



NOTICE OF THE FINANCE & ADMINISTRATION COMMITTEE MEETING/SPECIAL MEETING OF THE BOARD OF DIRECTORS

Thursday, March 27, 2025 at 8:30 AM

AGENDA

LOCATIONS:

Open Session to start at or after 9:30 a.m.

Marin Water Board Room – 220 Nellen Avenue, Corte Madera, CA 94925

Closed Session begins at 8:30 a.m.

Marin Water Mt. Tam Conference Room, 220 Nellen Avenue, Corte Madera, CA 94925

Public Participation:

The public may attend this meeting in-person or remotely using the following methods:

On a computer or smart device, go to: <https://marinwater.zoom.us/j/81110533069>

By phone, dial: **1-669-444-9171** and use Webinar ID: **811 1053 3069**

HOW TO PROVIDE PUBLIC COMMENT:

During the Meeting: Typically, you will have 3 minutes to make your public comment, however, the committee chair may shorten the amount of time for public comment due to a large number of attendees. Furthermore, pursuant to Government Code, section 54954.2 (the Brown Act), the Committee may not take action or discuss any item that does not appear on the agenda.

-- **In-Person Attendee:** Fill out a speaker card and provide to the board secretary. List the number/letter (ex: 6a) of the agenda item(s), for which you would like to provide a comment. Once you're called, proceed to the lectern to make your comment.

-- **Remote Attendee:** Use the "raise hand" button on the bottom of the Zoom screen. If you are joining by phone and would like to comment, press *9. The board secretary will use the last four digits of your phone number to call on you (dial *6 to mute/unmute).

In Advance of the Meeting: Submit your comments by email in advance of the meeting to boardcomment@marinwater.org. To ensure that your comment is provided to the Committee members prior to the meeting, please email your comment 24 hours in advance of the meeting start time. Comments received after this cut off time will be sent to the Committee after the meeting. Please do not include personal information in your comment such as phone

AGENDA ITEMS

1. **Call to Order and Roll Call**
2. **Adoption of Agenda**
3. **Announcement of Closed Session Item(s); Public Comments on Closed Session Item(s)**

Following announcement of Closed Session items and prior to recess into Closed Session, the public may speak up to three minutes on items to be addressed in Closed Session. The Board will convene to Closed Session in the Mt. Tam Conference Room after public comment.

a. Conference with Legal - Pending Litigation

(California Government Code §54956.9)

California Native Plant Society, Marin Audubon Society, and Marin Conservation League vs. Marin Municipal Water District

Marin County Superior Court, Case No. CV0004078

b. Conference with Legal Counsel - Anticipated Litigation

(Significant Exposure to Litigation pursuant to §54956.9(b))

Number of Potential Cases: Unknown

Adjourn closed session and reconvene to open session in the Board Room and via Zoom.

4. **Reconvene to Open Session; Closed Session Report Out (9:30 a.m. - Time Approximate)**
5. **Public Comment on Non-Agenda Matters**

This is the time when any person may address the Board of Directors on matters not listed on this agenda, but which are within the subject matter jurisdiction of the Board.

6. **Regular Items (9:35 a.m. – Time Approximate)**

a. Minutes of the Finance & Administration Committee Meeting on February 27, 2025

RECOMMENDATION: Approve the minutes

b. Contract Extension with Athens Administrators for Workers' Compensation Claims Administration Services

RECOMMENDATION: Review and comment on the request to authorize the General Manager to extend an agreement with Athens Administrators, the District's current Workers' Compensation Third Party Administrator, for a two-year term through June 2027, with an expected amount not to exceed \$130,000

c. Agreements for Temporary Staffing Support

RECOMMENDATION: Review and comment on staff's proposal for the District to enter into agreements with Express Employment Professionals and Gary D. Nelson Associates, Inc. dba (Nelson Connects), for temporary staffing support

d. Monthly Financial Update

RECOMMENDATION: Review and comment on the Monthly Financial Update

e. Annual Review of Policy No. 33 Investment Policy

RECOMMENDATION: Review and comment on Policy No. 33 Investment Policy

f. Budget Planning Update

RECOMMENDATION: Review and comment on the District's Two-Year Budget Process for FY 2025/26 and FY 2026/27

7. Upcoming Meeting

The next Finance & Administration Committee Meeting/Special Meeting of the Board of Directors is scheduled for Thursday, April 24, 2025 at 9:30 a.m.

8. Adjournment (11:30 a.m. – Time Approximate)

ADA NOTICE AND HEARING-IMPAIRED PROVISIONS

In accordance with the Americans with Disabilities Act (ADA) and California Law, it is Marin Water's policy to offer its public programs, services, and meetings in a manner that is readily accessible to everyone, including those with disabilities. If you are an individual with a disability and require a copy of a public hearing notice, an agenda, and/or agenda packet in an appropriate alternative format, or if you require other accommodations, please contact the Board Secretary/ADA Coordinator at 415.945.1448, at least two business days in advance of the meeting. Advance notification will enable Marin Water to make reasonable arrangements to ensure accessibility.

Information agendas are available for review at the Civic Center Library, Corte Madera Library, Fairfax Library, Mill Valley Library, Marin Water Administration Building, and marinwater.org.

Posted: 03-21-2025



STAFF REPORT

Meeting Type: Finance & Administration Committee/Board of Directors
Title: Minutes of the Finance & Administration Committee Meeting on February 27, 2025
From: Terrie Gillen, Board Secretary
Through: Bret Uppendahl for Ben Horenstein, General Manager
Meeting Date: March 27, 2025

TYPE OF ITEM: X Approve Review and Comment

RECOMMENDATION: Approve the minutes

SUMMARY: The Finance & Administration Committee held a meeting on February 27, 2025. The minutes of that meeting are attached.

DISCUSSION: None.

ENVIRONMENTAL REVIEW: Not applicable.

FISCAL IMPACT: None.

ATTACHMENT(S):

1. Draft February 27, 2025 Minutes of the Finance & Administration Committee Meeting

DEPARTMENT OR DIVISION	DIVISION MANAGER	APPROVED
Communications & Public Affairs Department	 Terrie Gillen Board Secretary	 Bret Uppendahl for Ben Horenstein General Manager



NOTICE OF THE FINANCE & ADMINISTRATION COMMITTEE MEETING

Thursday, February 27, 2025 at 9:30 AM

MINUTES

LOCATIONS:

Open Session to start at or after 9:30 a.m.

Marin Water Board Room – 220 Nellen Avenue, Corte Madera, CA 94925

Public Participation:

The public attended this meeting in-person or remotely using the following methods: on a computer or smart device, go <https://marinwater.zoom.us/j/81110533069>, or by phone, 1-669-444-9171 using Webinar ID #: 811 1053 3069.

AGENDA ITEMS:

1. Call to Order and Roll Call

Chair Jed Smith called the meeting to order at 9:30 a.m.

Then, General Counsel Molly MacLean provided an explanation as to how committee meetings such as this one would be conducted compared to dually noticed committee and board meetings going forward.

Afterwards, the board secretary performed Roll Call noting that Chair Jed Smith and Vice Chair Diana Maier were present.

2. Public Comment on Non-Agenda Matters

There was one (1) public comment.

3. Regular Items

- a. Minutes of the Finance & Administration Committee Meeting/Special Meeting of the Board of Directors on January 23, 2025

RECOMMENDATION: Approve the minutes

There were no comments from the Committee or the public.

The Committee accepted the minutes.

- b. Selection of Systems Integrator for SAP Implementation Services – Payroll and Human Resources Modules

RECOMMENDATION: Review and comment on an agreement with Phoenix Business Consulting to serve as the Systems Integrator for the implementation of the first phase of the District’s Enterprise Resource Planning (ERP) Modernization project

Finance Director Bret Uppendahl introduced this item and Information Technology Supervisor Rajesh Kewal and Information Technology Manager Brad Taylor. Mr. Taylor provided a high level presentation explaining the first phase of the project in the proposed agreement with the vendor.

The Committee provided comments.

There were no public comments.

Staff announced that this item would go to the full board at a future meeting to award this agreement.

- c. Monthly Financial Update

RECOMMENDATION: Review and comment on the Monthly Financial Update

Finance Director Uppendahl presented this item.

Brief discussion ensued between the Committee and staff.

There was one (1) public comment.

- d. Quarterly Investment Report

RECOMMENDATION: Review and comment on the Quarterly Investment Report

The Finance Director also presented this item.

The Committee provided comments.

There were no public comments.

- e. FY 2025/26 and FY 2026/27 Budget Update

RECOMMENDATION: Review and comment on the FY 2025/26 and FY 2026/27 Budget Update

Finance Director provided a kickoff of the upcoming two-year budget, which included upcoming budget presentations at future Committee and Board Meetings that would provide overviews of projected revenues and expenditures as well as proposed operating and capital improvement project budgets.

The Committee provided feedback throughout staff's presentation.

There was one (1) public comment.

Vice Chair Maier left the meeting at 10:32 a.m.

4. Upcoming Meeting

Chair Smith announced that the next Finance & Administration Committee/Special Meeting of the Board of Directors would take place on Thursday, March 27.

5. Adjournment

There being no further business, the Finance Committee Meeting adjourned on February 27, 2025, at 10:34 a.m.

Board Secretary



STAFF REPORT

Meeting Type: Finance & Administration Committee/Board of Directors

Title: Contract Extension with Athens Administrators for Workers' Compensation Claims Administration Services

From: Vikkie Garay, Human Resources Manager

Through: Bret Uppendahl for Ben Horenstein, General Manager *BU*

Meeting Date: March 27, 2025

TYPE OF ITEM: Approve X Review and Comment

RECOMMENDATION: Review and comment on the request to authorize the General Manager to extend an agreement with Athens Administrators, the District's current Workers' Compensation Third Party Administrator, for a two-year term through June 2027, with an expected amount not to exceed \$130,000

SUMMARY: Athens Administrators, the District's current Workers' Compensation Third Party Administrator, provides claims administration services. Staff is proposing that the Board authorize a contract extension for workers' compensation claims administration services.

DISCUSSION: Athens has provided high quality services to District staff with workers' compensation claims and provides support to staff responsible for the employer tasks related to administering claims.

The current agreement with Athens expires on June 30, 2025. Staff is proposing a two-year extension of the current agreement through June 2027. Staff plans to issue a request for proposals within the next year for workers' compensation claims administration services, which will provide the District an opportunity to engage in a competitive review of these services beyond this two year extension period.

The charges under this contract include an annual service fee and additional charges per claim. The expenditures for the two year extension are expected to be approximately \$100,000, based on past annual averages, but the actual amount for these services will depend on the number and types of claims received by the District.

The second amendment to this contract will also cover charges not covered by the current agreement in the amount of \$30,000, based on claims received.

ENVIRONMENTAL REVIEW: Not Applicable.

FISCAL IMPACT: Over the last three years, expenses for Athens Administrators have averaged about \$43,000 per year. All expenses related to the District’s Workers’ Compensation program are allocated in the District’s adopted budget.

ATTACHMENT(S):

1. Pricing proposal for FY26 through FY27

March 12, 2025
Pricing Proposal

MARIN MUNICIPAL WATER DISTRICT



Andrea Contreras
Northern California Sales Director
acontreras@athensadmin.¹⁰n
925-826-1286



Pricing Proposal - Claim Administration Services
MARIN MUNICIPAL WATER DISTRICT

TERM	Annual Administrative Fee	Charge Per New Indemnity Claim	Charge Per New Medical Only Claim	Charge Per First Aid Claim	Monthly Charge Per Inde. Claim Open Beyond Service Year
7.1.25 - 6.30.26	\$6,000	\$975	\$160	\$88	\$148
Optional Years					
7.1.26 - 6.30.27	\$6,000	\$1,014	\$166	\$92	\$154
7.1.27 - 6.30.28	\$6,000	\$1,055	\$173	\$95	\$160

PRICING NOTES

1) Pricing contemplates Athens providing both claim administration and managed care services.

ADDITIONAL SERVICES

Annual Administration Fee - Includes the noted services below:	\$6,000
Banking - includes management of (1) bank account with monthly escrow replenishment. Each additional account will be charged at a rate of \$600 per month.	Included
Data Management	Included
Account Management	Included
Claim Reporting (web, fax, telephonic)	Included
Dash Board Risk Management Web Site	Included
On-Line System Access (Up to 5 Users)	Included
Electronic Delivery of Monthly Loss Runs	Included
Bilingual Staff Requirement (only applies if required, amount is per person that is required)	\$7,500 Per Year

Terms of Agreement - Life of Contract
MARIN MUNICIPAL WATER DISTRICT

- 1) Athens Administrators will invoice company for all basic fees on a monthly basis and such invoice shall be paid by company upon receipt of invoice.
- 2) Claims will be handled for the life of the contract with no additional per claim fees. If you should decide to non-renew with Athens Administrators, the existing open files can be handled in one of two ways.
 - a) Athens Administrators could continue to handle open files at our prevailing rates per year per open file.
 - b) Athens Administrators would return the files to the client at the clients expense
- 3) **Claim Volume Protection Clause:** In the flat annual fee scenario if annual new claim inventory increases in any year beyond the noted annual inventory assumption in our pricing proposal then each claim beyond that number will be billed at the following per claim rate.:

Indemnity = \$1,000	Medical Only = \$165
Indemnity (Covid Related) = \$500	
- 4) Account Administration includes the following:

a) Detailed status reports	c) Banking Administration
b) Settlement authority set at \$10,000	d) Scheduled meetings/claim reviews
- 5) Data Management includes the following:

b) Carrier report package by e-mail or website	
a) Telephonic 800#	c) Web Reporting
b) Via Fax	
- 7) Custom Report Creation: Access to Athens' complete report library is standard and included in fees. In the event client requires custom reports to be created there will be a charge of \$180 per hour to create custom

Definition of Allocated Expense: Shall include, but not be limited to:

- | | |
|-----------------------------------------------|-----------------------------------------------|
| Legal fees | Managed care expenses |
| Professional photographs | Medical examinations |
| Extraordinary cost for witness statements | Extraordinary travel made at client's request |
| Medical records | Court reports |
| Experts' rehabilitation costs | Accident reconstruction |
| Fees for service of process | Collection cost payable to third parties |
| Architects, Contractors and Engineers | Outside investigations |
| Police, fire, coroner, weather, or other such | Subrogation recovery fees |
| Property damage appraisals | Property damage appraisals |
| Sub rosa investigations | Index bureau filings |
| Official documents and transcripts | Chemist |
| Pre-and post-judgment interest paid | Claim intake fees |



STAFF REPORT

Meeting Type: Finance & Administration Committee/Board of Directors
Title: Agreements for Temporary Staffing Support
From: Vikkie Garay, Human Resources Manager
Through: Bret Uppendahl for Ben Horenstein, General Manager
Meeting Date: March 27, 2025

TYPE OF ITEM: Approve X Review and Comment

RECOMMENDATION: Review and comment on staff’s proposal for the District to enter into agreements with Express Employment Professionals and Gary D. Nelson Associates, Inc. dba (Nelson Connects), for temporary staffing support

SUMMARY: Staff will discuss its proposal for approval for the General Manager to enter into two agreements; one with Express Employment Professionals for an amount not to exceed \$300,000 and one with Nelson Connects for a not to exceed amount of \$300,000, to address the District’s temporary staffing needs on an as needed basis.

DISCUSSION: These contracts will allow the District to access additional support for short-term projects, seasonal work, assistance with higher demand projects or work, or to temporarily backfill positions when employees are out on extended leaves of absence and to backfill vacancies during the recruitment process, as needed to assure continuity of important District workloads. An immediate need for temporary staffing support has been identified in two departments. Staff anticipates an urgent need for temporary support in Customer Service as the new billing system will prompt an increase in customer calls into a call center that has recently seen an increase in hold times, primarily due to two recent vacancies. Staff also anticipates the need to support a small department where an employee will be going out on extended leave.

Express and Nelson Connect are local staffing firms, located in San Rafael and Novato, that specialize in finding talent in the immediate area. It is necessary to have more than one contract in the event that one firm is not able to find talent with the required skills for the project. Establishing these contracts do not preclude the District from entering into contracts with other staffing firms. Staff has entered into smaller contracts with firms that provide staffing support in specialized areas such as engineering.

ENVIRONMENTAL REVIEW: Not Applicable.

FISCAL IMPACT: Staff is proposing an agreement with Express Employment Professionals not to exceed \$300,000 and an agreement with Nelson Connects not to exceed \$300,000. These agreements will not require the District to expend the entire \$600,000. These not to exceed amounts will cover expenses for temporary services. The not to exceed amount for each contract was set based on usage of staffing firms over the past three-year period. All funds for these agreements are budgeted in the requesting departments' annual budget(s).

ATTACHMENT(S): None.



STAFF REPORT

Meeting Type: Finance & Administration Committee/Board of Directors
Title: Monthly Financial Update
From: Bret Uppendahl, Finance Director and Acting General Manager for Ben Horenstein *BU*
Meeting Date: March 27, 2025

TYPE OF ITEM: Approve X Review and Comment

RECOMMENDATION: Review and comment on the Monthly Financial Update

SUMMARY: The Monthly Financial Update provides an overview of the fiscal year-to-date financials. As of February 28, 2025, District operating and capital revenue is \$111.1 million, which is 70% of budgeted revenue for the year. Total expenditures including encumbrances are \$102.4million, or 58% of annual budget. Water sales, excluding fixed charges, are \$72.9 million, which is 71% of the annual budget.

DISCUSSION: Attached is the budget to actual comparison for fiscal year 2024/25 as of February 28, 2025. The budget to actual comparison is prepared by fund and includes revenues and expenditures. For reference, if revenues and expenses tracked linearly, they would be expected to be at 67% of the fiscal year budget at the end of February. Water sales, which have seasonal variability, would be expected to be at 73% of the fiscal year budget.

For the Operating Fund, total revenues as of February 28, 2025 are \$96.1 million, or 70% of budget. Total operating expenditures, not including depreciation and amortization or encumbrances, are \$63.4 million, or 57% of budget. For the Capital Fund, total revenues are \$15 million, which is 65% of budget. These revenues are comprised primarily of Capital Maintenance Fee (CMF) revenues of \$11.4 million, which are at 63% of the budget. Total Capital Improvement Program (CIP) expenditures are \$25.1 million, or 38% of budget, as CIP projects typically do not follow linear trends in expenditures. As noted in Attachment 4, an additional \$13.9 million is encumbered, bringing total expenditures with encumbrances to \$39 million, or 58% of budget. The fiscal year to date billed water sales through February 28, 2025 were \$72.9 million, which is 71% of the annual water sales forecast, and 97% of the expected revenue. Billed water consumption through February 28, 2025 was 15,149 AF, which is 4.4% higher than this time last year.

Year-to-date total water sales and fees (service charges, watershed fees and capital maintenance fees) through February 28, 2025 were \$104.9 million, which is 69% of the total annual rate revenue forecast

of \$151.5 million (\$133.5 million operating and \$18.0 million capital). Compared to the same period for the previous fiscal year water sales and fees increased by \$20.7 million, or 25%.

ENVIRONMENTAL REVIEW: Not applicable.

FISCAL IMPACT: None.

ATTACHMENT(S):

1. Total Water Sales and Fixed Charges & Fees FY 2023/24 – 2024/25
2. Billed Water Consumption in AF FY 2014/15 to FY 2024/25
3. Budget to Actual Comparison for FY 2024/25
4. CIP Budget to Actual Comparison for FY 2024/25

Attachment 1

Total Water Sales and Fixed Charges & Fees Fiscal Years 2023/24 - 2024/25

Section 6. Item #d.

OPERATING FUND

CAPITAL FUND

Month	Water Sales			Service Charge			Watershed Fee			Capital Maintenance Fee			Total Water Sales and Charges		
	23/24 Actual	24/25 Budget	24/25 Actual	23/24 Actual	24/25 Budget	24/25 Actual	23/24 Actual	24/25 Budget	24/25 Actual	23/24 Actual	24/25 Budget	24/25 Actual	23/24 Actual	24/25 Budget	24/25 Actual
July	\$ 4,473,261	\$ 8,080,444	\$ 7,743,761	\$ 1,552,115	\$ 1,671,840	\$ 1,638,745	\$ 361,127	\$ 454,473	\$ 441,637	\$ 1,167,529	\$ 1,267,679	\$ 1,107,901	\$ 7,554,033	\$ 11,474,437	\$ 10,932,044
August	7,029,300	11,359,007	13,177,298	2,246,052	2,419,306	2,387,120	492,230	771,211	798,805	1,688,699	1,833,554	1,634,811	11,456,282	16,383,078	17,998,034
September	8,572,991	11,197,816	10,537,001	1,636,225	1,762,438	1,707,764	481,127	534,484	487,440	1,119,131	1,215,129	1,159,561	11,809,473	14,709,867	13,891,766
October	11,408,450	14,953,082	13,984,090	2,376,242	2,559,538	2,486,025	700,462	777,596	737,461	1,632,508	1,772,543	1,699,834	16,117,662	20,062,758	18,907,409
November	6,127,917	8,078,518	7,924,059	1,611,361	1,735,657	1,715,498	368,368	399,978	399,030	1,104,486	1,199,228	1,166,678	9,212,133	11,413,380	11,205,265
December	6,988,546	8,997,320	9,079,924	2,363,812	2,546,149	2,520,315	456,360	485,987	502,893	1,620,621	1,759,636	1,716,771	11,429,339	13,789,093	13,819,903
January	3,724,261	5,110,880	4,006,356	1,627,243	1,752,763	1,701,440	260,777	286,371	237,939	1,118,400	1,214,336	1,164,935	6,730,681	8,364,350	7,110,671
February	5,431,133	7,120,998	6,470,805	2,376,079	2,559,362	2,488,852	370,566	400,780	378,974	1,629,369	1,769,134	1,705,285	9,807,146	11,850,274	11,043,917
March	2,847,557	3,965,017		1,596,975	1,720,160		204,970	226,294		1,096,811	1,190,894		5,746,313	7,102,366	
April	5,512,049	7,165,888		2,374,334	2,557,483		367,484	396,629		1,639,236	1,779,848		9,893,103	11,899,848	
May	3,675,032	5,026,540		1,637,410	1,763,715		266,231	292,588		1,108,825	1,203,939		6,687,498	8,286,781	
June	8,920,450	11,247,454		2,358,669	2,540,609		590,733	629,303		1,628,980	1,768,713		13,498,832	16,186,079	
TOTAL	\$ 74,710,946	\$ 102,302,963	\$ 72,923,294	\$ 23,756,517	\$ 25,589,019	\$ 16,645,760	\$ 4,920,436	\$ 5,655,695	\$ 3,984,179	\$ 16,554,595	\$ 17,974,633	\$ 11,355,777	\$ 119,942,494	\$ 151,522,310	\$ 104,909,009

Monthly Budget to Actual: 97.4%	Monthly Budget to Actual: 97.9%	Monthly Budget to Actual: 96.9%	Monthly Budget to Actual: 94.4%	Monthly Budget to Actual: 97.1%
% of Annual Budget: 71.3%	% of Annual Budget: 65.1%	% of Annual Budget: 70.4%	% of Annual Budget: 63.2%	% of Annual Budget: 69.2%
Actual to Actual: 135.7%	Actual to Actual: 105.4%	Actual to Actual: 114.1%	Actual to Actual: 102.5%	Actual to Actual: 124.7%

Attachment 2

Section 6. Item #d.

