

Staff Summary

Subject MTA All Agency Investment Guidelines Revision	Date September 23, 2024
Department CFO/Treasury	Vendor Name
Department Head Name Kevin Willens, Chief Financial Officer	Contract Number
Department Head Signature	Contract Manager Name
Project Manager/Division Head Scott Gerstner, Director Cash and Investment Management/Olga Chernat, Deputy Chief, Financial Services	Table of Contents Ref #

Board Action					
Order	To	Date	Approval	Info	Other
1	Finance Comm.	9/23	X		
2	Board	9/25	X		

Internal Approvals			
Order	Approval	Order	Approval
1	Chief Financial Officer		
2	Legal		
3	Chief of Staff		

PURPOSE:

The MTA Treasury Department (the “Department”) is seeking Board approval to revise the MTA All Agency Investment Guidelines (the “Investment Guidelines” or “Guidelines”) to provide authorization to invest in money market funds that meet the definition of “Government Money Market Fund” under the SEC’s Rule 2a-7¹ under the Investment Company Act of 1940.

DISCUSSION:

The MTA All Agency Investment Guidelines establish parameters for investing MTA’s operating and capital program funds and define the types of securities the MTA Treasury Department is authorized to invest in. The revised MTA All Agency Investment Guidelines will authorize investments in money market funds that meet the definition of “Government Money Market Fund” under Rule 2a-7 under the Investment Company Act of 1940, provided such money market funds do not impose any liquidity fees or suspend redemption. To qualify as “Government Money Market Fund” under Rule 2a-7, money market funds are required to invest at least 99.5% of their assets in cash or securities issued or guaranteed by the United States or certain U.S. governmental agencies or instrumentalities and/or repurchase agreements that are collateralized fully by U.S Treasury and U.S. government securities. The authorization of Government Money Market Funds provides a flexible alternative option for the MTA Treasury to invest funds into short-term securities issued or guaranteed by the United States in addition to purchasing such investments directly in the market and allows for the excess cash sweep into Government Money Market Funds to enhance investment returns on the funds.

ALTERNATIVES:

The Board could determine that the MTA All Agency Investment Guidelines remain in effect without change, and the MTA Treasury Department’s investment into securities issued or guaranteed by the United States be limited to the direct purchase of such securities. This alternative is not advised as it limits the staff’s ability to manage the portfolio to maximize investment returns while safeguarding the investment portfolio’s principal.

RECOMMENDATION:

It is recommended that the MTA Board approve the revised Investment Guidelines.

¹ 17 CFR 270.2a-7] under the Investment Company Act of 1940 [15 U.S.C. 80a-1 et seq.] (“1940 Act”).

**MTA ALL AGENCY
INVESTMENT GUIDELINES
Operating and Capital Program Funds**

WHEREAS the Treasury Department of the Metropolitan Transportation Authority manages the investment of the operating and capital program funds of the Metropolitan Transportation Authority (MTA), The Long Island Rail Road Company (LIRR), the Metro-North Commuter Railroad Company (MN), the Manhattan and Bronx Surface Transit Operating Authority (MaBSTOA), the Metropolitan Suburban Bus Authority (MSBA), the New York City Transit Authority (NYCTA), the Staten Island Rapid Transit Authority (SIRTOA), the Grand Central Madison Concourse Operating Company (GCMCO) and the Triborough Bridge and Tunnel Authority (TBTA) (collectively the related entities), and

WHEREAS the investment of funds are regulated by the New York State Public Authorities Law, the State Comptroller's Investment Guidelines for Public Authorities, and in accordance with the Bond Resolutions of the MTA and TBTA ,

BE IT RESOLVED, that the following investment guidelines be adopted by the related entities.

