BOARD MEETING DATE: March 7, 2014 AGENDA NO. 11

PROPOSAL: Approve SCAQMD Annual Investment Policy and Delegation of Authority to Appointed Treasurer to Invest SCAQMD Funds

SYNOPSIS: State law requires a local government entity annually to provide a statement of investment policy for consideration at a public meeting and to renew its delegation of authority to its treasurer to invest or to reinvest funds of the local agency.

COMMITTEE: Investment Oversight, February 21, 2014, Recommended for Approval

RECOMMENDED ACTIONS:
1. Approve the attached Annual Investment Policy.
2. Approve the attached resolution to renew delegation of authority to the Los Angeles County Treasurer to invest and reinvest SCAQMD funds.

Barry R. Wallerstein, D.Env.
Executive Officer

MBO:lg

Background

Changes to the Government Code, which took effect in 1996, require that a statement of investment policy be transmitted annually to the Oversight Committee and legislative body of a local agency for consideration at a public meeting. In addition, state law (Gov't. Code Section 53607) requires that a local agency's legislative body annually renew its delegation of authority to its Treasurer to invest or to reinvest funds of the local agency.

Board action on April 12, 1996 approved a recommendation to minimize SCAQMD investments in the Los Angeles County Pooled Surplus Investment Portfolio (PSIP), by directing staff to work with the Los Angeles County Treasurer (SCAQMD's Treasurer) to make specific investments on behalf of the SCAQMD. This change required the

development of an annual statement of investment policy specific for the SCAQMD. SCAQMD's investment consultant, working with staff of the SCAQMD and the Los Angeles County Treasurer's office, developed the attached statement of investment policy. This policy, which is reviewed annually for possible changes, sets forth the investment guidelines for the SCAQMD with the objective of ensuring that funds are prudently invested to preserve principal and provide necessary liquidity while earning a market average rate of return.

The Investment Policy was substantially revised in 2013, including updating credit requirements, revising maturity limits, and clarifying diversification guidelines. There are no Investment Policy revisions required, or being recommended, for 2014.

The County of Los Angeles has provided treasury management services to the SCAQMD since inception of the District. These services include providing banking services, processing electronic payments to SCAQMD, and the investment of the SCAQMD's cash balances. Staff is recommending that the SCAQMD continue with the services provided by Los Angeles County.

Resource Impacts
Costs associated with SCAQMD treasury management operations are included in the FY 2013-14 Budget.

Attachments
1. SCAQMD Annual Investment Policy
2. Delegation of Authority Resolution

South Coast Air Quality Management District

Annual Investment Policy

I. PURPOSE

This Annual Investment Policy (the "Policy") sets forth the investment guidelines for all general, special revenue, trust, agency and enterprise funds of the South Coast Air Quality Management District (SCAQMD). The objective of this Policy is to ensure all of SCAQMD's funds are prudently invested to preserve principal and provide necessary liquidity, while earning a market average rate of return.

SCAQMD funds deposited with the Los Angeles County Treasurer may only be invested in the Los Angeles County Pooled Surplus Investment Portfolio or in Special Purpose Investments as authorized by this Policy. The SCAQMD Annual Investment Policy conforms to the California Government Code (the Code) as well as customary standards of prudent investment management. Irrespective of these Policy provisions, should the provisions of the Code be or become more restrictive than those contained herein, such provisions will be considered immediately incorporated in this Policy and adhered to.

II. SCOPE

It is intended that this Policy cover all funds (except those funds invested in the two retirement systems covering SCAQMD employees and 457 deferred compensation plan funds) and investment activities under the direction of the SCAQMD and deposited with the Los Angeles County Treasurer.

The investment of bond proceeds will be governed by state law and the permitted investment provisions of relevant bond documents.

III. OBJECTIVES

The objectives of this Annual Investment Policy, in priority order, are SAFETY OF PRINCIPAL, LIQUIDITY, AND MARKET RATE OF RETURN.

1. Safety of Principal. The primary objective of SCAQMD is to reduce credit risk and interest rate risk to a level that is consistent with safe and prudent investment management. Credit risk is the risk of default or the inability of a debt issuer to make interest or principal payments when due. Credit risk is minimized by investing in only permitted investments and diversifying the portfolio according to this Annual Investment Policy so that no one type of issuer or issue will have a disproportionate impact on the portfolio. Interest rate risk is associated with price volatility introduced by extending the maturity of instruments purchased. Interest rate risk is controlled by limiting the maturity exposure to acceptable levels.