Billed Water Consumption In AF
Fiscal Year 2014/15 - 2024/25

Month	14/15 Actual	15/16 Actual	16/17 Actual	17/18 Actual	18/19 Actual	19/20 Actual	20/21 Actual	21/22 Actual	22/23 Actual	23/24 Actual	24/25 Budget	24/25 Actual	Monthly Budget Variance	Actual to Actual % Change
July	1,969	1,628	1,876	1,931	1,975	1,834	2,022	1,642	1,562	1,674	1,690	1,690	0.00%	0.97%
August	3,186	2,620	3,012	3,206	3,245	3,112	3,215	2,500	2,476	2,697	2,869	3,052	6.40%	13.17%
September	1,973	1,775	1,939	2,027	2,145	2,112	2,205	1,604	1,881	1,866	1,956	1,851	-5.38%	-0.79%
October	2,778	2,583	2,767	3,140	2,951	3,058	3,124	2,293	2,498	2,673	2,846	2,779	-2.34%	3.97%
November	1,454	1,490	1,340	1,705	1,664	1,837	1,882	1,153	1,329	1,409	1,464	1,516	3.55%	7.58%
December	1,984	1,935	1,646	1,914	2,169	2,295	2,418	1,439	1,795	1,749	1,778	1,908	7.27%	9.10%
January	1,065	991	910	942	993	1,186	1,157	735	984	1,013	1,048	910	-13.12%	-10.12%
February	1,651	1,450	1,392	1,754	1,525	1,556	1,625	1,646	1,385	1,431	1,467	1,442	-1.65%	0.79%
March	1,048	832	846	992	879	1,105	970	948	830	805	828			
April	1,910	1,467	1,375	1,612	1,427	1,883	1,775	1,717	1,377	1,419	1,451			
May	1,379	1,067	1,092	1,240	1,224	1,378	1,459	1,209	1,044	1,042	1,071			
June	2,344	2,478	2,416	2,516	2,349	2,711	2,559	2,217	2,119	2,254	2,303			
TOTAL	22,742	20,316	20,611	22,978	22,546	24,065	24,410	19,104	19,279	20,030	20,770	15,149		
<i>Change from prior year:</i>		-10.67%	1.45%	11.49%	-1.88%	6.74%	1.43%	-21.74%	0.92%	3.90%				

Budget-to-Actual Basis 0.2%
Actual-to-Actual Basis 4.4%
% of Total Budget 72.9%

Marin Municipal Water District
FY 2024/25 Budget to Actual Comparison
Preliminary Unaudited

Operating Fund	FY 2025	Actual as of	% of	Actual as of
Revenues and Expenditures	Budget	Feb 28, 2025	Budget	Feb 28, 2024
Revenues:				
Water Sales and Service Charge:				
Water Sales	\$ 102,302,963	\$ 72,923,294	71.3%	\$ 53,756,019
Service Charge	25,589,019	16,645,760	65.1%	15,789,274
Watershed Management Fee	5,655,695	3,984,179	70.4%	3,491,031
Total Water Sales and Service Charge	133,547,677	93,553,233	70.1%	73,036,324
Other Revenues:				
Rents and Royalties	2,014,349	1,388,225	68.9%	1,225,982
Grants	-	(88,614)	-	741,791
Permits and Fees	365,120	238,647	65.4%	231,892
Late Payments & Charges	120,133	200,910	167.2%	196,837
Interest	506,250	1,531,000	302.4%	959,228
Miscellaneous	286,804	(673,790)	-234.9%	(191,050)
Total Other Revenues	3,292,656	2,596,378	78.9%	3,164,680
Total Operating Revenues	136,840,333	96,149,611	70.3%	76,201,003
Expenditures:				
Personnel services	59,527,354	36,879,439	62.0%	34,303,164
Materials and supplies	4,658,375	2,180,009	46.8%	2,018,336
Operations	13,367,128	4,582,192	34.3%	4,990,322
Water conservation rebate program	634,773	179,685	28.3%	94,328
Electrical power	5,775,000	3,740,991	64.8%	3,825,152
Water purchased	13,212,000	7,769,155	58.8%	8,899,150
Insurance, including claims	2,921,133	1,739,237	59.5%	1,422,611
General and administrative	6,091,818	3,252,774	53.4%	2,531,110
Debt service - interest and principal	9,391,967	6,261,311	66.7%	6,344,862
Overhead cost allocated to capital	(4,700,000)	(3,144,004)	66.9%	(2,758,461)
Total Operating Expenditures	110,879,549	63,440,791	57.2%	61,670,574
Transfer out to Capital Fund	21,944,492	15,642,408	71.3%	5,437,910
Transfer out to Reserves	5,000,000	3,333,333	66.7%	3,333,333
Net Operating Fund Increase/(Decrease)	\$ (983,708)	\$ 13,733,079		\$ 5,759,186

**Marin Municipal Water District
FY 2024/25 Budget to Actual Comparison
Preliminary Unaudited**

Capital Fund

Revenues and Expenditures	FY 2025 Budget	Actual as of Feb 28, 2025	% of Budget	Actual as of Feb 28, 2024
Revenues:				
Capital Maintenance Fee	\$ 17,974,633	\$ 11,355,777	63.2%	\$ 11,080,838
Capital Connection Fee	100,000	123,265	123.3%	105,838
Capital Grants & Contribution	4,400,000	2,823,230	64.2%	1,880,542
Customer Reimbursement Project	500,000	396,136	79.2%	525,465
Interest Income	31,875	254,811	799.4%	50,068
Total Capital Revenues	23,006,508	14,953,220	65.0%	13,642,751
Transfer-in from Operating Fund	21,944,492	15,642,408		5,437,910
Capital Expenditures:				
Capital Improvement Projects	65,125,907	24,661,114	37.9%	10,379,879
Capital Equipment Purchases	1,689,036	447,803	26.5%	369,144
Total Capital Expenditures	66,814,942	25,108,918	37.6%	10,749,023
Net Capital Fund Increase/(Decrease)	\$ (21,863,942)	\$ 5,486,710		\$ 8,331,638

Marin Municipal Water District
FY 2024/25 Budget to Actual Comparison
Preliminary Unaudited

Section 6. Item #d.

Fire Flow Fund

Revenues and Expenditures	FY 2025 Budget	Actual as of Feb 28, 2025	% of Budget	Actual as of Feb 28, 2024
Revenues:				
Fire Flow	4,500,000	2,522,021	56.0%	2,499,727
Interest Income	-	169,534		96,428
Total Revenues	4,500,000	2,691,555	59.8%	2,596,155
Expenditures:				
Capital Projects - Fire Flow	6,717,982	2,587,421	38.5%	777,700
Net Fire Flow Fund Increase/(Decrease)	\$ (2,217,982)	\$ 104,134		\$ 1,818,455

Attachment 4

Section 6. Item #d.

CIP Projects	FY 2025		Capital Projects	Encumbered for	Fire Flow
	Budget		Actual as of	Contracts	Actual as of
			Feb 28, 2025	Actual as of	Feb 28, 2025
District Pipeline Replacement	\$ 12,802,342	\$	10,328,104	\$ 1,481,954	\$ 11,810,057
Tank Maintenance & Replacement	7,295,522		4,070,982	670,668	4,741,650
Treatment Plant Facilities	3,071,290		605,689	192,381	798,069
Dam/Pump/Control System/Meters	15,770,610		2,957,893	6,240,227	9,198,121
Asset Mangement	1,921,518		1,044,351	760,138	1,804,489
Watershed - Natural Resource Project	2,106,367		377,470	1,415,482	1,792,953
Watershed - Other	2,266,137		442,363	322,801	765,164
Information Technology	4,688,000		74,496	37,478	111,973
Fire Flow Replacement	6,717,982		2,587,421	2,359,495	4,946,916
Reimbursable Grant Projects	14,250,877		4,211,693	2,623,614	6,835,307
Reimbursable Customer Projects	953,245		548,075	-	548,075
Capital Equipment Purchases	1,689,036		447,803	153,196	600,999
Total Capital Projects	\$ 73,532,925	\$	27,696,339	\$ 16,257,434	\$ 43,953,773



STAFF REPORT

Meeting Type: Finance & Administration Committee/Board of Directors
Title: Annual Review of Policy No. 33 Investment Policy
From: Bret Uppendahl, Finance Director and Acting General Manager for Ben Horenstein
Meeting Date: March 27, 2025 *BU*

TYPE OF ITEM: Approve X Review and Comment

RECOMMENDATION: Review and comment on Policy No. 33 Investment Policy

SUMMARY: District policy requires quarterly reporting of investment type, market values and overall yields. District policy also requires an annual review of the investment policy, which the Board shall consider at a public meeting. The District’s investment policies and practices are developed consistent with state law and prudent management and Investment Policy No. 33 is updated periodically to conform to the California Government Code requirements.

DISCUSSION: The District’s investment policy strives to appropriately manage overall investment risk exposure. The investment policy defines allowable investments by type of security, type of issuer, dollar amount, overall percentage of portfolio and maturity. The primary objective of the District’s investments are 1) Safety; 2) Liquidity; 3) Return on Investment; and 4) Public Trust. It is the intent of the District to hold all investments until maturity.

The California State Treasurer’s Office recently published the 2025 update to the *Local Agency Investment Guidelines* document that incorporates all recent changes to applicable provisions of the California Government Code and provides best practice guidelines for public agencies. Staff has reviewed this publication and identified multiple areas where the District’s Investment Policy is currently more restrictive than what is allowable under state law, including various investment types that are permitted under state law, but are not addressed in the District’s current policy. Staff will provide an overview of the areas in the current policy that are being considered for an update, including an overview of investments in a Joint Powers Authority Pool, which are permitted by California Government Code section 53601(p) for use by all local government agencies in California.

ENVIRONMENTAL REVIEW: Not applicable.

FISCAL IMPACT: None.

ATTACHMENT(S):

- 1. Board Policy No. 33 Investment Policy
- 2. Local Agency Investment Guidelines - 2025



MARIN MUNICIPAL WATER DISTRICT

BOARD POLICY No. 33

DATE: Reviewed 01-06-10
 Revised 01-05-11
 Revised 01-05-12
 Revised 01-23-13
 Revised 02-07-17
 Revised 01-25-18
 Reviewed 03-13-19
 Revised 01-21-20
 Revised 02-25-21
 Reviewed 01-27-22
 Reviewed 06-22-23
 Reviewed 02-15-24

SUBJECT: INVESTMENT POLICY

I. Introduction

The purpose of this document is to identify various policies and procedures that enhance opportunities for a prudent and systematic investment policy and to organize and formalize investment-related activities.

The investment policies and practices of the Marin Municipal Water District ("District") are based on State law and prudent money management. All funds will be invested in accordance with the District's Investment Policy and the authority governing investments for local agencies as set forth in the California Government Code, §53601 through §53659.

II. Scope

It is intended that this policy cover all funds and investment activities of the District, except investments governed by employment retirement funds and bond documents. The provisions of relevant bond documents will restrict the investment of bond proceeds.

III. 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. All persons investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds shall act with care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the District.

IV. Objectives

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

1. **Safety.** Safety of principal is the foremost objective of the investment program. The District's investments shall be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio. The District shall seek to preserve principal by mitigating the two types of risk: credit risk and market risk.
2. **Liquidity.** The District's investment portfolio will remain sufficiently liquid to enable the District to meet its cash flow requirements.
3. **Return on Investment.** The District's investment portfolio shall be designed with the objective of attaining a market rate of return on its investments consistent with the constraints imposed by its safety objective and cash flow considerations.
4. **Public Trust.** All participants in the investment process shall act as custodians of the public trust. Investment officials shall recognize that the investment portfolio is subject to public review and evaluation. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust.

It is the District's intent at time of purchase, to hold all investments until maturity to ensure the return of all invested principal dollars.

V. Delegation of Authority

The management and oversight responsibility for the investment program is hereby delegated to the Finance Director (Administrative Services Division)/Treasurer who shall monitor and review all investments for consistency with this investment policy. This delegation of authority shall remain in place until revoked by the Board of Directors. The Finance Director/Treasurer may delegate the day-to-day operations of investing to his/her designee(s), but not the responsibility for the overall investment program. No person may engage in an investment transaction except as provided under the limits of this policy.

VI. Ethics and Conflict of Interest

Officers and employees involved in the investment process shall refrain from personal business activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial decisions.

VII. Selection of Financial Institutions and Broker/Dealers

The Finance Director/Treasurer shall maintain a list of authorized broker/dealers and financial institutions which are approved for investment purposes in the State of California, and who have proof of National Association of Security Dealers certification. It shall be the policy of the District to purchase securities only from authorized institutions or firms. All authorized firms must also provide certification that they have received and read the District's Investment Policy.

VIII. Permitted Investment Instruments

1. Direct obligations for which the full faith and credit of the United States Government is pledged for the payment of principal and interest.
2. Obligations issued by Agencies or Instrumentalities of the United States Government.
3. Repurchase Agreements used solely as short-term investments not to exceed 90 days.
 - a. The following collateral restrictions will be observed: Only United States Treasury securities or Federal Agency securities will be acceptable collateral. All securities underlying Repurchase Agreements must be delivered to the District's custodian bank vs. payment. The market value of securities that underlay a Repurchase Agreement shall be valued at 102 percent or greater of the funds borrowed against those securities and the value shall be reviewed on a regular basis and adjusted no less than quarterly. Collateral shall not include strips, zero-coupon instruments or instruments with maturities in excess of five years. The right of substitution will be granted, provided that permissible collateral is maintained.
4. Banker's Acceptances issued by domestic or foreign banks, which are eligible for purchase by the Federal Reserve System, the short-term paper of which is rated in the highest category by Moody's Investors Services or by Standard & Poor's Corporation.
 - a. Purchases of Banker's Acceptances may not exceed 180 days maturity or 40 percent of the District's surplus money. However, no more than 30% or \$2,000,000 of the District's surplus funds, whichever is less, may be invested in the Banker's Acceptance of any one commercial bank.

5. Commercial paper issued by an entity meeting the following conditions in Option 1 or Option 2 below:

Option 1:

1. Is organized and operating in the United States as a general corporation and has total assets in excess of \$500 million.
2. Has debt other than commercial paper, if any, that is rated “A” or higher by a nationally recognized rating agency.

Option 2:

1. Is organized within the United States as a special purpose corporation, trust or limited liability company.
 2. Has program-wide credit enhancements including, but not limited to, over-collateralization, letters of credit or surety bond.
 3. Has commercial paper that is rated “A-1” or higher by a nationally recognized rating agency.
- a. Purchases of eligible commercial paper may not exceed 270 days to maturity nor represent more than 10 percent or \$1,000,000 from an issuing corporation, whichever is less.
 - b. Purchases of commercial paper may not exceed 15 percent of the District's surplus money that may be invested.
6. Medium term corporate notes 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. Medium term corporate notes shall, at the time the note is purchased, be rated as follows:
- | | |
|-------------------|-----------------------------------------------|
| a. 1 year or less | A rating by two major rating agencies |
| 1 - 2 years | AA rating by at least one major rating agency |
| 2 - 4 years | AA rating by two major rating agencies |
| 4 - 5 years | AAA rating by two major rating agencies |
- b. Investments will be limited to a maximum of 30 percent of the District's portfolio.

7. Federal Deposit Insurance Company (FDIC) insured or fully collateralized time certificates of deposit in financial institutions located in California, including United States branches of foreign banks licensed to do business in California. The maximum maturity of a time deposit shall not exceed 180 days. All time deposits must be collateralized in accordance with California Government Code §53651 and §53652, either at 150 percent by promissory notes secured by first mortgages and first trust deeds upon improved residential property in California eligible under Section 53651(m) or 110 percent by eligible marketable securities listed in subsections (a) through (l), (n) and (o) of §53651, or 105% of letters of credit issued by the Federal Home Loan Bank of San Francisco per subsection (p) of §53651.
8. Negotiable certificates of deposit or deposit notes issued by a nationally or State chartered bank or a State or Federal savings and loan association or by a Federally licensed or State licensed branch of a foreign bank; provided that the senior debt obligations of the issuing institution are rated "AA" or better by Moody's or Standard & Poor's.
 - a. Purchase of negotiable certificates of deposit may not exceed 20 percent of the District's surplus money.
9. State of California's Local Agency Investment Fund. Investment in LAIF may not exceed \$75 million per account.
10. Shares of beneficial interest issued by diversified management companies (Money Market Mutual Funds) investing in the securities and obligations authorized by sections (a) through (l) of California Government Code §53601. To be eligible for investment pursuant to this subdivision these companies shall either: (1) attain the highest ranking letter or numerical rating provided by not less than two of the three largest nationally recognized rating services; or (2) have an investment advisor registered with the Securities and Exchange Commission with not less than five years experience investing in securities and obligations authorized by California Government Code §53601 and with assets under management in excess of \$500,000,000.

The purchase price of shares shall not exceed 10 percent of the District's surplus money and no more than 10 percent invested in shares of any one mutual fund.
11. Registered state warrants or treasury notes or bonds of California, 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 California.

- 12. Bonds, notes or warrants or other evidences of indebtedness of a local agency within the state of California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled or operated by the by the local agency, or by a department, board, agency, or authority of the local agency of California.

The following summary of maximum percentage limits, by instrument, are established for the District's total investment portfolio:

<u>Investment Type</u>	<u>Percentage</u>
Repurchase Agreements.....	0 to 10%
Local Agency Investment Fund	\$75,000,000 per account
U.S. Treasury Bonds/Notes/Bills	0 to 100%
U.S. Government Agency Obligations	0 to 100%
Banker's Acceptances	0 to 40%
Commercial Paper.....	0 to 15%
Negotiable Certificates of Deposit	0 to 20%
Time Certificates of Deposit	0 to 20%
Medium Term Corporate Notes	0 to 30%
Registered State Warrants or Local Agency Indebtedness	0 to 20%

IX. Safekeeping of Securities and Internal Controls

To protect against fraud, embezzlement or losses caused by collapse of an individual securities dealer, all securities owned by the District shall be held by an independent third party safekeeping institution, acting as agent for the District under the terms of a custody agreement or PSA agreement (repurchase agreement collateral). All trades executed by a dealer will settle on a delivery vs. payment ("DVP") basis to ensure that securities are deposited in the District safekeeping institution prior to the release of funds.

The safekeeping institution shall annually provide a copy of its most recent report on internal controls – Service Organization Control Reports (formerly 70, or SAS 70) prepared in accordance with the Statement on Standards for Attestation Engagements (SSAE) No. 16 (effective June 15, 2011).

Securities held in custody for the District shall be monitored by the Finance Director/Treasurer to verify investment holdings.

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

X. Maximum Maturity

Investment maturities shall be based on a review of cash flow forecasts. Maturities will be scheduled to permit the District to meet all projected obligations.

The maximum maturity will not exceed five years.

XI. Ineligible Investments

Security types which are prohibited include, but are not limited to:

- (a) "Complex" derivative structures such as range notes, dual index notes, inverse floaters, leveraged or de-leveraged floating rate notes, or any other complex variable rate or structured note.
- (b) Interest only strips that are derived from a pool of mortgages, or any security that could result in zero interest accrual if held to maturity.
- (c) Reverse Repurchase Agreements.

XII. Portfolio Adjustments

Portfolio percentage limitations for each investment category are applicable only at the date of purchase. Should an investment percentage limitation be exceeded due to an incident such as a fluctuation in portfolio size, the Finance Director/Treasurer is not required to sell the affected securities.

Should a security held in the portfolio be downgraded below the minimum criteria included in this Investment Policy, a determination will be made by the Finance Director/Treasurer whether to sell the investment. Any sale of an investment due to a downgrade will be done in a manner to minimize losses on sale of such security.

If a security is downgraded to a level that is less than investment grade (rating less than Ba1 or BB+), the Finance Director/Treasurer shall sell such affected security immediately. If the immediate liquidation of the security is not in the best interest of the District, the Finance Director/Treasurer, in consultation with an ad hoc committee made up of the General Manager and the Finance Committee President, may dispose of the security in an orderly and prudent manner considering the circumstances, under terms and conditions approved by the ad hoc committee.

The description and amounts of any securities downgraded below the District investment criteria are to be included in the quarterly investment report.

XIII. Reporting Requirements

The Finance Director/Treasurer shall render to the District Board a quarterly investment report as per California Government Code §53646, which shall include, at a minimum the following information for each individual investment:

Type of investment instrument (i.e., Treasury Bill, medium term note)

- Issuer name (i.e., General Electric)
- Purchase date (settlement date)
- Maturity date
- Par value
- Purchase price
- Current market value and the source of the valuation (quarterly)
- Overall portfolio yield based on cost

The quarterly report also shall (i) state compliance of the portfolio to the statement of investment policy, or manner in which the portfolio is not in compliance, (ii) include a description of any of the District's funds, investments or programs that are under the management of contracted parties, including lending programs, (iii) description of investments downgraded below the District's investment criteria or below investment grade and hold or sell status and (iv) include a statement denoting the ability of the District to meet its expenditure requirements for the next six months, or provide an explanation as to why sufficient money shall, or may, not be available.

This quarterly report shall be submitted within 30 days following the end of the quarter.

The Finance Director/Treasurer shall annually render to the Board a statement of investment policy, which the Board shall consider at a public meeting.

GLOSSARY OF TERMS

Bankers Acceptances. Are negotiable time drafts or bills of exchange drawn on and accepted by a commercial bank. Acceptance of the draft obligates the bank to pay the bearer the face amount of the draft at maturity. In addition to the guarantee by the accepting bank, the transaction is identified with a specific commodity. The sale of the underlying goods will generate the funds necessary to liquidate the indebtedness. Banker's Acceptances are usually created to finance the import and export of goods, the shipment of goods within the United States and the storage of readily marketable staple commodities. Banker's Acceptances are sold at a discount from par and the amount and maturity date are fixed. Bankers Acceptances have the backing of both the bank and the pledged commodities with no known principal loss in over 70 years. State law permits agencies to invest 40 percent of a portfolio and 30 percent with a single issuer in Bankers' Acceptances with a maximum maturity of 180 days.

Certificate of Deposit. A deposit insured up to \$250,000 by the FDIC, or collateralized at a minimum of 110 percent by the financial institution if over \$250,000, 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.

Corporate Medium Term Notes. Are unsecured promissory notes issued by corporations operating within the United States. The notes are in the one-to-five year maturity range. Notes must have at least an "A" rating by a nationally recognized rating service. State law permits agencies to invest 30 percent of the total portfolio and 10 percent with a single issuer in corporate medium term notes with a maximum maturity of 5 years.

Commercial Paper. Is an unsecured promissory note of industrial corporations, utilities and bank holding companies having assets in excess of \$500 million and an "A" or higher rating for the issuer's debentures. Interest is discounted from par and calculated using the actual number of days on a 360-day year. The notes are in bearer form, mature from one to 180 days and generally start at \$100,000. There is a secondary market for commercial paper and an investor may sell them prior to maturity. Commercial paper is backed by unused lines of credit from major banks. State Code permits agencies to invest 25 percent and 10 percent with a single issuer in commercial paper with a maximum maturity of 270 days.

Credit Risk. Defined, as the risk of loss due to failure of the issuer of a security shall be mitigated by investing in investment grade securities and by diversifying the investment portfolio so that the failure of any one issuer does not unduly harm the District's capital base and cash flow.

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.

Fannie Mae. Trade name for the Federal National Mortgage Association (FNMA), a United States sponsored corporation.

Federal Reserve System. The central bank of the United States 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 that guarantees deposits to a set limit (currently \$250,000) per account.

Freddie Mac. Trade name for the Federal Home Loan Mortgage Corporation (FHLMC), a United States sponsored corporation.

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

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

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

Local Agency Investment Fund (LAIF) Demand Deposit. Established by the State to enable financial managers to place idle funds in a pool for investment. Each agency is currently limited by LAIF to an investment of \$75 million plus any bond proceeds.

Market Risk. Defined as market value fluctuations due to overall changes in the general level of interest rates, shall be mitigated by limiting the maximum maturity of any one security to five years, structuring the portfolio based on historic and current cash flow analysis eliminating the need to sell securities prior to maturity and avoiding the purchase of long-term securities for the sole purpose of short-term speculation.

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.

Portfolio. Collection of securities held by an investor.

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). Contractual arrangement between a financial institution or dealer and an investor. The investor puts up their funds for a certain number of days at a stated yield. In return, they take title to a given block of securities as collateral. At maturity, the securities are repurchased and the funds are repaid with interest.

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

Sallie Mae. Trade name for the Student Loan Marketing Association (SLMA), a United States sponsored corporation.

Treasury Bills (T-Bills). United States Treasury Bills which are short-term, direct obligations of the United States 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.

United States Government Agencies. Instruments issued by various United States Government Agencies most of which are secured only by the credit worthiness of the particular agency.



CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION

Update for 2025

Reflects state law changes
effective as of January 1, 2025
CDIAC 24.12

California Debt and Investment Advisory Commission

The California Debt and Investment Advisory Commission (CDIAC) provides information, education, and technical assistance on debt issuance and public fund investments to local agencies and public finance professionals. CDIAC also serves as the State's clearinghouse for public debt issuance information.

FIONA MA, CPA

State Treasurer and Chair

GAVIN NEWSOM

Governor

MALIA M. COHEN

State Controller

DAVID ALVAREZ

Assemblymember

AVELINO VALENCIA

Assemblymember

SANDIE ARNOTT

Treasurer-Tax Collector

County of San Mateo

NIKOLAI SKLAROFF

Capital Finance Director

San Francisco Public Utilities Commission

ROBERT BERRY

Executive Director

Additional information concerning this report or CDIAC programs may be obtained by contacting CDIAC directly via phone (916) 653-3269, fax (916) 654-7440, e-mail (cdiac@treasurer.ca.gov) or by visiting CDIAC's website: www.treasurer.ca.gov/cdiac/.

All rights reserved. No part of the *Local Agency Investment Guidelines: Update for 2025* may be reproduced without giving written credit to CDIAC. Permission to reprint with written credit given to CDIAC is hereby granted.