I. GENERAL GUIDELINES

1. The MTA Treasury Department (Treasury) shall be responsible for the execution and management of all operating and capital program investment activity for each of the related entities. The Treasury Department will report to the Director of Finance.
2. Federal Statutory Requirements, New York State Statutory Requirements, and Bond Resolutions of the related entities supercede these guidelines.
 - a. Federal Statutory requirements include compliance with any existing or future statute or administrative ruling that may affect the tax-exempt status of related entities' debt.
 - b. New York State statutory requirements include, but not limited, to the following sections:
 - i. Public Authorities Law Sections 1265(4) (MTA), 1204(19) (Transit Authority) and 553(21) (TBTA)
 - ii. Public Authorities Law Section 2925 Investment of funds by public authorities and public benefit corporations; general provisions
 - iii. State Finance Law Article 15 – EXCELSIOR LINKED DEPOSIT ACT
3. Authorized Investment Obligations will be limited to the following:
 - a. obligations of the state or the United States government,
 - b. obligations the principal and interest of which are guaranteed by the state or the United States government,
 - c. money market funds that meet the definition of “Government Money Market Fund” under the SEC’s Rule 2a-71 under the Investment Company Act of 1940, and do not impose any liquidity fees or suspend redemptions,
 - ~~e.d.~~ certificates of deposit of banks or trust companies in this state, secured, if the authority shall so require, by obligations of the United States or of the state of New York of a market value equal at all times to the amount of the deposit,
 - ~~d.e.~~ banker’s acceptances with a maturity of ninety days or less which are eligible for purchase by the federal reserve banks and whose rating at the time of purchase is in the highest rating category of two nationally recognized independent rating agencies, provided, however, that the amount of banker’s acceptances of any one bank shall not exceed two hundred fifty million dollars,
 - ~~e.f.~~ obligations of any bank or corporation created under the laws of either the United States or any state of the United States maturing within two hundred seventy days, provided that such obligations receive the highest rating of two nationally recognized independent rating agencies and, provided further, that no more than two hundred fifty million dollars may be invested in such obligations of any one bank or corporation,
 - ~~f.g.~~ as to any such moneys held in reserve and sinking funds, other securities in which the

- trustee or trustees of any public retirement system or pension fund has the power to invest the monies thereof pursuant to article four-a of the retirement and social security law, each such reserve and sinking fund being treated as a separate fund for the purposes of article four-a of the retirement and social security law,
- ~~g.~~h. notes, bonds, debentures, mortgages and other evidences of indebtedness, issued or guaranteed at the time of the investment by the United States postal service, the federal national mortgage association, the federal home loan mortgage corporation, the student loan marketing association, the federal farm credit system, or any other United States government sponsored agency, provided that at the time of the investment such agency or its obligations are rated and the agency receives, or its obligations receive, the highest rating of all independent rating agencies that rate such agency or its obligations, provided, however, that no more than two hundred fifty million dollars or such greater amount as may be authorized for investment for the state comptroller by section ninety-three of the state finance law may be invested in the obligations of any one agency,
 - ~~h.~~i. general obligation bonds and notes of any state other than the state, provided that such bonds and notes receive the highest rating of at least one independent rating agency, and bonds and notes of any county, town, city, village, fire district or school district of the state, provided that such bonds and notes receive either of the two highest ratings of at least two independent rating agencies,
 - ~~i.~~j. mutual funds registered with the United States securities and exchange commission whose investments are limited to obligations of the state described in paragraph (a) of this subdivision, obligations the principal and interest of which are guaranteed by the state described in paragraph (b) of this subdivision, and those securities described in paragraph (h) of this subdivision and that have received the highest rating of at least one independent rating agency, provided that the aggregate amount invested at any one time in all such mutual funds shall not exceed ten million dollars, and, provided further, that the authority shall not invest such funds, accounts or other monies in any mutual fund for longer than thirty days,
 - ~~j.~~k. financial contracts in a foreign currency entered into for the purpose of minimizing the foreign currency exchange risk of the purchase price of a contract with a vendor chosen through competitive process for the acquisition of capital assets for the benefit of the capital program of the Triborough bridge and tunnel authority or either the transit or transportation capital programs, and
 - ~~k.~~l. repurchase agreements with any dealer or bank, which agreement is secured by any one or more of the securities described in clauses (a), (b) or (g) above, which securities shall (A) at all times have a market value of not less than the full amount held or invested pursuant to the agreement and (B) be delivered to a Bank as defined in clause (i) or (ii) of the definition thereof, as custodian, that is independent from the dealer or bank with whom the repurchase agreement is executed.

