



CITY OF RIALTO
CALIFORNIA

INVESTMENT POLICY
CALENDAR YEAR 2022

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POLICY

It is the policy of the City of Rialto to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the City of Rialto and conforming to all state and City of Rialto's laws governing the investment of public funds.

The investment of the funds of the City of Rialto is directed toward the goals of safety, liquidity and yield. The State of California authority governing investments for municipal governments is set forth in the California Government Code, Sections 53600 et seq. and included in Appendix A of this Investment Policy.

This policy covers the investment activities of all contingency reserves and inactive cash balances under the direct authority of the City.

SCOPE

This investment policy applies to all financial assets, investment activities and debt issues of the City of Rialto, City of Rialto acting as Successor Agency to the Redevelopment Agency, Rialto Utility Authority, and Rialto Housing Authority as accounted for in the Comprehensive Annual Financial Report (CAFR).

All monies entrusted to the City Treasurer can be pooled in a diversified portfolio unless specifically exempted. Investments made on a pooled basis may include investments of the City of Rialto and its component units and agencies.

Except for cash in restricted and special funds and the OPEB Pre-Funding Trust Program, the City will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income will be allocated to the various funds based on their respective participation in accordance with general accepted accounting principles.

Policy statements outlined in this document focus on the City of Rialto's total investment funds portfolio but will also apply to all other funds under the City Treasurer's span of control unless specifically exempted by resolution. This policy is applicable, but not limited to all funds listed below:

(next page)

- General Fund
- Special Revenue Funds
- Debt Service Funds
- Capital Projects Funds
- Enterprise Funds
- Internal Services Funds
- Agency Funds
- Reserve Funds
- General Fund Economic Reserve
- Any new fund created by the City Council unless specifically exempted

Funds excluded from this policy:

1. **Bond Proceeds.** Proceeds of debt issuance shall be invested in accordance with the City's general investment philosophy as set forth in this policy. The overriding policy for the investment of bond proceeds will be dictated by the bond documents governing such funds as long as the documents are approved by the City Council or related governing board.

2. **Deferred Compensation Plans.** Investments related to the City's deferred compensation plans are not subject to this policy since third-party administrators manage them and the individual plan participant's direct investment and mutual fund selection. Deferred compensation plans must be approved by the City Council

PRUDENCE

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.

The standard of prudence to be used by investment officials shall be the "**prudent person**" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the 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 adverse developments.

OBJECTIVE

The primary objectives, in priority order, of the City of Rialto's investment activities shall be:

I. Safety

Safety of principal is the foremost objective of the investment program. Investments of the City of Rialto shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, **diversification** is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

II. Liquidity

The City of Rialto's investment portfolio will remain sufficiently liquid to enable the City of Rialto to meet all operating requirements which might be reasonably anticipated.

III. Yield on Investments

The City of Rialto's investment portfolio shall be designed with the objective of attaining a rate of return throughout budgetary and economic cycles, commensurate with the City of Rialto's investment risk constraints and the cash flow characteristics of the portfolio.

DELEGATION OF AUTHORITY

Authority to manage the City of Rialto's investment program is granted by the City Council on an annual basis and assigns the responsibility of management for the investment program to the City Treasurer who shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate investment personnel. The City Treasurer may delegate daily investment activity, such as carrying out the Treasurer's investment instructions, confirming treasury transactions and other routine activities. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the City Treasurer.

ETHICS AND CONFLICTS OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the City Manager any material financial interests in financial institutions that conduct business within their jurisdiction.

AUTHORIZED FINANCIAL INSTITUTIONS AND BROKER/DEALERS

The City shall transact business only with financial institutions and broker/dealers. The broker/dealers should be primary dealers regularly reporting to the New York Federal Reserve Bank. Exceptions will be made only upon written authorization by the City Treasurer. Treasury staff shall investigate dealers who wish to do business with the City of Rialto to determine if they are adequately capitalized, have pending legal action against the firm or the individual broker and offer securities appropriate to the City of Rialto's needs.

The City shall transact business only with Municipal Advisors as part of the regulation incorporated by the Municipal Advisor Rule (MA Rule). The Municipal Advisors Rule states that broker-dealers providing services/advice to government clients have a fiduciary duty to their clients and must be registered as a municipal advisor.

The City Treasurer shall annually send a copy of the current investment policy to all broker/dealers approved to do business with the City of Rialto. Receipt of this policy shall be considered confirmation that the broker/dealer understands the City of Rialto's investment policies and intends to offer the City of Rialto only appropriate investments authorized by this investment policy.

The Treasurer will maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved security broker/dealers selected by credit worthiness who are authorized to provide investment services in the State of California. No public deposit shall be made except in a qualified public depository as established by state laws. All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the treasurer with the following:

(next page)

- Financial statements
- Proof of National Association of Security Dealers certification
- Trading resolution
- Completed broker/dealer questionnaire
- Certification of having read the entity's investment policy.

An annual review of the financial condition and registrations of qualified bidders will be conducted by the Treasurer. A current audited financial statement is required to be on file for each financial institution and broker/dealer in which the City of Rialto invests.

AUTHORIZED AND SUITABLE INVESTMENTS

The minimum quality rating for authorized and suitable investments is applied on the date of purchase. The City may from time to time be invested in authorized and suitable investments whose quality rating is downgraded. In the event a quality rating drops below the minimum allowed rating the Treasurer shall either promptly liquidate the investment or promptly inform the City Council that the Treasurer proposes to retain the investment and will prepare a plan of action to be reviewed by the Director of Finance and the City Manager, and submitted to the City Council for consideration and approval.

Investment of City funds is governed by the California Government Code Sections 53600 et seq. Within the context of the limitations, the following investments are authorized, as further limited herein:

1. **United States Treasury Bills, Bonds, and Notes** or those for which the full faith and credit of the United States are pledged for payment of principal and interest. There is no percentage limitation of the portfolio which can be invested in this category, although a five-year maturity limitation is applicable.
2. **United States Government Agency Obligations** issued by the Government National Mortgage Association (GNMA), the Federal Farm Credit System (FFCB), the Federal Home Loan Bank Board (FHLB), the Federal National Mortgage Association (FNMA), the Student Loan Marketing Association (SLMA), and the Federal Home Loan Mortgage Association

(FHLMC). There is no percentage limitation of the portfolio which can be invested in this category, although a five-year maturity limitation is applicable.

3. **Public Bank Obligations** a public bank shall be eligible to receive local agency money. Investments from a Public Bank can be commercial paper, debt securities or other types of obligations. There is no percentage limitation of the portfolio which can be invested in this category, although a five-year maturity limitation is applicable. To further specify – a “Public Bank” means a corporation, organized under the Non-Profit Mutual Benefit Corporation Law for the purpose in engaging in the commercial banking business or industrial banking business that is wholly owned by a local agency, local agencies, or a joint powers of authority formed pursuant to the Joint Exercise of Powers Act that is composed only of local agencies. These public banks must also hold a “Public Bank License” which is a certification of authorization to transact business as a bank.

Investments detailed in items 4 through 14 are further restricted to percentage of the value of the portfolio in any one issuer name to a maximum of 15%. The total value invested in any one issuer shall not exceed 5% of the issuer’s net worth. Again, a five year maximum maturity limitation is applicable unless further restricted by this policy.

