

# TRUCKEE TAHOE AIRPORT DISTRICT POLICY INSTRUCTION

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~~Formerly PI-212~~

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October 22, 2009

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October 27,  
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**SUBJECT:** STATEMENT OF INVESTMENT POLICY

**PURPOSE:** To establish a policy for investment of temporarily idle funds held by the Truckee Tahoe Airport District (District).

**OBJECTIVE:** To assure compliance with all federal, state and local laws governing the investment of District monies. To protect the principal deposits of the District and to generate investment income to the extent that prudent money management practices and the parameters of this policy allow.

**SCOPE:** This policy applies to all funds and investment activities under the direct authority of the District.

**POLICY:**

## SECTION I – Investment Principles

The District shall use the “prudent investor” standard (California Government Code 53600.3) in its cash management practices. Public funds will be invested in a manner which will provide the maximum security of principal consistent with a market rate of return, while meeting the cash flow needs of the District and conforming to all applicable federal, state and local statutes governing the investment of public funds. This will be accomplished by applying the following overarching principles:

1. **Preservation of Principal** is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.
  - a. **Credit Risk** – The District will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer, by:
    - i. Limiting investments to those listed in Section IV.
    - ii. Diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

- iii. Pre-qualifying the financial institutions, intermediaries and advisors with which the District will do business in accordance with Section III.
  - b. **Interest Rate Risk** – The District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by:
    - i. Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.
    - ii. Investing operating funds primarily in shorter-term securities, money market funds, or similar investment pools and limiting the average maturity of the portfolio.
2. **Liquidity** – The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may reasonably be anticipated. Determination of cash requirements will be based upon actual and anticipated operating results, operating and capital budgets, and the Board’s designations of unrestricted net assets. The appropriate level of liquidity will be accomplished through diversity of investment instruments to include those with active secondary markets, those which can match maturities to expected cash needs, and the State of California’s Local Agency Investment Fund, which has immediate withdrawal provisions.
3. **Yield / Return on Investment** – The investment portfolio shall be designed with the objective of obtaining a market rate of return throughout economic and budgetary cycles. The return on investment is of lesser importance than the safety and liquidity of the assets mentioned previously. Investment performance shall be continually monitored and evaluated by the District Treasurer.

## **SECTION II – Standards of Care**

The following standards of care shall be applied to all investment decisions made by the District:

1. **Prudence** – The standard of prudence to be used by investment officials shall be the “prudent person” standard, which states that, “Investments shall be made with judgment 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.” District employees acting within the intent and scope of the investment policy and other written procedures and exercising due diligence, shall be relieved of personal responsibility and liability for an individual security’s credit risk or market price changes, provided deviations from expectations are reported in a timely manner and appropriate action is taken to control adverse developments.
2. **Ethics and Conflict of Interest** – District employees and officials 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. District employees and officials shall disclose material financial 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.

3. **Delegation of Authority** – Authority to manage the investment program is granted to the District Treasurer and derived from California Government Code (the “Gov’t Code”) Section 53607, which states that the authority may be delegated for a one-year period. The Board of Directors may renew the delegation of authority pursuant to the referenced section of Gov’t Code each year. The District Treasurer shall act in accordance with the established written procedures and internal controls consistent with this investment policy. The District Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate all investment activity of the District. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the District Treasurer.

The District Treasurer shall establish a system of internal controls, which shall be documented in writing. The internal controls shall be reviewed by the independent auditor. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets or imprudent actions by employees and officers of the District.

### **SECTION III – Authorized Financial Institutions, Depositories, and Broker/Dealers**

The District shall transact investments only with banks, savings and loans, investment security dealers and the State of California Local Agency Investment Fund. The dealers must be designated as primary dealers by the New York Federal Reserve Bank. Dealers who desire to do business with the District shall provide the necessary information (e.g. audited financial statements, proof of state registration, proof of National Association of Securities Dealers certification, etc.) from which the District can determine their creditworthiness, the existence of any pending legal action against the firm of the individual broker as well as an understanding of the security markets they service.

The District Treasurer shall annually send a copy of the current investment policy to all financial institutions and broker/dealers approved to do business with the District. Confirmation of receipt of this policy shall be considered evidence the recipient understands the District’s investment policy and intends to sell the District only appropriate investments authorized by the policy.