Contents

- ABOUT THE LOCAL AGENCY INVESTMENT GUIDELINES 1**
- SUMMARY OF CHANGES 3**
- CHAPTER I. THE ANNUAL INVESTMENT POLICY 4**
 - A. Should local agencies produce an investment policy? Should the investment policy be presented to the local agency’s legislative body? 4
 - B. When should the investment policy be reviewed and updated? How should the investment policy be rendered to the legislative body? 5
 - C. What information should be included in the investment policy? 6
 - D. How is the limit on a political contribution determined when selecting brokers and dealers? 7
 - E. What constraints can county pools place on voluntary depositors? 8
- CHAPTER II. FUND MANAGEMENT 9**
 - A. Which investments are permissible? Which are prohibited? 10
 - B. What requirements must a financial institution satisfy before a local agency may deposit its money in it? 14
 - C. When must investments contained in a local agency investment portfolio comply with state law? 15
 - D. What funds should a local agency use to calculate portfolio concentration compliance with state law? 16
 - E. Must bond proceeds be invested in the securities set forth in statute? 18
 - F. How does the Municipal Advisor (MA) Rule affect investment of bond proceeds? 18
 - G. Are all U.S. Agency bonds legal investments for California local agencies? 19
 - H. What are supranational securities? 21
 - I. Can a local agency invest in an investment pool administered by another state? 22
 - J. What are “medium-term notes”? 22

- K. Are bonds issued by departments and financing authorities of the State of California permissible investments for local agencies? 24
- L. What are the rules regarding the use of reverse repurchase agreements and securities lending agreements? Are “shorting” strategies allowed? 24
- M. What are the rules regarding the use of mutual funds and money market funds? Are exchange-traded funds permissible investments? 26
- N. What are the rules affecting the investment of tax and revenue anticipation note (TRAN) and grant anticipation note (GAN) proceeds? 28
- O. What is an appropriate safekeeping arrangement for securities? 28
- P. How does the Municipal Advisor (MA) Rule affect a local agency’s relationship with an investment advisor? 29
- Q. What are the rules regarding the payment of interest earned on non-general fund deposits to an agency’s general fund? 30
- R. Should local agencies invest in financial futures and option contracts? If so, in what manner should they be utilized? 31
- S. How long should a local agency retain trade ticket information? 32

CHAPTER III. REPORTING REQUIREMENTS 33

- A. What specific information regarding portfolio investments needs to be included in the report to the legislative body? 34
- B. Should the report include market value measures for individual securities? 36
 - How should the market value of the portfolio be determined? 36
 - How frequently should market value be checked? 37
- C. Should an analysis of cash flows be prepared by the local agency in order to validate the six-month liquidity certification? 37
- D. What tools can be used to measure interest rate risk? 39
- E. What action should the legislative body take with the report? 42
- F. How should agencies address difficulties in meeting the 45-day requirement for submitting quarterly investment reports to the legislative body? 42

CHAPTER IV. TREASURY OVERSIGHT COMMITTEES 44

- A. What options are available for structuring the county treasury oversight committee? 44
- B. Does the appointment of the treasurer to the county treasury oversight committee create a conflict of interest? 46
- C. What is the role of the county treasury oversight committee? 47
- D. Should other local agencies have treasury oversight committees? 47

CALIFORNIA GOVERNMENT CODE 49

GLOSSARY 115

**INDEX OF STATUTORY CHANGES
EFFECTIVE 1996 TO PRESENT 128**

INDEX 137

FIGURES

**FIGURE 1: Allowable Investment Instruments Per State
Government Code (as of January 1, 2025)–
Applicable to All Local Agencies 12**

**FIGURE 2: Government Code Requirements for Local Agency
Investment in Money Market and Mutual Funds 27**

FIGURE 3: Calculation of Weighted Average Maturity 40

**FIGURE 4: Duration—Gain/Loss of Market Value Matrix
for a \$1000,000,000 Portfolio 41**

**FIGURE 5: Approaches to Establishing the County
Treasury Oversight Committee 46**

About the Local Agency Investment Guidelines

The *Local Agency Investment Guidelines* is intended to aid local officials in their efforts to implement existing laws pertaining to the investment of public funds. Each year, CDIAC staff convenes a working group of public- and private-sector professionals to support its efforts to revise and update these *Guidelines*.

THOSE PARTICIPATING IN THE 2024 GUIDELINES INCLUDE:

- Constantine Baranoff, *Attorney, Lozano Smith*
- Bill Blackwill, *Managing Director, Stifel*
- Deborah Higgins, *President, Higgins Capital Management*
- John Johnson, *Asst. Auditor-Controller/Treasurer/Tax Collector, San Bernardino County*
- Carol Lew, *Shareholder, Stradling, Yocca, Carlson & Rauth, P.C.*
- Philip Marr, *Senior Portfolio Manager, City of Los Angeles*
- Kent Morris, MBA, CTP, *Deputy Director, City of San Diego*
- Laura Parisi, CPA, CFIP, *City Treasurer, City of Laguna Beach*
- Rick Phillips, CCM, *Chief Investment Strategist, Meeder Public*
- Monique Spyke, *Managing Director, Head of California Practice, PFM Asset Management LLC*

This document briefly describes each issue, offers an interpretation of the minimum compliance requirements, and provides consensus recommendations where the working group deemed them necessary. These interpretations represent the best judgment of CDIAC and the professionals involved and are intended only as a guide for local agencies in their compliance. Agencies should rely only on their legal counsel for legal advice.

The *Local Agency Investment Guidelines: Update for 2025* reflects current investment statutes. It is divided into chapters on investment policy, fund management, reporting requirements, and the treasury oversight committee. Please note that an issue may not fit neatly into the following four chapters.

Generally speaking, all local agencies are subject to the reporting, fund management, and investment policy requirements. Only county governments may be subject to the county oversight committee requirements. Any jurisdiction that assumes it is not covered by these provisions should seek legal counsel. California Government Code Section 53600 states:

As used in this article, "local agency" means a 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.

Summary of Changes

The *2025 Local Agency Investment Guidelines* incorporates the following California statutory changes: Government Code Section 53601.

STATUTORY CHANGES

LOCAL FUNDS

Chapter 239, Statutes of 2024 (AB 2618), amends Government Code 53601.8 to extend the date of the current portfolio concentration limit of 50% for surplus funds that local agencies invest in depository institutions that use a private sector entity to assist in the placement of deposits until January 1, 2031. This bill also requires the California Debt and Investment Advisory Commission on or before January 1, 2030, to submit a report to the Legislature on the deposit of surplus funds by local agencies pursuant to 53601.8. On January 1, 2031, the provisions of this bill would return this portfolio limitation of cities, districts, and agencies back to 30% of the agency's surplus funds.

FEDERAL AND REGULATORY CHANGES

No changes.

All references to statutory code "sections" throughout this document shall refer to California Government Code unless otherwise stated.

Chapter I. The Annual Investment Policy

A good investment policy encompasses the cash, treasury, and investment management functions of an agency. It serves as a guide for setting and achieving program objectives, defines rules and establishes benchmarks, and reduces the exposure to liability of both the investment staff and the governing board. It is also important to note that rating agencies pay close attention to an agency’s investment policy and portfolio in determining its credit rating.

From this point forward, all references to the word “section” refers to the California Government Code unless otherwise stated.

I. A Should local agencies produce an investment policy? Should the investment policy be presented to the local agency’s legislative body? [Section 53646(a)]¹

The investment policy serves as the foundation of a local agency’s investment goals and priorities. If the investment policy is carefully researched, effectively drafted, and reviewed regularly to assure that it continues to meet the agency’s goals/priorities for its portfolio, it can help protect the assets of the organization. The existence of an approved investment policy demonstrates that the governing body is performing its fiduciary responsibilities, thereby, inspiring trust and confidence among the public that it serves.

MINIMUM LEGAL REQUIREMENTS:

Section 53646(a)(1) states that the treasurer of a county government may annually render to their board of supervisors and oversight committee an investment policy, which the board shall review and approve at a public meeting. In addition, the board shall review and approve any changes to the investment policy at a public meeting.

Section 53646(a)(2) states that the treasurer or chief fiscal officer of any other local agency may annually render to their legislative body and any oversight committee an investment policy, that the legislative body shall consider at a public

¹ All statutory references are to the California Government Code unless otherwise noted.

meeting. This raises questions about whether or not the policy should be adopted officially by the legislative body, and the time during the year that this “consideration” should take place.

CONSENSUS RECOMMENDATION:

An investment policy should always be in place. While not required by statute, it is in the best interest of the local agency to present and discuss the policy with the agency’s legislative body or oversight committee, and then have the policy approved by a vote of the legislative body. A public vote signifies that the legislative body shares fiduciary responsibility with the treasurer, increases the authority and legitimacy of the investment policy, and provides transparency and disclosure.

I. B When should the investment policy be reviewed and updated? How should the investment policy be rendered to the legislative body? [Section 53646(a)]

The size and complexity of the investment policy, portfolio, agency and the agency’s staff are factors that may affect the frequency of the investment policy review and revision.

MINIMUM LEGAL REQUIREMENT:

Section 53646(a) provides that if an investment policy is submitted to the local agency’s legislative body, it must be an agenda item at a public meeting. If submitted to a county board of supervisors, the board is required to review and approve the investment policy and any changes to it at the public meeting. The statute does not place the same specific approval requirements on other local agencies, but it does require consideration. The statute does not specify, however, when during the year that consideration or approval should occur.

CONSENSUS RECOMMENDATION:

The Association of Public Treasurers of the United States & Canada, the Government Finance Officers Association, and the Government Investment Officers Association have established policy standards that recommend investment policies be reviewed annually. At a minimum, the internal treasury staff should conduct a review annually. Ideally, the review should be timed to coincide with the end of the state legislative cycle so that consideration may be given to any changes in statute that may impact the agency’s policy.

An update in the investment policy is warranted if treasury staff’s review results in a material change in policy due to either a change in statute or a change in the agency’s goals and objectives for safety, liquidity and yield. A change in statute, however, may not necessarily require a change in the policy. Many agencies’ policies are already more restrictive than statute. Likewise, an agency may choose to update its policy to restrict the purchase of a new investment

product that is allowable by statute but that the agency deems to be too risky for its investment portfolio.

Although rendering the investment policy to the legislative body or oversight committee is not required, it is highly recommended. If it is done, it should be done annually, on an established schedule, such as after the annual review and update.

For newly-elected legislative body members, election terms may not coincide with the investment policy review. But, because of the fiduciary responsibility of the legislative body, any newly-elected members should be made aware of the existence of the investment policy and its contents as soon as possible.

I. C What information should be included in the investment policy? [Section 27133]

MINIMUM LEGAL REQUIREMENTS:

Except for county governments, the California Government Code does not contain any provisions specifying what must be included in the investment policy of a local agency. Section 27133 provides that county investment policies must contain:

- A list of securities or other instruments in which the county treasury may invest, according to the law, including the maximum percentage by type of security, and the maximum term of any security purchased;
- The manner of calculating and apportioning the authorized costs of investing, depositing, banking, auditing, reporting, handling, and managing of funds;
- Limits on the receipt of honoraria, gifts, and gratuities for county treasury oversight members from advisors, brokers, dealers, bankers, or other persons with whom the county treasury conducts business;
- Criteria for selecting brokers and dealers (including prohibitions against selecting any broker, dealer, or security firm within any consecutive 48-month period of making a campaign contribution exceeding the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board);
- A requirement that the treasurer provide the county treasury oversight committee with an investment report as required by the Board of Supervisors;
- Terms and conditions under which other local agencies that are not required to deposit funds may deposit funds in the county treasury if they so choose; and
- Criteria for considering requests to withdraw funds from the county treasury.

The last two of the above elements directly refer to the duties counties have in maintaining a local government investment pool.

CONSENSUS RECOMMENDATION:

Although statute does not specify the contents of the investment policy for local agencies other than counties, it should include at a minimum, the first five elements required of counties. In addition, the policy should specify the funds to which the policy will and will not apply. For instance, bond proceeds are usually guided by the bond documents and thus, may not be a part of the investment policy. Similarly, pension funds are guided by other code sections and may have different investment objectives.

The Association of Public Treasurers of the United States & Canada and the Government Investment Officers Association offers an Investment Policy Program that provides public investors with guidance and technical assistance in developing a comprehensive written investment policy at www.aptusc.org and www.gioa.us. The California Municipal Treasurers Association (CMTA) has sample investment policies that were certified through [CMTA's Investment Policy Certification Program](#). Additional sources for recommended elements of an investment policy can be found in CDIAC's [California Public Fund Investment Primer](#) and [Investment Policy Reporting Practices: An Informative Guide](#), and the Government Investment Officers Association's [Investment Policy Certification Program and Application](#).

I. D How is the limit on a political contribution determined when selecting brokers and dealers? [Section 27133 (c) and MSRB Rule G-37]

The county treasury shall not select brokers and dealers who individually, or as a firm, have contributed more than the current limit established under Municipal Securities Regulatory Board (MSRB) Rule G-37.

MINIMUM LEGAL REQUIREMENT:

The county treasury is prohibited from selecting those brokers, brokerage firms, dealers, or securities firms having made political contributions within the last four years, which exceed the amount set forth in MSRB Rule G-37. For 2025, the limit is \$250. This limit applies to the local treasurer, any member of the governing board of the local agency, or any candidate for those offices.

In addition to the provisions outlined in Section 27133 and MSRB Rule G-37, local agencies, the state, and the Fair Political Practices Commission (FPPC) may adopt additional standards on acceptable political contribution limits. For reference, the local treasurer, any member of the governing board of the local agency,

and treasury staff are required to report any gift of \$50 or more on his or her annual Form 700 submission to the FPPC.

CONSENSUS RECOMMENDATION:

All treasury staff should be knowledgeable of the specific state and local laws and ordinances governing their receipt of political contributions, gifts, and honoraria. Although the MSRB Rule G-37 applies to the local treasurer and the governing board of the local agency, treasury staff are likely subject to additional rules set forth by the FPPC and the local agency. If there is no policy on the receipt of political contributions, gifts, or honoraria at the local agency level, establish one and educate all agency employees who affect treasury decisions.

I. E What constraints can county pools place on voluntary depositors? [Section 27133(g)]

County treasurers have difficulty predicting withdrawals of voluntary funds made by pool participants. As a result, questions commonly arise regarding how county pools should treat funds from voluntary depositors. In the absence of information on a depositor’s cash flow, an unanticipated withdrawal can create potential liquidity problems for the pool.

MINIMUM LEGAL REQUIREMENT:

State law does not require county pools to accept voluntary deposits.

CONSENSUS RECOMMENDATION:

Allow voluntary deposits only under a clearly written contract or memorandum of understanding. This agreement should spell out the exact rules for participating in the pool and provide the county treasurer with reasonable predefined discretion to establish the frequency and amount of voluntary funds that can be removed from the pool at a particular time. Another option is to ban voluntary deposits altogether if the county has confidence that other local agencies have reasonable investment alternatives.

Chapter II. Fund Management

For the investment of county funds in a county treasury, Section 27000.3 establishes the Board of Supervisors as a fiduciary that is subject to the prudent investor standard unless it delegates its investment duties to the county treasurer. For other local agencies' funds invested in the county treasury, the county treasurer serves as a fiduciary and is subject to the prudent investor standard.

Except as provided for in Section 27000.3, Section 53600.3 declares as a trustee each person, treasurer, or governing body authorized to make investment decisions on behalf of local agencies. As trustees these individuals are subject to the prudent investor standard. That is, they shall act with care, skill, prudence, and diligence under the circumstances then prevailing when investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing funds. Section 53600.5 further stipulates that the objectives of any person investing public funds is to, first, safeguard principal; second, to meet the liquidity needs of the depositor; and lastly, to achieve a return or yield on the funds under its control (Section 27000.5 specifies the same objectives for county treasurers and boards of supervisors).

Risk is inherent throughout the investment process. There is investment risk associated with any investment activity and opportunity risk related to inactivity. Market risk is derived from exposure to overall changes in the general level of interest rates while credit risk is the risk of loss due to the failure of the issuer of a security. The market value of a security varies inversely with the level of interest rates. If an investor is required to sell an investment with a 5% yield in a comparable 7% rate environment, that security will be sold at a loss. The magnitude of that loss will depend on the amount of time until maturity.

Purchasing certain allowable securities with a maturity of greater than five years from the settlement date, requires approval of the governing board (see Section 53601). Part of that approval process involves assessing and disclosing the risk and possible volatility associated with longer-term investments.

Another element of risk is liquidity risk. Instruments with extraordinary or special call features, sinking fund redemption structures, or those issued by little known issuers, are examples of "story bonds" and often are thinly traded. Their uniqueness often makes finding prospective buyers in a secondary market more difficult and, consequently, the securities' marketability and prices may be dis-

counted. However, under certain market conditions, gains may also be possible with these types of securities.

Default risk represents the possibility that the borrower may be unable to repay the obligation as scheduled. Generally, securities issued by the federal government and its agencies are considered the most secure, while securities issued by private corporations, or negotiable certificates of deposit issued by commercial banks have a greater degree of risk. Securities with additional credit enhancements, such as bankers' acceptances, collateralized repurchase agreements, and collateralized bank deposits, are somewhere between the two on the risk spectrum.

The majority of local agency portfolios are managed with a buy and hold investment strategy. Investments are purchased with the intent and capacity to hold them until maturity. At times, market forces or operations may dictate exchanging one security for another or selling a security before maturity. Continuous analysis and fine tuning of the investment portfolio are considered part of prudent investment management.

California Government Code contains specific provisions regarding the types of investments and practices permitted after considering the broad requirement of preserving principal and maintaining liquidity before seeking yield. These provisions are intended to promote the use of reliable, diverse, and safe investment instruments to better ensure a prudently managed portfolio worthy of public trust.

II. A Which investments are permissible? Which are prohibited? [Sections 16340, 16429.1, 27133, 53601, 53601.6, 53601.8, 53635, 53635.2, 53635.8, 53638, 53684, and 57603]

MINIMUM LEGAL REQUIREMENT:

Local agencies may invest only in those instruments specified in State law.

Sections 16340, 16429.1, 27133, 53601, 53601.6, 53601.8, 53635, 53635.2, 53635.8, 53638, 53684, and 57603 include a number of requirements on how and where public money may be invested. Figure 1 provides a synopsis of the permitted investment instruments and limitations on each, in which all local agencies may invest.

Section 53601 places limits on permissible securities. A five-year maximum maturity applies to all permissible securities unless otherwise stated in the code. A permissible security may exceed this limitation only if the legislative body has approved the investment either specifically or as a part of an investment program no less than three months prior to the investment. A permissible investment's term or remaining maturity is to be measured from the

investment's settlement date to final maturity. Any forward settlement that exceeds 45 days from the time of investment is prohibited.

Prohibited investments include securities not listed in Figure 1, as well as inverse floaters, range notes, and interest only strips derived from a pool of mortgages. This restriction does not apply to local agency investments in shares of beneficial interest issued by diversified management companies registered under the Investment Company Act of 1940 that are authorized for investment pursuant to subdivision (l) of Government Code Section 53601. Section 53601.6(b) prohibits investment by a local agency in any security that could result in a zero-interest accrual if held to maturity. However, beginning January 1, 2020, Section 53601.6(b), as amended by the Legislature, authorized local agencies to 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 date. This limited code exception allows local agencies the option of buying and holding onto zero- or negative-interest accrual United States government securities, if it would preserve more principal. This provision will sunset January 1, 2026.

Section 53601 provides that public agencies may invest in bonds issued by the local agency itself, but IRS rules may not support maintenance of the tax-exempt status. In 2008, the Legislature added Section 5925 to clarify that the purchase of bonds by the local agency that issued the bonds does not cancel, defease, or otherwise affect the bonds. With the addition of Section 5925 the repurchased or acquired bonds may be treated as outstanding bonds under state law to the extent provided by the issuer or the documents defining the rights of the bondholders. However, IRS rules that supported the maintenance of the tax-exempt status upon a purchase by a municipal issuer of its own debt sunset in 2010.

In 2019, the Legislature added Section 57600 et seq. authorizing local agencies to form a public bank. Furthermore, under 57603, local agencies that do not pool money in deposits or investments with other local agencies that have separate governing bodies as well as local agencies that pool money in deposits or investments with other local agencies, including local agencies that have the same governing body, are permitted to invest in debt securities or other obligations of a public bank.

CONSENSUS RECOMMENDATION:

Local agencies should include the list of permissible securities in the investment policy and modify the list to meet its unique needs. These modifications may include additional restrictions on the type and amount of specific authorized securities to reflect current federal tax and securities regulations and an agency's risk tolerance.

The addition of Section Code 5925 authorizing state and local agencies to purchase their own bonds was intended to be complementary to Internal Revenue Service (IRS) Notice 2008-41 and 2008-88 that allowed municipal issuers to temporarily hold certain types of their own tax-exempt debt without extinguishment or loss of tax-exempt status. However, these IRS provisions were meant

FIGURE 1

ALLOWABLE INVESTMENT INSTRUMENTS PER STATE GOVERNMENT CODE (AS OF JANUARY 1, 2025)^A APPLICABLE TO ALL LOCAL AGENCIES^B

See "Table of Notes for Figure 1" on the next page for footnotes related to this figure.

INVESTMENT TYPE	MAXIMUM MATURITY ^C	MAXIMUM SPECIFIED % OF PORTFOLIO ^D	MINIMUM QUALITY REQUIREMENTS	GOV'T CODE SECTIONS
Local Agency Bonds	5 years	None	None	53601(a)
U.S. Treasury Obligations	5 years	None	None	53601(b)
State Obligations— CA And Others	5 years	None	None	53601(c) 53601(d)
CA Local Agency Obligations	5 years	None	None	53601(e)
U.S Agency Obligations	5 years	None	None	53601(f)
Bankers' Acceptances	180 days	40% ^E	None	53601(g)
Commercial Paper—Non-Pooled Funds ^F (under \$100,000,000 of investments)	270 days or less	25% of the agency's money ^G	Highest letter and number rating by an NRSRO ^H	53601(h)(2)(c)
Commercial Paper—Non-Pooled Funds ^I (min. \$100,000,000 of investments)	270 days or less	40% of the agency's money ^G	Highest letter and number rating by an NRSRO ^H	53601(h)(2)(c)
Commercial Paper— Pooled Funds ^J	270 days or less	40% of the agency's money ^G	Highest letter and number rating by an NRSRO ^H	53635(a)(1)
Negotiable Certificates of Deposit	5 years	30% ^K	None	53601(i)
Non-negotiable Certificates of Deposit	5 years	None	None	53630 et seq.
Placement Service Deposits	5 years	50% ^L	None	53601.8 and 53635.8
Placement Service Certificates of Deposit	5 years	50% ^L	None	53601.8 and 53635.8
Repurchase Agreements	1 year	None	None	53601(j)
Reverse Repurchase Agreements and Securities Lending Agreements	92 days ^M	20% of the base value of the portfolio	None ^N	53601(j)
Medium-Term Notes ^O	5 years or less	30%	"A" rating category or its equivalent or better	53601(k)
Mutual Funds And Money Market Mutual Funds	N/A	20% ^P	Multiple ^{Q, R}	53601(l) and 53601.6(b)
Collateralized Bank Deposits ^S	5 years	None	None	53630 et seq. and 53601(n)
Mortgage Pass-Through and Asset-Backed Securities ^T	5 years or less ^T	20%	"AA" rating category or its equivalent or better ^T	53601(o)
County Pooled Investment Funds	N/A	None	None	27133
Joint Powers Authority Pool	N/A	None	Multiple ^U	53601(p)
Local Agency Investment Fund (LAIF)	N/A	None	None	16429.1
Voluntary Investment Program Fund ^V	N/A	None	None	16340
Supranational Obligations ^W	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

TABLE OF NOTES FOR FIGURE 1

A Sources: Sections 16340, 16429.1, 27133, 53601, 53601.6, 53601.8, 53630 et seq., 53635, 53635.8, and 57603.

B Municipal Utilities Districts have the authority under the Public Utilities Code Section 12871 to invest in certain securities not addressed here.

C Section 53601 provides that the maximum term of any investment authorized under this section, unless otherwise stated, is five years from the settlement date. However, the legislative body may grant express authority to make investments either specifically or as a part of an investment program approved by the legislative body that exceeds this five year remaining maturity limit. Such approval must be issued no less than three months prior to the purchase of any security exceeding the five-year maturity limit.

D Percentages apply to all portfolio investments regardless of source of funds. For instance, cash from a reverse repurchase agreement would be subject to the restrictions.

E No more than 30% of the agency's money may be in bankers' acceptances of any one commercial bank.

F Applies to local agencies, other than counties or a city and county, with less than \$100 million of investment assets under management. Includes agencies defined as a city, a district, or other local agency that do not pool money in deposits or investment with other local agencies, other than local agencies that have the same governing body.

G Local agencies, other than counties or a city and county, may purchase no more than 10% of the outstanding commercial paper and medium-term notes of any single issuer.

H Issuing corporation must be organized and operating within the U.S., have assets in excess of \$500 million, and debt other than commercial paper must be in a rating category of "A" or its equivalent or higher by a nationally recognized statistical rating organization, or the issuing corporation must be organized within the U.S. as a special purpose corporation, trust, or LLC, have program wide credit enhancements, and have commercial paper that is rated "A-1" or higher, or the equivalent, by a nationally recognized statistical rating organization.

I Applies to counties or a city and county, and the City of Los Angeles that have \$100 million or more of investment assets under management.

J Includes agencies defined as 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. Local agencies that pool exclusively with other local agencies that have the same governing body must adhere to the limits set forth in Section 53601(h)(2)(C).

K No more than 30% of the agency's money may be in negotiable certificates of deposit that are authorized under Section 53601(i).