2. Liquidity. SCAQMD funds will be invested to ensure that normal cash needs and scheduled extraordinary cash needs can be met. Cash flow forecasting will be used to determine the current and projected future needs of SCAQMD and the ability of SCAQMD to make Special Purpose Investments. SCAQMD shall invest funds in instruments for which there is a secondary market and which offer the flexibility to be easily sold at any time with minimal risk of loss of either the principal or interest based upon then prevailing interest rates.

3. Market Rate of Return. SCAQMD's funds shall be invested to attain a market average rate of return through economic cycles consistent with maintaining risk at a prudent level.

   These objectives are to be achieved in part through the diversification of SCAQMD investments among the Los Angeles County Pooled Surplus Investment Portfolio and Special Purpose Investments. The combination of the Pooled Surplus Investment Portfolio and the Special Purpose Investment of SCAQMD funds in the State of California Local Agency Investment Fund will provide significant diversification, safety of principal and liquidity for the programs of the SCAQMD. Other Special Purpose Investments in an SCAQMD separate account will experience market price changes due to interest rate risk consistent with longer maturity investments that are permitted by this policy.

IV. RESPONSIBILITIES

The Governing Board. The SCAQMD Governing Board is responsible for establishing the Annual Investment Policy and ensuring investments are made in compliance with this Policy. This Policy shall be reviewed annually by the Governing Board at a public meeting pursuant to Section 53646(g) of the California Government Code. The Los Angeles County Treasurer has been appointed Treasurer of SCAQMD. The Treasurer shall be appointed at least annually by the SCAQMD Governing Board.

The Treasurer. The Treasurer is responsible for making investments and for compliance with this Policy pursuant to the delegation of authority to invest funds or to sell or exchange securities made in accordance with Code Section 53607. The Treasurer shall submit a monthly report of investment transactions to the SCAQMD Governing Board. If the SCAQMD Governing Board appoints as Treasurer someone other than the Los Angeles County Treasurer, the new Treasurer shall be responsible for making investments and for compliance with this Policy or such other Policy which may be adopted by the Governing Board at that time.

The Chief Financial Officer. The Chief Financial Officer, based on information provided by the Treasurer, shall submit a quarterly report to the Governing Board pursuant to Code Section 53646(g). The Chief Financial Officer is responsible for preparation of cash flow forecasts for SCAQMD funds as described below. The Chief

Financial Officer will recommend specific individual investments for the Special Purpose Investments to be made by the Treasurer.

The Investment Oversight Committee. The SCAQMD Governing Board shall appoint an Investment Oversight Committee. The duties and responsibilities of the Investment Oversight Committee shall consist of the following:

1. Annual review of SCAQMD's Investment Policy before it is considered by the Governing Board, and recommend revisions, as necessary, to the Chief Financial Officer.

2. Quarterly review of SCAQMD's investment portfolio for conformance with SCAQMD's Annual Investment Policy diversification and maturity guidelines, and make recommendations to the Chief Financial Officer as appropriate.

3. Provide comments to the SCAQMD Chief Financial Officer regarding potential investments and potential investment strategies.

4. Perform such additional duties and responsibilities as may be required from time to time by specific action and direction of the Governing Board.

It shall not be the purpose of the Investment Oversight Committee to advise on particular investment decisions of SCAQMD.

V. IMPLEMENTATION

This Policy establishes and defines investable funds, authorized instruments, credit quality requirements, maximum maturities and concentrations, collateral requirements, and qualifications of brokers, dealers, and financial institutions doing business with or on behalf of the SCAQMD.

A. Standard of Care.

SCAQMD's Governing Board or persons authorized to make investment decisions on behalf of SCAQMD are trustees and fiduciaries subject to the prudent investor standard, as required by Code Section 53600.3, and shall be applied in the context of managing an overall portfolio. SCAQMD's investment professionals acting in accordance with written procedures and the Annual 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 developments.

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.

B. Investable Funds.

Investable Funds for purposes of this Policy are the SCAQMD general, special revenue, trust, agency and enterprise funds that are available for investment at any one time including any estimated bank account float. Investable Funds are idle or surplus funds of the SCAQMD including all segregated funds. All bond proceeds are excluded from Investable Funds. The Cash Flow Horizon is the time period in which the SCAQMD cash flow can be reasonably forecast. This Policy establishes the Cash Flow Horizon for SCAQMD idle or surplus funds to be three (3) years. The SCAQMD cash flow forecast must be updated at least every six months.