### **SECTION IV – Authorized Investments**

Investment of District funds is governed by Gov’t Code Sections 53600 et seq. The Gov’t Code authorizes a wide-variety of investment instruments; however, recognizing that the District Treasurer is not a professional investment manager and working within the framework of the investments authorized by the Gov’t Code, the District authorizes the District Treasurer to invest idle funds in a select subset of investments authorized by Gov’t Code. The District investment portfolio may purchase and hold the following instruments:

1. **United States Treasury Bills, Bonds, and Notes**, or those for which the full faith and credit guarantee of the United States government are pledged for payment of principal and interest. There is no percentage limitation of the portfolio which can be invested in this category. The

maturity is not to exceed the projected dates of the District’s cash needs or three years, whichever is less.

2. **Federal Agencies or United States government-sponsored enterprise obligations**, including those issued by or fully guaranteed as to principal and interest by federal agencies or US government-sponsored enterprises. This includes FDIC Guaranteed Debt issued under the Temporary Liquidity Guarantee Program for insured depository institutions and most U.S holding companies. This debt is backed by the full faith and credit of the United States. Although there is no percentage limitation on the dollar amount that can be invested in these issues, the “prudent investor” rule shall apply for a single agency name. The maturity is not to exceed the projected dates of the District’s cash needs or three years, whichever is less.
3. **Certificates of Deposit (CDs)** – The District may invest in FDIC insured certificates of deposit at a commercial bank, savings bank, savings and loan association, or credit union that uses a private sector entity that assists in the placement of certificates of deposit. All conditions outlined in Gov’t Code Section 53601.8 et seq are to be observed. Purchase of CDs may not exceed 30% of the value of the portfolio and the maximum with any one issuer is the amount covered by the Federal Deposit Insurance Corporation (FDIC). The maximum maturity of a time certificate of deposit shall not exceed three years, unless authorized by the Board of Directors.
4. **Local Agency Investment Fund (LAIF)** – The District may invest in LAIF, a State of California investment pool, managed by the State Treasurer for the benefit of local agencies, up to the maximum permitted by California State Law (currently \$40 million).

Portfolio maturities shall be staggered to avoid undue concentration of assets in a specific maturity sector. Maturities selected shall provide for stability of income and reasonable liquidity, as discussed in Section I. The following maturity range and suggested percentages shall serve as a guide relative to maintaining a diversification and balance of security maturities. The weighted average maturity of the pooled portfolio should not exceed two years, and the following percentages of the portfolio should be invested in the following maturity sectors:

<b>Maturity Range</b>	<b>Suggested Percentages</b>
One day to 180 days	10 to 50%
181 days to 360 days	10 to 30%
One year to two years	10 to 20 %
Two years to three years	0 to 20%
Over three years	Board authorization required

**SECTION V – INELIGIBLE INVESTMENTS** – Investments not explicitly listed in Gov’t Code Section 53601 et seq. are ineligible for investment of District funds. Ineligible investments include, but are not limited to: inverse floaters, range notes, mortgage derived interest only strips, derivatives securities, or any security that could result in zero interest accrual if held to maturity. The District Treasurer’s authority to invest District funds extends only to those types of investments listed in Section IV.

**SECTION VI – POLICY CONSIDERATIONS**  
**Program Review**

The District's investment policy shall be adopted by the Board of Directors on an annual basis. The investment policy shall be reviewed annually to ensure its consistency with the overall objectives of preservation of principal, liquidity and yield, and its relevance to current law and financial and economic trends.

Any State of California legislative action that restricts allowable maturities, investment types or percentage allocation will be incorporated into the District's Investment Policy and supersede any and all previous applicable language.

### **Safekeeping and Custody**

To protect against potential losses by collapse of individual securities dealers or financial institutions, all securities owned by the District shall be held in safekeeping in the District's name by a third party bank trust department, acting as agent for the District under the terms of a custody agreement executed by the bank and the District. All transactions entered into by the District shall be conducted on a delivery-versus-payment (DVP) basis; the District's safekeeping agent will only release payment for an investment after the investment has been properly delivered.

### **Reporting**

The District Treasurer will submit a quarterly report to the Board of Directors. The report will include:

- A list of investment transactions for the period covered.
- Type of investments, issuing institution, selling institution, date of maturity, par and dollar amount invested, current market value (and source of valuation), credit quality of each investment (as determined by a nationally recognized credit rating service).
- The return on the District's investment portfolio expressed as an annual percentage rate.
- The weighted average maturity of the District's portfolio.
- A statement of compliance with this Investment Policy.
- A statement that the projected cash flow is adequate to meet expected obligations over the next six months.

The Board of Directors may require this reporting on a monthly basis based upon market conditions.

| ~~William Quesnel~~ Kathleen Eagan, President