L Effective January 1, 2020, no more than 50% of the agency's money may be invested in deposits, including certificates of deposit, through a placement service as authorized under 53601.8 (excludes negotiable certificates of deposit authorized under Section 53601(i)). On January 1, 2026, the maximum percentage of the portfolio reverts back to 30%. Investments made pursuant to 53635.8 remain subject to a maximum of 30% of the portfolio.

M Reverse repurchase agreements or securities lending agreements may exceed the 92-day term if 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 dates of the same security.

N Reverse repurchase agreements must be made with primary dealers of the Federal Reserve Bank of New York or with a nationally or state chartered bank that has a significant relationship with the local agency. The local agency must have held the securities used for the agreements for at least 30 days.

O "Medium-term notes" are defined in Section 53601 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."

P No more than 10% invested in any one mutual fund. This limitation does not apply to money market mutual funds.

Q A mutual fund must receive the highest ranking by not less than two nationally recognized rating agencies or the fund must retain an investment advisor who is registered with the SEC (or exempt from registration), has assets under management in excess of \$500 million, and has at least five years' experience investing in instruments authorized by Sections 53601 and 53635.

R A money market mutual fund must receive the highest ranking by not less than two nationally recognized statistical rating organizations or retain an investment advisor registered with the SEC or exempt from registration and who has not less than five years' experience investing in money market instruments with assets under management in excess of \$500 million.

S Investments in notes, bonds, or other obligations under Section 53601(n) require that collateral be placed 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, among other specific collateral requirements.

T Security types authorized under Section 53601(o) that are issued or guaranteed by an issuer identified in subdivisions (b) or (f), are not subject to the limitations placed on privately issued securities authorized in Section 53601(o)(2)(A)(B).

U A joint powers authority pool must retain an investment advisor who is registered with the SEC (or exempt from registration), has assets under management in excess of \$500 million, and has at least five years' experience investing in instruments authorized by Section 53601, subdivisions (a) to (o).

V Local entities can deposit between \$200 million and \$10 billion into the Voluntary Investment Program Fund, upon approval by their governing bodies. Deposits in the fund will be invested in the Pooled Money Investment Account.

W Only those obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), and Inter-American Development Bank (IADB), with a maximum remaining maturity of five years or less.

to be temporary and sunset on December 31, 2010, with some remaining exceptions for certain variable rate debt subject to a qualified tender. Given the incongruity between Section 5925 and IRS rules, a local agency should seek legal guidance on the potential tax implications of purchasing its own debt especially if that debt does not clearly fall within the remaining IRS exceptions.

As a result of amendments to Government Code Sections 53601.8 and 53635.8, local agencies should review portfolio limitations for CDs and negotiable CDs in their investment policies.

Some investments, such as straight floaters or floating rate notes that are not otherwise prohibited, have the potential to result in zero-interest accrual. Before purchasing these types of investments, the local agency should evaluate all possible outcomes, and, as a safeguard, should consider including in its investment policy a statement establishing an acceptable positive spread or floor for all securities, which pay interest based on a spread to an index.

Also, while not expressly prohibited by State law, unregistered securities, such as [Rule 144A](#) securities, may not be purchased by local agencies that do not meet the threshold of \$5 million investments and \$100 million in securities. On August 26, 2020 the Securities and Exchange Commission expanded the definition of Qualified Institutional Buyers (QIB)² to include any institution that qualifies as an accredited investor under Rule 501(a) under the Securities Act that are not otherwise stated in the definition of “qualified institutional buyer” provided they satisfy the \$100 million threshold.

² Refer to CDIAC publication [Issue Brief: Rule 144A Securities](#) for a summary of securities in this class.

II. B What requirements must a financial institution satisfy before a local agency may deposit its money in it? [Section 53635.2]

Section 53635.2 states that all local agency money may be invested in investments set forth in 53601 or deposited for safekeeping in state or national banks, public banks, savings associations, federal associations, credit unions, or federally insured industrial loan companies in this state. It also specifies certain requirements that such financial institutions must satisfy to hold local agency money.

MINIMUM LEGAL REQUIREMENT:

To be eligible to receive local agency money, a financial institution must receive an overall rating of not less than “satisfactory” from the appropriate federal supervisory agency for meeting the criteria specified in Section 2906 of Title 12 of the U.S. Code (Community Reinvestment Act of 1977). The Community Reinvestment Act of 1977 (Act) requires financial institutions to demonstrate their commitment to meet-

ing the credit needs of local communities in which they are chartered to do business. For the purpose of the Act, the appropriate federal supervisory agency includes:

- The Comptroller of the Currency with respect to national banks;
- The Board of Governors of the Federal Reserve System with respect to state chartered banks that are members of the Federal Reserve system and bank holding companies;
- The Federal Deposit Insurance Corporation (FDIC) with respect to state chartered banks, public banks, and savings banks that are not members of the Federal Reserve system and the deposits of which are insured by the FDIC; and
- The Director of Office of Thrift Supervision with respect to savings associations (the deposits of which are insured by the FDIC) and savings holding companies.

CONSENSUS RECOMMENDATION:

A local agency should contact the appropriate federal supervisory agency to determine if its financial institution meets the overall rating requirement.

Local agencies should be aware that in some instances ratings from federal supervisory agencies may not be current, as financial institutions are evaluated only every year or two. Additional inquiry may be necessary to obtain updated information if the last published rating is more than one year old.

II. C When must investments contained in a local agency investment portfolio comply with state law? [Section 53601]

California Government Code provides a description of the types of instruments permissible for local agency investment and specifies the timing of compliance with state law. Questions arise concerning the timing of any test of compliance with these requirements.

MINIMUM LEGAL REQUIREMENT:

Where Section 53601 specifies a percentage restriction on a certain category of investment, this share of the investment portfolio must be in compliance with state law at the time that investment is purchased. The law does not specify that the *entire* portfolio must be in compliance when new instruments are purchased. It also does not require “rebalancing” when subsequent maturities, sales, withdrawals, or similar non-purchase activities result in the remaining portfolio having one or more of the categories of investment rise above the percentage restrictions applicable at the time of purchase.

Where Section 53601 clarifies that the settlement date is to be used to measure final maturity, it does not change the date of purchase. To determine when an investment portfolio must be in compliance with state law, the date of purchase must be used, despite the length of maturity starting from the settlement date. When local agencies purchase securities, the date of purchase and the date the purchase is settled may not always be the same.

CONSENSUS RECOMMENDATION:

In the event the portfolio or individual investments are deemed to be out of compliance with either statute or the investment policy, the local agency should have procedural guidelines in place that outline actions to take under various scenarios. Due to its fiduciary responsibility, early communication with and involvement of the legislative body concerning a major or critical event is of utmost importance. Therefore, the procedural guidelines should identify circumstances under which communication and discussion of the treasurer’s analysis and recommended course of action to the legislative body or oversight committee is warranted.

II. D What funds should a local agency use to calculate portfolio concentration compliance with state law? [Section 53601]

California Government Code provides a description of the types of instruments permissible for local agency investment and specifies the timing of compliance with state law. Questions arise about how to determine what local agency funds are available for investment, as well as what funds to include when calculating portfolio concentration for those permissible investments that are limited by state law.

MINIMUM LEGAL REQUIREMENT:

Section 53601 states that, “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” [Section 53601(a) through (r)].

Statute establishes portfolio concentration limitations for certain permissible investments; however, it does not specify the calculation methods for calculating these limitations at the time of investment.

CONSENSUS RECOMMENDATION:

Terms such as “base value”, “moneys”, “agency’s moneys”, or “agency’s surplus moneys” used when describing a portfolio limitation for a specific permissible investment in Section 53601 are referring to the agency’s determination of funds available for investment (as defined above in Minimum Legal Requirement). The determination as to whether to include certain agency funds, such as funds in an

agency checking account, as part of the funds available for investment should rely on agency practices. For example, if the agency uses funds in its checking account for the immediate, day-to-day needs of the agency, it is recommended to not include the funds in the checking account when calculating portfolio compliance.

A determination of funds available for investment under Section 53601 may vary agency to agency but generally are those accounted for in a local agency’s annual financial report. It is recommended that a local agency’s investment policy should specify the funds to which the policy will and will not apply. *See Chapter 1, I.C. What information should be included in the investment policy? ([Section 27133]).*

Examples of moneys that can be available to invest under 53601 by local agency type:

CITIES/DISTRICTS

- General funds
- Reserve funds
- Bond Proceeds funds
- Debt Service funds
- Excess Enterprise funds

COUNTIES

- General funds
- Reserve funds
- Bond Proceeds funds
- Debt Service funds
- Excess Enterprise funds
- Voluntary Pool funds

Although the statute does not specify how an agency’s portfolio should be calculated at the time of investment, local agencies should consider its cash flow needs each time it considers purchasing securities to determine the available amount of moneys in its treasury not required for the immediate needs of the local agency. A cash flow analysis is intended to help an agency understand and, to the extent possible, control the organization’s cash resources. The goal is to ensure that cash is available to pay expenditures when needed and that temporarily unneeded cash can be invested optimally to maximize earnings on invested funds.³

When calculating portfolio compliance, it is recommended that the agency value its portfolio based on book value rather than market value. The book value of investments along with the agency’s funds available for investment should be used for portfolio compliance calculations. Percentages apply to all portfolio investments regardless of source of funds.

³ Refer to CDLAC publication [California Public Fund Investment Primer](#) for more information on the purpose of cashflow forecasts.

II. E Must bond proceeds be invested in the securities set forth in statute? [Section 53601(m)]

Section 53601(m) allows greater flexibility with respect to the types of investments that may be made with bond proceeds. Specifically, the law permits money from bond proceeds, obligations under a lease, installment sales, or other agreements of a local agency to be invested in any security that meets the statutory provisions governing the issuance of the bond or other agreements made by the issuing agency. In so doing, this section of the code recognizes that outstanding contracts between issuers and bond holders may not comply with the investment statutes and gives local agencies greater discretion in how to invest bond proceeds.

MINIMUM LEGAL REQUIREMENT:

Bond proceeds may be invested in accordance with statutes or they may be invested in alternative vehicles if authorized by bond documents.

CONSENSUS RECOMMENDATION:

The agency's investment policy should either require that bond proceeds be invested in accordance with statutes, reference applicable bond documents (such as, the indenture or rating agency requirements), or specify the types of investments authorized for bond proceeds. Bond proceeds may be invested in instruments with maturities longer than five years. Applying the five-year maturity limitation found in statute may result in less yield. When investing bond proceeds, maturities should match the cash flow needs of the project or fund.

II. F How does the Municipal Advisor (MA) Rule affect investment of bond proceeds?

As a part of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Pub. L. 111-203) (Dodd-Frank Act), the Securities and Exchange Commission (SEC) enacted regulations addressing the apparent conflict of interest between municipal bond underwriters providing both underwriting and advice on the investment of bond proceeds for the same debt issue. These regulations were incorporated in the Municipal Advisor Rule (MA Rule). The MA Rule states that broker-dealers providing advice to government clients have a fiduciary duty to their clients and must be registered as a municipal advisor. In order to avoid becoming a fiduciary to municipal issuers, many broker-dealers, who have a significant municipal underwriting business, have adopted policies prohibiting brokers from providing investment advice. The MA Rule provides

specific exemptions to public agencies seeking to receive investment advice from broker-dealers, including receiving advice through a request for proposal (RFP) process or by entering into a formal relationship with an independent registered municipal advisor for advice.

MINIMUM LEGAL REQUIREMENT:

The MA Rule places no legal obligations on public agencies. The regulations address only the responsibilities of broker-dealers with respect to the bond proceeds.

CONSENSUS RECOMMENDATION:

Although the MA Rule does not specifically regulate the investment of bond proceeds by a local agency, it has materially affected the investment processes of many agencies. For example, treasury staff may have to adopt procedures, including the use of a mini-RFP that would exempt their brokers-dealer from being defined as a fiduciary. Local agency treasury staff should understand the MA Rule and its exemptions; have knowledge of the limitations of their broker-dealer firms as a result of the MA Rule; and address the MA Rule by adopting a policy regarding the investment of bond proceeds. Visit CDIAC’s [Municipal Advisor Rule webpage](#) for more information.

II. G Are all U.S. Agency bonds legal investments for California local agencies? [Sections 53601(f) and 53601.6]

There has been a lot of discussion about the risk profile of certain products and derivatives issued by U.S. Agencies and U.S. government sponsored enterprises (GSEs). These Agencies and GSEs issue both traditional fixed-income securities (notes and bonds) as well as more complex, structured products including customized mortgage- and asset-backed securities and derivatives.⁴ The State’s investment laws, however, place no restrictions on these types of investments other than the prohibitions against inverse floaters, range notes, and interest-only strips derived from mortgage pools. Until January 1, 2026, local agencies are authorized to 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.

⁴ Refer to CDIAC publication *Issue Brief [Securitized Investments](#) for a discussion of mortgage pass-through obligations and asset-backed securities.*

In recent years, some GSE debt has been privatized and is now structured like corporate debt yet still falls under the limits of 53601(f) and 53601.6. The most commonly traded GSE debt includes that from the Federal Home Loan Bank (FHLB), Federal Farm Credit Bank (FFCB), Federal Home Loan Mortgage Corporation (Freddie Mac), Federal National Mortgage Association (Fannie Mae) and Federal Agricultural Mortgage Corporation (Farmer Mac). Other less common GSEs include Government National Mortgage Association (Ginnie Mae), Community Development Corporation (CDC), Student Loan Marketing Association (Sallie Mae)⁵, Small Business Administration (SBA), Overseas Private Investment Corporation (OPIC), and Tennessee Valley Authority (TVA).

MINIMUM LEGAL REQUIREMENT:

Obligations, including bonds, notes, certificates of participation, or other instruments issued as U.S. Agencies or GSE debt are permissible investments under Section 53601(f). These investments are, however, subject to the prohibition against inverse floaters, range notes, and interest-only strips derived from a pool of mortgages in Section 53601.6. Until January 1, 2026, local agencies are authorized to 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.

CONSENSUS RECOMMENDATION:

Local agencies should institute restrictions that recognize the different characteristics and risk profile of the variety of U.S. Agency and GSE debt instruments. Factors such as the repayment pledge, size of the issue, prominence of the issuer in the market, and the complexity of the issue (such as call features, timing of interest and principal payments, or other options) will impact the risk profile and, thus, the balance of safety, liquidity, and yield in a local agency's portfolio. With SBA loans or pools, for example, the principal and interest may be guaranteed by the U.S. Government, but the prepayment or premium risk can be substantial. Investments in these types of products should only be entered into with a clear awareness, by both the legislative body and treasurer, of the risks involved and only if the local agency's staff have sufficient expertise and resources to manage such investments.

⁵ *SLMA (Sallie Mae) terminated its ties to the federal government in 2004; bonds issued prior to 2005 are GSE debt; bonds issued in 2005 and after are corporate debt issued by the SLM Corporation.*

II. H What are supranational securities? [Section 53601 (q)]

A supranational organization is formed by a group of countries through an international treaty with specific objectives such as promoting economic development. Supranational organizations also issue debt in the United States. The most commonly recognized supranational debt is issued by the International Bank for Reconstruction and Development (IBRD or World Bank).

Section 53601 (q) allows local agencies to invest in bonds issued by one of three supranationals: World Bank, International Finance Corporation (IFC) and Inter-American Development Bank (IADB), which were established by international treaties, incorporated into U.S. federal law by Congressional Acts and headquartered in Washington, D.C. Currently, these entities carry the highest credit ratings (AAA) based on their financial structure, policies, performance and capital support from shareholders. Securities issued by these supranationals include benchmark bonds, global bonds, structured notes, plain fixed and floating rate notes, discount notes as well as green bonds

MINIMUM LEGAL REQUIREMENT:

In order for local agencies to invest in bonds issued by supranationals, the bonds must meet the following criteria:

- Maturity of five years or less; recognized statistical rating organization (NRSRO); and
- Eligible for purchase and sale within the US;
- Cannot exceed 30% of the agency's investment portfolio.
- In a rating category of "AA" or its equivalent or better by a nationally

II. I Can a local agency invest in an investment pool administered by another state? [Section 53601 (d)]

Section 53601 is prescriptive of the types of investments permissible for local agency investment. It specifies, among other things, the issuer of the security, the type of obligation and the maturity of the security.

MINIMUM LEGAL REQUIREMENT:

Section 53601 (d) allows local agencies to invest in the debt of another state or department, board, agency or authority and 53601(p) allows joint powers authorities (JPA) established pursuant to Section 6509.7 to invest in securities and obligations authorized under 53601 (a)-(q) as long as each member of the JPA has an equal proportional interest in the purchased securities. Furthermore, members of the JPA may include public agencies outside of California. However, local agencies are not permitted to invest in an investment pool administered by another state.

CONSENSUS RECOMMENDATION:

Local agency permissible investments do not include investment pools administered by another state as an investment option.

II. J What are “medium-term notes?” [Section 53601(k)]

Until recently, the statutes defined medium-term notes as those instruments meeting certain term-length and quality requirements. Amendments to Section 53601(k) have attempted to clarify some of the ambiguity surrounding this definition. A variety of reasons account for this past confusion. One is that the SEC treats “corporate notes” slightly differently than “medium-term notes.” Another is that brokers often refer to corporate obligations that have an original term to maturity longer than five years as corporate rather than medium-term notes, even though the remaining term to maturity for these notes may be less than five years.

MINIMUM LEGAL REQUIREMENT:

Section 53601(k) defines medium-term notes as “all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating in the United States.” Therefore, investments in any corporate or depository institution debt securities that mature within five years from the time of purchase are legal as long as they meet the minimum quality standards. Moreover, the statute specifies that local agencies may not classify investments as medium-term notes if they satisfy the definition of

other allowable investments authorized under state law. For example, a local agency could not consider a security that satisfies the definition of commercial paper as a medium-term note in its portfolio. In addition, a local agency, other than a county or a city and a county, may invest no more than 10% of its total investment assets in the commercial paper and the medium-term notes of any single issuer.

CONSENSUS RECOMMENDATION:

With many companies and depository institutions operating worldwide, the interpretation of the phrases “organized and operating in the United States” and “licensed by the United States or any state” comes into question. The terms organized, operating, and licensed are not specifically defined by statutes nor are they legal terms that hold specific meaning. For the purpose of applying Section 53601(k), the following interpretations, based upon usage and context, are offered as guidance to local agencies.

- Organized – An entity organized as a corporation in the United States.
- Operating – Engaged in business activities for which it was organized and maintaining a functioning office (other than a representative office).
- Licensed – Permitted by the appropriate regulatory agency to operate and conduct business in the United States (federal license) or a specific state (state license).

Given that even the above interpretations do not provide certainty, local agencies should establish a method of determining whether a purchase of medium-term notes meets the requirements of Section 53601(k) in consultation with their legal counsel. The following provides additional general guidance and recommendations to consider:

- If an issuing entity is incorporated in the U.S., but is a subsidiary of a foreign-owned parent company the stability of either the parent company or the economy of the country of the parent company should be considered when purchasing debt issued by these types of entities.
- Alternately, a local agency may hold securities in a U.S. company that is subsequently purchased by or merges with a foreign company (for example, the InBev merger with Anheuser Busch in 2008). The local agency should monitor the merger or purchase to determine if it remains a prudent for the agency to hold the security.
- Identifying the venue for any legal recourse in the event of a bankruptcy or credit event would assist the local agency in determining whether the organization is organized and operating in the U.S. If the security is backed by assets that are in the U.S., then the investor may attempt to attach a claim on them in a U.S. court in the event of a bankruptcy or default. If the security is not backed by assets in the U.S., then the initial financing documents of the underlying security may provide a possible source to assist with determining the legal venue.

II. K Are bonds issued by departments and financing authorities of the State of California permissible investments for local agencies?[Section 53601(c)]

Securities issued by the State of California are permissible investments for local agencies under Section 53601(c). However, questions arise when considering whether bonds issued by departments or financing authorities of the State are also permissible under this section.

MINIMUM LEGAL REQUIREMENTS:

Section 53601(c) permits a local agency to invest in 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.

CONSENSUS RECOMMENDATION:

There are two conditions that a bond could meet to be a permissible investment under Section 53601(c). The first part of Section 53601(c), "state warrants, treasury notes and bonds of this state", refers to bonds issued by the State of California, for instance, general obligation bonds. This was the operative code section prior to the state's issuance of revenue bonds.

The last part of the code section broadens the definition of permissible investments to include, "bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or a department, board, agency, or authority of the state". This describes state-issued revenue bonds. Issuance by a state authority or instrumentality alone is inadequate to meet the conditions in Section 53601(c) as the source of revenue for repayment must meet the qualifier included in the code section. For a security issued by a state authority or department, are the underlying agreements considered property owned/controlled/operated by the state? In general, if a public agency intends to purchase bonds issued by a state authority or department that are not clearly revenue bonds, an agency should consult counsel on the permissibility of such an investment.

II. L What are the rules regarding the use of reverse repurchase agreements and securities lending agreements? Are shorting strategies allowed? [Section 53601(j)]

The intent of Section 53601(j) is to limit the imprudent use of reverse repurchase agreements (reverse repos) and securities lending agreements. In 1995, the Legislature, concerned about the use of reverse repurchase agreements for enhancing yield, imposed a number of restrictions on local governments.

MINIMUM LEGAL REQUIREMENTS:

Section 53601(j) imposes the following restrictions on reverse repos:

- Reverse repos cannot constitute more than 20% of the “market value” of an agency’s portfolio;⁶
- Reverse repos are limited to 92 days unless the minimum spread between the rate on investment and cost of funds is guaranteed in writing; and
- Securities used to make reverse repos must be held for a minimum of 30 days prior to the transaction.

Section 53601(j) also applies the above restrictions to securities lending agreements with the exception that a local agency portfolio may not hold more than 20% of its base value in reverse repos and securities lending agreements combined.

Section 53601(j)(5) provides specific definitions for repurchase agreements, reverse repurchase agreements, and securities lending agreements. Agreements not meeting these specific definitions are therefore not authorized.

CONSENSUS RECOMMENDATION:

Both reverse repurchase agreements and securities lending agreements may be used to take advantage of certain short-term opportunities to improve yield and mitigate cash flow shortages. They should be entered into only when there is a clear understanding by both the legislative body and treasurer of the risks inherent in these types of agreements. The agency’s staff (or their municipal/investment advisor) must have sufficient expertise in the arrangement and management of these transactions.⁷

Although reverse repurchase agreements and securities lending agreements can be an effective short-term portfolio management tool in certain circumstances, they should not be confused with "short selling" or "margin selling." Reverse repurchase agreements are used to address cash flow concerns by entering into an agreement in which a counterparty will buy securities from a local agency. At the end of the agreement, the counterparty that purchased the securities will resell the securities to the local agency at a specified date and price. With a securities lending agreement, securities owned by the local agency are loaned to a borrower who provides an agreed-upon return and collateral to the local agency. At the conclusion of the agreement, the loaned securities are returned to the local agency and the collateral is returned to the borrower.

"Short selling" or "margin selling" is a practice where a margin account is established with delivery versus payment (DVP) settlement and securities are loaned

⁶ For reverse repos purchased under Section 53601, the calculation is based upon the “base value” of the agency’s portfolio, which is defined as the dollar amount obtained by totaling all cash balances in the portfolio from all sources, excluding any amounts from reverse repos or similar borrowing methods.

⁷ Refer to CDIAC Issue Brief, [Securities Lending Agreements](#), for a detailed discussion of these types of transactions.

by a broker/dealer to the local agency. The loaned securities may be immediately sold with the intent of purchasing the securities back when market prices are lower to close out the margin position, thus profiting on the decline in value of the securities. Shorting strategies carry a high degree of risk of not only a zero return, but significant loss of asset value. They do not meet the risk-limiting intent of the legislature in the adoption of 53601(j), and are not considered a prudent investment for the public portfolio.

II. M What are the rules regarding the use of mutual funds and money market funds? Are exchange-traded funds permissible investments? [Sections 53601(l) And 53601.6(b)]

Local agencies have the authority to invest in shares of mutual funds as described in Section 53601 (l) and 53601.6 (b) and in money market mutual funds as specified in the federal Investment Company Act of 1940. The permissible investments and strategies of the mutual fund or money market fund should be reviewed to determine whether or not they adhere to the parameters contained in both federal and state law. Questions arise about whether exchange-traded funds (ETFs) are a permissible investment under 53601(l) since they have characteristics similar to mutual funds.

MINIMUM LEGAL REQUIREMENT:

Local agencies can invest in shares of mutual funds that invest in the securities and obligations as authorized by subdivisions (a) to (k), inclusive, and subdivisions (m) to (q), inclusive, of Section 53601 and that comply with the investment restrictions of Section 53630. Local agencies can also invest in shares of mutual funds that are defined as money market mutual funds that follow regulations specified by the SEC under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1, et seq.). The purchase price of shares shall not include any commission that the fund manager may charge and shall not exceed 20% of the agency's funds that may be invested pursuant to this Section 53601.

