

**REGIONAL TRANSIT AUTHORITY**

**RESOLUTION NO. 97  
BACKGROUND AND COMMENTS**

<b>Meeting:</b>	<b>Date:</b>	<b>Agenda Item:</b>	<b>Staff Contact:</b>	<b>Phone:</b>
<b>Finance Committee</b>	<b>9/4/97</b> <b>9/18/97</b>	<b>No. 7</b> <b>No. 6-A</b>	<b>Hugh L. Simpson</b>	<b>206-684-1717</b>
<b>Board of Directors</b>	<b>9/25/97</b>	<b>No. 8B-2</b>		

**ACTION:**

Approval of an RTA Board Resolution adopting the attached investment policy.

**BACKGROUND:**

Instituting an investment policy establishes investment guidelines, defines roles through a delegation of authority, and creates a reporting format for the Authority's internal structure and the Finance Committee. An investment policy is designed and instituted to assist in safeguarding the Authority's resources.

**RELEVANT BOARD POLICIES AND PREVIOUS ACTIONS TAKEN:**

Resolution No. 81 relating to the Code of Ethics For Board Members, Officers and Employees of the Authority. Resolution 81 and the proposed investment policy dictate the Code of Ethics for individuals transacting business for the Authority.

Resolution No. 84 relating to the Banking Services Contract with Seafirst. The investment settlement process and safekeeping function contained within the Banking Services Contract are described in the attached proposed investment policy.

**KEY FEATURES:**

The proposed investment policy defines what the Authority's requirements are through a series of policy and procedure points. These points deal with the following areas: investment objectives, delegation of authority, prudent person rule, ethics and conflicts, authorized dealers, suitable investments, internal controls, and reporting requirements. After adoption by the Board, the investment policy will be submitted to the Municipal Treasurer's Association for certification.

**CONSEQUENCES OF DELAY:**

A delay in action will cause our investment options to be limited resulting in the Authority not being able to obtain a market yield on existing investments.



**REGIONAL TRANSIT AUTHORITY**

**RESOLUTION NO. 97**

A RESOLUTION of the Board of the Regional Transit Authority for the Pierce, King and Snohomish Counties region adopting an investment policy for Authority resources.

WHEREAS, on November 5, 1996 at a general election held within the RTA District, the voters approved local-option taxes to support implementation of the Ten-Year Regional Transit System Plan; and

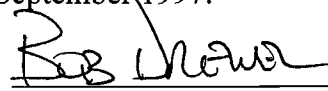
WHEREAS, by Resolution No. 82, the RTA Board has authorized the imposition of the Local Option Taxes and has authorized the State of Washington to collect and transfer such taxes to the Authority, beginning on April 1, 1997; and

WHEREAS, pursuant to Eligible Investments for Public Funds, State of Washington – January 1997, an investment policy was created for the purpose of managing RTA resources.

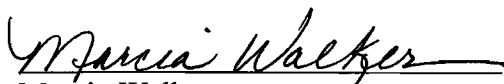
WHEREAS, pursuant to prudent business practices adherence to an investment policy creates procedures and accountability.

NOW, THEREFORE, BE IT RESOLVED by the Board of the Regional Transit Authority that the RTA does hereby adopt the attached RTA Administrative Policy and Procedure No. 4 which details the investment policy with this chapter for the purpose of investment as stated therein.

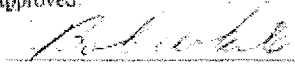

ADOPTED by the Board of the Central Puget Sound Regional Transit Authority at a regular meeting thereof held on the 25th day of September 1997.

  
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Bob Drewel  
Board Chair

ATTEST:

  
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Marcia Walker  
Board Administrator



Approved:  Executive Director	ADMINISTRATIVE POLICIES AND PROCEDURES	No. 4
 Director of Finance & Administration	Subject: Investment Policy	
	Date Issued: 9/25/97	Effective Date: 9/25/97

## 1.0 POLICY

It is the policy of the Regional Transit Authority (Authority) to invest public funds in a manner which will provide the highest investment return with the maximum security, while meeting daily cash flow requirements and conforming to all state and local statutes governing the investing of public funds. It is also the policy of the Authority to conduct investment transactions in accordance with the Authority's Resolution No. 81, which details the Code of Ethics for Board Members, Officers, and Employees.

## 2.0 SCOPE

This investment policy applies to all financial resources of the Authority except retirement funds.