4. **Bills of exchange** or time drafts drawn on and accepted by commercial banks, otherwise known as banker's acceptances. **Banker's acceptances** purchased may not exceed 180 days to maturity or 40% of the value of the portfolio.
5. **Commercial Paper** ranked P1 by Moody's Investor Services or A1 by Standard & Poors, and issued by domestic corporations having assets in excess of \$500,000,000. Purchases of eligible commercial paper may not exceed 270 days to maturity nor represent more than 10% of the outstanding paper of the issuing corporation. Purchases of non-pooled funded commercial paper may not exceed 25% of the value of the portfolio and purchases of pooled funded commercial paper may not exceed 40% of the value of the portfolio.
6. **Negotiable Certificates of Deposit** issued by nationally or state-chartered banks or state or federal savings institutions. Purchases of negotiable certificates of deposit may not exceed 30% of the value of the portfolio. A maturity limitation of five years is applicable.
7. **Repurchase agreements** with specific terms and conditions may be transacted with banks and broker/dealers. The maturity of the repurchase agreements shall not exceed one (1) year.

The market value of the securities used as collateral for the repurchase agreements shall be monitored by staff and shall not be allowed to fall below 102% of the value of the repurchase agreement. A PSA Master Repurchase Agreement is required between the City of Rialto and the broker/dealer or financial institution for all repurchase agreements transacted.

8. **Reverse repurchase agreements** with specifies terms and conditions may be transacted with broker/dealers and financial institutions but cannot exceed 20% of the portfolio value on the date entered. The City may enter into reverse repurchase agreements only to fund short-term liquidity needs. The term of reverse repurchase agreements may not exceed 92 days.
9. **Local Agency Investment Fund (LAIF)** which is a State of California managed investment pool, may be used up to the maximum permitted by California State Law.
10. **Time deposits or Certificate of Deposits** non-negotiable and collateralized in accordance with the California Government Code, may be purchased through banks or other financial institutions. Since time deposits are not liquid, no more than 25% of the investment portfolio may be invested in this investment type. Collateral must be at all times be insured by the Federal Deposit Insurance Corporation of principal and accrued interest of each time deposit computed and reported on a daily basis.
11. **Medium Term Corporate Notes** with a maximum maturity of five years may be purchased. Securities eligible for investment shall be rating category of “A” or its equivalent or better by a nationally recognized statistical rating organization (NRSRO). Purchase of medium-term notes may not exceed 30% of the market value of the portfolio and no more than 15% of the market value of the portfolio may be invested in notes issued by one corporation. Commercial paper holdings should also be included when calculating the 150% limitation.
12. **Mutual Funds and Money Market** shall be eligible for investment with the following criteria: must receive the highest ranking by no less than two nationally recognized rating agencies or the fund must retain an investment advisor registered with the SEC (or exempt from registration), has assets under management in excess of \$500,000,000. Purchase of Mutual funds and/or Market Mutual funds may not exceed 20% of the market value of the portfolio.

13. **Mortgage Pass-Through/Mortgage- Backed Securities** eligible for investment shall be rated in a rating category of “AA” or its equivalent or better by a nationally recognized statistical rating organization (NRSRO) and have a maximum remaining maturity of five years or less. Purchase of securities authorized shall not exceed more than 5% of the portfolio in one single issuer and no more than 20% of the agency’s surplus moneys that may be invested.

14. **Supranational Obligations** United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation or Inter-American Development Bank with a maximum remaining maturity of five years or less are eligible for purchase under the subdivision shall be rated in a rating category of “AA” or its equivalent or better by a nationally recognized rating agencies and shall not exceed 30% of the agency’s moneys that may be invested.

Ineligible investments are those that are not described herein, including but not limited to, common stocks and long term (over five years in maturity) notes and bonds are generally prohibited from use in this portfolio. On occasion, special circumstances arise that necessitate the purchase of securities beyond the five-year limitation, which require City Council approval prior to purchase.

Special circumstances arise that necessitates the purchase of securities beyond the five (5) year limitation by three (3) to six (6) months to maximize return on investment. On occasion, time is of the essence due to market deadlines for making such investment purchases, making obtaining prior approval from City Council unpractical and resulting in the loss of an investment opportunity. Therefore, the Treasurer is authorized to make Suitable Investments as described in this Investment Policy, not to exceed six (6) months beyond the five (5) year limitation, provided such investment is also authorized under State law, with the prior notification to and acknowledgement of the City Manager; and in his absence the City Finance Manager. Further notification will be given in the form of a report to the City Council at the next regularly scheduled City Council Meeting following the purchase of any securities beyond the five (5) year limitation, for City Council acknowledgement and acceptance.

Various daily cash funds administered for or by trustees, paying agents and custodian banks contracted by the City of Rialto may be purchased as allowed under State of California Government Code. Only funds holding U.S. Treasury or Government agency obligations can be utilized.

The following summary of maximum percentage limits, by instrument, is established for the City of Rialto's total investment funds portfolio and all exceptions to the Investment Type Percentage, to the extent permitted by law, must be approved by the City Treasurer in written form and included in monthly reporting to City Council:

(next page)

INVESTMENT TYPE	MAX MATURITY	MAX % OF PORTFOLIO	CREDIT RATING REQUIREMENTS	GOV'T CODE SECTIONS
U.S. Treasury Bonds / Notes / Bills	5 years	0 to 100%	None	53601(b)
U.S Agency Obligations	5 years	0 to 100%	None	53601(f)
Bankers' Acceptances	180 days	0 to 40%	None	53601(g)
Commercial Paper— Non-Pooled Funds	270 days or less	25% of the agency's money	Highest letter and number rating by an NRSRO	53601(h)(2)(C)
Commercial Paper— Pooled Funds	270 days or less	40% of the agency's money	Highest letter and number rating by an NRSRO	53635(a)(1)
Negotiable Certificates of Deposit	5 years	0 to 30%	None	53601(i)
Repurchase Agreements	1 year	0 to 50%	None	53601(j)
Reverse Repurchase Agreements and Securities Lending Agreements	92 days	20% of the base value of the portfolio	None	53601(j)
Medium-Term Notes	5 years or less	0 to 30%	"A" rating category or its equivalent or better	53601(k)
Mutual Funds and Money Market Mutual Funds	N/A	0 to 20%	Various	53601(l) and 53601.6(b)
Mortgage Pass-Through and Asset-Backed Securities	5 years or less	20%	"AA" rating category or its equivalent or better	53601(o)
Local Agency Investment Fund (LAIF)	N/A	\$75,000,000 per account	None	16429.1
Supranational Obligations	5 years or less	30%	"AA" rating category or its equivalent or better	53601(q)
Public Bank Obligations	5 years	None	None	53601(r), 53635(c) and 57603

MASTER REPURCHASE AGREEMENT

If repurchase agreements are legal or authorized, a **Master Repurchase Agreement** must be signed with the bank or dealer.

LEGISLATIVE CHANGES

Any State of California legislative action, that further restricts allowable maturities, investment type or percentage allocations, will be incorporated into the City of Rialto's Investment Policy and supersede any and all previous applicable language.

INTEREST EARNINGS

All monies earned and collected from investments authorized in this policy shall be allocated monthly based on the cash balance in each fund as a percentage of the entire investment funds portfolio.

INVESTMENT POOLS AND MUTUAL FUNDS

The City shall go through a careful selection process when considering investing in any pool or mutual funds. The City will formulate a set of standards that the investment pool or mutual fund in question shall need to meet prior to investment being made.

LIMITING MARKET VALUE EROSION

The longer the maturity of securities, the greater their market price volatility. Therefore, it is the general policy of the City of Rialto to limit the potential effects from erosion in market values by adhering to the following guidelines:

All immediate and anticipated liquidity requirements will be addressed prior to purchasing all investments.

Maturity dates for long-term investments will coincide with significant cash flow requirements where possible.

All long-term securities will be purchased with the intent to hold all investments to maturity under then prevailing economic conditions. However, economic or market conditions may change, making it in the City of Rialto's best interest to sell or trade a security prior to maturity.

SECURITY SWAPS

A security swap is the movement from one security to another and may be done to for a variety of reasons, such as to increase yield, lengthen or shorten maturities, to take a profit, or to increase investment quality. A swap which improves the portfolio yield may be selected even if the transactions result in an accounting loss. Documentation for swaps will be included in the City of Rialto's permanent investment file documents.