In addition, no more than 10% of the agency's funds may be invested in shares of any single mutual fund.⁸ Both mutual and money market mutual funds require that they have attained the highest ranking or the highest letter and numerical rating provided by not less than two NRSROs.⁹ In addition they have retained an investment advisor registered or exempt from registration with the SEC with not less than five years' experience managing their specific category of fund and have assets under management in excess of \$500,000,000.

The 10% limitation does not apply to money market mutual funds.

⁸ *Mutual fund as defined in Government Code Section 53601(1)(1).*

⁹ *Nationally Recognized Statistical Rating Organization.*

Local agencies may invest only in those instruments specified in State law.

CONSENSUS RECOMMENDATION:

The investment policy should specify criteria for selection of both mutual funds and money market funds by the investment official. Local agencies should review the permissible investments and strategies of the mutual fund or money market fund to determine whether or not they adhere to both federal and state law.

While similar to mutual funds, exchange-traded funds (ETFs) are not specifically addressed in Section 53601 nor contemplated under 53601(l); therefore, ETFs are not a permissible investment for local agencies. *See Chapter 2, II. A. Which investments are permissible? Which are prohibited? [Sections 16340, 16429.1, 27133, 53601, 53601.6, 53601.8, 53635, 53635.2, 53635.8, 53638, 53684, and 57603]*

FIGURE 2
GOVERNMENT CODE REQUIREMENTS FOR LOCAL AGENCY INVESTMENT IN MONEY MARKET AND MUTUAL FUNDS

CONDITIONS ALLOWING FOR INVESTMENT	MONEY MARKET FUNDS	MUTUAL FUNDS
I. Must receive the highest ranking or the highest letter and numerical rating by no less than two nationally recognized rating services; —or— Must retain an investment advisor who is registered or exempt from registration with the SEC and has at least five years' experience investing in specified securities and managing assets in excess of \$500 million. ^A	●	●
II. Must abide by the same investment restrictions and regulations that apply to public agencies in California [Section 53601(a-k, m-o)].		●
III. Must follow regulations specified by the SEC under the investment company act of 1940 (15 U.S.C. Section 80a-1, et seq.).	●	

^A The requirement for mutual funds is an investment advisor with experience investing in securities and obligations authorized in Sections 53601 and 53635. For money market funds, the advisor must have experience in managing the types of investments that can be purchased by money market funds as specified in SEC Regulation 2a-7.

II. N What are the rules affecting the investment of tax and revenue anticipation note (TRAN) and grant anticipation note (GAN) proceeds? [Sections 53821.5, 53841.5, 53852.5 and 53859.02(b)]

Existing statutes prevent agencies from using the proceeds of their temporary borrowing, specifically TRANs and GANs, to purchase long-term securities in order to achieve higher investment yields in a manner which could limit liquidity needed to ensure sufficient cash to repay the temporary borrowing when due.

MINIMUM LEGAL REQUIREMENT:

Government Code Sections 53821.5, 53841.5, 53852.5 and 53859.02(b) prohibit the investment of the proceeds of temporary borrowing in securities that have terms exceeding those of the temporary borrowing itself. In other words, proceeds from a temporary borrowing due June 20 may not be invested in securities that mature after June 20. The minimum legal requirements are clear for securities that have an identifiable term to maturity. However, the law is ambiguous when an agency invests the proceeds of temporary borrowing in items that do not have a specific maturity date, such as investments in county pools or other funds that may have an average maturity that is longer than the temporary borrowing.

CONSENSUS RECOMMENDATION:

The proceeds of temporary borrowing can be placed in investments that have no specific term to maturity so long as the proceeds can be removed within the term of the temporary borrowing without a penalty. Therefore, cash equivalent shares in liquid funds such as LAIF or county pools—where an agency has relatively quick access to its deposits—are legitimate investments for the proceeds of temporary borrowing, as long as withdrawals in amounts sufficient to repay the temporary borrowing when due are not restricted or penalized.

II. O What is an appropriate safekeeping arrangement for securities? [Sections 53601 and 53608]

Sections 53601 and 53608 address the appropriate safekeeping arrangements for securities. While a third party institution is the standard used in safekeeping arrangements, securities may be held by the same firm from which they were purchased as long as the securities for safekeeping are in the name of or under the control of the local agency and kept in a legally separate trust department.

MINIMUM LEGAL REQUIREMENT:

Section 53601 specifically allows local agencies to use a counterparty bank’s trust department or separate safekeeping department for the physical delivery of a security if the security is held in the name of the local agency. Section 53608 authorizes general safekeeping arrangements that allows local agencies to use for deposit for safekeeping 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.

CONSENSUS RECOMMENDATION:

Industry standard is to set up a third-party (an institution other than the party that sold the agency the investment) safekeeping agreement. In order for the securities to be held by the same institution that sold the security, they must be kept in a separate area of the institution such as its trust department. The security must be in the local agency’s name or “perfected” by transferring the security through a signed agreement that contains a description of the security.

II. P How does the Municipal Advisor (MA) Rule affect a local agency’s relationship with an investment advisor? [Section 53600.3]

The MA Rule provides specific exemptions to public agencies seeking to receive investment advice from broker-dealers, including receiving advice through a request for proposal (RFP) process or by entering into a formal relationship with another independent registered municipal advisor who provides investment advice. The MA Rule states that broker-dealers providing advice to government clients on the investment of bond proceeds have a fiduciary duty to their clients and must be registered as a municipal advisor. In order to avoid becoming a fiduciary to municipal issuers, many broker-dealers, who have a significant municipal underwriting business, have adopted policies prohibiting brokers from providing investment advice. The MA Rule provides specific exemptions to public agencies seeking to receive investment advice from broker-dealers, including receiving advice through a request for proposal (RFP) process or by entering into a formal relationship with another independent registered municipal advisor who provides investment advice.

MINIMUM LEGAL REQUIREMENT:

The MA Rule places no legal obligations on public agencies. The regulations address only the responsibility of broker-dealers with respect to bond proceeds.

It is important to note that a local agency's fiduciary responsibilities cannot be delegated regardless of the fiduciary standards imposed on other members of the municipal market. Section 53600.3 provides that a finance officer or treasurer can delegate duties to an external investment manager via a principal-agent relationship, but they cannot delegate fiduciary responsibility.

CONSENSUS RECOMMENDATION:

Local agencies rely on municipal advisors to help make decisions about issuing municipal securities and investing bond proceeds. Registered investment advisors hold a fiduciary responsibility to their clients by virtue of their registration with the SEC under the Investment Advisor Act of 1940. Nonetheless, the fiduciary responsibility that ultimately rests with the legislative body and the treasurer cannot be wholly delegated to an external investment manager.

Under the MA Rule, when an investment adviser consents to act in the capacity of an Independent Registered Municipal Advisor (IRMA), the local agency is able to exchange information with broker-dealers that do not have a fiduciary duty to the agency. When a local agency retains an IRMA, it agrees to consult the IRMA when considering information provided by broker-dealers. Further, when a local agency has an IRMA they should communicate that information to the market. Local agencies should ensure that the professionals they use are registered with the SEC and MSRB by checking the MSRB's Municipal Advisor Registration webpage.

II. Q What are the rules regarding the payment of interest earned on non-general fund deposits to an agency's general fund? [Section 53647]

Many local agencies have the opportunity to earn interest on funds held in governmental accounts other than the general fund.

MINIMUM LEGAL REQUIREMENT:

Section 53647 provides that interest earned on a local agency's deposits shall be paid quarterly to the general fund of the agency unless otherwise directed by law. Alternatively, if directed by the governing body of the local agency, interest shall be paid to the fund containing the principal upon which the interest accrued.

CONSENSUS RECOMMENDATION:

Although all interest earned on its deposits should be paid to the agency's general fund on a quarterly basis, the governing body may direct that the interest be allocated to the fund in which the interest earning principal was deposited. It is important to note that other directives provided in law or contract for the payment of interest to a specific fund (e.g., funds held by a trustee) are overriding exceptions.

II. R Should local agencies invest in financial futures and option contracts? If so, in what manner should they be utilized? [Sections 53601.1]

In addition to the permitted investments in Section 53601 such as treasuries, agencies, money markets, medium-term notes, and pooled investments, local agencies are permitted to invest in financial futures and option contracts in relation to any of these authorized investments. Local agencies can use a financial futures contract to potentially hedge risk because the buyer/seller are obligated to purchase/sell an asset at a predetermined future date and price thereby limiting a local agency's exposure to price fluctuations.¹⁰ Financial options contracts, which allows the buyer to buy or sell an obligation at a specified price for a specified time, are more risky and usually expire with a zero value.¹¹

MINIMUM LEGAL REQUIREMENT:

Section 53601.1 states that 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.

CONSENSUS RECOMMENDATION:

Although the language in Section 53601.1 is very broad in its application to execute option and futures contracts on any investment categories enumerated in Section 53601, extreme care should be taken when using these strategies. Option and futures strategies are complicated and should only be used to hedge matched positions in securities currently held in the portfolio as a means to limit the risk of adverse price movements of a given security. Option and futures contracts should not be utilized in the public portfolio as a high-yield strategy.

An imprudent high-yield options and future strategy involves taking “naked” positions. “Naked” positions are those option and futures contract strategies placed on securities that are not covered by matched positions held in the portfolio. A “naked” position will require acquisition of securities in the marketplace at the prevailing market price in order to close out the position, which could result in unlimited risk and large asset losses. A high-risk, high-yield option and futures strategy is not consistent with the prudent investor standards established in Section 53600.3 and safety-liquidity-yield objectives established under Section 53600.5.

¹⁰ Brian Beers. "How are Futures Used to Hedge a Position?" Investopedia (Updated October 3, 2021). Accessed January 2023. www.investopedia.com/ask/answers/06/futureshedge.asp.

¹¹ Beth Gaston Moon. "Understanding Options Risk." InvestorPlace (April 12, 2012). Accessed February 2018. <https://investorplace.com/2012/04/understanding-options-risk/#.WnSdQK6nG70>.

II. S How long should a local agency retain trade ticket information?

Pursuant to SEC's Rules 17a-3 and 17a-4 detailing the record-keeping requirements for broker-dealers, trade blotters or records of sales and purchases are required to be retained for six years. Trade confirmations, on the other hand, are required to be kept for three years. Given that there is no specific state requirement requiring a period of time that trade ticket information should be retained, local agencies may consider adopting such guidelines.

MINIMUM LEGAL REQUIREMENT:

There are no existing legal requirements pertaining to the retention of trade tickets.

CONSENSUS RECOMMENDATION:

Trade ticket information includes the price, yield, Committee on Uniform Securities Identification Procedures (CUSIP) reference number of the security as well as net money including principal, accrued interest, and total money. It also identifies the broker-dealer with whom the trade was done. It is important to retain trade ticket information for several reasons, most importantly for compliance and audit reasons. In addition, if there are any questions regarding a particular trade, it would be beneficial to have documentation. To be prudent, trade tickets should be kept for at least six years. Local agencies should consider adopting their own agency guidelines for retention of financial records, including trade ticket information.

Chapter III. Reporting Requirements

Reporting requirements and recommendations are imposed on local agencies in Sections 53646 and 53607.

Section 53646 states that the treasurer or chief fiscal officer of a local agency may file reports on the status of their investment portfolios with their respective legislative body, internal auditor, and chief executive officer. These reports generally are intended to provide the legislative body the ability to meet its fiduciary obligations as a trustee and to increase the disclosure of the agency's investment activities to those outside the agency. Section 53646 states that if the quarterly investment portfolio report is submitted, it must contain, among other things, a listing of investments, fund balances, activity, and return on investments made by the local agency. Quarterly reports should reflect the current positions and past performance of a portfolio of investments for the period of time under consideration.

Section 53646(e) states that for local agency funds that have been placed in a county investment pool, LAIF, FDIC-insured bank deposits, National Credit Union Shared Insurance Fund-insured accounts in a credit union, accounts insured or guaranteed pursuant to California Financial Code Section 14858, or some combination of the above, the treasurer may substitute the most recent account statement received from those entities in lieu of the information on these investments that is otherwise required by this section. Section 53646(f) states that securities, investments, or monies held by a school district or county office of education in individual accounts that are less than twenty-five thousand dollars (\$25,000) may be excluded from the report.

Local agency treasurers to whom the authority to invest or reinvest funds or to sell or exchange securities has been delegated by the legislative body of a local agency are required by Section 53607 to submit a monthly report of transactions to the legislative body.

III. A What specific information regarding portfolio investments needs to be included in the report to the legislative body? [Section 53646(b)(1-4) and 53607]

Section 53646 specifically encourages treasurers to prepare the quarterly investment report to enable the legislative body to perform its fiduciary duty and provide full disclosure of the public entity's investment activities.

MINIMUM LEGAL REQUIREMENTS:

If the treasurer or chief fiscal officer of a local agency elects to submit or if the legislative body mandates the submission of a quarterly investment report to the legislative body pursuant to Section 53646, it must do so within 45 days after the end of the quarter and include the following information:

- Type of investment (i.e. U.S. Treasury security, commercial paper);¹²
- Issuer name;
- Date of maturity;
- Par amount;
- Dollar amount invested in all securities, and investments and monies held by the local agency;¹³
- A description of the funds, investments, and programs (including lending programs) managed by contracted parties (i.e. LAIF, investment pools, outside money managers, and securities lending agents);
- Current market value as of the date of the report of all funds held by the local agency and under the management of any outside party that is not also a local agency or LAIF and the source of the valuation;
- A statement of compliance with the investment policy or an explanation for non-compliance; and
- A statement of the local agency's ability to meet its pool's expenditure requirements for the next six months, as well as an explanation of why sufficient money will not be available if that is the case.

The legislative body of the local agency may elect to require this report on a monthly basis. Furthermore, the legislative body may require the treasurer to provide additional information beyond that listed above.

¹² Refer to CDIAC publication [California Public Fund Investment Primer](#) for definitions of investment types.

¹³ "Dollar amount invested" is defined as cost, however, best practice uses amortized cost or book value. Confusion exists as to the meaning of the words "held by the local agency" found in Government Code Section 53646(b)(1). Several standards have been suggested to clarify this phrase, including "ownership," "control," "under direct management by," "possession," and "accountability for the funds." Each of these suggestions would lead to different determinations as to the specific funds required to be reported. The apparent intent of the Legislature in enacting this requirement was to provide for comprehensive disclosure of local agency investments.

If the local agency's legislative body delegates, to the local agency's treasurer, its authority to invest or reinvest the agency's funds or sell or exchange the agency's securities, the treasurer shall make a monthly report of those transactions to the legislative body, pursuant to Section 53607. The delegation of authority may be made for a period of one year. The requirement to submit the transaction report lasts until the authority is revoked or expires. In contrast to the specific information required in the quarterly report under Section 53646(b), the contents of the monthly report of transactions required under Section 53607 are not enumerated.

CONSENSUS RECOMMENDATION:

Based upon the public benefits achieved by reporting, it is recommended that the treasurer or designated official provide the local agency's legislative body a quarterly investment report that provides a clear picture of the status of the current investment portfolio. The quarterly investment 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.
- 6. A description of the funds, investments, and programs (including lending programs) managed by contracted parties (i.e. LAIF, investment pools, outside money managers, and securities lending agents).
- 7. A statement of compliance with the investment policy or an explanation for non-compliance.
- 8. A statement of the local agency's ability to meet its pool's expenditure requirements for the next six months, as well as an explanation of why sufficient money will not be available if that is the case.

Local agency funds that have been placed in a county investment pool, LAIF, FDIC insured bank deposits, National Credit Union Shared Insurance Fund-insured accounts in a credit union, accounts insured or guaranteed pursuant to California Financial Code Section 14858, or some combination of the above, may substitute the most recent account statement received from those entities in lieu of the information recommended above.

In addition to the reporting requirement set forth by Section 53646, a local agency treasurer who has been delegated authority to invest or reinvest funds of the local agency by the legislative body under Section 53607 must submit a report to the legislative body accounting for transactions made during the month. This reporting requirement is separate and distinct from the quarterly report submitted under Section 53646. If the legislative body has delegated authority to the treasurer and has elected to require the quarterly report under Section 53646 on a monthly basis, it may be very practical and efficient to merge the elements of

the quarterly report with the month's transactions and provide a combined report on a monthly basis. While the elements of each reporting requirement may be different they may be combined in one report.

III. B Should the report include market value measures for individual securities? [Section 53646(b)(1)]

The market value of each security in a portfolio must be computed before determining the portfolio's overall market value.

MINIMUM LEGAL REQUIREMENT:

Section 53646(b)(1) states: "With respect to all securities held by the local agency, and under management of any outside party that is not also a local agency or the LAIF, the report shall also include a current market value as of the date of the report, and shall include the source of this same valuation."

CONSENSUS RECOMMENDATION:

The law is not clear whether "all" securities implies the market value of the overall portfolio or each security. The level of detail to be presented in the report depends on the portfolio activity and the audience. The report for internal treasury staff and the oversight committee should list the individual market value for each security. This approach gives a more complete picture of the health of a portfolio and brings individual investment performance to the attention of those responsible for compliance oversight. For the legislative body, the report should be a summary with aggregate market value listed and include a footnote stating that data on particular investments is available upon request.

HOW SHOULD THE MARKET VALUE OF THE PORTFOLIO BE DETERMINED?

In establishing market value of the portfolio as required by Section 53646(b)(1), the Government Finance Officers Association recommends that local entities obtain independent third-party assessment of investments and risk from a reputable source.

The most common approach is to request pricing information from the agency's safekeeping service, custodial service, or trustee. Agencies may need to contract with pricing service companies for more complex securities. These companies specialize in giving the current market price for a broad range of securities.

An alternative way to determine the value of securities in a portfolio is to perform an in-house analysis by collecting information from different sources such as dealer quotes, online computer information, and certain publications that provide price estimates. These sources may not be as up-to-date or accurate as a pric-

ing service, but they offer a relatively inexpensive method to make price estimates. Finally, to assess the value of securities where specific prices are not available, a treasurer can either tie the spread of a recent investment to a benchmark security that is easy to value or use a matrix pricing formula. A matrix pricing formula displays the prices of a variety of different securities which are then used as a basis for approximating the value of the security in question. These formulas are particularly useful for short-term securities that mature between 90 and 180 days.

MINIMUM LEGAL REQUIREMENT:

Section 53646(b)(1) provides that the agency shall include the current market value as of the reporting period date and the source of the valuation.

CONSENSUS RECOMMENDATION:

To provide the most unbiased method of reporting current market values, the local agency should obtain an independent valuation of the portfolio from a reputable source, such as, a broker or other financial institution, custodial bank, available publications or other pricing services. The independent sources should not be a party to the transaction. For example, the broker that sold the security should not be used to provide the valuation. The agency should use the best sources of market price information available. Prices for securities are estimates that carry a certain degree of error regardless of the approach used and will fluctuate over time due to market conditions. It is imperative that local officials pay extra attention to estimates on complex, infrequently traded, or highly customized securities.

HOW FREQUENTLY SHOULD MARKET VALUE BE CHECKED?

MINIMUM LEGAL REQUIREMENT:

None. Government Code does not specify frequency of market valuation.

CONSENSUS RECOMMENDATION:

Frequency of market valuation will be dependent on the complexity of the securities in the portfolio and the frequency of trading. For infrequent or passive investors, market value should be “marked-to-market” quarterly at a minimum. For a more active portfolio, the industry standard is monthly.

III. C Should an analysis of cash flows be prepared by the local agency in order to validate the six-month liquidity certification? [Section 53646]

A public agency is required to include a statement indicating that the projected cash flow is adequate to meet expected obligations over the next six months or provide an explanation as to why sufficient money may or may not be available.

MINIMUM LEGAL REQUIREMENT:

Section 53646(b)(3) addresses the requirement for the local agency to include a statement denoting the ability of the local agency to meet its pool's expenditure requirements for the next six months or provide an explanation as to why sufficient money may or may not be available. There are no other requirements for identifying cash flows and setting liquidity targets at the local agency.

Section 53646(c) requires the treasurer or chief fiscal officer to report whatever additional information or data may be required by the legislative body of the local agency.

CONSENSUS RECOMMENDATION:

An analysis of cash flows is not required. However, the treasurer should be prepared to discuss cash flow projections and methodology at the request of legislative or oversight bodies. This analysis may list basic projections—based on historical data, market sensitivity or other relevant information—that support the cash flow liquidity statement. There are no guarantees when it comes to predicting future obligations. A sound justification for the expenditure statement gives the finance officer added protection against decisions that originally looked good but turned out poorly because of unforeseen circumstances.

The nature of the analysis will vary greatly depending on the size, sophistication, and complexity of the local agency staff and portfolio. Best practices dictate that cash flow statements should be prepared on a regular basis. However, in some agencies it may not be practicable or necessary, for instance, for LAIF-only participants. An analysis of cash flows is the precursor to portfolio management and should be prepared and updated, as needed, at least for internal investment staff use.

Those who manage investment pools need to pay close attention to the needs and accuracy of the requests of participants to ensure accurate cash flow projections. Incomplete information about a pool's investors not only compromises the legitimacy of the six-month cash flow statement, but also adds substantially to the liquidity risk of the pool.

In the case of investment pools, all participants' cash flow needs must be taken into account in preparing the six month cash flow statement. The pool administrator or manager should keep close tabs on mandatory and voluntary pool participants' cash flows needs and establish clear criteria for the deposit and withdrawal of their funds. Also, the pool administrator or manager should obtain expected deposit/disbursement information from pool participants at the time of major fund deposits or updates of cash flow projections.

III. D What tools can be used to measure interest rate risk?

Interest rate risk, also known as market risk, is the risk that a security’s value or price will decline as interest rates rise in the general market. Weighted average maturity (WAM) and duration are commonly used measures of interest rate risk. WAM measures the portfolio’s “average life.” Duration considers all of the cash flow receipts not just the last cash flow as in WAM and provides an approximate percentage change in the value of a security or portfolio for a given change in interest rates.¹⁴ Some local agencies have inquired whether they should include this information in their report.

MINIMUM LEGAL REQUIREMENT:

Existing statutes do not require local agencies to report an interest rate risk measure in their portfolios. Section 16480.7 requires the State Treasurer to submit a quarterly report to the Pooled Money Investment Board that includes the weighted average maturity of the investments in the Pooled Money Investment Account.

CONSENSUS RECOMMENDATION:

Local agencies should consider including the WAM or duration measurement in the report. The type of duration measure (e.g. modified and/or effective duration) used will depend on the type of investments being analyzed and the capacity of the agency to perform or source the calculations. While duration will present greater precision than WAM in the measurement of interest rate risk, given the need for specialized software to perform calculations or an external source for duration information, an agency may find greater utility in the easier to calculate WAM. The decision on which metric to use will be based on the needs and resources of the local agency.

Local agencies also should consider whether their investment policies should provide guidance on acceptable ranges or limits for the respective measure used. These figures trigger a number of valuable considerations about the status of the portfolio for both internal and external purposes including liquidity, cash flow, and average maturity (for example, WAM). WAM is a relatively simple calculation which may be determined by dividing the sum of the days to maturity multiplied by the book value for each security by the total book value of the portfolio. Figure 3 shows an example of how WAM is calculated:

¹⁴ Refer to CDIAC publications *California Public Fund Investment Primer* and *Duration Basics*.

FIGURE 3
CALCULATION OF WEIGHTED AVERAGE MATURITY

PAR VALUE	SECURITY DESCRIPTION	DAYS TO MATURITY	BOOK VALUE	DAYS BY BOOK VALUE
\$1,350,000	Repurchase Agreements	1	\$1,350,000	1,350,000
5,000,000	Local Agency Inv. Fund	1	5,000,000	5,000,000
5,000,000	Fed Natl. Mtg. Assn.	185	4,886,108	903,930,041
5,000,000	Fed Home Loan Bank	550	5,000,000	2,750,000,000
5,000,000	U.S. Treasury Note	720	4,985,156	3,589,312,500
5,000,000	Fed Natl. Mtg. Assn.	822	5,000,000	4,110,000,000
5,000,000	Fed Farm Credit Bank	910	4,988,941	4,539,936,255
TOTAL			\$31,210,206	15,899,528,796

$$\text{WAM} = \frac{\sum \text{Days to Maturity Multiplied by Book Value of Each Investment}}{\text{Total Book Value}} = \frac{15,899,528,796}{\$31,210,206} = \frac{509 \text{ Days}}{\text{or } 1.42 \text{ Years}}$$

Duration is a more complex computation and requires the proper software to perform the specific calculations for each security and then for the entire portfolio. Three types of duration are commonly used.

MACAULAY DURATION. The simplest method of calculating duration which measures the number of years required to recover the true cost of a security and is the only type of duration measurement quoted in “years.”

MODIFIED DURATION. Builds upon Macaulay duration to measure the price sensitivity of an investment to interest rate changes and assumes the cash flows of an investment do not change as interest rates change. Modified duration is quoted as a percentage of value change as interest rates change. Figure 4 is an example of a basic modified duration application.