4. Bank shall mean any (i) bank or trust company organized under the laws of any state of the United States of America, (ii) national banking association, (iii) savings bank or savings and loan association chartered or organized under the laws of any state of the United States of America, or (iv) federal branch or agency pursuant to the International Banking Act of 1978 or any successor provision of law, or domestic branch or agency of a foreign bank which branch or agency is fully licensed or authorized to do business under the laws of any state or territory of the United States

of America.

5. Trading Authorization – The board delegates to the Chairman and the Executive Director, acting individually, the power to authorize certain individuals to buy and sell securities and enter into investment agreements on behalf of the related entities. The trading authorization will take the form of attachment A to these guidelines.
6. Investment Limitations – All dollar limitations for investment will be based on the original cost of the investment including accrued interest purchased at the time of investment.

II. CUSTODIAN

1. All Investment Obligations and collateral is to be held by a custodian who is not a party to the Investment Obligation.
2. A custodian must meet either of the following three criteria:
 - a. A bank as the term is defined in either clauses (i) or (ii) in section I.4 of these guidelines, and which the MTA Board has adopted a resolution establishing the bank as a depository of the MTA or any of its related entities.
 - b. A bank appointed as a trustee under a specific MTA board resolution.
 - c. A bank designated as a trustee by an authorized officer who has been delegated the authority by the MTA Board to appoint a custodian as part of a specific transaction.
3. Each bank acting as a custodian, except for a custodian established for a specific transaction, must have the following capabilities;
 - a. Daily electronic reporting of all investment and cash activity,
 - b. Acceptance of electronic instructions to buy, sell, deliver or receive securities,
 - c. Acceptance of electronic instructions to transfer funds, and
 - d. Electronic Access to current Investment Inventory position statements.
4. The Treasury Department will maintain at least \$100 million of its portfolio with a separate emergency custodian bank. The purpose of this deposit is in the event that the MTA's main custodian cannot execute transactions due to an emergency outside of the custodian's control, the MTA has an immediate alternate source of liquidity. Securities held in the separate emergency custodian bank are subject to the following conditions;
 - a. The securities will be included in the MTA portfolio, and
 - b. All security activity in the emergency custodian bank will be governed by these guidelines.

III. REPURCHASE AGREEMENTS

1. An executed Master Repurchase Agreement, approved as to form by the MTA General Counsel, must be executed between the dealer or bank and the MTA. The Director of Treasury is authorized to execute the agreement on behalf of the related entities.
 - a. A dealer must be listed on the "LIST OF THE GOVERNMENT SECURITIES DEALERS REPORTING TO THE MARKET REPORTS DIVISION OF THE FEDERAL RESERVE BANK OF NEW YORK", published by the Federal Reserve Bank of New York.
 - b. Agreements currently signed with firms meeting the requirements contained in the current Investment Guidelines will remain in effect.

2. The market value of the collateral must at all times be not less than the principal amount of the repurchase agreement plus the accrued interest of the repurchase agreement. MTA Treasury will use as its primary source its mark-to-market report based upon the prior day closing prices.
 - a. A mark- to- market of the collateral will be done each morning. The market value will include the accrued interest on the collateral securities.
 - b. For repurchase agreements having a term of more than 1 business day, if the market value of the collateral is less than 102%, rounded to the nearest 1%, additional collateral must be delivered to the MTA's custodian.
 - c. For the purpose of the mark- to- market calculation, the market value for all repurchase agreements with any one dealer, having a maturity of more than 1 business day, may be aggregated against the total collateral requirement for all of the repurchase agreements, having a maturity of more than 1 business day, with the one dealer.
 - d. The Treasury Department may waive the requirement for additional collateral if the amount of additional collateral is less than \$100,000.00 and the market value, as determined in the daily mark to market referred to in subsection (a) of this section, of the collateral held by the MTA's custodian is greater than the sum of the principal amount of the repurchase agreement plus the accrued interest of the repurchase agreement.
 - e. On the purchase date, which is the date on which the repurchase agreement is entered into, the Treasury Department will test a minimum of 20% of the repurchase agreements to ensure that the collateral being delivered is sufficient for the repurchase agreement.
 - f. For overnight, including weekends and holidays, repurchase agreements, the Treasury Department will be responsible for monitoring dealer performance and will take corrective action with regard to chronic problems. Such corrective action will consist of notifying in writing the dealer who has developed a pattern of not providing adequate collateral. If the problem persists, the Treasury Department will discontinue doing business with the dealer.
 - g. For repurchase agreements longer than overnight, including weekends and holidays, the Treasury Department will contact any under collateralized dealer and require additional collateral or the return of cash as required in the written repurchase agreement. Request for additional collateral should be made by 10:00AM.