COLLATERALIZATION

Bank Deposits: Under provisions of the Government Code, California banks and savings and loan associations are required to secure the City's deposits by pledging government securities with a value of 110% of principal and accrued interest. State law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the City's total deposits.

Certificate of Deposit: The market value of securities that underlay certificates of deposit shall be valued at 110% of the market value of principal and accrued interest.

The City Treasurer, at his/her discretion may waive the collateral requirement for deposits up to the maximum dollar amount which are covered by the Federal Deposit Insurance Corporation.

Repurchase Agreements: The market value of securities that underlay certificates of deposit shall be valued at 102% of the market value of principal and accrued interest. The value shall be adjusted no less than weekly. Since the market value of the underlying securities is subject to daily market fluctuations, the investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back to 102% no later than the next business day.

A clearly marked evidence of ownership, safekeeping receipt, must be supplied to the City and retained. Collateral will always be held by an independent third-party with whom the entity has a current written custodial agreement.

The city chooses to limit collateral to US Treasuries.

The right of collateral substitution is granted based on the approval of the City Treasurer and City Manager.

SAFEKEEPING AND CUSTODY OF SECURITIES

To protect against fraud or embezzlement, or losses caused by collapse of an individual securities dealer, all securities owned by the City of Rialto shall be held in safekeeping by a third party. All investment securities may be maintained by a banking institution or a broker/dealer firm for safekeeping as long as the securities are held in the City's name.

Third-party safekeeping arrangements will be approved by the City Treasurer and will be corroborated by a written custodial agreement. All securities held by the safekeeping custodian on behalf of the City shall have the City of Rialto as the registered owner, and all interest and principal payments and withdrawals shall indicate the City of Rialto as the payee.

All bank deposits will be FDIC insured or deposited with institutions that comply with the State collateral requirements for public funds.

All trades executed by a dealer will settle **delivery vs payment (DVP)** through the City of Rialto's safekeeping agent.

Securities held in custody for the City of Rialto shall be independently audited on an annual basis to verify investment holdings.

All exceptions to this safekeeping policy must be approved by the City Treasurer in written form and included in monthly reporting to City Council.

DIVERSIFICATION

The City of Rialto will diversify its investments by security type and institution. With the exception of U.S. Treasury securities and authorized pools, no more than 50% of the City of Rialto's total investment funds portfolio will be invested in a single security type or with a single financial institution.

MAXIMUM MATURITIES

To the extent possible, the City of Rialto will attempt to match its investments with anticipated cash flow requirements. The City of Rialto may collateralize its repurchase agreements using longer-dated investments not to exceed five (5) years to maturity.

The General Fund Economic Reserve may be invested in highly liquid investments that are both:

1. Readily convertible to known amounts of cash and so near their maturity and

2. Are so near their maturity that they present insignificant risk of changes in value because of changes in interest rates.

Generally, only investments with original maturities of three months or less meet this definition. For this purpose, “original maturity” means maturity as of the date the investment is acquired.

All other reserve funds may be invested in securities exceeding five (5) years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of the funds and with prior approval of the City Council.

INTERNAL CONTROL

An independent annual review by the City of Rialto’s external auditor shall be conducted in conjunction with the City of Rialto’s annual audit. This review will assure compliance with policies and procedures.

REPORTING

The Treasurer shall provide the City Council monthly investment reports, which provide a clear picture of the status of the current investment portfolio. The management report may include comments on the fixed income markets and economic conditions, discussions regarding restrictions on percentage of investment by categories, possible changes in the portfolio structure going forward and thoughts on investment strategies.

Schedules in the monthly report should include the following:

1. A listing of individual securities held at the end of the reporting period by authorized investment category.
2. Average life and final maturity of all investments listed.
3. Coupon, discount or earnings rate.
4. Par value, Amortized Book Value and Market Value.
5. Percentage of the Portfolio represented by each investment category

INVESTMENT POLICY ADOPTION

The City of Rialto’s investment policy shall be adopted by resolution of the City of Rialto’s City Council. The policy shall be reviewed annually by the City Council and any modifications made thereto must be approved by the City of Rialto’s City Council.

APPENDIX A

California Government Code

CALIFORNIA
GOVERNMENT CODE

SECTIONS 53600-53610

53600. As used in this article, “local agency” means county, city, city and county, including a chartered city or county, school district, community college district, public district, county board of education, county superintendent of schools, or any public or municipal corporation.
(Amended by Stats. 1987, Ch. 887, Sec. 2.)

53600.3. Except as provided in subdivision (a) of Section 27000.3, all governing bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds pursuant to this chapter are trustees and therefore fiduciaries subject to 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. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law.

(Amended by Stats. 1996, Ch. 749, Sec. 4. Effective January 1, 1997.)

53600.5. When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, the primary objective of a trustee shall be to safeguard the principal of the funds under its control. The secondary objective shall be to meet the liquidity needs of the depositor. The third objective shall be to achieve a return on the funds under its control.

(Amended by Stats. 1996, Ch. 749, Sec. 5. Effective January 1, 1997.)

53600.6. The Legislature hereby finds that the solvency and creditworthiness of each individual local agency can impact the solvency and creditworthiness of the state and other local agencies within the state. Therefore, to protect the solvency and creditworthiness of the state and all of its political subdivisions, the Legislature hereby declares that the deposit and investment of public funds by local officials and local agencies is an issue of statewide concern.

(Added by Stats. 1995, Ch. 784, Sec. 13. Effective January 1, 1996.)

53601. This section shall apply to a local agency that is a city, a district, or other local agency that does not pool money in deposits or investments with other local agencies, other than local agencies that have the same governing body. However, Section 53635 shall apply to all local agencies that pool money in deposits or investments with other local agencies that have separate governing bodies. The legislative body of a local agency having moneys in a sinking fund or moneys in its treasury not required for the immediate needs of the local agency may invest any portion of the moneys that it deems wise or expedient in those investments set forth below. A local agency purchasing or obtaining any securities prescribed in this section, in a negotiable, bearer, registered, or nonregistered format, shall require delivery of the securities to the local agency, including those

purchased for the agency by financial advisers, consultants, or managers using the agency's funds, by book entry, physical delivery, or by third-party custodial agreement. The transfer of securities to the counterparty bank's customer book entry account may be used for book entry delivery.

For purposes of this section, "counterparty" means the other party to the transaction. A counterparty bank's trust department or separate safekeeping department may be used for the physical delivery of the security if the security is held in the name of the local agency. Where this section specifies a percentage limitation for a particular category of investment, that percentage is applicable only at the date of purchase. Where this section does not specify a limitation on the term or remaining maturity at the time of the investment, no investment shall be made in any security, other than a security underlying a repurchase or reverse repurchase agreement or securities lending agreement authorized by this section, that at the time of the investment has a term remaining to maturity in excess of five years, unless the legislative body has granted express authority to make that investment either specifically or as a part of an investment program approved by the legislative body no less than three months prior to the investment:

- (a) Bonds issued by the local agency, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency or by a department, board, agency, or authority of the local agency.
- (b) United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest.
- (c) Registered state warrants or treasury notes or bonds of this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of the state.
- (d) Registered treasury notes or bonds of any of the other 49 states in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 states, in addition to California.
- (e) Bonds, notes, warrants, or other evidences of indebtedness of a local agency within this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency.
- (f) Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.
- (g) Bankers' acceptances otherwise known as bills of exchange or time drafts that are drawn on and accepted by a commercial bank. Purchases of bankers' acceptances shall not exceed 180 days' maturity or 40 percent of the agency's moneys that may be invested pursuant to this section. However, no more than 30 percent of the agency's moneys may be invested in the bankers' acceptances of any one commercial bank pursuant to this section.