## 3.0 OBJECTIVES

The primary objectives of this investment policy, in order of priority, of the Authority's investment activity will be as follows:

- 3.1 Safety: Integrity of the original principal is the foremost priority in the Authority's investment program. Investments of the Authority shall be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio. In order to obtain this objective, the portfolio will be diversified to guard against losses in any one securities class.
- 3.2 Liquidity: The Authority's investment portfolio will remain sufficiently liquid to enable the Authority to meet all operating requirements, which may be reasonably anticipated.
- 3.3 Return on Investment: The Authority's investment portfolio will be structured with the objective of attaining a market rate of return throughout budgetary and economic cycles. Cash flow needs and the risk constraints of the portfolio will be taken into consideration.

## 4.0 DELEGATION OF AUTHORITY

Authority to manage the Authority's investment program is derived from Resolution No. 85 which delegates investment responsibility for the Authority to the Finance and Administration Director as required in RCW 81.112.120.

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- 4.1 The Finance and Administration Director will be responsible for delegating authority to Investment Officer(s) and defining their roles.
- 4.2 Daily operational responsibility for the investment program is hereby delegated to the Controller/Treasurer, who shall establish written procedures for the operation of the investment program consistent with the investment policy. Procedures should reference the following: safekeeping, banking contracts, repurchase agreements, wire transfer agreements, and depository/custodial agreements, and glossary of investment terms. Procedures shall also include explicit delegation of authority to individuals responsible for investment transactions.
- 4.3 No one person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Controller/Treasurer. The Controller/Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of Investment Officer(s) and other employees involved in the accounting for investment activities.

5.0 PRUDENCE

The Investment Officer(s) shall act responsibly and prudently in order to maintain the safety of the public's funds.

- 5.1 The standard of prudence that shall be practiced at all times without exception shall be the "Prudent Person Rule" which reads: "Investments shall be made with judgement 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."
- 5.2 Investment Officer(s) acting in accordance with written procedures, the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes. Should any such loss occur, however, the Investment Officer(s) shall report it to the Finance and Administration Director immediately who shall take appropriate action to prevent any future occurrences.
- 5.3 Purchase of securities shall be made for investment and not speculation.

6.0 ETHICS AND CONFLICTS OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or could impair their ability to make impartial investment decisions. Investment Officer(s) and directly involved accounting employees shall disclose to the Executive Director and RTA Finance Committee any material financial interests in financial institutions that conduct business with the Authority. They shall also disclose any large personal financial/investment positions that could be related to the performance of the Authority, particularly with regard to the time of purchases and sales.

7.0 AUTHORIZED FINANCIAL DEALERS & INSTITUTIONS

7.1 The Controller/Treasurer will maintain a list of financial institutions authorized by the Washington Public Deposit Protection Commission (PDPC) to provide depository services. In addition, a list will also be maintained of approved security broker/dealers selected by credit worthiness, who maintain an office in the State of Washington. These may include primary dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (Uniform Net Capital Rule). No public deposit shall be made except in a qualified public depository as established in the State of Washington.

7.2 The Authority will use a competitive bid process where selected NASD broker/dealers will compete for investment transactions.

7.2.1 Broker/dealers will be selected for three-year time periods. An annual review of prospective bidders will be performed by the Controller/ Treasurer. Prospective broker/dealers must provide the Controller/Treasurer with the following: NASD certification, proof of Washington State registration, broker/dealer resume, and written certification that the prospective broker/dealer understands and will adhere to this investment policy.

7.2.2 A current audited financial statement is required to be on file for each financial institution and broker/dealer in which the Authority invests with.

8.0 AUTHORIZED AND SUITABLE INVESTMENTS

The Authority may legally invest in any of the securities identified as eligible investments as detailed in the State Treasurer's publication titled "Eligible Investments For Public Funds."