- h. In the event of a dispute, a revised mark-to-market report may be used based upon current day pricing provided by a 3rd party, such as Bloomberg LLP. Documentation for such a revised report will consist of a screen pricing out of each collateral security at the current bid price plus the accrued interest on the collateral security.

Nothing in these guidelines prohibit entering into 3rd party repurchase agreements if the custodian meets the above criteria and all segregation requirements for the MTA funds are maintained.

- 3. Dealer limits for repurchase agreements are to be determined by a tier level based on a firm's capital.
 - a. The tier levels are:
 - 1st Tier - \$1,000.0 million or more in capital
 - 2nd Tier - \$200.0 to \$999.9 million in capital
 - 3rd Tier - Less than \$200.0 million in capital
 - b. Capital will be defined as the sum of the firm's equity plus subordinated long-term debt. If the dealer is a wholly owned subsidiary of another dealer, and is included in a consolidated balance sheet of the parent broker, the parent's capital will be the basis for determining the capitalization. If the parent organization is not primarily a dealer/broker type of firm, but does have a major portion of its revenues generated by other than security type transactions, the parent's capital will not be included. This would exclude firms owned by insurance companies, and other non-security investment institutions. Only audited financial statements will be used for determining the firm's capital.
 - i. Capital for a bank or dealer owned by a bank shall mean the bank's equity only.
 - ii. The capital of those holding companies which are foreign based cannot be applied for the purpose of determining capitalization except and unless the holding company has provided an unconditional guarantee in writing and any necessary supporting documents in a form acceptable to the MTA General Counsel against any losses incurred as a result of the domestic subsidiary being unable to fulfill its Contractual Obligations with the MTA.
 - iii. Only audited financial statements will be used for determining a firm's capital.
 - c. The total maximum exposure for repurchase agreements to any Dealer/Banks will be limited by Tier as follows for any one day:
 - 1st Tier - \$300.0 million
 - 2nd Tier - \$250.0 million
 - 3rd Tier - amount of firm's capital
- 4. Investment in repurchase agreements will be further governed by the following operational requirements:

- a. The Treasury Department will maintain a record of the results of its monitoring of overnight repurchase agreement collateral for each dealer.
- b. All repurchase agreements shall be in the form of cash versus delivery.
- c. The MTA Treasury Department will determine the final maturity of repurchase agreements based upon cash needs of the Authority.
- d. A minimum of three solicitations will be made prior to the awarding of any repurchase agreement. The award of the investment will be made in order of the highest yields, and in accordance with the exposure constraints established in Section III.3. A written record of the quotes received and awards made will be maintained by the Treasury Department.

IV. SECURITY PURCHASES AND SALES

1. The direct purchase of investment obligations securities covers the purchase of securities listed in sections I.3.a, b, d, e, g and h above.
2. All securities will be delivered to a designated MTA Custodian against cash payment. Delivery instructions will be sent to the MTA Custodian electronically or via telecopied letter signed by an authorized signer
3. A minimum of three (3) bids or offers will be solicited for direct purchases or sales of securities. The award will be based on lowest cost for purchases or highest price for sales. A written record of the quotes received will be maintained by the Treasury Department.
4. Nothing in this section prohibits the use of electronic trading screens, provided that the requirements of III.2 and III.3 are met.
5. The authority may participate directly in US Treasury government security auctions. This participation takes the form of placing an order through one of the dealers listed on the "LIST OF THE GOVERNMENT SECURITIES DEALERS REPORTING TO THE MARKET REPORTS DIVISION OF THE FEDERAL RESERVE BANK OF NEW YORK", published by the Federal Reserve Bank of New York. The award of securities is determined by the results of the auction process, and is based on the rates received and the amount of securities offered for sale. The pricing results of the auction are published, and such published notices will be included in the record of the trade.