This subdivision does not preclude a municipal utility district from investing moneys in its treasury in a manner authorized by the Municipal Utility District Act (Division 6 (commencing with Section 11501) of the Public Utilities Code).

(h) Commercial paper of “prime” quality of the highest ranking or of the highest letter and number rating as provided for by a nationally recognized statistical rating organization (NRSRO). The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (1) or (2):

(1) The entity meets the following criteria:

(A) Is organized and operating in the United States as a general corporation.

(B) Has total assets in excess of five hundred million dollars (\$500,000,000).

(C) Has debt other than commercial paper, if any, that is rated in a rating category of “A” or its equivalent or higher by an NRSRO.

(2) The entity meets the following criteria:

(A) Is organized within the United States as a special purpose corporation, trust, or limited liability company.

(B) Has program wide credit enhancements including, but not limited to, overcollateralization, letters of credit, or a surety bond.

(C) Has commercial paper that is rated “A-1” or higher, or the equivalent, by an NRSRO.

Eligible commercial paper shall have a maximum maturity of 270 days or less. Local agencies, other than counties or a city and county, may invest no more than 25 percent of their moneys in eligible commercial paper. Local agencies, other than counties or a city and county, may purchase no more than 10 percent of the outstanding commercial paper of any single issuer. Counties or a city and county may invest in commercial paper pursuant to the concentration limits in subdivision (a) of Section 53635.

(i) Negotiable certificates of deposit issued by a nationally or state-chartered bank, a savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a federally licensed or state-licensed branch of a foreign bank. Purchases of negotiable certificates of deposit shall not exceed 30 percent of the agency’s moneys that may be invested pursuant to this section. For purposes of this section, negotiable certificates of deposit do not come within Article 2 (commencing with Section 53630), except that the amount so invested shall be subject to the limitations of Section 53638. The legislative body of a local agency and the treasurer or other official of the local agency having legal custody of the moneys are prohibited from investing local agency funds, or funds in the custody of the local agency, in negotiable certificates of deposit issued by a state or federal credit union if a member of the legislative body of the local agency, or a person with investment decision making authority in the administrative office manager’s office, budget office, auditor-controller’s office, or treasurer’s office of the local agency also serves on the board of directors, or any committee appointed by the board of directors, or the credit committee or the supervisory committee of the state or federal credit union issuing the negotiable certificates of deposit.

(j) (1) Investments in repurchase agreements or reverse repurchase agreements or securities lending agreements of securities authorized by this section, as long as the agreements are subject to this subdivision, including the delivery requirements specified in this section.

(2) Investments in repurchase agreements may be made, on an investment authorized in this section, when the term of the agreement does not exceed one year. The market value of securities that

underlie a repurchase agreement shall be valued at 102 percent or greater of the funds borrowed against those securities and the value shall be adjusted no less than quarterly. Since the market value of the underlying securities is subject to daily market fluctuations, the investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102 percent no later than the next business day.

(3) Reverse repurchase agreements or securities lending agreements may be utilized only when all of the following conditions are met:

(A) The security to be sold using a reverse repurchase agreement or securities lending agreement has been owned and fully paid for by the local agency for a minimum of 30 days prior to sale.

(B) The total of all reverse repurchase agreements and securities lending agreements on investments owned by the local agency does not exceed 20 percent of the base value of the portfolio.

(C) The agreement does not exceed a term of 92 days, unless the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement or securities lending agreement and the final maturity date of the same security.

(D) Funds obtained or funds within the pool of an equivalent amount to that obtained from selling a security to a counterparty using a reverse repurchase agreement or securities lending agreement shall not be used to purchase another security with a maturity longer than 92 days from the initial settlement date of the reverse repurchase agreement or securities lending agreement, unless the reverse repurchase agreement or securities lending agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement or securities lending agreement and the final maturity date of the same security.

(4) (A) Investments in reverse repurchase agreements, securities lending agreements, or similar investments in which the local agency sells securities prior to purchase with a simultaneous agreement to repurchase the security may be made only upon prior approval of the governing body of the local agency and shall be made only with primary dealers of the Federal Reserve Bank of New York or with a nationally or state-chartered bank that has or has had a significant banking relationship with a local agency.

(B) For purposes of this chapter, “significant banking relationship” means any of the following activities of a bank:

(i) Involvement in the creation, sale, purchase, or retirement of a local agency’s bonds, warrants, notes, or other evidence of indebtedness.

(ii) Financing of a local agency’s activities.

(iii) Acceptance of a local agency’s securities or funds as deposits.

(5) (A) “Repurchase agreement” means a purchase of securities by the local agency pursuant to an agreement by which the counterparty seller will repurchase the securities on or before a specified date and for a specified amount and the counterparty will deliver the underlying securities to the local agency by book entry, physical delivery, or by third-party custodial agreement. The transfer of underlying securities to the counterparty bank’s customer book-entry account may be used for book-entry delivery.

(B) “Securities,” for purposes of repurchase under this subdivision, means securities of the same issuer, description, issue date, and maturity.

(C) “Reverse repurchase agreement” means a sale of securities by the local agency pursuant to an agreement by which the local agency will repurchase the securities on or before a specified date and includes other comparable agreements.

(D) “Securities lending agreement” means an agreement under which a local agency agrees to transfer securities to a borrower who, in turn, agrees to provide collateral to the local agency. During the term of the agreement, both the securities and the collateral are held by a third party. At the conclusion of the agreement, the securities are transferred back to the local agency in return for the collateral.

(E) For purposes of this section, the base value of the local agency’s pool portfolio shall be that dollar amount obtained by totaling all cash balances placed in the pool by all pool participants, excluding any amounts obtained through selling securities by way of reverse repurchase agreements, securities lending agreements, or other similar borrowing methods.

(F) For purposes of this section, the spread is the difference between the cost of funds obtained using the reverse repurchase agreement and the earnings obtained on the reinvestment of the funds.

(k) Medium-term notes, defined as all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Notes eligible for investment under this subdivision shall be rated in a rating category of “A” or its equivalent or better by an NRSRO. Purchases of medium-term notes shall not include other instruments authorized by this section and shall not exceed 30 percent of the agency’s moneys that may be invested pursuant to this section.

(l) (1) Shares of beneficial interest issued by diversified management companies that invest in the securities and obligations as authorized by subdivisions (a) to (k), inclusive, and subdivisions (m) to (q), inclusive, and that comply with the investment restrictions of this article and Article 2 (commencing with Section 53630). However, notwithstanding these restrictions, a counterparty to a reverse repurchase agreement or securities lending agreement is not required to be a primary dealer of the Federal Reserve Bank of New York if the company’s board of directors finds that the counterparty presents a minimal risk of default, and the value of the securities underlying a repurchase agreement or securities lending agreement may be 100 percent of the sales price if the securities are marked to market daily.

(2) Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1 et seq.).

(3) If investment is in shares issued pursuant to paragraph (1), the company shall have met either of the following criteria:

(A) Attained the highest ranking or the highest letter and numerical rating provided by not less than two NRSROs.

(B) Retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years’ experience investing in the securities and obligations authorized by subdivisions (a) to (k), inclusive, and subdivisions (m) to (q), inclusive, and with assets under management in excess of five hundred million dollars (\$500,000,000).

(4) If investment is in shares issued pursuant to paragraph (2), the company shall have met either of the following criteria:

(A) Attained the highest ranking or the highest letter and numerical rating provided by not less than two NRSROs.

(B) Retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years’ experience managing money market mutual funds with assets under management in excess of five hundred million dollars (\$500,000,000).

(5) The purchase price of shares of beneficial interest purchased pursuant to this subdivision shall not include commission that the companies may charge and shall not exceed 20 percent of the agency's moneys that may be invested pursuant to this section. However, no more than 10 percent of the agency's funds may be invested in shares of beneficial interest of any one mutual fund pursuant to paragraph (1).

