REPORT

DATE: August 30, 2007

TO: Investment Subcommittee, Administration Committee

FROM: Wayne Moore, CFO, 213-236-1804, moore@scag.ca.gov

SUBJECT: STATEMENT OF INVESTMENT POLICY

EXECUTIVE DIRECTOR'S APPROVAL:

RECOMMENDED ACTION:
Recommend that the Administration Committee adopt SCAG's new statement of investment policy.

BACKGROUND:
California Government Code Section 53646 (a) (2) states that local agencies, other than counties, may annually render to their legislative body and any oversight committee, a statement of investment policy. This policy must be considered at a public meeting.

An effective investment policy not only provides a level of accountability for investment officials, but also promotes a greater degree of public trust in the investment process. It should be periodically reviewed. At this time, several changes are being proposed in order to reflect new titles, new investment vehicle needs, and to comply with state law.

(1) Section 8, Authorized Investments

a. The new language specifically authorizes investments made pursuant to California Government Code 53601 (o): *Shares of Beneficial Interest issued by a Joint Powers Authority organized pursuant to California Government Code Section 6509.7 that invests in the securities and obligations authorized in Section 53601 (a) through (n).*

b. Added paragraph "B", "Other Post-Employment Benefits Funding" to permit the use of CalPERS' Retiree Benefit Trust Fund for prefunding retiree medical benefits.

c. Added paragraph "C", "Supplemental Defined Benefit Pension Rate Plan Funding" to require that this benefit be funded with an annuity, as approved by the RC on July 12, 2007.

(2) Various Sections
Responsible persons have been identified using current titles. Clarifying language has been added where needed.

FISCAL IMPACT:
None.

Reviewed by:

Division Manager

Reviewed by:

Department Director

Reviewed by:

Chief Financial Officer

SCAG STATEMENT OF INVESTMENT POLICY

Deleted: (Adopted March 6, 1997)

Section 1: Purpose

This **SCAG** Statement of Investment Policy is intended to provide standards and guidelines for the prudent investment of funds by **SCAG** in conducting its investment and cash management responsibilities. The goal is to strengthen the overall financial condition of **SCAG**, while earning a return on our investments with safety and liquidity.

Section 2: Objective

The Policy is designed to achieve and maintain adequate working capital to support our Planning and Support Operations and to grow our available resources and funds to the fullest extent possible. **SCAG** attempts to obtain a market rate of interest without assuming undue risk to principal. The objectives of such investments is: 1) the long term preservation of capital, 2) adequate cash resources to meet our short term financial needs for liquidity; and 3) to earn a competitive rate of return on capital.

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Section 3: Scope

This investment policy applies to activities of **SCAG** with regard to investing the financial assets of all funds, including the following: General Fund, Special Revenue Funds, and Trust Funds, and any other Funds that may be created from time to time.

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Section 4: Investment Responsibility

Investments are the responsibility of the Chief Financial Officer and the Manager of Accounting. This includes the authority to select investments, engage professional services, to open accounts with banks, brokers and dealers, to establish safekeeping accounts or other arrangements for the custody of securities, and report to oversight bodies. Those persons authorized to execute transactions include: 1) Chief Financial Officer or his/her director designee, 2) Manager of Accounting or his/her staff designee, and 4) those specifically approved and added by the Administration Committee (**AC**) of the Regional Council (**RC**). Brokers and dealers are to be provided with a list of specified names of those persons authorized to execute transactions.

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Deleted: 3) Senior Accountant,

Deleted: The Chief Operating Officer and the Controller shall be available to execute transactions on a timely basis.

Section 5: Internal Controls

The Chief Financial Officer and the Manager of Accounting shall establish the investment function so that specific responsibility for the performance of duties are assigned with a clear line of authority, accountability and reporting. The functions of authorizing, executing and recording transactions, custody of investments and performing reconciliation" are to be handled by separate persons to reduce the risk that a person is in a position to conceal errors or fraud in the normal course of duty.

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While no internal control system, however elaborate, can guarantee absolute assurance that assets are safeguarded, it is the intent of the internal control system to provide reasonable assurance that management of the investment function meets our objectives. These internal controls shall be reviewed annually by the independent auditor.

