

**SOUND TRANSIT
STAFF REPORT**

RESOLUTION No. R2005-17

Amending Sound Transit Investment Policy

Meeting:	Date:	Type of Action:	Staff Contact:	Phone:
Finance Committee	7/7/05	Discussion/Possible Action to Recommend Board Approval Action	Hugh Simpson, Chief Financial Officer	(206) 398-5082
Board	7/14/05		Brian McCartan, Deputy Chief Financial Officer	(206) 398-5100

Contract/Agreement Type:	✓	Requested Action:	✓
Competitive Procurement		Execute New Contract/Agreement	
Sole Source		Amend Existing Contract/Agreement	
Agreement with Other Jurisdiction(s)		Budget Amendment	

✓ *Applicable to proposed transaction.*

PROPOSED ACTION

Amend the agency's investment policy to:

- Increase the share of the Sound Transit investment portfolio that can be held in Federal Agency Securities from 50% to 75%; and
- Specify that a single agency cannot exceed 50% of the agency holdings.

BACKGROUND

In October 2004, the Sound Transit Board adopted an Asset Liability Management framework, which included Asset Liability Management, Investment, Debt Management, and Debt Swap Policies. Under the adopted Investment Policy, the agency cannot invest more than 50% of its portfolio in securities issued by Federal Agencies. The securities of these agencies are sponsored by the U.S. Government and yield a slightly higher rate of return than U.S. Treasury securities.

The proposed change to increase the share of Sound Transit's investment portfolio that can be held in Federal Agency Securities from 50% to 75%, would allow the agency's investments to earn a higher yield while staying within standard government risk parameters.

Sound Transit currently invests a substantial portion in the King County pool and State Investment pool. Both of these pools have approximately 75% of their funds in agency securities. As Sound Transit can withdraw its funds from the pools on short notice, the agency securities held by the pools are not counted towards our policy maximum. The following table summarizes the policy of other major government entities:

Government	Total Agency Maximum	Single Agency Maximum
City of Seattle	100%	20%
King County	75%	100%
State Pool	100%	100%
City of Bellevue	100%	25%

ST Portfolio Allocation (6/21/05)	
Federal National Mortgage Association	12%
Federal Home Loan Bank	20%
Federal Home Loan Mortgage Corp.	6%
Federal Farm Credit Bank	6%
<i>Agency subtotal</i>	44%
U.S. Treasury	6%
CD	1%
State Pool*	25%
King County Pool*	24%
Total	100%
*Include up to 75%-100% of agency securities	

In addition, the Investment Policy does not establish a maximum holding for any one agency. This action would establish that the Sound Transit portfolio would not hold more than 50% of its agency securities in the securities of any one agency to provide sufficient diversification of the portfolio.

Chapter II, Section 12.2 of Sound Transit's Investment Policy, adopted in Resolution No. R2004-14, will be updated to reflect Board approval of this resolution.

<http://www.soundtransit.org/doc/about/board/resolutions/ResoR2004-14%20Attachment%20A.doc>

12.2 Security limitations by type will follow these guidelines:

Treasury Securities	100%
Federal Agency Securities	75%
Individual issues may not exceed 25% of Security portfolio	
Portfolio would not hold more than 50% of its agency securities in the securities of any one agency	
Washington State Treasurer's Local Government Investment Pool	100%
King County Investment Pool	50%
Non-negotiable Certificates of Deposit	10%
(must be with PDPC-qualified public depository)	
PDPC Financial Institution Sponsored Investment Accounts	50%
Banker Acceptances (must be A1/P1).....	10%
Individual banks may not issue more than 50% of security portfolio	
Repurchase Agreements.....	25%
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	
General Obligation bonds of any state or local government.....	10%
Commercial Paper (must be A1/P1).....	10%

BUDGET and FINANCIAL PLAN DISCUSSION

This action would result in the agency potentially earning a slightly higher yield on its investments. Under current financial policies, investment earnings are attributed to the Regional Fund and an increase in interest earnings would decrease the amount of subarea funding required for the Regional Fund.

BUDGET TABLE

Not applicable for this action.

M/W/DBE – SMALL BUSINESS PARTICIPATION

Not applicable for this action.

PRIOR BOARD ACTIONS

Motion or Resolution Number	Summary of Action	Date of Action
R2004-14	Adopted an Asset Liability Management Framework for agency resources, including Asset Liability Management, Investment, Debt Management, and Debt Swap Policies	10/28/04

CONSEQUENCES OF DELAY

The agency's portfolio is currently near the policy maximum for investment of agency securities. The agency has substantial additional bond balances to invest so a delay in increasing the amount of agency securities that the agency could purchase could lower the investment yield on the agency's portfolio.

PUBLIC INVOLVEMENT

Not applicable for this action.

LEGAL REVIEW

JW 6/29/05

SOUND TRANSIT

RESOLUTION NO. R2005-17

A RESOLUTION of the Board of the Central Puget Sound Regional Transit Authority amending Sound Transit's Investment Policy to increase the share of the agency's portfolio that can be invested in Federal Agency securities to 75% and to specify a maximum of 50% of the agency's investment in agency securities can be invested in the securities of a single Federal Agency.

WHEREAS, a Regional Transit Authority, hereinafter referred to as Sound Transit, has been created for the Pierce, King, and Snohomish County region by action of their respective county councils pursuant to RCW 81.112.030; and

WHEREAS, on November 5, 1996, at a general election held within the Central Puget Sound Regional Transit Authority district, the voters approved local funding for high capacity transit in the Central Puget Sound Region; and

WHEREAS, by Resolution No. R2004-14, the Board of Directors adopted an Asset Liability Management Framework for agency resources, including Asset Liability Management, Investment, Debt Management, and Debt Swap Policies.

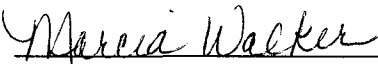
NOW THEREFORE BE IT RESOLVED by the Board of the Central Puget Sound Regional Transit Authority that the Asset Liability Management Policies, Chapter II (Investment Policy), Section 12.2, adopted in Resolution No. R2004-14, is hereby amended as follows:

12.2 Security limitations by type will follow these guidelines:

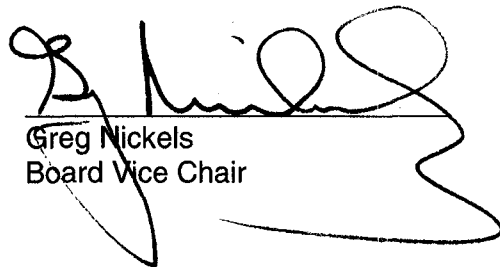
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Commercial Paper (must be A1/P1)	10%

ADOPTED by the Board of the Central Puget Sound Regional Transit Authority at a regular meeting thereof held on July 14, 2005.

ATTEST:



Marcia Walker
Board Administrator



Greg Nickels
Board Vice Chair