(m) Moneys held by a trustee or fiscal agent and pledged to the payment or security of bonds or other indebtedness, or obligations under a lease, installment sale, or other agreement of a local agency, or certificates of participation in those bonds, indebtedness, or lease installment sale, or other agreements, may be invested in accordance with the statutory provisions governing the issuance of those bonds, indebtedness, or lease installment sale, or other agreement, or to the extent not inconsistent therewith or if there are no specific statutory provisions, in accordance with the ordinance, resolution, indenture, or agreement of the local agency providing for the issuance.

(n) Notes, bonds, or other obligations that are at all times secured by a valid first priority security interest in securities of the types listed by Section 53651 as eligible securities for the purpose of securing local agency deposits having a market value at least equal to that required by Section 53652 for the purpose of securing local agency deposits. The securities serving as collateral shall be placed by delivery or book entry into the custody of a trust company or the trust department of a bank that is not affiliated with the issuer of the secured obligation, and the security interest shall be perfected in accordance with the requirements of the Uniform Commercial Code or federal regulations applicable to the types of securities in which the security interest is granted.

(o) A mortgage passthrough security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable passthrough certificate, or consumer receivable-backed bond. Securities eligible for investment under this subdivision shall be rated in a rating category of "AA" or its equivalent or better by an NRSRO and have a maximum remaining maturity of five years or less. Purchase of securities authorized by this subdivision shall not exceed 20 percent of the agency's surplus moneys that may be invested pursuant to this section.

(p) Shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7 that invests in the securities and obligations authorized in subdivisions (a) to (r), inclusive. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible under this section, the joint powers authority issuing the shares shall have retained an investment adviser that meets all of the following criteria:

(1) The adviser is registered or exempt from registration with the Securities and Exchange Commission.

(2) The adviser has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (q), inclusive.

(3) The adviser has assets under management in excess of five hundred million dollars (\$500,000,000).

(q) United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated in a rating category of "AA" or its equivalent or

better by an NRSRO and shall not exceed 30 percent of the agency's moneys that may be invested pursuant to this section.

(r) Commercial paper, debt securities, or other obligations of a public bank, as defined in Section 57600.

(Amended by Stats. 2019, Ch. 442, Sec. 11. (AB 857) Effective January 1, 2020.)

53601.1. The authority of a local agency to invest funds pursuant to Section 53601 includes, in addition thereto, authority to invest in financial futures or financial option contracts in any of the investment categories enumerated in that section.

(Added by Stats. 1983, Ch. 534, Sec. 3.)

53601.2. As used in this article, "corporation" includes a limited liability company.

(Added by Stats. 2004, Ch. 118, Sec. 18. Effective January 1, 2005.)

53601.5. The purchase by a local agency of any investment authorized pursuant to Section 53601 or 53601.1, not purchased directly from the issuer, shall be purchased either from an institution licensed by the state as a broker-dealer, as defined in Section 25004 of the Corporations Code, or from a member of a federally regulated securities exchange, from a national or state-chartered bank, from a savings association or federal association (as defined by Section 5102 of the Financial Code) or from a brokerage firm designated as a primary government dealer by the Federal Reserve bank.

(Amended by Stats. 2001, Ch. 57, Sec. 2. Effective January 1, 2002.)

53601.6. (a) A local agency shall not invest any funds pursuant to this article or pursuant to Article 2 (commencing with Section 53630) in inverse floaters, range notes, or mortgage-derived, interest-only strips.

(b) (1) Except as provided in paragraph (2), a local agency shall not invest any funds pursuant to this article or pursuant to Article 2 (commencing with Section 53630) in any security that could result in zero interest accrual if held to maturity. However, a local agency may hold prohibited instruments until their maturity dates. The limitation in this subdivision shall not apply to local agency investments in shares of beneficial interest issued by diversified management companies registered under the Investment Company Act of 1940 (15U.S.C. Sec. 80a-1 et seq.) that are authorized for investment pursuant to subdivision (l) of Section 53601.

(2) Notwithstanding the prohibition in paragraph (1), a local agency may invest in securities issued by, or backed by, the United States government that could result in zero- or negative-interest accrual if held to maturity, in the event of, and for the duration of, a period of negative market interest rates. A local agency may hold these instruments until their maturity dates.

(c) This section shall remain in effect only until January 1, 2026, and as of that date is repealed.

(Amended by Stats. 2020, Ch. 235, Sec. 4. (SB 998) Effective January 1, 2021. Repealed as of January 1, 2026, by its own provisions. See later operative version added by Sec. 5 of Stats. 2020, Ch. 235.)

53601.8. Notwithstanding any other provision of this code, a local agency that has the authority under law to invest funds, at its discretion, may invest a portion of its surplus funds in deposits 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 deposits. The following conditions shall apply:

- (a) The local agency shall choose a nationally or state-chartered commercial bank, savings bank, savings and loan association, or credit union in this state to invest the funds, which shall be known as the “selected” depository institution.
- (b) The selected depository institution may use a private sector entity to help place local agency deposits with one or more commercial banks, savings banks, savings and loan associations, or credit unions that are located in the United States and are within the network used by the private sector entity for this purpose.
- (c) The selected depository institution shall request that the local agency inform it of depository institutions at which the local agency has other deposits, and the selected depository institution shall provide that information to the private sector entity.
- (d) Any private sector entity used by a selected depository institution to help place its local agency deposits shall maintain policies and procedures requiring all of the following:
 - (1) The full amount of each deposit placed pursuant to subdivision (b) and the interest that may accrue on each such deposit shall at all times be insured by the Federal Deposit Insurance Corporation or the National Credit Union Administration.
 - (2) Every depository institution where funds are placed shall be capitalized at a level that is sufficient, and be otherwise eligible, to receive such deposits pursuant to regulations of the Federal Deposit Insurance Corporation or the National Credit Union Administration, as applicable.
 - (3) At the time of the local agency’s investment with a selected depository institution and no less than monthly thereafter, the private sector entity shall ensure that the local agency is provided with an inventory of all depository institutions in which deposits have been placed on the local agency’s behalf, that are within the private sector entity’s network.
 - (4) Within its network, the private sector entity shall ensure that it does not place additional deposits from a particular local agency with any depository institution identified pursuant to subdivision (c) as holding that local agency’s deposits if those additional deposits would result in that local agency’s total amount on deposit at that depository institution exceeding the Federal Deposit Insurance Corporation or the National Credit Union Administration insurance limit.
- (e) If a selected depository uses two or more private sector entities to assist in the placement of a local agency’s deposits, the selected depository shall ensure that it does not place additional deposits from a particular local agency with a depository institution if those additional deposits would result in that local agency’s total amount on deposit at that depository institution exceeding the Federal Deposit Insurance Corporation or the National Credit Union Administration insurance limit.
- (f) The selected depository institution shall serve as a custodian for each such deposit.
- (g) On the same date that the local agency’s funds are placed pursuant to subdivision (b) by the private sector entity, the selected depository institution shall receive an amount of insured deposits from other financial institutions that, in total, are equal to, or greater than, the full amount of the principal that the local agency initially deposited through the selected depository institution pursuant to subdivision (b).

(h) Notwithstanding subdivisions (a) to (g), inclusive, a credit union shall not act as a selected depository institution under this section unless both of the following conditions are satisfied:

(1) The credit union offers federal depository insurance through the National Credit Union Administration.

(2) The credit union is in possession of written guidance or other written communication from the National Credit Union Administration authorizing participation of federally insured credit unions in one or more deposit placement services and affirming that the moneys held by those credit unions while participating in a deposit placement service will at all times be insured by the federal government.

(i) It is the intent of the Legislature that this section shall not restrict competition among private sector entities that provide placement services pursuant to this section.

(j) The deposits placed pursuant to this section shall be subject to Section 53638 and shall not, in total, exceed 50 percent of the agency's funds that may be invested for this purpose.