EFFECTIVE DURATION. Further refines modified duration using an iterative estimation process and is typically used with floating rate, asset-backed, and pass-through securities and more generally, with securities that have call option features. Effective duration takes into account embedded options of a security (e.g., call features or sinking fund schedule) and adjusts the price of the investment to reflect changes in the value of those embedded options.¹⁵ Thus, effective duration requires simulations of many possible interest rate scenarios to calculate the duration to call and provides a wider assessment of risk for a portfolio containing more than fixed rate securities. Due to the complexity of calculating effective duration, no example appears below.

¹⁵ Refer to CDIAC publication *Investing in Callable Securities – September 2020 Update* for a summary of callable securities. Refer to CDIAC publication *Issue Brief: Benefits and Limitations of Option-Adjusted Spread Analysis* for general guidance about option-adjusted spread (OAS) and how to interpret OAS values.

FIGURE 4
DURATION—GAIN/LOSS OF MARKET VALUE MATRIX
FOR A \$100,000,000 PORTFOLIO

		PORTFOLIO MODIFIED DURATION			
		1.2	2.7	5.0	6.0
RATE CHANGE	.25%	\$300,000	\$675,000	\$1,250,000	\$1,500,000
	.50%	600,000	1,350,000	2,500,000	3,000,000
	1.50%	1,800,000	4,050,000	7,500,000	9,000,000
	2.00%	2,400,000	5,400,000	10,000,000	12,000,000
	5.00%	6,000,000	13,500,000	25,000,000	30,000,000

Modified duration measures the approximate change in the market value of assets as a result of a change in market interest rates. Thus, for a portfolio with a market value of \$100,000,000 and a duration of 1.2, as interest rates increase by 1.5%, the portfolio’s market value would be expected to decrease by \$1,800,000. Specifically:

$$\frac{\$100,000,000}{\text{portfolio size}} \times \frac{1.2}{\text{duration}} \times \frac{0.015}{\text{interest rate increase}} = \frac{\$1,800,000}{\text{portfolio market value decrease}}$$

Conversely, for the same portfolio, if interest rates were to decrease by 2%, the portfolio’s market value increases by approximately \$2,400,000. Specifically:

$$\frac{\$100,000,000}{\text{portfolio size}} \times \frac{1.2}{\text{duration}} \times \frac{0.02}{\text{interest rate increase}} = \frac{\$2,400,000}{\text{portfolio market value increase}}$$

Securities or portfolios with higher duration carry more interest rate risk and have higher price volatility (i.e., sensitivity of the security’s price to changes in market interest rates) than those with lower durations. For example, if the same \$100,000,000 portfolio had a duration of 2.7, a 1.5% increase in market interest rates will produce a greater change in the portfolio’s market value:

$$\frac{\$100,000,000}{\text{portfolio size}} \times \frac{2.7}{\text{duration}} \times \frac{0.015}{\text{interest rate increase}} = \frac{\$4,050,000}{\text{portfolio market value decrease}}$$

For a 2% decrease in interest rates:

$$\frac{\$100,000,000}{\text{portfolio size}} \times \frac{2.7}{\text{duration}} \times \frac{0.02}{\text{interest rate increase}} = \frac{\$5,400,000}{\text{portfolio market value decrease}}$$

III. E What action should the legislative body take with the report? [Section 53646]

Section 53646(b) states that the “treasurer or chief fiscal officer may render a quarterly report to the chief executive officer, internal auditor, and the legislative body” within 45 days of the quarter’s end. Questions arise as to whether the legislative body needs to discuss and approve the report during a regular meeting, have it placed on the consent calendar, or only receive a copy.

MINIMUM LEGAL REQUIREMENT

Section 53646(b) only states that the report may be rendered to the legislative body. It does not require the legislative body to take action on this report.

CONSENSUS RECOMMENDATION

If presented to the legislative body of the local agency, it should discuss the report as necessary and take action on the report in public session. The report could be listed as a consent calendar item or as a non-consent calendar item, depending on the preferences of the legislative body. Possible actions of the governing body on the report could include: receiving and filing the report, approving or disapproving the report (with or without amendments), or asking staff for further information/clarification. In addition, if presented to an investment oversight body, the oversight body should discuss the reports at their own meetings.

III. F How should agencies address difficulties in meeting the 45-day requirement for submitting quarterly investment reports to the legislative body? [Section 53646(b)]

It can be difficult for an agency to collect all the appropriate information for the report, have an oversight committee (if a jurisdiction has one) review or approve it, and present it to the legislative body within 45 days of the quarter’s end. Various factors such as the length and diversity of the portfolio, size of staff, and type and availability of computer software can influence the amount of time it takes to compile a report.

MINIMUM LEGAL REQUIREMENT:

Section 53646(b) requires that if the quarterly investment report is submitted to the legislative body, it may be rendered within 45 days of the end of the quarter.

CONSENSUS RECOMMENDATION:

A report, as complete as possible, should be submitted within the allotted 45 days. If current values for certain investments are not available within the time frame to complete the report in a timely fashion, submit the report on time and indicate in the report the most recent valuation and its date and then submit updated values to the legislative body at the soonest possible date thereafter. It should be available for individual legislative body members to review within 45 days of quarter end. This may include providing a copy to each member, including it in agenda materials for a public meeting, or actually presenting the report at a public meeting of the legislative body.

Chapter IV. Treasury Oversight Committees

Section 27131 and 27132 through 27132.4 consider the formation, composition, and role of a county treasury oversight committee. These code sections provide that the function of the treasury oversight committee is to monitor and review the county investment policy by conducting or causing an annual audit and discussing its findings at a public meeting. The rationale behind the creation of an oversight committee is to give local agencies and private sector citizens a say in the policies governing the investment pool.

IV. A What options are available for structuring the county treasury oversight committee? [Sections 27131 and 27132 through 27132.4]

The statutes governing the structure of county treasury oversight committees are meant to bring together a representative and knowledgeable committee while limiting conflicts of interest with the treasurer and the treasury functions subject to oversight. However the composition is subject to specific requirements that can make it difficult for local agencies to recruit and staff a committee. Specifically, the statutes prohibit individuals from employment with or securing employment within one year of serving on a county treasury oversight committee with underwriting, bond counsel or broker-dealer firms doing business with the county treasurer. Committee members are also prohibited from making individual political contributions to, or being employed by an entity that makes political contributions to, or from doing any fund raising on behalf of any candidate for office of the governing board of any agency that deposits funds in the county treasury in the previous three years.

MINIMUM REQUIREMENT:

Section 27131(a) states that the board of supervisors in any county that invests surplus money may establish a treasury oversight committee. If established, the committee must consist of three to eleven members, the exact number determined by the board of supervisors in consultation with the county treasurer. Members must be appointed from the following categories:

- | | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ol style="list-style-type: none"> 1. County treasurer. 2. County auditor, auditor-controller, or finance director as the case may be. 3. A representative appointed by the board of supervisors. 4. A representative selected by a majority of the presiding officers of the governing bodies of the | <p>school districts and community college districts in the county.</p> <ol style="list-style-type: none"> 5. County superintendent of schools or their designee. 6. A representative selected by a majority of the presiding officers of the legislative bodies of the special districts that are required or authorized to deposit funds in the county treasury. |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

A majority of the public members of the committee shall have expertise in or an academic background in public finance. The other public members shall be economically diverse and bipartisan in political registration. Committee members cannot:

- Be employed by an entity that has contributed to the campaign of a candidate for the office of local treasurer;
- Be employed by an entity that has contributed to the campaign of a candidate for membership on a legislative body of any local agency that has deposited funds in the county treasury in the previous three years or during the period the employed person is a member of the committee;
- Directly or indirectly raise money for a candidate for local treasurer or a member of the governing board of any local agency that has deposited funds in the county treasury while a member of the committee; and
- Secure employment with, or be employed by, bond underwriters, bond counsel, security brokerages or dealers, or financial services firms, with whom the treasurer is doing business during the period that the person is a member of the committee or for one year after leaving the committee.

CONSENSUS RECOMMENDATION:

County legislative bodies should decide if an oversight committee is necessary and if they should have private sector individuals from the restricted firm types serve on the committee. If so, the county may choose one of three options to compose the committee (Figure 5).

If the committee is composed of public and private sector members (Option 1), the members, for their term of service and one year following, cannot work for firms doing business with the treasurer. As a way to obtain the participation of private sector professions employed by firms doing business with the treasurer, a county may create an advisory board of the county treasury oversight committee (Option 2). However, a county that chooses Option 2 and forms an advisory

FIGURE 5
APPROACHES TO ESTABLISHING THE COUNTY
TREASURY OVERSIGHT COMMITTEE

VARIOUS OPTIONS AVAILABLE TO LOCAL GOVERNMENTS
<ol style="list-style-type: none"> 1. A committee of both public and private sector members. 2. A committee of public sector officials that has an advisory board made up of private sector professionals and citizens. 3. A committee that only consists of individuals who work for agencies that have funds invested in the pool.

sory board whose membership criteria is less stringent than the criteria used to compose an oversight committee is advised to consult legal counsel. Finally, the county may establish an oversight committee composed exclusively of individuals unaffiliated with private sector firms doing business with the treasurer. The easiest way to do so is to draw members of the committee from the public agencies investing funds with the county treasurer (Option 3).

IV. B Does the appointment of the treasurer to the county treasury oversight committee create a conflict of interest? [Sections 27131 and 27132]

Since the oversight committee’s central task is to oversee the treasurer’s policies, some believe that allowing the treasurer to sit on the oversight committee represents a conflict of interest. Others claim that a treasurer who donates money to their own campaign cannot be on the county treasury oversight committee because the law bars those who contribute to the campaign of someone running for treasurer while serving on the committee from participation.

MINIMUM LEGAL REQUIREMENT:

None. Sections 27131 and 27132 do not specify whether or not the county treasurer should be a member of the oversight committee. Section 27132 specifically lists the county treasurer as a potential member of the county treasury oversight committee.

CONSENSUS RECOMMENDATION:

The question of whether or not a county treasurer should sit on the treasury oversight committee must be made by the county board of supervisors and the treasurer. Their answer should consider the advantages and disadvantages of having someone with the treasurer’s influence and expertise sit on the committee and the future employment implications to the treasurer since any person who serves on a county treasury oversight committee is prohibited from seeking employment with the financial services industry for one year after leaving the

committee. It should not in any way hinge on whether a treasurer donated money to his or her own campaign. Contributing money to one's own campaign does not represent a legitimate conflict of interest in the context of the treasury oversight committee.

Specifying that the treasurer does not serve as the chair of the oversight committee is one approach to lessening the "conflict of interest" concern.

IV. C What is the role of the county treasury oversight committee? [Sections 27134 and 27137]

MINIMUM LEGAL REQUIREMENT:

Sections 27134 and 27137 limit the oversight committee's functions to monitoring and reviewing the county treasury's compliance with the investment policy and reporting provisions of the Government Code through an annual audit.

CONSENSUS RECOMMENDATION:

The statutes address concerns that individuals serving on the treasury oversight committees may try to micro-manage decisions that should be left to the treasurer. Considerations by the committee regarding the risk and structure of a portfolio are permitted in the law, however, any attempts to direct individual investment decisions, select individual investment advisors, brokers, or dealers, or impinge on the day-to-day operations of the county treasurer are discouraged. The local agency should clearly stipulate that the responsibilities of the treasury oversight committee are to focus on investment policy issues and to audit the portfolio for compliance with the policy.

IV. D Should other local agencies have treasury oversight committees?

It is not uncommon to find treasury oversight committees in cities and other local agencies even though the law does not require them to have such a committee. An important issue in the decision to establish a committee is the level of discretion accorded the agency treasurer in making investment decisions: the more discretion, the greater the need for oversight procedures. However, even in situations where an agency has a great deal of discretion, some believe an oversight committee merely duplicates work that can be better performed by the governing board or auditors. Others support the view that an oversight committee provides valuable information to the investment staff and involves members of the com-

munity in an important government function. If other local agencies decide that they want to engage an oversight committee, its role with respect to reviewing investment policies and quarterly investment reports should be clearly specified.

MINIMUM LEGAL REQUIREMENT:

There are no legal requirements for local agencies to have oversight committees.

CONSENSUS RECOMMENDATION:

Local agencies that are not counties should consider if an oversight committee is appropriate based on its current oversight procedures, complexity of its portfolio, frequency with which it purchases securities, and skill level of its staff. The limitations and restrictions associated with membership on a county treasury oversight committee do not apply to committees formed by other local government entities.

California Government Code

CODE SECTION	TITLE DESCRIPTION
ACQUISITION OF BONDS	
5925	Repurchase investment
LOCAL AGENCY INVESTMENT FUND (LAIF)	
16340	Voluntary Investment Program Fund
16429.1	Creation, maintenance, and operation
16429.2	Local investment advisory board
16429.3	Deposits; prohibited transfers and loans; impoundment or seizure
16429.4	Right of withdrawal
COUNTY TREASURER - DUTIES GENERALLY	
27000	Custody and payment of moneys
27000.1	Investment of county funds; delegation and revocation of authority by board of supervisors; responsibility for transactions
27000.3	Prudent investor standard; use in transactions with public funds
27000.5	Objectives; managing public funds
27000.6	Effective date of specified provisions; candidate eligibility and continuing education programs; county ordinances; authority to repeal ordinances
27000.7	Eligibility for offices of county treasurer and tax collector; criteria; application of section
27000.8	County treasurers and tax collectors serving on January 1, 1996; service for remaining term; continuing education; certification; violation
27000.9	Continuing education; requirements beginning in 2000; certification; violation
27001	Certificates of auditor; filing; preservation
27002	Accounts of receipts and expenditures; requisites
27002.1	Photographic records of receipts and expenditures
27003	Separate accounts; general account

- 27005 Disbursements on warrants; checks or electronic funds transfers; exception
- 27006 Disbursements on warrants based on orders; payment of warrants
- 27007 Possession of money; special deposits
- 27008 Certificates of auditor necessary for receipt of money
- 27009 Receipt for deposit of moneys into county treasury
- 27010 Receipt of gifts and bequests
- 27011 Deposit of private money prohibited; penalty
- 27012 Conferences between controller and treasurers regarding administration of applicable law; expenses
- 27013 Administrative cost of investing, depositing or handling funds; reimbursement of county

COUNTY TREASURY OVERSIGHT COMMITTEES

- 27130 Legislative findings and declarations
- 27131 Establishment; determinations of size and membership
- 27132 Membership; pool of candidates
 - 27132.1 Member employment by campaign contributors
 - 27132.2 Member fundraising
 - 27132.3 Member employment in financial services industry
 - 27132.4 Open meetings; Ralph M. Brown Act
- 27133 Periodic investment policy; preparation by treasurer; committee review and oversight
- 27134 Periodic audits by committee; article compliance
- 27135 Costs of compliance; reimbursement
- 27136 Withdrawal of funds from county treasury pool; requests; evaluation; approval criteria
- 27137 Day-to-day operations and decisions; committee involvement

INVESTMENT OF SURPLUS

- 53600 Local agency
 - 53600.3 Prudent investor standard; investments on behalf of local agencies
 - 53600.5 Objectives; managing public funds
 - 53600.6 Legislative findings and declarations; solvency and creditworthiness
- 53601 Local agencies; authorized investments
 - 53601.1 Investment in financial futures or financial option contracts
 - 53601.2 Limited liability corporation
 - 53601.5 Investments; qualified purchase agent
 - 53601.6 Prohibited investments
 - 53601.8 Investment in placement service assisted deposits, including certificates of deposit

- 53602 Investment in legal investments for savings banks; securities of public districts
- 53603 Direct purchase of securities
- 53604 Sale or exchange of securities; reinvestment of proceeds
- 53605 Sale of securities; application of proceeds to original purposes
- 53606 Cancellation of bonds issued by purchaser; resale
- 53607 Delegation of duties to treasurer; monthly report
- 53608 Deposit of securities; receipt; delegation of authority
- 53609 Eligible securities for investment of funds held by local agency pursuant to deferred compensation plans
- 53610 Proposition 1A receivables; purchase by local agency
- 57603 Investments in public bank obligations

HEALTH FUND INVESTMENTS

- 53620 Investment funds designated for employee retiree health benefits' payments
- 53621 Delegation of the governing body's investment authority to designated officers
- 53622 Funds to pay employee retiree health benefits; discharge of duties of the governing body or designated officer

DEPOSIT OF FUNDS

- 16340 The Voluntary Investment Program Fund
- 53630 Definitions
- 53630.1 Legislative findings and declarations; solvency and creditworthiness
- 53630.5 Additional definitions
- 53631 Deposits to pay principal, interest or warrants of bonds; electronic funds disbursement
- 53632 Classes of deposits
- 53632.5 Classes of security for deposits
- 53633 Determination of amounts to be deposited in each class
- 53634 Transfers from inactive to active deposits
- 53635 Local agency investments; commercial paper; concentration limits
- 53635.2 Deposit of money belonging to or in custody of local agency
- 53635.7 Agency consideration when borrowing funds in excess of \$100,000
- 53635.8 Investment in placement service assisted deposits, including certificates of deposit
- 53636 Deposited money as in treasury of local agency
- 53637 Selection of depositary; interest
- 53638 Maximum deposits
- 53639 Expense of transporting money

- 53640 Checks, drafts, and other exchange
- 53641 Receipt or other evidence of deposit
- 53642 Withdrawals; check or order
- 53643 Deposit by treasurer
- 53644 Withdrawals on demand; penalties; notice
- 53645 Interest; computation; payment
- 53646 Investment policy statement; review and approval; legislative body or oversight committee; reports
- 53647 Interest; payment into fund
- 53647.5 Interest on bail money on deposit
- 53648 Deposits and contracts pursuant to federal law or rule
- 53648.5 Termination of agreement with depository
- 53649 Contracts with depositories; contents; filing
- 53651 Eligible securities to be used as security for deposits
- 53651.2 Eligible security; promissory note
- 53651.4 Report of independent certified public accountant; depository using eligible securities; state bank; national bank; fee
- 53651.6 Letter of credit; terms
- 53652 Value required to secure active or inactive deposits; market value
- 53653 Waiver of security on federally insured deposits; interest
- 53654 Addition or substitution of securities; withdrawal or release of securities
- 53655 Perfection of security interest in favor of local agencies
- 53656 Authorization for holding of security by agent of depository; agents of depository; securities subject to order of depository; exception; release of security; conditions
- 53657 Authorization to act as agent of depository; application; form; fee; approval or denial
- 53658 Maintenance of separate pool for each depository; security interest of local agency
- 53659 Placement of securities with Federal Reserve or other approved bank; authority by contract
- 53660 Certification and report by agent of depository
- 53661 Administrator
- 53663 Determination of amounts to be deposited as inactive and active deposits
- 53664 Individual reports; privileged status
- 53665 Default by depository; payment by agent of depository; excess funds; drawing on letter of credit
- 53666 Liability of administrator
- 53667 Expenses of administrator; levy of assessment on depositories; payments; penalty
- 53669 Responsibility for money on deposit

- 53676 Treasurer's responsibility for securities
- 53678 Charges for handling and safekeeping of securities
- 53679 Money under control or coming into possession of officers and employees other than treasurer
- 53679.1 Accounting practices; declaration of existing law
- 53680 Money under control of tax collectors
- 53681 Deposit in other than prescribed manner; forfeiture of office
- 53682 Contracts for services by depository; requirements
- 53683 Consideration as costs applied pro rata against earned interest
- 53684 Local agencies; excess funds; investment by county treasurer
- 53686 Local agency fund audit reports
- 57600 Public bank deposits

TEMPORARY BORROWING

- 53821.5 Tax and Revenue Anticipation Notes
- 53840 County Short-term Loans
- 53841 Limitations on short-term borrowing
- 53841.5 Tax and Revenue Anticipation Notes
- 53850 Local agency definition
- 53851 Local agency borrowing power
- 53852 Use of proceeds
- 53852.5 Tax and Revenue Anticipation Notes
- 53859 Definitions
- 53859.01 Local agency borrowing power
- 53859.02 Grant Anticipation Notes

Government Code Section 5925

5925

The purchase or other acquisition of bonds by or on behalf of the state or local government that issued the bonds does not cancel, extinguish, or otherwise affect the bonds and the bonds shall be treated as outstanding bonds for all purposes except to the extent otherwise determined by the issuer or otherwise provided in the constituent instruments defining the rights of the holders of the bonds.

Government Code 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.

Government Code Section 16429.1-16429.4

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 provisions of 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 provisions of 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 provision of law or 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 of Part 2 of Division 4 of Title 2.

(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. The amount of this 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.

16429.2

There is created the Local Investment Advisory Board consisting of five members. The chairman shall be the State Treasurer or his or her designated representative. Two members who are qualified by training and experience in the field of investment or finance, shall be appointed by the State Treasurer. Two members who are treasurers, finance or fiscal officers or business managers, employed by any county, city or local district or municipal corporation of this state, shall be appointed by the Treasurer.

The term of office of each appointed member of the board is two years, but each appointed member serves at the pleasure of the appointing authority. A vacancy

in the appointed membership, occurring other than by expiration of term, shall be filled in the same manner as the original appointment, but for the unexpired term only.

Members of the board who are not state officers or employees shall not receive a salary, but shall be entitled to a per diem allowance of fifty dollars (\$50) for each day's attendance at a meeting of the board, not to exceed three hundred dollars (\$300) in any month. All members shall be entitled to reimbursement for expenses incurred in the performance of their duties under this part, including travel and other necessary expenses.

The board's primary purpose shall be to advise and assist the State Treasurer in formulating the investment and reinvestment of moneys in the Local Agency Investment Fund, and the acquisition, retention, management, and disposition of investments of the fund. The board, from time to time, shall review those policies and advise therein as it considers necessary or desirable. The board shall advise the State Treasurer in the management of the fund and consult the State Treasurer on any matter relating to the investment and reinvestment of moneys in the fund.

16429.3

Moneys placed with the Treasurer for deposit in the Local Agency Investment Fund by cities, counties, special districts, nonprofit corporations, or qualified quasi-governmental agencies shall not be subject to either of the following:

- (a) Transfer or loan pursuant to Sections 16310, 16312, or 16313.
- (b) Impoundment or seizure by any state official or state agency.

16429.4

The right of a city, county, city and county, special district, nonprofit corporation, or qualified quasi-governmental agency to withdraw its deposited moneys from the Local Agency Investment Fund, upon demand, may not be altered, impaired, or denied, in any way, by any state official or state agency based upon the state's failure to adopt a State Budget by July 1 of each new fiscal year.

Government Code Section 27000-27013

27000

The county treasurer shall receive and keep safely all money belonging to the county and all other money directed by law to be paid to him and apply and pay it out, rendering the account as required by law.

27000.1

Subject to Section 53607, the board of supervisors may, by ordinance, delegate to the county treasurer the authority to invest or reinvest the funds of the county

and the funds of other depositors in the county treasury, pursuant to Chapter 4 (commencing with Section 53600) of Part 1 of Division 2 of title 5. The county treasurer shall thereafter assume full responsibility for those transactions until the board of supervisors either revokes its delegation of authority, by ordinance, or decides not to renew the annual delegation, as provided in Section 53607. Nothing in this section shall limit the county treasurer's authority pursuant to Section 53635 or 53684.

27000.3

(a) With regard to county funds deposited in the county treasury, the board of supervisors is the agent of the county who serves as a fiduciary and is subject to the prudent investor standard, unless a delegation has occurred pursuant to Section 53607 in which case the county treasurer shall be the agent of the county with respect to these funds, serve as a fiduciary, and be subject to the prudent investor standard and the board of supervisors shall not be the agent, serve as a fiduciary, or be subject to the prudent investor standard.

(b) With regard to funds deposited in the county treasury that are deposited by local agencies other than the county and at the discretion of those local agencies, the county treasurer serves as a fiduciary subject to the prudent investor standard.

(c) When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, the county treasurer or the board of supervisors, as applicable, shall act with care, skill, prudence, and diligence under the circumstances then prevailing, specifically including, but not limited to, the general economic conditions and the anticipated needs of the county and other depositors, 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 county and the other depositors. Within the limitations of this section and considering individual investments as part of an overall investment strategy, investments may be acquired as authorized by law. Nothing in this chapter is intended to grant investment authority to any person or governing body except as provided in Sections 53601, 53607, and 53635.

27000.5

When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, the primary objective of the county treasurer or the board of supervisors, as the case may be, shall be to safeguard the principal of the funds under the treasurer's or the board's 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 his or her control.

27000.6

The provisions of Sections 27000.7, 27000.8, and 27000.9 shall become effective only in those counties in which, prior to the first date of the period for filing declarations of candidacy for the office of county treasurer, county tax collector, or county treasurer-tax collector, the board of supervisors by majority vote at

a regular meeting with all members present, enact an ordinance adopting the provisions of those sections. That ordinance may be repealed by the board of supervisors at any time.

27000.7

(a) A person shall not be eligible for election or appointment to the office of county treasurer, county tax collector, or county treasurer-tax collector of any county unless that person meets at least one of the following criteria:

(1) The person has served in a senior financial management position in a county, city, or other public agency dealing with similar financial responsibilities for a continuous period of not less than three years, including, but not limited to, treasurer, tax collector, auditor, auditor-controller, or the chief deputy or an assistant in those offices.