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- 8.1 The Authority chooses to invest in the following types of investments:
- Treasury Securities
  - Federal Agency Securities (Mortgage backed securities included)
  - Banker Acceptances (Must be A1/P1)
  - Certificates of Deposit (Must be A1/P1 )
  - Repurchase Agreements
  - Reverse Repurchase Agreements
  - Washington State Treasurer's Local Government Investment Pool
  - PDPC Financial Institution Sponsored Investment Accounts
- 8.2 Repurchase agreements and reverse repurchase agreements are subject to the following limitations:
- 8.2.1 A signed Public Securities Association (PSA) Master Repurchase Agreement is required.
- 8.2.2 No security will be accepted for repurchase agreement transactions whose market value is not readily available.
- 8.2.3 Collateralization for repurchase agreements and reverse repurchase agreements will be limited to treasury, agency and money market securities priced at 102 of market value of principal and accrued interest. Collateral will always be held by a third party that the Authority has contracted with. The Authority will always receive and retain a safekeeping receipt verifying ownership.
- 8.2.4 Investment in reverse repurchase agreements must be approved by the Finance and Administration Director.
- 8.2.5 Proceeds from a reverse repurchase agreement will be limited to an investment which matures at approximately the same time as the reverse repurchase agreement.
- 8.3 Derivatives, or securities that derive value and/or yield from an underlying asset or an external index are prohibited unless they fall into one of the following categories: zero coupon treasury instruments, agency security obligations that have call features, agency security obligations that have step-up features at pre-determined intervals and agency obligations that float with interest rates or external indexes such as treasury bills, LIBOR, COFI, or the Fed Funds rate.



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8.3.1 Agency obligation inverse floaters are prohibited.

8.3.2 Derivative securities not previously utilized must be approved by the Finance and Administration Director.

8.4 The Authority will only invest in securities when the final maturity date is known at the time of purchase.

9.0 INVESTMENT POOLS

A thorough investigation of a prospective investment pool is required when added to section 8.1, i.e., authorized investments for the Authority.

9.1 Additionally, each prospective investment pool will be required to complete a questionnaire that will include information on the following topics: investment policy and objectives, calculation and distribution of interest, settlement and safekeeping of securities, participant parameters, timing of statements and investment listings, fee schedule, acceptance of bond proceeds, and internal and external auditing programs.

9.2 Investment pools included in eligible investments, section 8.1, will be required to submit audited annual financial reports.

10.0 SAFEKEEPING AND CUSTODY

All investment transactions will be performed on a delivery versus payment (DVP) basis. The repurchase agreement collateral and all other securities will be held by a third-party custodian that will be under contract with the Authority.

11.0 PORTFOLIO DIVERSIFICATION

Investments purchased are made with the intention of diversifying the portfolio to minimize risk.

11.1 Investments with any single securities broker/dealer or financial institution will generally not exceed 50% of the total portfolio except for the Washington State Treasurer's Local Government Investment Pool which can be up to 100%.

11.2 Security limitations by type will follow these guidelines:

Treasury Securities	100%
Federal Agency Securities	50%
Individual issues may not exceed 50% of security portfolio	

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Banker Acceptances (Must be A1/P1)	10%
Certificates of Deposit (Must be A1/P1)	10%
Individual banks may not issue more than 50% of security portfolio	
Repurchase Agreements	10%
Individual banks may not issue more than 50% of security portfolio	
Reverse Repurchase Agreements	10%
Individual banks may not issue more than 50% of security portfolio	
Washington State Treasurer's Local Government Investment Pool	100%
Financial Institution Sponsored Investment Accounts	50%

12.0 MATURITY STRUCTURE

To the extent possible, the Authority will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow the Authority will not directly invest in securities maturing more than three years from the date of purchase.

- 12.1 Collateral for repurchase agreements using longer dated investments may not exceed three years.
- 12.2 Reserve funds may be invested in securities exceeding three years if the maturity of such investments are made to coincide as nearly as practicable with the expected use of the funds.

13.0 INTERNAL CONTROL

The Controller/Treasurer shall establish annual review process with the Washington State Auditor's Office during the annual audit process. This review will provide an analysis of internal controls by assuring compliance with policies and procedures.

14.0 PERFORMANCE STANDARDS

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs.

- 14.1 The investment portfolio yield will be compared to the LGIP average rate and the six-month treasury-bill average.

15.0 PORTFOLIO AND PERFORMANCE REPORTING

The Controller/Treasurer will provide the Finance and Administration Director and Executive Director with monthly investment reports. Quarterly reports will be provided to the Authority's Finance Committee. Included in these reports will be a market versus book analysis, portfolio composition analysis, broker/dealer composition analysis, interest revenue year-to-date analysis, performance standard comparison, market overview, and ongoing investment strategy guidelines.

16.0 INVESTMENT POLICY ADOPTION

The Authority's investment policy shall be approved by the Executive Director and Finance and Administration Director and be adopted by resolution by the Authority's Finance Committee. The Authority's investment policy shall be reviewed on an annual basis by the Authority's Finance Committee, and any significant revisions thereto shall be acknowledged by such committee.