When the SCAQMD Chief Financial Officer determines that the cash flow forecast can be met, the Treasurer, at the request of the Chief Financial Officer, may invest a maximum of up to 75% of the minimum amount of funds available for investment during the Cash Flow Horizon in Special Purpose Investments ("SPI"), exclusive of investments in the State of California Local Agency Investment Fund ("LAIF"), in a separate account outside of the Pooled Surplus Investment ("PSI") Portfolio, in accordance with this Policy.

C. Authorized Investments.

Authorized investments shall match the general categories established by the California Government Code Sections 53601 et seq. and 53635 et seq.

Authorization for specific instruments within these general categories as well as portfolio concentration and maturity limits are established below as part of this Policy. No investments shall be authorized that have the possibility of returning a zero or negative yield when held to maturity; for example: inverse floaters, range notes or interest only STRIPS. As the California Government Code is amended, this Policy shall likewise become amended.

SCAQMD investments or deposits in the County of Los Angeles PSI Portfolio are governed by the County of Los Angeles Treasurer's Investment Policy for Pooled Surplus Funds. SCAQMD investments or deposits in the LAIF are governed by the investment policy and guidelines for LAIF as established by the Office of the Treasurer for the State of California. Investments in LAIF are an SPI investment and are limited in amount to the investment limits established for LAIF by the California State Treasurer.

SCAQMD funds and segregated funds that are invested by the Treasurer in an SPI separate account outside of the County of Los Angeles PSI Portfolio or LAIF are

subject to this Policy. SCAQMD funds invested in an SPI separate account will be governed by various approved lists that may be established and maintained by the Los Angeles County Treasurer or the SCAQMD's Investment Advisor.

D. Maximum Maturities.

The maximum maturity of any SPI investment shall be five (5) years. The weighted average maturity of the SPI separate account portfolio may not exceed three (3) years. Maturity shall mean the nominal maturity of the security, or the unconditional put option date, if the security contains such provision. Term or tenure shall mean the remaining time to maturity when purchased.

E. Permitted Investments.

1. U.S. Treasuries.

Direct obligations of the United States of America and securities which are fully and unconditionally guaranteed as to the timely payment of principal and interest by the full faith and credit of the United States of America.

U.S. Treasury coupon and principal STRIPS are not considered to be derivatives for the purpose of this Annual Investment Policy and are, therefore, permitted investments pursuant to the Annual Investment Policy.

2. Federal Agencies and U.S. Government Sponsored Enterprises.

Obligations, participations, or other instruments of, or issued by, a federal agency or a United States government sponsored enterprise.

3. Los Angeles County Pooled Surplus Investment Portfolio.

The County of Los Angeles Pooled Surplus Investment Portfolio is a pooled fund managed by the County Treasurer whose permitted investments are authorized in the Code and are governed by the Treasurer's Investment Policy with credit requirements and maturity limits established by the County Treasurer and adopted by the County Board of Supervisors.

4. State of California Local Agency Investment Fund.

LAIF is a pooled fund managed by the Office of the State Treasurer whose permitted investments are identified in the Code and whose credit requirements and maturity limits are established by the State Treasurer.

5. Shares of Money Market Mutual Funds.

Credit requirements for approved money market funds shall be limited to ratings of AAA by at least two nationally recognized statistical rating organizations (NRSRO) <u>or</u> managed by an investment advisor registered with the Securities and

Exchange Commission with not less than five years' experience and with assets under management in excess of five hundred million dollars ($500,000,000), and such investment may not represent more than ten percent (10%) of the total assets in the money market fund.

6. Bankers' Acceptances.

   Bankers' acceptances must be issued by national or state-chartered banks or a state-licensed branch of a foreign bank. Eligible bankers' acceptances shall have the highest ranking or the highest letter and number rating as provided for by a NRSRO.

   Maximum maturities for bankers' acceptances are 180 days.

7. Negotiable Certificates of Deposit.

   Negotiable certificates of deposit must be issued by national or state-chartered banks, a federally- or state-licensed branch of a foreign bank, savings associations and state or federal credit unions. Negotiable CDs must be rated at least A or its equivalent by at least one NRSRO.