(2) The person possesses a valid baccalaureate, masters, or doctoral degree from an accredited college or university in any of the following major fields of study: business administration, public administration, economics, finance, accounting, or a related field, with a minimum of 16 college semester units, or their equivalent, in accounting, auditing, or finance.

(3) The person possesses a valid certificate issued by the California Board of Accountancy pursuant to Chapter 1 (commencing with Section 5000) of Division 3 of the Business and Professions Code, showing that person to be, and a permit authorizing that person to practice as, a certified public accountant.

(4) The person possesses a valid charter issued by the Institute of Chartered Financial Analysts showing the person to be designated a Chartered Financial Analyst, with a minimum of 16 college semester units, or their equivalent, in accounting, auditing, or finance.

(b)(1) This section shall only apply to any person duly elected or appointed as a county treasurer, county tax collector, or county treasurer-tax collector on or after January 1, 1998.

(2) The amendments made by the act adding this paragraph apply to any person duly elected or appointed as a county treasurer, county tax collector, or county treasurer-tax collector on or after January 1, 2024.

27000.8

Any duly elected county treasurer, county tax collector, or county treasurer-tax collector serving in that office on January 1, 1996, may serve for his or her remaining term of office during which period of time the requirements of this section shall not apply. After the election of a county treasurer, county tax collector, or county treasurer-tax collector to office, that person shall complete a valid continuing course of study as prescribed in this section, and shall during the person's four-year term of office on or before June 30 of the fourth year, render to the Controller a certification indicating that the person has successfully completed a continuing education program consisting of, at a minimum, 48 hours, or an

equivalent amount of continuing education units within the discipline of treasury management, tax collection, public finance, public administration, governmental accounting, or directly related subjects, offered by a recognized state or national association, institute, or accredited college or university, or the California Debt and Investment Advisory Commission, that provides the requisite educational programs prescribed in this section. The willful or negligent failure of any elected county treasurer, county tax collector, or county treasurer-tax collector to comply with the requirements of this section shall be deemed a violation of this section.

27000.9

Notwithstanding any other requirement of law, any duly appointed county officer serving in the capacity of county treasurer, county tax collector, or county treasurer-tax collector shall, beginning in 2000, complete a valid continuing course of study as prescribed in this section, and shall, on or before June 30 of each two-year period, render to the Controller, a certification indicating that the county officer has successfully completed a continuing education program consisting of, at a minimum, 24 hours or an equivalent amount of continuing education units within the discipline of treasury management, tax collection, public finance, public administration, governmental accounting, or directly related subjects, offered by a recognized state or national association, institute, or accredited college or university, or the California Debt and Investment Advisory Commission, that provides the requisite educational programs prescribed in this section. The willful or negligent failure of any county officer serving in the capacity of county treasurer, county tax collector, or county treasurer-tax collector to comply with the requirements of this section shall be deemed a violation of this section.

27001

The treasurer shall file and keep the certificates of the auditor delivered to him or her when money is paid into the treasury.

Notwithstanding Sections 26201, 26202, and 26205, the treasurer may destroy any certificate pursuant to this section under either of the following circumstances:

- (a) The certificate has been filed for more than five years.
- (b) The certificate has been filed for more than one year, and all of the following conditions are complied with:
 - (1) The record, paper, or document is photographed, microphotographed, reproduced by electronically recorded video images on magnetic surfaces, or recorded on optical disk or reproduced on any other medium that does not permit additions, deletions, or changes to the original document and is produced in compliance with Section 12168.7 for recording of permanent records or nonpermanent records if the copy is kept or maintained for five years from the date of the document.
 - (2) The device used to reproduce the record, paper, or document on film or any other medium is one that accurately reproduces the original thereof in all details. A duplicate copy of any record reproduced in compliance with Section 12168.7

for recording of permanent or nonpermanent records, whichever applies, shall be deemed an original.

(3) The photographs, microphotographs, or other reproductions on film or any other medium are placed in conveniently accessible files and provision is made for preserving, examining, and using the same.

(4) The record, paper, or document is reproduced and preserved utilizing other information technology.

27002

The treasurer shall keep an account of the receipt and expenditure of all money received or paid out by him or her in books provided for the purpose. He or she shall enter in the books the amount, the time, from whom, and on what account all money was received by him or her, and the warrant number, the amount, time, and on what account all disbursements were made by him or her.

27002.1

(a) The treasurer may, in lieu of entering in books an account of the receipt and expenditure of all money received or paid out by him or her as provided in Section 27002, photograph, microphotograph, photocopy, or enter into an electronic data-processing system that utilizes optical transmission and filing, all receipts for money received by him or her and all warrants paid out by him or her.

(b) Every reproduction described in subdivision (a) shall be deemed and considered an original, and a transcript, exemplification, or certified copy of any of those reproductions shall be deemed and considered a transcript, exemplification, or certified copy, as the case may be, of the original.

(c) All reproductions described in subdivision (a) shall be properly indexed and placed in convenient, accessible files. Each roll of microfilm shall be deemed and constitute a book, and shall be designated and numbered, and provision shall be made for preserving, examining, and using it. A duplicate of each roll of microfilm shall be made and kept in a safe and separate place.

27003

The treasurer shall keep his or her books or any other authorized form of record so that the amounts received and paid out on account of separate funds or specific appropriations are exhibited in separate and distinct accounts, and the whole receipts and expenditures shown in one general or cash account.

27005

The treasurer shall disburse the county money and all other money placed in his or her custody by official authority only on county warrants, checks, or electronic fund transfers issued by the county auditor, except for the making of legal investments.

27006

The treasurer shall disburse the money in the treasury on county warrants only when they are based on orders of the board of supervisors, upon order of the superior court, or as otherwise provided by law. In the payment of the warrants he may issue his order, check, or draft drawn upon proper funds that are on deposit in any bank.

27007

The treasurer shall keep all money belonging to the State, or any county of the State in his own possession until disbursed according to law. He shall not place the money in the possession of any person to be used for any purpose, nor shall he loan or in any manner use, or permit any person to use it, except as provided by law. This section does not prohibit him from making special deposits for the safe-keeping of public money, but he is liable therefore on his official bond.

27008

(a) The treasurer shall not receive money into the treasury or for deposit with him or her as treasurer, unless it is accompanied by the certificate of the auditor.

(b) Notwithstanding subdivision (a), the auditor and treasurer may establish alternate control procedures for the treasurer to receive or deposit money without the certificate of the auditor.

27009

The treasurer shall give a receipt to each person who deposits money into the county treasury.

27010

The treasurer may receive any money constituting gift, bequest, or devise, and pay it out in accordance with the terms thereof, or, if none are fixed, according to law.

27011

Any county officer who knowingly accepts or allows any deposit in the county treasury of money from any private and unofficial source is guilty of a misdemeanor, punishable by imprisonment in the county jail for not less than six months nor more than one year, or by a fine of not less than five hundred dollars (\$500) and not more than five thousand dollars (\$5,000), or by both that fine and imprisonment, and shall forfeit his or her office.

27012

The Controller may summon county treasurers or the authorized representative of any county treasurer to meet with the Controller or his or her duly

authorized representatives, in those groups and at that place or those places within the state as may be designated by the Controller for the purpose of discussing the interpretation, procedures, uniformity of operation, and efficient administration of the Revenue and Taxation Code and the Government Code. The actual and necessary expenses of any county officer or his or her authorized representative that are incurred while traveling to and from or while attending any meeting called pursuant to this section by the Controller shall be a charge against the county, to be paid in the same manner as other county charges are paid, provided that prior approval of the board of supervisors has been obtained.

27013

Notwithstanding any other provision of law, any treasurer, or other authorized county officer, who invests, deposits or otherwise handles funds for public agencies for the purpose of earning interest or other income on such funds as permitted by law, may deduct from such interest or income, before distribution thereof, the actual administrative cost of such investing, depositing or handling of funds and of distribution of such interest or income. Such cost reimbursement shall be paid into the county general fund.

Government Code Section 27130-27137

27130

The Legislature finds and declares that local agencies, including school districts, should participate in reviewing the policies that guide the investment of those funds. The Legislature further finds and declares that by pooling deposits from local agencies and other participants, county treasuries operate in the public interest when they consolidate banking and investment activities, reduce duplication, achieve economies of scale, and carry out coherent and consolidated investment strategies. The Legislature further finds and declares that the creation of county treasury oversight committees will promote the public interest by involving depositors in the management of their funds and by enhancing the security and investment return on their funds by providing a more stable and predictable balance for investment by establishing criteria for the withdrawal of funds.

27131

(a) The board of supervisors in each county or city and county may, if the county or city and county is investing surplus funds, establish a county treasury oversight committee. The board of supervisors, in consultation with the county treasurer, shall determine the exact size of the committee, which shall consist of from 3 to 11 members, and the categories from which the members shall be represented, as specified in subdivisions (a) to (g), inclusive, of Section 27132. Members shall be nominated by the treasurer and confirmed by the board of supervisors.

(b) In recognition of the state and local interests served by the action made optional in subdivision (a), the Legislature encourages local agencies to continue taking the action formerly mandated by this section. However, nothing in this subdivision may be construed to impose any liability on a local agency that does not continue to take the formerly mandated action.

27132

The county treasury oversight committee, pursuant to Section 27131, shall consist of members appointed from the following:

- (a) The county treasurer.
- (b) The county auditor, auditor-controller, or finance director, as the case may be.
- (c) A representative appointed by the county board of supervisors.
- (d) The county superintendent of schools or his or her designee.
- (e) A representative selected by a majority of the presiding officers of the governing bodies of the school districts and community college districts in the county.
- (f) A representative selected by a majority of the presiding officers of the legislative bodies of the special districts in the county that are required or authorized to deposit funds in the county treasury.
- (g) Up to five other members of the public.
 - (1) A majority of the other public members shall have expertise in, or an academic background in, public finance.
 - (2) The other public members shall be economically diverse and bipartisan in political registration.

27132.1

A member may not be employed by an entity that has (a) contributed to the campaign of a candidate for the office of local treasurer, or (b) contributed to the campaign of a candidate to be a member of a legislative body of any local agency that has deposited funds in the county treasury, in the previous three years or during the period that the employee is a member of the committee.

27132.2

A member may not directly or indirectly raise money for a candidate for local treasurer or a member of the governing board of any local agency that has deposited funds in the county treasury while a member of the committee.

27132.3

A member may not secure employment with, or be employed by, bond underwriters, bond counsel, security brokerages or dealers, or financial services firms,

with whom the treasurer is doing business during the period that the person is a member of the committee or for one year after leaving the committee.

27132.4

Committee meetings shall be open to the public and subject to the Ralph M. Brown Act (Chapter 9 (commencing with Section 54950) of Part 1 of Division 2 of Title 5).

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.

27134

The county treasury oversight committee shall cause an annual audit to be conducted to determine the county treasury's compliance with this article. The audit may include issues relating to the structure of the investment portfolio and risk.

27135

The costs of complying with this article shall be county charges and may be included with those charges enumerated under Section 27013.

27136

(a) Notwithstanding any other provision of law, any local agency, public agency, public entity, or public official that has funds on deposit in the county treasury pool and that seeks to withdraw funds for the purpose of investing or depositing those funds outside the county treasury pool, shall first submit the request for withdrawal to the county treasurer before withdrawing funds from the county treasury pool.

(b) The county treasurer shall evaluate each proposed withdrawal for its consistency with the criteria adopted pursuant to subdivision (h) of Section 27133. Prior to approving a withdrawal, the county treasurer shall find that the proposed withdrawal will not adversely affect the interests of the other depositors in the county treasury pool.

27137

Nothing in this article shall be construed to allow the county treasury oversight committee to direct individual investment decisions, select individual investment advisors, brokers, or dealers, or impinge on the day-to-day operations of the county treasury.

Government Code Section 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.

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.

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.

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.

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. For purposes of compliance with this section, an investment's term or remaining maturity shall be measured from the settlement date to final maturity. A security purchased in accordance with this section shall not have a forward settlement date exceeding 45 days from the time of investment. 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, over-collateralization, 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, that have less than one hundred million dollars (\$100,000,000) of investment assets under management, may invest no more than 25 percent of their moneys in eligible commercial paper. Local agencies, other than counties or a city and county, that have one hundred million dollars (\$100,000,000) or more of investment assets under management may invest no more than 40 percent of their moneys in eligible commercial paper. A local agency, other than a county or a city and a county, may invest no more than 10 percent of its total investment assets in the commercial paper and the medium-term notes 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 any 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. A local agency, other than a county or a city and a county, may invest no more than 10 percent of its total investment assets in the commercial paper and the medium-term notes of any single issuer.

(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 United States 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 United States 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 United States 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 any 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)(1) 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.

(2) For securities eligible for investment under this subdivision not issued or guaranteed by an agency or issuer identified in subdivision (b) or (f), the following limitations apply:

(A) The security 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.

(B) Purchase of securities authorized by this paragraph 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 United States 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.

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

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.

53601.2

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

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.

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 (15 U.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.

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 30 percent of the agency's funds that may be invested for this purpose.

(k) (1) On or before January 1, 2030, the California Debt and Investment Advisory Commission shall submit a report to the appropriate policy committees of the Legislature on the deposit of surplus funds pursuant to this section by local agencies. The report shall include, but is not limited to, the following information:

(A) An overview of local agency surplus funds invested in depository institutions that use private-entity placement services pursuant to this section, including information regarding the number of agencies that have deposited more than 30 percent of their surplus funds in depository institutions that use private-entity placement services and whether any local agencies have deposited funds in more than one depository institution pursuant to this section.

(B) A recommendation for a limitation, if any, on the share of deposits that a local agency can invest in depository institutions that use private-entity placement services pursuant to this section for consideration by the Legislature.

(2) The report to be submitted pursuant to this subdivision shall be submitted in compliance with Section 9795.

(l) This section shall remain in effect only until January 1, 2031, and as of that date is repealed.

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.

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.

53604

The legislative body may sell, or exchange for other eligible securities, and reinvest the proceeds of, the securities purchased.

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.

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 then uncanceled. While held uncanceled, the bonds may be resold.

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 transac-

tions to the legislative body. Subject to review, the legislative body may renew the delegation of authority pursuant to this section each year.

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 received for by a financial institution until they are withdrawn from the financial institution by the treasurer.

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.

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.

Government Code Section 53620-53622

53620

Notwithstanding Section 53601 or 53635, the governing body of a local agency may invest funds designated for the payment of employee retiree health benefits in any form or type of investment deemed prudent by the governing body pursuant to Section 53622.

53621

The authority of the governing body to invest or to reinvest funds intended for the payment of employee retiree health benefits, or to sell or exchange securities purchased for that purpose, may be delegated by the governing body to designated officers.

53622

(a) Funds intended for the payment of employee retiree health benefits shall only be held for the purpose of providing benefits to participants in the retiree health benefit plan and defraying reasonable expenses of administering that plan.

(b) The governing body or designated officer, when making investments of the funds, shall discharge its duties with respect to the investment of the funds.

(1) Solely in the interest of, and for the exclusive purposes of providing benefits to, participants in the retiree health benefit plan, minimizing employer contributions thereto, and defraying reasonable expenses of administering the plan.

(2) With the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims.

(3) Shall diversify the investments of the funds so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly prudent not to do so.

Government Code Section 53630-53686

53630

As used in this article:

(a) “Local agency” means county, city, city and county, including a chartered city or county, a community college district, or other public agency or corporation in this state.

(b) “Treasurer” means treasurer of the local agency.

(c) “Depository” means a state or national bank, savings association or federal association, a state or federal credit union, or a federally insured industrial loan company, in this state in which the moneys of a local agency are deposited.

(d) “Agent of depository” means a trust company or trust department of a state or national bank located in this state, including the trust department of a depository where authorized, and the Federal Home Loan Bank of San Francisco, which is authorized to act as an agent of depository for the purposes of this article pursuant to Section 53657.

(e) “Security” means any of the eligible securities or obligations listed in Section 53651.

(f) “Pooled securities” means eligible securities held by an agent of depository for a depository and securing deposits of one or more local agencies.

(g) “Administrator” means the Administrator of Local Agency Security of the State of California.

(h) “Savings association or federal association” means a savings association, savings and loan association, or savings bank as defined by Section 5102 of the Financial Code.

(i) “Federally insured industrial loan company” means an industrial loan company licensed under Division 7 (commencing with Section 18000) of the Financial Code, the investment certificates of which are insured by the Federal Deposit Insurance Corporation.

(j) “Corporation” includes a limited liability company.

53630.1

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.

53630.5

(a) The definitions in Section 1750 of, and Chapter 1 (commencing with Section 99) of Division 1 of, the Financial Code apply to this section.

(b) In this article, for purposes of being a depository of moneys belonging to or being in the custody of a local agency, the phrases “state or national bank located in this state,” “state or national bank,” “state or national bank in this state,” and “state or national banks in the state” include, without limitation, any of the following:

(1) Any California branch office of a foreign (other state) state bank that the bank is authorized to maintain under the law of its domicile and federal law.

- (2) Any California branch office of a foreign (other state) national bank that the bank is authorized to maintain under federal law.
- (3) Any California branch office of a foreign (other nation) bank that the bank is licensed to maintain under Article 3 (commencing with Section 1800) of Chapter 20 of Division 1.1 of the Financial Code.
- (4) Any California federal branch of a foreign (other nation) bank that the bank is authorized to maintain under federal law.

53631

Under those conditions as the treasurer of a local agency fixes with the approval of the legislative body, he or she may establish accounts at banks within or without the state and deposit money in those accounts to the extent necessary to pay the principal and interest of bonds to pay any warrant that has been presented for payment, or to fund any electronic disbursement of funds from the treasury of the local agency. This article does not apply to deposits for those purposes.

53632

There are three classes of deposits:

- (a) Inactive deposits.
- (b) Active deposits.
- (c) Interest-bearing active deposits.

53632.5

There are three classes of security for deposits:

- (a) Securities described in subdivision (m) of Section 53651.
- (b) Securities described in subdivision (p) of Section 53651.
- (c) Securities enumerated in Section 53651, except for those described in subdivisions (m) and (p) of that section.

53633

The treasurer shall determine the amounts of money to be deposited as inactive, active, and interest-bearing active deposits, except as otherwise provided in Section 53679.

53634

The treasurer may call in money from inactive deposits and place it in active deposits as current demands require. When there is money in his possession for which there is no demand as inactive deposits, he may place it as active deposits.

53635

(a) This section shall apply to a local agency that is a county, a city and a 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.

53635.2

As far as possible, all money belonging to, or in the custody of, a local agency, including money paid to the treasurer or other official to pay the principal, interest, or penalties of bonds, shall be deposited for safekeeping in state or national banks, public banks, savings associations, federal associations, credit unions, or federally insured industrial loan companies in this state selected by the treasurer or other official having legal custody of the money; or may be invested in the investments set forth in Section 53601. To be eligible to receive local agency money, a bank, savings association, federal association, or federally insured industrial loan company shall have received an overall rating of not less than "satisfactory" in its most recent evaluation by the appropriate federal financial supervisory agency of its record of meeting the credit needs of California's communities, including low- and moderate-income neighborhoods, pursuant to Section 2906 of Title 12 of the United States Code. Sections 53601.5 and 53601.6 shall apply to all investments that are acquired pursuant to this section.

53635.7

In making any decision that involves borrowing in the amount of one hundred thousand dollars (\$100,000) or more, the legislative body of the local agency shall discuss, consider, and deliberate each decision as a separate item of business on the agenda of its meeting as prescribed in Chapter 9 (commencing with Section 54950). As used in this section, “borrowing” does not include bank overdrafts or security lending.

53635.8

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 for investment 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 30 percent of the agency's funds that may be invested for this purpose.

53636

Money so deposited is deemed to be in the treasury of the local agency.

53637

The money shall be deposited in any bank, savings association or federal association, state or federal credit union, or federally insured industrial loan company with the objective of realizing maximum return, consistent with prudent financial management, except that money shall not be deposited in any state or federal credit union if a member of the legislative body of a local agency, or any person with investment decision making authority of 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 supervisory committee, of the state or federal credit union.

53638

(a) The deposit shall not exceed the shareholder's equity of any depository bank. For the purposes of this subdivision, shareholder's equity shall be determined in accordance with Section 463 of the Financial Code, but shall be deemed to include capital notes and debentures.

(b) The deposit shall not exceed the total of the net worth of any depository savings association or federal association, except that deposits not exceeding a total of five hundred thousand dollars (\$500,000) may be made to a savings association or federal association without regard to the net worth of that depository, if such deposits are insured or secured as required by law.

(c) The deposit to the share accounts of any regularly chartered credit union shall not exceed the total of the unimpaired capital and surplus of the credit union, as defined by rule of the Commissioner of Financial Protection and Innovation, except that the deposit to any credit union share account in an amount not exceeding five hundred thousand dollars (\$500,000) may be made if the share accounts of that credit union are insured or guaranteed pursuant to Section 14858 of the Financial Code or are secured as required by law.

(d) The deposit in investment certificates of a federally insured industrial loan company shall not exceed the total of the unimpaired capital and surplus of the insured industrial loan company.

53639

Except as otherwise provided in Section 53682, the depository shall bear the expenses of transportation of money to and from the depository.

53640

Except as otherwise provided in Section 53682, the depository shall handle, collect, and pay all checks, drafts, and other exchange without cost to the local agency.

53641

When money is deposited in a depository, the treasurer or other authorized official shall take and preserve a receipt, certificate of deposit, or other evidence of the deposit as he or she requires.

53642

The money deposited may be drawn out by check or order of the treasurer or other official authorized to make such deposit.

53643

The treasurer may deposit any part of the money as agreed upon between the treasurer and the depository.

53644

If an agreement is not made:

- (a) Active deposits and interest thereon are subject to withdrawal upon the demand of the treasurer or other authorized official, subject to any penalties which may be prescribed by federal law or regulation.
- (b) Inactive deposits are subject to notice of at least thirty days before withdrawal.

53645

Interest shall be computed and paid by the depository, as follows:

- (a) For active deposits upon which interest is payable, interest shall be computed on the average daily balance for the calendar quarter, and shall be paid quarterly.
- (b) For inactive deposits, interest shall be computed on a 360-day basis, and shall be paid quarterly.

53646

- (a)(1) In the case of county government, the treasurer may annually render to the board of supervisors and any oversight committee a statement of investment policy, which the board shall review and approve at a public meeting. Any change in the policy shall also be reviewed and approved by the board at a public meeting.
- (2) In the case of any other local agency, the treasurer or chief fiscal officer of the local agency may annually render to the legislative body of that local agency and any oversight committee of that local agency a statement of investment policy, which the legislative body of the local agency shall consider at a public meeting. Any change in the policy shall also be considered by the legislative body of the local agency at a public meeting.

(b)(1) The treasurer or chief fiscal officer may render a quarterly report to the chief executive officer, the internal auditor, and the legislative body of the local agency. The quarterly report shall be so submitted within 45 days following the end of the quarter covered by the report. Except as provided in subdivisions (e) and (f), this report shall include the type of investment, issuer, date of maturity par and dollar amount invested on all securities, investments and moneys held by the local agency, and shall additionally include a description of any of the local agency's funds, investments, or programs, that are under the management of contracted parties, including lending programs. With respect to all securities held by the local agency, and under management of any outside party that is not also a local agency or the State of California Local Agency Investment Fund, the report shall also include a current market value as of the date of the report, and shall include the source of this same valuation.

(2) The quarterly report shall state compliance of the portfolio to the statement of investment policy, or manner in which the portfolio is not in compliance.

(3) The quarterly report shall include a statement denoting the ability of the local agency to meet its pool's expenditure requirements for the next six months, or provide an explanation as to why sufficient money shall, or may, not be available.

(4) In the quarterly report, a subsidiary ledger of investments may be used in accordance with accepted accounting practices.

(c) Pursuant to subdivision (b), the treasurer or chief fiscal officer shall report whatever additional information or data may be required by the legislative body of the local agency.

(d) The legislative body of a local agency may elect to require the report specified in subdivision (b) to be made on a monthly basis instead of quarterly.

(e) For local agency investments that have been placed in the Local Agency Investment Fund, created by Section 16429.1, in National Credit Union Share Insurance Fund-insured accounts in a credit union, in accounts insured or guaranteed pursuant to Section 14858 of the Financial Code, or in Federal Deposit Insurance Corporation-insured accounts in a bank or savings and loan association, in a county investment pool, or any combination of these, the treasurer or chief fiscal officer may supply to the governing body, chief executive officer, and the auditor of the local agency the most recent statement or statements received by the local agency from these institutions in lieu of the information required by paragraph (1) of subdivision (b) regarding investments in these institutions.

(f) The treasurer or chief fiscal officer shall not be required to render a quarterly report, as required by subdivision (b), to a legislative body or any oversight committee of a school district or county office of education for securities, investments, or moneys held by the school district or county office of education in individual accounts that are less than twenty-five thousand dollars (\$25,000).

(g) In recognition of the state and local interests served by the actions made optional in subdivisions (a) and (b), the Legislature encourages the local agency officials to continue taking the actions formerly mandated by this section. However, nothing in this subdivision may be construed to impose any liability on a local agency that does not continue to take the formerly mandated action.