V. REPORTING REQUIREMENTS

1. The Treasury Department will prepare reports as scheduled by the Finance Committee's work plan, investment reports covering the investment activity of all MTA Treasury Department funds. These reports will contain a detailed listing of all broker activity for the period. A listing of dealers with whom the MTA does repurchase agreements including limits set for each broker, will also be included.
2. An annual investment report shall be submitted to the Finance Committee consisting of the following:
 - a. Investment Guidelines and amendments to those guidelines since the last report, and an explanation of the guidelines and amendments.
 - b. Investment income for the year.
 - c. List of total fees, commissions or other charges paid to each investment banker, broker, agent, dealer, custodian bank and adviser rendering investment associated services to the MTA.

Following receipt of approval of the Board, copies of the annual report shall be submitted to:

1. State Division of the Budget
2. State Department of Audit and Control
3. State Senate Finance Committee
4. Assembly Ways and Means Committee

VI. PORTFOLIO MANAGERS

1. Due to the various portfolio requirements of the MTA, it may be advantageous to structure a specific portfolio and contract with outside portfolio managers for the management of these funds. The awarding of a portfolio management contract will be controlled by the MTA's procurement policy covering personal services contracts. The criteria for awarding these contracts will include, but not limited by, the following provisions:
 - a. Experience of the portfolio manager.
 - b. Concepts and ideas for the management of the funds, including the identification of an appropriate benchmark for the portfolio.
 - c. The ability to provide regular and timely reports, consistent with internal reporting requirements of the MTA All Agency Investment Guidelines.
 - d. Fees
 - e. Capitalization and financial strength of the firm.

2. Each portfolio manager will be required to operate within the structure of these guidelines except for the reporting requirement of competition with regards to the purchase and sale of securities. This exception is made because it would be impossible to monitor compliance. In addition, an outside manager would also have to comply with the following:
 - a. All transactions will be made from an MTA controlled Custody Account on a cash vs. delivery basis.
 - b. All Bank Statements and Broker advices will be mailed to the Comptroller for the MTA.
 - c. The MTA will designate to the custodian the representatives of the portfolio manager authorized to conduct business on behalf of the MTA.

VII. MISCELLANEOUS

The following guidelines will also be adhered to with regard to the investment of MTA Operating and Capital Program Funds.

1. **AUTHORIZATION** - The Chairman and the Executive Director, or any person or persons who may from time to time be designated in writing by either the Chairman or the Executive Director, may purchase or sell securities and/or enter into repurchase agreements for the MTA and its related entities.
2. **BANK RECONCILIATIONS** - All bank confirmations and statements will be addressed to the Comptroller. The Comptroller will be responsible for all investment custody account reconciliations.
3. **INDEPENDENT AUDITOR** - The MTA's independent auditor will include as part of its annual audit a statement on the compliance of the investment activity with these investment guidelines.
4. **INVESTMENT DECISIONS** - All investment decisions will also meet the following requirements:
 - a. Safeguard the Investment Principal.
 - b. Meet expected cash flow requirements.
 - c. Maximize yield.
5. **CONFLICTS OF INTEREST** - MTA's policy regarding conflicts of interest shall be followed regarding the investment of funds. Business may not be transacted with any institution or dealer of which an MTA Board Member, senior agency official, or any other officer or employee authorized to participate in the selection of such institution or dealer is an officer, a director or a substantial stockholder.
6. **BROKER ADVICES** - All broker advices will be mailed to the Treasury Department for safekeeping. All broker advices will be made available by the Treasury Department to the Comptroller and Audit Department as requested.
7. **STOCK TRANSACTIONS** - Due to the reorganization of mutual insurance firms into stock firms, the MTA and its related entities receive stock in reorganized corporations. The Chairman and the Executive Director, or any person or persons who may from time to time be designated in writing by either the Chairman or the Executive Director, may sell this stock for the MTA and its related entities.
 - a. If the corporation has a stock buy back plan that will purchase the stock, the stock will be sold using the plan.
 - b. If the corporation does not have a stock buy bank plan, the Treasury Department will solicit commission fee bids from at least 3 members of the MTA's senior underwriting management firms. The firm with the smallest commission will be

awarded the sale trade. In case of a tie, the trade may be divided among the firms with the same commission fee bid.

- c. Proceeds from the sale of the stock will be distributed back to the related entities in proportion to the shares of securities and/or enter into repurchase agreements originally owned by each of the related entities.