   The SCAQMD will not purchase negotiable certificates of deposit of a savings association or credit union as Special Purpose Investments if an SCAQMD Board member or a member of management staff, with investment authority, also serves on the Board of Directors or a committee of that savings association or credit union.

   Maximum maturities for all negotiable certificates of deposit are five (5) years.

8. Commercial Paper.

   Commercial paper of "prime" quality of the highest ranking or of the highest letter and number rating as provided for by a NRSRO. 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 one billion dollars ($1,000,000,000).

      iii. Has debt other than commercial paper, if any, that is rated "A" or higher, or the equivalent, by a NRSRO.

   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 the equivalent, by at least two NRSROs.

Investments may not represent more than ten percent (10%) of the outstanding paper of the issuing corporation.

Maximum maturities for commercial paper are 270 days.

9. Medium Term Maturity Corporate Securities.

   Medium-term corporate notes shall be rated in a rating category "A" or its equivalent or better by a NRSRO.

   Floating rate medium term notes may be used if interest resets at least quarterly.

   Maximum maturities for medium term maturity corporate securities are five years.

10. Mortgage Securities or Asset-backed Securities.

    Credit requirements for any mortgage pass-through security, collateralized mortgage obligations, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate, or consumer receivable backed bond shall be rated “AAA” or its equivalent or better by a nationally recognized rating service, and issued by an issuer having a “AA” or better rating by a NRSRO for its long-term debt.

    The maximum maturity for Mortgage or Asset-backed Securities shall be five years.

11. Repurchase Agreements.

    All repurchase transactions must be collateralized by U.S. Treasuries or Agencies with a market value of 102% for collateral marked to market daily, entered into with a broker-dealer which is a recognized primary dealer and evidenced by a broker-dealer master purchase agreement signed by the County Treasurer and approved by SCAQMD.

    The maximum maturity of a repurchase agreement shall be 30 days.

12. Reverse Repurchase Agreements.

    Reverse repurchase agreements are not allowed except as part of investments in the County of Los Angeles Pooled Surplus Investment Portfolio and the State of California Local Agency Investment Fund.

13. Variable and Floating Rate Securities.

    Variable and floating rate securities are instruments that have a coupon or interest rate that is adjusted periodically due to changes in a base or benchmark rate. Investments in floating rate securities must utilize commercially available U.S. denominated indices such as U. S. Treasury bills or Federal Funds. Investments in floating rate securities whose reset is calculated using more than one of the above indices are not permitted, i.e. dual index notes.

Variable and Floating Rate Securities that are priced based on a single common index are not considered derivative securities.

The maximum maturity is five years.

14. Obligations of the State of California or any local agency within the state.

    Permitted obligations will include bonds payable solely out of revenues from a revenue producing property owned, controlled or operated by the state or any local agency, or by a department, board, agency or authority of the state or any local agency.

    Obligations of the State of California or other local agencies within the state must be rated at least A by a NRSRO.

F. Diversification Guidelines.

Diversification limits ensure that at the time of investment the SCAQMD's portfolio is not unduly concentrated in the securities of one type, industry, or issuer, thereby assuring adequate portfolio liquidity should one sector or issuer experience difficulties. The diversification limits outlined below for an individual investment instrument and issuer/counterparty are expressed as the maximum percentage of the total SCAQMD's portfolio invested by the Los Angeles County Treasurer. Maximum percentage limits shall apply at the time of purchase and allocations in excess of maximum percentages due to fluctuations in portfolio size will not be considered out of compliance with this Policy.

	Instrument	*Maximum % of Portfolio*
1.	U.S. Treasuries	100%
2.	Federal Agencies & U.S. Government Sponsored Enterprises	100%
3.	Los Angeles County Pooled Surplus Investment Portfolio	100%
4.	State of California Local Agency Investment Fund	100%
5.	Shares of Money Market Mutual Funds	15%
6.	Bankers Acceptances	40%
7.	Negotiable Certificates of Deposit	30%
8.	Commercial Paper	25%
9.	Medium Term Maturity Corporate Securities	30%
10.	Mortgage Securities or Asset-backed Securities	20%
11.	Repurchase Agreements	50%
12.	Reverse Repurchase Agreements*	Not Allowed
13.	Variable and Floating Rate Securities	30%
14.	Obligations of the State of California or any California local agency	30%

* See Section V(E)(12).

Issuer/Counterparty	*Maximum % of Portfolio*
Any one Federal Agency or U.S. Government Sponsored Enterprise	50%
Securities of any single non-government issuer or its related entities, regardless of security type	5%
Securities of any State of California or California local agency	5%
Any one Repurchase Agreement or other collateralized counterparty name	50%

G. Investment Agreements ***(For Bond Funds Only).***

Investment Agreements or Fully Flexible Repurchase Agreements shall provide a fixed spread to an index or a fixed rate of return with liquidity, usually one-to-seven day's withdrawal notice with no penalties, to meet cash flow needs of the SCAQMD. Investment Agreements may be with any bank, insurance company or broker/dealer, or any corporation whose principal business is to enter into such agreements, if:

1. At the time of such investment:

    a. such bank has an unsecured, uninsured and unguaranteed obligation rated "AA" or its equivalent or better by at least two NRSROs, or

    b. such insurance company or corporation has an unsecured, uninsured and unguaranteed claims paying ability rated "AAA" or its equivalent by at least two NRSROs, or

    c. such bank or broker/dealer has an unsecured, uninsured and unguaranteed obligation rated "A" or its equivalent or better by at least two NRSROs (and with respect to such broker/dealer shall be rated of the highest short-term ratings by at least two NRSROs); provided, that such broker/dealer or "A" rated bank also collateralize the obligation under the investment agreement with U.S. Treasuries or Agencies.

2. The agreement shall include a provision to the effect that if any rating of any such bank, insurance company, broker/dealer or corporation is downgraded below the rating existing at the time such agreement was entered into, the SCAQMD shall have the right to terminate such agreement.

3. Collateralization shall be at a minimum of 102%, marked to market, at a minimum, weekly.

The maximum term for an Investment Agreement for bond proceeds will be governed by the permitted investment language of the bond indenture.

H. Rating Downgrades.

Securities that are currently under "Credit Watch-Negative" for downgrade below the minimum credit criteria of this Policy by any NRSROs are not permitted for purchase for the SPI investments under this Policy.

The SCAQMD SPI separate account may from time to time be invested in a security whose rating is downgraded below the quality criteria permitted by the Annual Investment Policy. Any security held as an investment whose rating falls below the investment guidelines or whose rating is put on notice for possible downgrade shall be immediately reviewed for action by the Chief Financial Officer. The decision to retain the security until maturity, sell (or put) the security, or other action shall be approved by the Treasurer. Minimum credit criteria shall apply at the time of purchase.

I. Securities Safekeeping.

Securities shall be deposited for safekeeping with a third party custodian in compliance with Code Section 53608.

J. Review and Monitoring of Investments.

The Chief Financial Officer will submit to the Governing Board the quarterly reports on investments prepared by the Treasurer for the Pooled Surplus Investment Portfolio and SCAQMD funds invested in the State Local Agency Investment Fund and Special Purpose Investments. The Chief Financial Officer will review at least monthly the transactions and positions of SCAQMD funds invested in Special Purpose Investments outside of the Local Agency Investment Fund or the Pooled Surplus Investment Portfolio.

Approved March 7, 2014

RESOLUTION NO. 14-_____

A Resolution of the South Coast Air Quality Management District Board delegating authority to the Treasurer of the County of Los Angeles to invest and reinvest funds of the South Coast Air Quality Management District.

WHEREAS, the Governing Board of the South Coast Air Quality Management District desires to reaffirm the appointment of the Treasurer of the County of Los Angeles as Treasurer of the South Coast Air Quality Management District; and

WHEREAS, the Governing Board of the South Coast Air Quality Management District pursuant to Section 40527 of the Health and Safety Code has authority to appoint a Treasurer; and

WHEREAS, the Governing Board of the South Coast Air Quality Management District pursuant to Section 53607 of the Government Code is required to annually renew the delegation of authority to its Treasurer to invest or to reinvest funds, or sell or exchange securities of the District;

THEREFORE, BE IT RESOLVED that the Governing Board of the South Coast Air Quality Management District hereby delegates to the Treasurer of the County of Los Angeles the authority to invest and to reinvest funds of the South Coast Air Quality Management District.

AYES:

NOES:

ABSENT:

Date: _____ _____

Clerk of the District Board