53647

(a) Interest on all money deposited belongs to, and shall be paid quarterly into the general fund of, the local agency represented by the officer making the deposit, unless otherwise directed by law.

(b) Notwithstanding the provisions of subdivision (a), and except as otherwise directed by law, if the governing body of the local agency represented by the officer making the deposit so directs, such interest shall be paid to the fund which contains the principal on which the interest accrued.

53647.5

Notwithstanding any other provision of law, interest earned on any bail money deposited by a court in a bank account pursuant to Section 1463.1 of the Penal Code and Section 53679 of this code shall, be allocated for the support of that court.

53648

Notwithstanding this article, the treasurer may deposit moneys in, and enter into contracts with, a state or national bank, savings association or federal association, federal or state credit union, or federally insured industrial loan company, pursuant to a federal law or a rule of a federal department or agency adopted pursuant to the law if the law or rule conflicts with this article in regulating the payment of interest on deposits of public moneys by any of the following:

(a) Banks which are Federal Reserve System members or whose deposits are insured by the Federal Deposit Insurance Corporation.

(b) Savings associations or federal associations which are federal home loan bank members or whose deposits are insured by the Federal Savings and Loan Insurance Corporation.

(c) State or federal credit unions whose accounts are insured by the National Credit Union Share Insurance Fund or guaranteed by the California Credit Union Share Guaranty Corporation or insured or guaranteed pursuant to Section 14858 of the Financial Code, unless a member of the legislative body of a local agency, or any person with investment decision making authority of 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 supervisory committee, of the state or federal credit union.

(d) A federally insured industrial loan company.

53648.5

Upon the removal by federal law of the conflicting federal law or rule the agreement between the treasurer or other authorized official and a depository may be terminated by either party.

53649

The treasurer is responsible for the safekeeping of money in his or her custody and shall enter into any contract with a depository relating to any deposit which in his or her judgment is to the public advantage. The depository, and the agent of depository to the extent the agent of depository has been notified of deposits and the amount thereof, are responsible for securing moneys deposited pursuant to such a contract in accordance with Section 53652. One copy of each contract shall be filed with the auditor, controller, secretary, or corresponding officer of the local agency. The contract shall:

- (a) Fix the duration of deposits, if appropriate.
- (b) Fix the interest rate, if any.
- (c) Provide conditions for withdrawal and repayment.
- (d) Provide for placement of pooled securities in a named agent of depository in accordance with Section 53656.
- (e) Grant authority for agent of depository to place securities for safekeeping in accordance with Section 53659.
- (f) Set forth in accordance with Section 53665 the conditions upon which the administrator shall order pooled securities converted into money for the benefit of the local agency, and the procedure therefor.
- (g) Provide for compliance in all respects with the provisions of this article and other applicable provisions of law.
- (h) Provide, upon notice to the treasurer from the administrator, that a treasurer may withdraw deposits in the event a depository fails to pay the assessments, fines, or penalties assessed by the administrator or may withdraw authorization for the placement of pooled securities in an agent of depository in the event that the agent of depository fails to pay the fines or penalties assessed by the administrator.

53651

Eligible securities are any of the following:

- (a) United States Treasury notes, bonds, bills or certificates of indebtedness, or obligations for which the faith and credit of the United States are pledged for the payment of principal and interest, including the guaranteed portions of small business administration loans, so long as the loans are obligations for which the faith and credit of the United States are pledged for the payment of principal and interest.
- (b) Notes or bonds or any obligations of a local public agency (as defined in the United States Housing Act of 1949) or any obligations of a public housing agency (as defined in the United States Housing Act of 1937) for which the faith and credit of the United States are pledged for the payment of principal and interest.

(c) Bonds of this state or of any local agency or district of the State of California having the power, without limit as to rate or amount, to levy taxes or assessments to pay the principal and interest of the bonds upon all property within its boundaries subject to taxation or assessment by the local agency or district, and in addition, limited obligation bonds pursuant to Article 4 (commencing with Section 50665) of Chapter 3 of Division 1, senior obligation bonds pursuant to Article 5 (commencing with Section 53387) of Chapter 2.7, and revenue bonds and other obligations payable solely out of the revenues from a revenue-producing property owned, controlled or operated by the state, local agency or district or by a department, board, agency or authority thereof.

(d) Bonds of any public housing agency (as defined in the United States Housing Act of 1937, as amended) as are secured by a pledge of annual contributions under an annual contribution contract between the public housing agency and the Public Housing Administration if such contract shall contain the covenant by the Public Housing Administration which is authorized by subsection (b) of Section 22 of the United States Housing Act of 1937, as amended, and if the maximum sum and the maximum period specified in the contract pursuant to that subsection 22(b) shall not be less than the annual amount and the period for payment which are requisite to provide for the payment when due of all installments of principal and interest on the obligations.

(e) Registered warrants of this state.

(f) Bonds, consolidated bonds, collateral trust debentures, consolidated debentures, or other obligations issued by the United States Postal Service, federal land banks or federal intermediate credit banks established under the Federal Farm Loan Act, as amended, debentures and consolidated debentures issued by the Central Bank for Cooperatives and banks for cooperatives established under the Farm Credit Act of 1933, as amended, consolidated obligations of the federal home loan banks established under the Federal Home Loan Bank Act, bonds, debentures and other obligations of the Federal National Mortgage Association or of the Government National Mortgage Association established under the National Housing Act, as amended, bonds of any federal home loan bank established under that act, bonds, debentures and other obligations of the Federal Home Loan Mortgage Corporation established under the Emergency Home Finance Act of 1970, and obligations of the Tennessee Valley Authority.

(g) Notes, tax anticipation warrants or other evidence of indebtedness issued pursuant to Article 7 (commencing with Section 53820), Article 7.5 (commencing with Section 53840) or Article 7.6 (commencing with Section 53850) of this Chapter 4.

(h) State of California notes.

(i) Bonds, notes, certificates of indebtedness, warrants or other obligations issued by: (1) any state of the United States (except this state), or the Commonwealth of Puerto Rico, or any local agency thereof having the power to levy taxes, without limit as to rate or amount, to pay the principal and interest of such obligations, or (2) any state of the United States (except this state), or the Commonwealth of Puerto Rico, or a department, board, agency or authority

thereof except bonds which provide for or are issued pursuant to a law which may contemplate a subsequent legislative appropriation as an assurance of the continued operation and solvency of the department, board, agency or authority but which does not constitute a valid and binding obligation for which the full faith and credit of such state or the Commonwealth of Puerto Rico are pledged, which are payable solely out of the revenues from a revenue-producing source owned, controlled or operated thereby; provided the obligations issued by an entity described in (1), above, are rated in one of the three highest grades, and such obligations issued by an entity described in (2), above, are rated in one of the two highest grades by a nationally recognized investment service organization that has been engaged regularly in rating state and municipal issues for a period of not less than five years.

(j) Obligations issued, assumed or guaranteed by the International Bank for Reconstruction and Development, Inter-American Development Bank, the Government Development Bank of Puerto Rico, the Asian Development Bank, the International Finance Corporation, or the African Development Bank.

(k) Participation certificates of the Export-Import Bank of the United States.

(l) Bonds and notes of the California Housing Finance Agency issued pursuant to Chapter 7 (commencing with Section 51350) of Part 3 of Division 31 of the Health and Safety Code.

(m) Promissory notes secured by first mortgages and first trust deeds which comply with Section 53651.2.

(n) Any bonds, notes, warrants, or other evidences of indebtedness of a nonprofit corporation issued to finance the construction of a school building or school buildings pursuant to a lease or agreement with a school district entered into in compliance with the provisions of Section 39315 or 81345 of the Education Code, and also any bonds, notes, warrants or other evidences of indebtedness issued to refinance those bonds, notes, warrants, or other evidences of indebtedness as specified in Section 39317 of the Education Code.

(o) Any municipal securities, as defined by Section 3(a)(29) of the Securities Exchange Act of June 6, 1934, (15 u.s.c. Sec. 78, as amended), which are issued by this state or any local agency thereof.

(p) With the consent of the treasurer, letters of credit issued by the Federal Home Loan Bank of San Francisco which comply with Section 53651.6.

53651.2

(a) To be an eligible security under subdivision (m) of Section 53651, a promissory note placed in a securities pool on or after January 1, 1987, shall comply with all of the following provisions:

(1) Each promissory note shall be secured by a first mortgage or first trust deed on improved 1 to 4 unit residential real property located in California, shall be fully amortized over the term of the note, and shall have a term of no more than 30 years. Any first mortgage or first trust deed which secures a promissory note

providing for negative amortization shall be removed from the securities pool and replaced with an eligible security under subdivision (m) of Section 53651 if the loan to value ratio exceeds 85 percent of the original appraised value of the security property as a consequence of negative amortization.

(2) Each promissory note shall be eligible for sale to the Federal National Mortgage Association, the Government National Mortgage Association, or the Federal Home Loan Mortgage Corporation; provided, however, that up to 25 percent of the total dollar amount of any promissory note securities pool established pursuant to Section 53658 may consist of promissory notes with loan amounts which exceed the maximum amounts eligible for purchase by the Federal National Mortgage Association, the Government National Mortgage Association, or the Federal Home Loan Mortgage Corporation, but which do not exceed: (i) five hundred thousand dollars (\$500,000) in the case of a single family dwelling; (ii) one million dollars (\$1,000,000) in the case of a 2, 3, or 4 unit dwelling.

(b) The following shall not constitute eligible securities under subdivision (m) of Section 53651:

- (1) Any promissory note on which any payment is more than 60 days past due.
- (2) Any promissory note secured by a mortgage or deed of trust as to which there is a lien prior to the mortgage or deed of trust. For the purposes of this paragraph, no lien specified in Section 766 of the Financial Code shall be considered a prior encumbrance unless any installment or payment thereunder (other than a rental or royalty under a lease) is due and delinquent.
- (3) Any promissory note secured by a mortgage or deed of trust as to which a notice of default has been recorded pursuant to Section 2924 of the Civil Code or an action has been commenced pursuant to Section 725a of the Code of Civil Procedure.
- (c) The depository may exercise, enforce, or waive any right granted to it by the promissory note, mortgage, or deed of trust.
- (d) For purposes of this article, the market value of a promissory note which is an eligible security under subdivision (m) of Section 53651, shall be determined in accordance with the regulations adopted by the Treasurer under paragraph (2) of subdivision (m) of Section 53651, as the regulations and statute were in effect on December 31, 1986. However, if and when regulations on the subject are adopted by the administrator, the market value shall be determined in accordance with those regulations of the administrator.

53651.4

(a) A depository that uses eligible securities of the class described in subdivision (m) of Section 53651 shall, within 90 days after the close of each calendar year or within a longer period as the administrator may specify, file with the administrator a report of an independent certified public accountant regarding compliance with this article and with regulations and orders issued by the administrator under this article with respect to eligible securities of that class. The report shall be based upon the audit, shall contain the information, and shall be in the form the

administrator may prescribe. The depository shall provide a copy of the report to the treasurer on request.

(b) If a depository that is a state bank files with the administrator, not less than 90 days before the beginning of the calendar year, a notice that it elects to be examined by the administrator instead of filing a report of an independent certified public accountant under subdivision (a) for that calendar year, the depository shall be exempt from subdivision (a) for that calendar year and shall for that calendar year be subject to examination by the administrator regarding compliance with this article and with regulations and orders under this article with respect to eligible securities of the class described in subdivision (m) of Section 53651. The administrator shall provide a report to a treasurer with deposits in the examined state bank upon request of the treasurer.

(c) A national bank may apply to the administrator to be examined, and the administrator, in his or her discretion, may examine a national bank for the purposes of satisfying the requirements of subdivision (a). The administrator shall provide a report to a treasurer with deposits in the examined national bank upon request of the treasurer.

(d) Whenever the administrator examines a depository pursuant to subdivision (b) or (c), the depository shall pay, within 30 days after receipt of a statement from the administrator, a fee of seventy-five dollars (\$75) per hour for each examiner engaged in the examination.

53651.6

(a) To be an eligible security under subdivision (p) of Section 53651, a letter of credit shall be in such form and shall contain such provisions as the administrator may prescribe, and shall include all of the following terms:

- (1) The administrator shall be the beneficiary of the letter of credit.
- (2) The letter of credit shall be clean and irrevocable and shall provide that the administrator may draw upon it up to the total amount in the event of the failure of the depository savings association or federal association or if the depository savings association or federal association refuses to permit the withdrawal of funds by a treasurer.

53652

To secure active or inactive deposits a depository shall at all times maintain with the agent of depository eligible securities in securities pools, pursuant to Sections 53656 and 53658, in the amounts specified in this section. Uncollected funds shall be excluded from the amount deposited in the depository when determining the security requirements for the deposits.

(a) Eligible securities, except eligible securities of the classes described in subdivisions (m) and (p) of Section 53651, shall have a market value of at least 10 percent in excess of the total amount of all deposits of a depository secured by the eligible securities.

(b) Eligible securities of the class described in subdivision (m) of Section 53651 shall have a market value at least 50 percent in excess of the total amount of all deposits of a depository secured by those eligible securities.

(c) Eligible securities of the class described in subdivision (p) of Section 53651 shall have a market value of at least 5 percent in excess of the total amount of all deposits of a depository secured by those eligible securities. For purposes of this article, the market value of a letter of credit which is an eligible security under subdivision (p) of Section 53651 shall be the amount of credit stated in the letter of credit.

53653

When in his or her discretion local conditions so warrant, the treasurer may waive security for the portion of any deposits as is insured pursuant to federal law, notwithstanding this article. For deposits equivalent to and not less than the maximum amount insured pursuant to federal law for which a treasurer has waived security under this section, a treasurer at his or her discretion may also waive security for the interest accrued on the deposits which, when added to the deposits, would cause the sum of the interest and deposits to exceed the maximum amount insured pursuant to federal law, provided that the interest is computed by the depository on the average daily balance of the deposits, paid monthly and computed on a 360-day basis.

53654

(a) The depository may add securities to the pool or substitute securities of equal value for those in the pool at any time, but shall not interchange classes of security, as defined in Section 53632.5, without prior approval of the treasurer.

(b) Withdrawal of securities from the pool without replacement at equal value may be ordered only by two duly authorized officers or employees of the depository who satisfy the requirements as may be set by the administrator.

(c) The agent of depository is responsible for the safekeeping and disbursement of securities placed in its custody by a depository. It shall release securities only upon presentation by the depository of the most reasonably current statement of the total deposits subject to this article held by the depository, such statement to be verified and countersigned by two duly authorized officers, other than those who ordered the withdrawal of securities. A copy of this statement shall be forwarded to the administrator concurrently by the agent of depository.

53655

A placement of securities by a depository with an agent of depository pursuant to this article shall have the effect of perfecting a security interest in those securities in the local agencies having deposits in that depository notwithstanding provisions of the Uniform Commercial Code to the contrary and notwithstanding that the agent of depository may be the trust department of the depository.

53656

(a) At the time the treasurer enters into a contract with the depository pursuant to Section 53649, he or she shall authorize the agent of depository designated by the depository, but including the trust department of the depository only when acceptable to both the treasurer and the depository, to hold securities of the depository in accordance with this article to secure the deposit of the local agency.

(b) Only those trust companies and trust departments, or the Federal Home Loan Bank of San Francisco, which have been authorized by the administrator pursuant to Section 53657 shall be authorized by treasurers to act as agents of depository.

(c) The securities are subject to order of the depository in accordance with Section 53654 except when the provisions of subdivision (i) of Section 53661 and Section 53665 are in effect.

(d) An agent of depository shall not release any security held to secure a local agency deposit in a depository unless the administrator issues an order authorizing the release where either of the following occurs:

- (1) A state or federal regulatory agency has taken possession of the depository.
- (2) A conservator, receiver, or other legal custodian has been appointed for the depository.

53657

(a) No person shall act as an agent of depository unless that person is a trust company located in this state, the trust department of a bank located in this state, or the Federal Home Loan Bank of San Francisco, and is authorized by the administrator to act as an agent of depository.

(b)(1) An application for authorization shall be in such form, shall contain such information, shall be signed in such manner, and shall (if the administrator so requires) be verified in such manner, as the administrator may prescribe.

(2) The fee for filing an application for authorization with the administrator shall be five hundred dollars (\$500).

(3) If the administrator finds, with respect to an application for authorization, that the applicant is competent to act as an agent of depository and that it is reasonable to believe the applicant will comply with all applicable provisions of this article and of any regulation or order issued under this article, the administrator shall approve the application. If the administrator finds otherwise, the administrator shall deny the application.

(4) When an application for authorization has been approved, the applicant shall file with the administrator an agreement to comply with all applicable provisions of this article and of any regulation or order issued under this article. The agreement shall be in such form, shall contain such provisions, and shall be signed in such manner as the administrator may prescribe.

(5) When an application for authorization has been approved, the applicant has complied with paragraph (4), and all conditions precedent to authorizing the applicant to act as agent of depository have been fulfilled, the administrator shall authorize the applicant to act as agent of depository.

53658

An agent of a depository may hold and pool securities to secure deposits for one or more depositories pursuant to Section 53656, but shall maintain a separate pool for each said depository. Each local agency shall have an undivided security interest in the pooled securities in the proportion that the amount of its deposits bears to the total amount of deposits secured by the pooled securities.

53659

Whenever an agent of depository accepts securities pursuant to Section 53656 it may, with the authorization of the depository, place such securities for safekeeping with a Federal Reserve Bank or branch thereof or with any bank located in a city designated as a reserve city by the Board of Governors of the Federal Reserve System or with the Federal Home Loan Bank of San Francisco or with a trust company located in this state. Authority for such placement together with the names of the banks or, including the Federal Home Loan Bank of San Francisco, trust companies to be so used, shall be contained in the contract between the treasurer and the depository required in Section 53649.

53660

When deposits of a local agency are secured by pooled securities pursuant to Section 53656, the agent of depository shall make available to the treasurer for review at a mutually agreed upon time and location all of the following information which may be in the form of a copy of the report required in subdivision (e) of Section 53661:

- (a) A certification that there are securities in the pool in the amounts required by Section 53652 to secure deposits.
- (b) A certified report of the individual securities then on deposit in the pool with the location and total market value thereof.
- (c) The total amount of deposits then reported by the depository to be secured by the pool.

53661

- (a) The Commissioner of Business Oversight shall act as Administrator of Local Agency Security and shall be responsible for the administration of Sections 53638, 53651, 53651.2, 53651.4, 53651.6, 53652, 53654, 53655, 53656, 53657, 53658, 53659, 53660, 53661, 53663, 53664, 53665, 53666, and 53667.
- (b) The administrator shall have the powers necessary or convenient to administer and enforce the sections specified in subdivision (a).

(c)(1) The administrator shall issue regulations consistent with law as the administrator may deem necessary or advisable in executing the powers, duties, and responsibilities assigned by this article. The regulations may include regulations prescribing standards for the valuation, marketability, and liquidity of the eligible securities of the class described in subdivision (m) of Section 53651, regulations prescribing procedures and documentation for adding, withdrawing, substituting, and holding pooled securities, and regulations prescribing the form, content, and execution of any application, report, or other document called for in any of the sections specified in subdivision (a) or in any regulation or order issued under any of those sections.

(2) The administrator, for good cause, may waive any provision of any regulation adopted pursuant to paragraph (1) or any order issued under this article, where the provision is not necessary in the public interest.

(d) The administrator may enter into any contracts or agreements as may be necessary, including joint underwriting agreements, to sell or liquidate eligible securities securing local agency deposits in the event of the failure of the depository or if the depository fails to pay all or part of the deposits of a local agency.

(e) The administrator shall require from every depository a report certified by the agent of depository listing all securities, and the market value thereof, which are securing local agency deposits together with the total deposits then secured by the pool, to determine whether there is compliance with Section 53652. These reports may be required whenever deemed necessary by the administrator, but shall be required at least four times each year at the times designated by the Comptroller of the Currency for reports from national banking associations. These reports shall be filed in the office of the administrator by the depository within 20 business days of the date the administrator calls for the report.

(f) The administrator may have access to reports of examination made by the Comptroller of the Currency insofar as the reports relate to national banking association trust department activities which are subject to this article.

(g)(1) The administrator shall require the immediate substitution of an eligible security, where the substitution is necessary for compliance with Section 53652, if (i) the administrator determines that a security listed in Section 53651 is not qualified to secure public deposits, or (ii) a treasurer, who has deposits secured by the securities pool, provides written notice to the administrator and the administrator confirms that a security in the pool is not qualified to secure public deposits.

(2) The failure of a depository to substitute securities, where the administrator has required the substitution, shall be reported by the administrator promptly to those treasurers having money on deposit in that depository and, in addition, shall be reported as follows:

(A) When that depository is a national bank, to the Comptroller of the Currency of the United States.

(B) When that depository is a state bank, to the Commissioner of Business Oversight.

- (C) When that depository is a federal association, to the Office of the Comptroller of the Currency.
- (D) When that depository is a savings association, to the Commissioner of Business Oversight.
- (E) When that depository is a federal credit union, to the National Credit Union Administration.
- (F) When that depository is a state credit union or a federally insured industrial loan company, to the Commissioner of Business Oversight.
- (h) The administrator may require from each treasurer a registration report and at appropriate times a report stating the amount and location of each deposit together with other information deemed necessary by the administrator for effective operation of this article. The facts recited in any report from a treasurer to the administrator are conclusively presumed to be true for the single purpose of the administrator fulfilling responsibilities assigned to him or her by this article and for no other purpose.
- (i)(1) If, after notice and opportunity for hearing, the administrator finds that any depository or agent of depository has violated or is violating, or that there is reasonable cause to believe that any depository or agent of depository is about to violate, any of the sections specified in subdivision (a) or any regulation or order issued under any of those sections, the administrator may order the depository or agent of depository to cease and desist from the violation or may by order suspend or revoke the authorization of the agent of depository. The order may require the depository or agent of depository to take affirmative action to correct any condition resulting from the violation.
- (2)(A) If the administrator makes any of the findings set forth in paragraph (1) with respect to any depository or agent of depository and, in addition, finds that the violation or the continuation of the violation is likely to seriously prejudice the interests of treasurers, the administrator may order the depository or agent of depository to cease and desist from the violation or may suspend or revoke the authorization of the agent of depository. The order may require the depository or agent of depository to take affirmative action to correct any condition resulting from the violation.
- (B) Within five business days after an order is issued under subparagraph (a), the depository or agent of depository may file with the administrator an application for a hearing on the order. The administrator shall schedule a hearing at least 30 days, but not more than 40 days, after receipt of an application for a hearing or within a shorter or longer period of time agreed to by a depository or an agent of depository. If the administrator fails to schedule the hearing within the specified or agreed to time period, the order shall be deemed rescinded. Within 30 days after the hearing, the administrator shall affirm, modify, or rescind the order; otherwise, the order shall be deemed rescinded. The right of a depository or agent of depository to which an order is issued under subparagraph (a) to petition for judicial review of the order shall not be affected by the failure of the depository or agent of depository to apply to the administrator for a hearing on the order pursuant to this subparagraph.

(3) Whenever the administrator issues a cease and desist order under paragraph (1) or (2), the administrator may in the order restrict the right of the depository to withdraw securities from a security pool; and, in that event, both the depository to which the order is directed and the agent of depository which holds the security pool shall comply with the restriction.

(4) In case the administrator issues an order under paragraph (1) or (2) suspending or revoking the authorization of an agent of depository, the administrator may order the agent of depository at its own expense to transfer all pooled securities held by it to such agent of depository as the administrator may designate in the order. The agent of depository designated in the order shall accept and hold the pooled securities in accordance with this article and regulations and orders issued under this article.

(j) In the discretion of the administrator, whenever it appears to the administrator that any person has violated or is violating, or that there is reasonable cause to believe that any person is about to violate, any of the sections specified in subdivision (a) or any regulation or order issued thereunder, the administrator may bring an action in the name of the people of the State of California in the superior court to enjoin the violation or to enforce compliance with those sections or any regulation or order issued thereunder. Upon a proper showing a permanent or preliminary injunction, restraining order, or writ of mandate shall be granted, and the court may not require the administrator to post a bond.

(k) In addition to other remedies, the administrator shall have the power and authority to impose the following sanctions for noncompliance with the sections specified in subdivision (a) after a hearing if requested by the party deemed in noncompliance. Any fine assessed pursuant to this subdivision shall be paid within 30 days after receipt of the assessment.

(1) Assess against and collect from a depository a fine not to exceed two hundred fifty dollars (\$250) for each day the depository fails to maintain with the agent of depository securities as required by Section 53652.

(2) Assess against and collect from a depository a fine not to exceed one hundred dollars (\$100) for each day beyond the time period specified in subdivision (b) of Section 53663 the depository negligently or willfully fails to file in the office of the administrator a written report required by that section.

(3) Assess against and collect from a depository a fine not to exceed one hundred dollars (\$100) for each day beyond the time period specified in subdivision (e) that a depository negligently or willfully fails to file in the office of the administrator a written report required by that subdivision.

(4) