. LBT’s funds deposited with LAIF may be withdrawn upon demand and may not be altered, impaired, or denied, in any way, by any state official or state agency based upon the state’s failure to adopt a State Budget by July 1 of each new fiscal year.
- B. Certificates of Deposit negotiable through a nationally or state-chartered bank or a state or federal guaranteed saving and loan institution, a state or federal credit union 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 Moody’s Investors Service or Standard & Poor’s. Purchase of negotiable certificates of deposit may not exceed 30 percent of the market value of the total fund.
- C. Commercial Paper is a short-term, unsecured promissory note issued by a corporation to raise working capital. It must be of prime quality of the highest ranking or of the highest letter and number rating as provided by Moody’s Investors Service, Standard & Poor’s or Fitch Financial Services. It must be issued by a domestic corporation organized and operating in the United States having assets in excess of \$500,000,000 and having an “A” or better rating on its long-term debentures as provided by Moody’s Investors Service or Standard & Poor’s with a stable outlook. Investments of this type may not exceed 15 percent of the market value of the total investment fund and may not exceed 270 days to maturity. No more than 10 percent of the market value of the portfolio may be invested in commercial paper issued by any one corporation. In addition, investments must not represent more than 10 percent of the outstanding paper of an issuing corporation.
- D. Savings and Money Market accounts allow LBT to transfer money from checking to savings or Money Market accounts and earn short-term interest on inactive funds which are not available for long-term investment.
- E. Bills of Exchange or time drafts drawn on and accepted by a commercial bank otherwise known as Banker’s Acceptances may not exceed 180 days to maturity or 40 percent of the market value of the portfolio. No more than 10 percent of the market value of the portfolio may be invested in Banker’s Acceptances issued by any one bank.
- F. LBT may invest in repurchase agreements with banks and dealers with which LBT has entered into a master repurchase contract, which specifies terms and conditions of repurchase agreements. The maturity of repurchase agreements shall not exceed 90 days. The market value of securities used as collateral for repurchase agreements shall be monitored daily by the investment staff and will not be allowed to fall below 102 percent of

the value of the repurchase agreement. In order to conform with provisions of the Federal Bankruptcy Code, which provides for the liquidation of securities held as collateral for repurchase agreements, the only securities acceptable as collateral of repurchase agreements shall be those authorized for public investment under Government Code, Sections 53601 and/or 53635.

- G. LBT may invest in reverse repurchase agreements only with those banks and dealers with which LBT has entered into a repurchase contract outlining terms and conditions of repurchase and reverse repurchase agreements. LBT may invest in reverse repurchase agreements for two purposes:
  - 1. LBT may enter into a reverse repurchase agreement when an unanticipated cash outflow can, in the judgment of the Executive Director and Vice President of Finance and Budget, be met more advantageously by entering into a reverse repurchase agreement than by selling securities outright. In such a case, the reverse repurchase shall not exceed 92 days, and shall be matched to a known cash in flow of sufficient size to repay the principal and interest of the reverse repurchase agreement.
  - 2. LBT may enter into reverse repurchase agreements when funds obtained through the reverse can be reinvested in a higher yielding security to obtain additional interest income for LBT at a spread deemed to be acceptable by the Executive Director and Vice President of Finance and Budget under then-prevailing market conditions. Reverse repurchase agreements entered into in accordance with this paragraph may not exceed 92 days to maturity, and must be matched as to maturity and dollars invested with its corresponding reinvestment. No more than 20 percent of the market value of the portfolio may be invested in reverse repurchase agreements.
- H. Mutual funds or “beneficial shares” issued by diversified management companies investing in securities and obligations authorized by Section 53600 et seq. of the State Government Code. To be eligible for investment pursuant to this subdivision these companies shall either: (1) attain the highest ranking letter or numerical rating provided by not less than two of the three largest nationally recognized rating services; or (2) have an investment advisor registered with the Securities and Exchange Commission with not less than five (5) years’ experience investing in securities and obligations authorized by Government Code Section 53601 and with assets under management in excess of \$500 million. No more than 15 percent of the market value of the fund may be invested in mutual funds. However, no more than 10 percent of the agency’s funds may be invested in shares of beneficial interest of any one mutual fund pursuant to Government Code Section 53601(k)(5)paragraph (1).
- I. United States Treasury Bills, Notes and Bonds, or those for which the full faith and credit of the United States are pledged for payment or principal and interest. Since this type of security is both safe and liquid, there are no limitations as to the percentage of the fund which can be invested.
- J. Obligations issued by Agencies or Instrumentalities of the U.S. Government. Although there is no percentage limitation on these issues, the “prudent investor” rule shall apply for a single agency name.
- K. Medium-term corporate notes (domestic or Eurodollar issues) of a maximum five (5) years’ maturity issued by corporations operating within the United States with a rating of “A” or better and with a stable outlook. Going forward, no new “A-” rated investments will be purchased. No more than 30 percent of the market value of the portfolio may be invested in

such instruments.