(k) This section shall remain in effect until January 1, 2026, and as of that date is repealed.

(Amended (as amended by Stats. 2015, Ch. 181, Sec. 1) by Stats. 2019, Ch. 619, Sec. 1. (AB 945) Effective January 1, 2020. Repealed as of January 1, 2026, by its own provisions. See later operative version, as amended by Sec. 3 of Stats. 2019, Ch. 619.)

53602. The legislative body shall invest only in notes, bonds, bills, certificates of indebtedness, warrants, or registered warrants which are legal investments for savings banks in the State, provided, that the board of supervisors of a county may, by a four-fifths vote thereof, invest in notes, warrants or other evidences of indebtedness of public districts wholly or partly within the county, whether or not such notes, warrants, or other evidences of indebtedness are legal investments for savings banks. (Amended by Stats. 1954, 1st Ex. Sess., Ch. 10.)

53603. The legislative body may make the investment by direct purchase of any issue of eligible securities at their original sale or after they have been issued. (Amended by Stats. 1953, Ch. 537.)

53604. The legislative body may sell, or exchange for other eligible securities, and reinvest the proceeds of, the securities purchased. (Amended by Stats. 1953, Ch. 537.)

53605. From time to time, the legislative body shall sell the securities so that the proceeds may be applied to the purposes for which the original purchase money was placed in the sinking fund or the treasury of the local agency. (Amended by Stats. 1953, Ch. 537.)

53606. The bonds purchased, which were issued by the purchaser, may be canceled either in satisfaction or sinking fund obligations or otherwise. When canceled, they are no longer outstanding, unless in its discretion, the legislative body holds them uncanceled. While held uncanceled, the bonds may be resold. (Added by Stats. 1949, Ch. 81.)

53607. The authority of the legislative body to invest or to reinvest funds of a local agency, or to sell or exchange securities so purchased, may be delegated for a one-year period by the legislative body to the treasurer of the local agency, who shall thereafter assume full responsibility for those transactions until the delegation of authority is revoked or expires, and shall make a monthly report of those transactions to the legislative body. Subject to review, the legislative body may renew the delegation of authority pursuant to this section each year.
(Amended by Stats. 1996, Ch. 749, Sec. 6. Effective January 1, 1997.)

53608. The legislative body of a local agency may deposit for safekeeping with a federal or state association (as defined by Section 5102 of the Financial Code), a trust company or a state or national bank located within this state or with the Federal Reserve Bank of San Francisco or any branch thereof within this state, or with any Federal Reserve bank or with any state or national bank located in any city designated as a reserve city by the Board of Governors of the Federal Reserve System, the bonds, notes, bills, debentures, obligations, certificates of indebtedness, warrants, or other evidences of indebtedness in which the money of the local agency is invested pursuant to this article or pursuant to other legislative authority. The local agency shall take from such financial institution a receipt for securities so deposited. The authority of the legislative body to deposit for safekeeping may be delegated by the legislative body to the treasurer of the local agency; the treasurer shall not be responsible for securities delivered to and receipted for by a financial institution until they are withdrawn from the financial institution by the treasurer.
(Amended by Stats. 1985, Ch. 983, Sec. 17. Effective September 26, 1985.)

53609. Notwithstanding the provisions of this chapter or any other provisions of this code, funds held by a local agency pursuant to a written agreement between the agency and employees of the agency to defer a portion of the compensation otherwise receivable by the agency's employees and pursuant to a plan for such deferral as adopted by the governing body of the agency, may be invested in the types of investments set forth in Sections 53601 and 53602 of this code, and may additionally be invested in corporate stocks, bonds, and securities, mutual funds, savings and loan accounts, credit union accounts, life insurance policies, annuities, mortgages, deeds of trust, or other security interests in real or personal property. Nothing herein shall be construed to permit any type of investment prohibited by the Constitution.
Deferred compensation funds are public pension or retirement funds for the purposes of Section 17 of Article XVI of the Constitution.
(Amended by Stats. 1979, Ch. 373.)

53610. (a) For purposes of this section, "Proposition 1A receivable" means the right to payment of moneys due or to become due to a local agency, pursuant to clause (iii) of subparagraph (B) of paragraph (1) of subdivision (a) of Section 25.5 of Article XIII of the California Constitution and Section 100.06 of the Revenue and Taxation Code.

(b) Notwithstanding any other law, a local agency may purchase, with its revenue, Proposition 1A receivables sold pursuant to Section 53999.

(c) A purchaser of Proposition 1A receivables pursuant to this section shall not offer them for sale pursuant to Section 6588.

(Added by Stats. 2009, Ch. 634, Sec. 5. Effective October 19, 2009.)

SECTION 27133

27133. In any county that establishes a county treasury oversight committee pursuant to this article, the county treasurer shall annually prepare an investment policy that will be reviewed and monitored by the county treasury oversight committee. The investment policy shall include all of the following:

- (a) A list of securities or other instruments in which the county treasury may invest, according to law, including the maximum allowable percentage by type of security.
- (b) The maximum term of any security purchased by the county treasury.
- (c) The criteria for selecting security brokers and dealers from, to, or through whom the county treasury may purchase or sell securities or other instruments. The criteria shall prohibit the selection of any broker, brokerage, dealer, or securities firm that has, within any consecutive 48-month period following January 1, 1996, made a political contribution in an amount exceeding the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board, to the local treasurer, any member of the governing board of the local agency, or any candidate for those offices.
- (d) Limits on the receipt of honoraria, gifts, and gratuities from advisors, brokers, dealers, bankers, or other persons with whom the county treasury conducts business by any member of the county treasury oversight committee. These limits may be in addition to the limits set by a committee member's own agency, by state law, or by the Fair Political Practices Commission.
- (e) A requirement that the county treasurer provide the county treasury oversight committee with an investment report as required by the board of supervisors.
- (f) The manner of calculating and apportioning the costs, authorized by Section 27013, of investing, depositing, banking, auditing, reporting, or otherwise handling or managing funds.
- (g) The terms and conditions under which local agencies and other entities that are not required to deposit their funds in the county treasury may deposit funds for investment purposes.
- (h) Criteria for considering requests to withdraw funds from the county treasury, pursuant to Section 27136. The criteria shall include an assessment of the effect of a proposed withdrawal on the stability and predictability of the investments in the county treasury.

(Added by Stats. 1995, Ch. 784, Sec. 10. Effective January 1, 1996.)

SECTION 16429.1

16429.1 (a) There is in trust in the custody of the Treasurer the Local Agency Investment Fund, which fund is hereby created. The Controller shall maintain a separate account for each governmental unit having deposits in this fund.

(b) Notwithstanding any other law, a local governmental official, with the consent of the governing body of that agency, having money in its treasury not required for immediate needs, may remit the money to the Treasurer for deposit in the Local Agency Investment Fund for the purpose of

investment.