Section 6: Reporting

The **AC** shall be responsible for reporting the status of investments to the **RC** on a quarterly basis. Reports are to be submitted by the Chief Financial Officer to the **AC** and/or the Investment Subcommittee following the end of each quarterly period. These reports shall show the type of investment, institution, face amount, interest rate, date of maturity, compliance to the investment policy, a verification of adequacy of working capital to meet our operating needs and market value for all investments. The reports shall appear in the consent calendar of all agendas.

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Section 7: Prudence

The standard of prudence to be used by investment officials shall be the "prudent person" and shall be applied in the context of managing all aspects of the overall portfolio. Investments shall be made with care, skill, prudence, and diligence under the circumstances then prevailing, 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.

Section 8: Authorized Investments

(A) Surplus Funds

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Funds may be invested in any instrument allowable by the State of California Government Code Section 53600 et seq. so long as the investment is appropriate when **SCAG's** investment objectives and policies are taken into consideration. Within the context of the limitations, the following are authorized:

- US Treasury Obligations (Bills, Notes and Bonds)
- US Government Agency Securities and Instrumentality's of Government Sponsored Corporations
- Banker's Acceptances
- Commercial Paper
- Repurchase Agreements
- Certificates of Deposit
- Negotiable Certificates of Deposit
- Passbook Savings Accounts
- Interest Bearing Checking Accounts
- Intermediate Term Corporate Notes
- Bank Money Market Accounts
- Local Agency Investment Fund (State Pool)

- Los Angeles County Investment Fund (County Pool)
- Shares of Beneficial Interest issued by a Joint Powers Authority organized pursuant to California Government Code Section 6509.7 that invests in the securities and obligations authorized in Section 53601 (a) through (n).
- Other investments that are, or may become, legal investments through the State of California Government Code.

B. Other Post-Employment Benefits Funding

All funding approved for this purpose shall be invested in the irrevocable trust for post-employment benefits administered by the California Public Employees Retirement System (CalPERS), also known as the "Prefunding Plan."

C. Supplemental Defined Benefit Pension Plan Funding

All funding approved for this purpose shall be invested in an annuity selected according to criteria prescribed by SCAG procurement policies and SCAG's financial and operational needs.

Section 9: Prohibited Investments

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

Section 10: Investment Criteria

Criteria for selecting investments and order of priority are:

A. SAFETY

The safety and risk associated with an investment refers to the potential loss of principal, interest or a combination of these amounts. **SCAG** shall only invest in those financial instruments whose safety and quality comply with State law and SCAG's risk tolerance.

B. LIQUIDITY

This refers to the ability to convert an investment into cash at any moment in time with a minimal chance of losing some portion of principal or interest. Since liquidity is an important investment quality, especially when the need for immediate access to funds may occur unexpectedly, potential fluctuations in market value are to be an important consideration when selecting an investment. SCAG's portfolio shall provide for adequate liquidity as indicated by SCAG's cash projections.

C. YIELD

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Yield is the potential dollar earnings an investment can provide and sometimes is described as the rate of return. SCAG shall attempt to maximize return consistent with criteria A and B above.

Section 11: Diversification

SCAG will diversify use of investment instruments to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions or maturities. Diversification strategies shall be established within the guidelines of Government Code Section 53600 et seq., and periodically reviewed.

Section 12: Investment Pools

SCAG has determined that use of investment pools is a practical investment option. **SCAG** will utilize guidelines established by the California Municipal Treasures Association and California Society of Municipal Finance Officers to ensure the safety of investment pools.

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Section 13: Maturity Limitations

Every investment instrument purchased must have a term remaining to maturity of five years or less, unless RC approval was obtained three months in advance.

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Section 14: Safeguarding of Assets and Records

Securities purchased from broker/dealers shall be held in third-party safekeeping in **SCAG's** name and control, whenever possible. Monthly statements received from the financial institution are reconciled to the investment reports by the Senior Accountant. Review of safety, liquidity, and yields of investment instruments; and reputation and financial condition of investment brokers is to be done by the **AC.** The periodic review of the investment portfolio, including investment types, purchase price, market values, maturity dates, and investment yields as well as conformance to the stated investment policy will also be performed by the **AC**.