- L. 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 five (5) years' maturity. Securities eligible for investment under this subdivision shall be issued by an issuer having an "A" or higher rating for the issuer's debt as provided by a nationally recognized rating service and rated in a rating category of "AA" or its equivalent or better by a nationally recognized rating service. Purchase of securities authorized by this subdivision may not exceed 20 percent of LBT's surplus money that may be invested pursuant to this section.
- M. Bonds, notes, warrants, or other evidence of indebtedness rated "A" or better 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. Purchase of securities authorized by this subdivision may not exceed 10 percent of LBT's surplus money that may be invested pursuant to this section.
- N. Investments not described herein, including, but not limited to, common stocks are prohibited from use in this portfolio. In addition, LBT shall not invest any funds that are inverse floaters, range notes, 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. This limitation shall not apply to local agency investments in shares of beneficial interest issued by diversified management companies authorized for investment pursuant to subdivision (k) of Section 53601.

#### V. QUALIFIED INSTITUTIONS AND DEALERS

LBT shall transact business only with banks, savings and loans and registered investment securities dealers. The purchase of any investment other than those purchased directly from the issuer shall be purchased either from an institution licensed by the state as a broker/dealer or a brokerage firm designated as a primary Government Dealer by the Federal Reserve Bank. Prior to any investment with the broker/dealer LBT shall request a letter from the institution stating their interests, references, status and fee structures. In addition, LBT shall provide a current edition of the Statement of Investment Policy to all brokers/dealers which have been previously approved to handle investment transactions.

#### VI. SAFEKEEPING OF SECURITIES

To protect against potential losses caused by collapse of individual securities dealers, all securities owned by LBT including collateral on repurchase agreements, but necessarily excluding securities used as collateral for reverse repurchase agreements, shall be placed with an independent third party for custodial safekeeping, acting as agent for LBT under the terms of a custody agreement executed by the custodial agent and LBT. All securities will remain in the name of Long Beach Transit and be received and delivered pursuing standard delivery versus payment procedures.

#### VII. CONFIRMATION

The confirmations or receipts should include the following information: trade date, par value, maturity, rate, yield, settlement date, description, agency's name, net amount due, and third-party custodial information. Confirmations of all investment transactions are to be received within three

(3) business days.

#### VIII. REPORTING

Under the provisions of Section 53646 of the California Government Code, LBT shall annually provide to the LBT Board of Directors a Statement of Investment Policy which the Board of Directors shall consider at a public meeting. Any changes in the Investment Policy shall also be considered by the Board of Directors at a public meeting.

The Executive Director and Vice President of Finance and Budget shall provide a quarterly report to the President and Chief Executive Officer, the City Auditor and the Board of Directors within 30 days following the end of the quarter covered by the report. This report shall include the type of investment, issuer, date of maturity, par and dollar amount invested on all securities, investments and monies held by LBT, and shall additionally include a description of any of LBT's funds, investments, or programs, that are under the management of contracted parties, including the lending programs. With respect to all securities held by LBT, and under management of any outside party that is not also a local agency or the State of California Local Agency Investment Fund, the report shall also include a current market value as of the date of the report, and shall include the source of this same valuation.

The report shall state compliance of the portfolio to the Statement of Investment Policy and a statement of the ability of the local agency to meet its pool's expenditure requirements for the next six months.

#### IX. INTERNAL CONTROLS

LBT has developed a system of internal control, established and documented in writing. The controls are designed to minimize and prevent losses arising from fraud, employee error, misrepresentations of third parties and unanticipated change in financial markets or imprudent actions. Controls deemed most important are: control of collusion, including segregation of duties and separation of transaction authority from accounting and recordkeeping; written confirmation of telephone transactions and wire transfers; and conflict of interest.

#### X. DELEGATION OF AUTHORITY

The President and Chief Executive Officer shall assign the responsibility to the Executive Director and Vice President of Finance and Budget, who shall invest the Agency's funds in accordance with the California Government code 53600 et seq., while meeting the criteria for safety and liquidity. The Executive Director and Vice President of Finance and Budget shall be responsible for all transactions undertaken and shall establish written procedures which include explicit delegation of authority and a system of control to regulate the activities of subordinate officials.

In the absence of the Executive Director and Vice President of Finance and Budget, the authority to execute investment transactions affecting the fund will be restricted and assigned jointly to the designated officers acting temporarily under the direction of the President and Chief Executive Officer.

#### XI. DIVERSIFICATIONS

LBT will diversify its investments by economic regions designated by the LBT Board of Directors considering the security type and institution involved. LBT's cash investment fund is prohibited against excessive concentration in a specific maturity sector.

## XII. POLICY REVIEW

This Investment Policy shall be reviewed at least annually to ensure its consistency with the overall objectives of preservation of principal, liquidity, yield, safety measures, its compliance with current law, financial and economic trends, Governmental Accounting Standards Board (GASB), and to meet the needs of LBT.

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Maricela de Rivera  
Secretary/Treasurer, Board of Directors

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Date