- (c) Notwithstanding any other law, an officer of any nonprofit corporation whose membership is confined to public agencies or public officials, or an officer of a qualified quasi-governmental agency, with the consent of the governing body of that agency, having money in its treasury not required for immediate needs, may remit the money to the Treasurer for deposit in the Local Agency Investment Fund for the purpose of investment.
- (d) Notwithstanding any other law or provision of this section, a local agency, with the approval of its governing body, may deposit in the Local Agency Investment Fund proceeds of the issuance of bonds, notes, certificates of participation, or other evidences of indebtedness of the agency pending expenditure of the proceeds for the authorized purpose of their issuance. In connection with these deposits of proceeds, the Local Agency Investment Fund is authorized to receive and disburse moneys, and to provide information, directly with or to an authorized officer of a trustee or fiscal agent engaged by the local agency, the Local Agency Investment Fund is authorized to hold investments in the name and for the account of that trustee or fiscal agent, and the Controller shall maintain a separate account for each deposit of proceeds.
- (e) The local governmental unit, the nonprofit corporation, or the quasi-governmental agency has the exclusive determination of the length of time its money will be on deposit with the Treasurer.
- (f) The trustee or fiscal agent of the local governmental unit has the exclusive determination of the length of time proceeds from the issuance of bonds will be on deposit with the Treasurer.
- (g) The Local Investment Advisory Board shall determine those quasi-governmental agencies which qualify to participate in the Local Agency Investment Fund.
- (h) The Treasurer may refuse to accept deposits into the fund if, in the judgment of the Treasurer, the deposit would adversely affect the state's portfolio.
- (i) The Treasurer may invest the money of the fund in securities prescribed in Section 16430. The Treasurer may elect to have the money of the fund invested through the Surplus Money Investment Fund as provided in Article 4 (commencing with Section 16470) of Chapter 3.
- (j) Money in the fund shall be invested to achieve the objective of the fund which is to realize the maximum return consistent with safe and prudent treasury management.
- (k) All instruments of title of all investments of the fund shall remain in the Treasurer's vault or be held in safekeeping under control of the Treasurer in any federal reserve bank, or any branch thereof, or the Federal Home Loan Bank of San Francisco, with any trust company, or the trust department of any state or national bank.
- (l) Immediately at the conclusion of each calendar quarter, all interest earned and other increment derived from investments shall be distributed by the Controller to the contributing governmental units or trustees or fiscal agents, nonprofit corporations, and quasi-governmental agencies in amounts directly proportionate to the respective amounts deposited in the Local Agency Investment Fund and the length of time the amounts remained therein. An amount equal to the reasonable costs

incurred in carrying out the provisions of this section, not to exceed a maximum of 5 percent of the earnings of this fund and not to exceed the amount appropriated in the annual Budget Act for this function, shall be deducted from the earnings prior to distribution. However, if the 13-week Daily Treasury Bill Rate, as published by the United States Department of the Treasury on the last day of the state's fiscal year is below 1 percent, then the above-noted reasonable costs shall not exceed a maximum of 8 percent of the earnings of this fund for the subsequent fiscal year, shall not exceed the amount appropriated in the annual Budget Act for this function, and shall be deducted from the earnings prior to distribution. The amount of the deduction shall be credited as reimbursements to the state agencies, including the Treasurer, the Controller, and the Department of Finance, having incurred costs in carrying out the provisions of this section.

(m) The Treasurer shall prepare for distribution a monthly report of investments made during the preceding month.

(n) As used in this section, "local agency," "local governmental unit," and "local governmental official" includes a campus or other unit and an official, respectively, of the California State University who deposits moneys in funds described in Sections 89721, 89722, and 89725 of the Education Code.

(Amended by Stats. 2014, Ch. 28, Sec. 39. (SB 854) Effective June 20, 2014.)

SECTION 16340

16340. (a) (1) The Voluntary Investment Program Fund is hereby created within the State Treasury, for the receipt of voluntary deposits from local entities.

(2) For purposes of this section, a "local entity" includes, but is not limited to, any city, county, school district, or special district.

(b) Each local entity that is approved by its governance body to deposit moneys in the fund shall deposit no less than a total of two hundred million dollars (\$200,000,000). The total amount of moneys that may be deposited in the fund from all eligible sources shall not exceed, at any point in time, a total of ten billion dollars (\$10,000,000,000), or lesser amount as determined by the Director of Finance, in consultation with the Treasurer.

(c) The terms and conditions of deposits made into the fund shall be set by the Director of Finance, in consultation with the Treasurer. Those terms shall include, but not be limited to, the size of the deposit from a particular local entity, the length of time those moneys shall be held in deposit in the fund, the availability of funds for withdrawal by the local entity depositing the funds, and the annual rate of interest paid on deposits, as described in subdivision (e). However, the director and the Treasurer may only permit deposits that do not exceed funds needed to address an actual or anticipated cash shortfall in the General Fund not exceeding the amounts of existing appropriations, including continuing and continuous appropriations, to which resulting proceeds are to be applied.

(d) Moneys held in the Fund shall be invested by the Treasurer in investments authorized pursuant to Sections 16430 and 16480 through the Pooled Money Investment Account, and whenever the Controller determines that moneys in the General Fund, after allowing for internal borrowing from

other funds are, or are expected to be, insufficient for the payment of all appropriations made by the Legislature which are to be paid out of the moneys in the General Fund, the State Controller may, based upon his or her estimate of the probable income to the General Fund during the then fiscal year and the probable dates of receipt thereof, may draw a demand or demands against appropriations made from the General Fund to be paid in the then current fiscal year prior to the receipt of the income, and deliver the demand or demands to the Treasurer. The Treasurer shall register the demand or demands for nonpayment and may borrow moneys from the fund in an amount or amounts that is no greater than the demand or demands provided. The borrowing, together with the interest owed upon the account thereon, shall be paid exclusively from moneys in the General Fund on probable or reasonably anticipated revenues that are expected to be forthcoming within a short period of time, but not excepting recourse to internal borrowing from other funds in the event insufficient moneys are available from the General Fund. Repayment of any of those borrowings shall be considered a priority payment, equivalent to any other loan repayment made from the General Fund to another state fund.

(e) Notwithstanding any other law, the rate of interest to be earned by the depositors shall be the base apportionment rate based on their pro rata share of the earnings of the Pooled Money Investment Account on a quarterly basis at the end of each quarter plus an enhanced amount. The pro rata share shall be determined by a dollar day participation. The base apportionment rate applied to dollar day participation in the fund shall be the quarter-to-date average yield of the Pooled Money Investment Account for the current quarter. The enhancement amount paid to depositors in the fund shall be determined by the Director of Finance, in consultation with the Treasurer, and shall be added to the base rate earned by the Pooled Money Investment Account at the time the apportionment is made. The total interest cost described in this subdivision shall not exceed that provided for in paragraph (1) of subdivision (d) of Section 16731.

(f) Notwithstanding Section 13340, moneys in the fund are hereby continuously appropriated for payment of interest expenditures to depositors calculated in accordance with subdivision (e), other related expenses as determined by the Department of Finance, and return of deposits to depositors according to terms and conditions set by the Director of Finance, in consultation with the Treasurer. The amounts paid for interest and other related expenses shall be attributable to the fiscal year in which the borrowing occurred which is also the fiscal year upon which the appropriations against which the demand or demands were made.

(g) The Department of Finance shall determine the budget items to be used for the recording and reporting of interest expenditures and other related expenses pursuant to this section.

(h) Deposits in the fund shall be tracked separately for each participant in the state's accounting system, and shall be deemed to be assets of each participant. These assets shall be reflected as such on each participant's individual financial statements.

(i) These deposits are, and may only be used, to cover short-term cash needs of the state and are, and shall be, in compliance with the provisions of Proposition 58 of March 2004 as stated in subdivision (c), Section 1.3 of Article XVI of the California Constitution. Deposits and borrowing from the fund shall comply with the state's debt limit restrictions.

(j) Actions by the Director of Finance, in consultation with the Treasurer, in implementing and

administering the investment program provided for in this section and the Treasurer's and Controller's actions in borrowing from the fund shall be exempt from the provisions of the Administrative Procedure Act (Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3).

(k) Upon projection of insufficient cash in the General Fund, the Director of Finance, in consultation with the Treasurer and Controller, may utilize provisions similar to Section 16381 to facilitate the implementation of the program.

(Added by Stats. 2012, Ch. 44, Sec. 1. (SB 1033) Effective June 27, 2012.)

SECTION 53635

53635. (a) This section shall apply to a local agency that is a county, a city and county, or other local agency that pools money in deposits or investments with other local agencies, including local agencies that have the same governing body. However, Section 53601 shall apply to all local agencies that pool money in deposits or investments exclusively with local agencies that have the same governing body.