Section 15: Qualified Institutions

If SCAG decides not to use investment pools, **SCAG** shall prepare and maintain a listing of financial institutions which are approved for investment purposes. In addition, a list will be maintained of approved broker/dealers selected by credit worthiness, who maintain an office in the State of California. All financial institutions and broker/dealers who desire to become bidders for investment transactions must supply the following: audited financial statements, proof of National Association of Security Dealers' certification, trading resolution, proof of California registration, and certification of having read this Investment Policy. An annual review of the financial condition and registrations of qualified bidders will be conducted by the **AC.**

Section 16: Monitoring and Adjusting the Portfolio

SCAG, will monitor the contents of the portfolio, the available markets and the relative values of competing instruments and will adjust the portfolio accordingly based on our Investment Policy. Investment counselors may be engaged to assist in the performance of this work with the approval of the **AC.**

Section 17: Modification and Legislative Changes

The **AC** shall be responsible for modifying investment guidelines as conditions warrant and submit same for re-approval by the **RC** on an annual basis. This annual approval may be on the consent agenda unless there are amendments to this Policy. Any State of California legislative action, that further restricts allowable maturities, investment type or percentage allocations, will be incorporated into **SCAG's** Statement of Investment Policy and supersede any and all previous applicable language.

Section 18: Segregation of Responsibilities

A. FUNCTION	B. RESPONSIBILITY
Develop Statement of Investment Policy	Chief Financial Officer Manager of Accounting
Recommend modifications to Statement of Investment Policy	Chief Financial Officer Legal Counsel Manager of Accounting Investment Subcommittee
Approve Statement of Investment Policy and appointment of Oversight Committee	Administration Committee
Adopt Statement of Investment Policy	Regional Council
Select Investments	Chief Financial Officer Manager of Accounting Outside Investment Manager
Approve transactions	Chief Financial Officer or Manager of Accounting
Execute investment transactions and fax completed trade information to SCAG	Outside Investment Manager
Investment verification (match broker	Senior Accountant

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confirmation to trade information provided by outside Investment Manager to SCAG investment records)	
Record investment transactions into SCAG's accounting records	Senior Accountant – General Ledger
Reconcile investment records to accounting records and bank statements	Senior Accountant – General Ledger
Security	Time Certificates of Deposit will be maintained in SCAG's safe in the care of the Manager of Accounting. All other investment securities will be held in safekeeping in the trust department of SCAG's Depository bank, or other third party custodian as designated by the Chief Financial Officer.

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Section 19: Administration Committee and Investment Subcommittee

The **AC** is empowered to review and make recommendations on the Investment Policy and Investment Strategy of **SCAG** to strengthen the internal controls of the management of funds. The **AC** may, in its discretion, establish an Investment Subcommittee to assist the **AC** to achieve the goals and objectives of this Investment Policy.

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19.1 Purpose of the Investment Subcommittee

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A. To review and make recommendations about this Investment Policy and Investment Strategy.
B. To review investments on a periodic basis and to report any exceptions to this Investment Policy immediately to the RC.
C. To be responsive to AC requests.

19.2 Membership

The total membership shall consist of five members: 1) **AC** Chairman and 2 Members (selected by the **AC** members), 2) Chief Financial Officer, and 3) Manager of Accounting.

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19.3 Functions and Duties

A. Annually: To review and approve the Statement of Investment Policy; and

Review the financial condition of broker/dealers and financial institutions.

B. Quarterly: To review investments made during the pervious quarterly period; and

Provide a status report to the **AC.**

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C. Monthly: To develop and carry out the ongoing investment strategy in accordance with the Investment Policy; and

Recommend amendments to the Statement of Investment Policy.

D. The function of the **AC** and the Investment Subcommittee is to provide policy guidance that gives the operating staff standards and guidelines to work within on a day-to-day basis. By this, it is meant that each individual trade need not be approved by this Committee at the time it is transacted, provided that it falls within the scope of the Statement of Investment Strategy.

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