This section shall be interpreted in a manner that recognizes the distinct characteristics of investment pools and the distinct administrative burdens on managing and investing funds on a pooled basis pursuant to Article 6 (commencing with Section 27130) of Chapter 5 of Division 2 of Title 3.

A local agency that is a county, a city and county, or other local agency that pools money in deposits or investments with other agencies may invest in commercial paper pursuant to subdivision (h) of Section 53601, except that the local agency shall be subject to the following concentration limits:

(1) No more than 40 percent of the local agency's money may be invested in eligible commercial paper.

(2) No more than 10 percent of the total assets of the investments held by a local agency may be invested in any one issuer's commercial paper.

(b) Notwithstanding Section 53601, the City of Los Angeles shall be subject to the concentration limits of this section for counties and for cities and counties with regard to the investment of money in eligible commercial paper.

(c) A local agency subject to this section may invest in commercial paper, debt securities, or other obligations of a public bank, as defined in Section 57600.

(Amended by Stats. 2019, Ch. 442, Sec. 12. (AB 857) Effective January 1, 2020.)

SECTION 57603

57603. (a) Before engaging in business, a public bank shall obtain a certificate of authorization to transact business as a bank pursuant to Division 1.1 of the Financial Code (commencing with Section 1000).

(b) A local agency shall comply with the requirements of Section 53638 with respect to its deposits in a public bank unless, with the prior approval of the Commissioner of Business Oversight, the public bank and the local agency depositor agree otherwise.

(c) Notwithstanding Section 23010, a county may lend any of its available funds to any public bank.

(d) Notwithstanding Section 53601, any local agency that does not pool money in deposits or investments with other local agencies that have separate governing bodies may invest in debt securities or other obligations of a public bank.

(e) Notwithstanding Section 53635, any local agency that pools money in deposits or investments with other local agencies, including local agencies that have the same governing body, may invest in debt securities or other obligations of a public bank.

(f) Notwithstanding Section 53635.2, a public bank shall be eligible to receive local agency money.

(Added by Stats. 2019, Ch. 442, Sec. 16. (AB 857) Effective January 1, 2020.)

APPENDIX B

Glossary of Terms

Glossary of Terms

Accrued Interest - Interest earned but not yet received.

Active Deposits - Funds which are immediately required for disbursement.

Amortization - An accounting practice of gradually decreasing (increasing) an asset's book value by spreading its depreciation (accretion) over a period of time.

Asked Price - The price a broker/dealer offers to sell securities.

Basis Point- One basis point is one hundredth of one percent (.01).

Bid Price - The price a broker/dealer offers to purchase securities.

Bond - A financial obligation for which the issuer promises to pay the bondholder a specified stream of future cash flows, including periodic interest payments and a principal repayment.

Book Value - The value at which a debt security is shown on the holder's balance sheet. Book value is acquisition cost less amortization of premium or accretion of discount.

Certificate of Deposit - A deposit insured up to \$250,000 (current amount) by the FDIC at a set rate for a specified period of time.

Collateral - Securities, evidence of deposit or pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposit of public moneys.

Comprehensive Annual Financial Report (CAFR) - The official annual financial report for the City. It includes five combined statements and basic financial statements for each individual fund and account group prepared in conformity with Generally Accepted Accounting Principals (GAAP).

Constant Maturity Treasury (CMT) - An average yield of a specific Treasury maturity sector for a specific time frame. This is a market index for reference of past direction of interest rates for the given Treasury maturity range.

Contingency Reserve (s) – A reserve, established as a percentage of total retained surplus, which is used to cover unexpected losses and any shortfall in a previously declared investment.

Coupon - The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value.

Credit Analysis - A critical review and appraisal of the economic and financial conditions or of the ability to meet debt obligations.

Current Yield - The interest paid on an investment expressed as a percentage of the current price of the security.

Custody - A banking service that provides safekeeping for the individual securities in a customer's investment portfolio under a written agreement which also calls for the bank to collect and pay out income, to buy, sell, receive and deliver securities when ordered to do so by the principal.

Delivery vs. Payment (DVP) - Delivery of securities with a simultaneous exchange of money for the securities.

Discount - The difference between the cost of a security and its value at maturity when quoted at lower than face value.

Diversification - Dividing investment funds among a variety of securities offering independent returns and risk profiles.

Duration - The weighted average maturity of a bond's cash flow stream, where the present value of the cash flows serve as the weights; the future point in time at which on average, an investor has received exactly half of the original investment, in present value terms; a bond's zero-coupon equivalent; the fulcrum of a bond's present value cash flow time line.

Fannie Mae - Trade name for the Federal National Mortgage Association (FNMA) , a U.S. sponsored corporation.

Federal Reserve System - The central bank of the U.S. which consists of a seven member Board of Governors, 12 regional banks and 5,700 commercial banks that are members.

Federal Deposit Insurance Corporation (FDIC) - Insurance provided to customers of a subscribing bank which guarantees deposits to a set limit (currently \$250,000) per account.

Fed Wire - A wire transmission service established by the Federal Reserve Bank to facilitate the transfer of funds through debits and credits of funds between participants within the Fed system.

Freddie Mac - Trade name for the Federal Home Loan Mortgage Corporation (FHLMC) , a U.S. sponsored corporation.

Ginnie Mae - Trade name for the Government National Mortgage Association (GNMA) , a direct obligation bearing the full faith and credit of the U.S. Government.

Inactive Deposits - Funds not immediately needed for disbursement.

Interest Rate - The annual yield earned on an investment, expressed as a percentage.

Investment Agreements - An agreement with a financial institution to borrow public funds subject to certain negotiated terms and conditions concerning collateral, liquidity and interest rates.

Liquidity - Refers to the ability to rapidly convert an investment into cash.

Market Value - The price at which a security is trading and could presumably be purchased or sold.

Maturity - The date upon which the principal or stated value of an investment becomes due and payable.

New Issue - Term used when a security is originally "brought" to market.

Perfected Delivery - Refers to an investment where the actual security or collateral is held by an independent third party representing the purchasing entity.

Portfolio - Collection of securities held by an investor.

Primary Dealer - A group of government securities dealers that submit daily reports of market activity and security positions held to the Federal Reserve Bank of New York and are subject to its informal oversight.

Purchase Date - The date in which a security is purchased for settlement on that or a later date.

Rate of Return - The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

Repurchase Agreement (REPO) - A transaction where the seller (bank) agrees to buy back from the buyer (City) the securities at an agreed upon price after a stated period of time.

Reverse Repurchase Agreement (REVERSE REPO) - A transaction where the seller (City) agrees to buy back from the buyer (bank) the securities at an agreed upon price after a stated period of time.

Risk - Degree of uncertainty of return on an asset.

Safekeeping - see custody.

Sallie Mae - Trade name for the Student Loan Marketing Association (SLMA), a U.S. sponsored corporation.

Secondary Market - A market made for the purchase and sale of outstanding issues following the initial distribution.

Settlement Date - The date on which a trade is cleared by delivery of securities against funds.

Treasury Bills - U.S. Treasury Bills which are short-term, direct obligations of the U.S. Government issued with original maturities of 13 weeks, 26 weeks and 52 weeks; sold in minimum amounts of \$10,000 in multiples of \$5,000 above the minimum. Issued in book entry form only. T-bills are sold on a discount basis.

U.S. Government Agencies - Instruments issued by various US Government Agencies most of which are secured only by the credit worthiness of the particular agency.

Yield - The rate of annual income return on an investment, expressed as a percentage. It is obtained by dividing the current dollar income by the current market price of the security.

Yield to Maturity - The rate of income return on an investment, minus any premium or plus any discount, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond, expressed as a percentage.

Yield Curve - The yield on bonds, notes or bills of the same type and credit risk at a specific date for maturities up to thirty years.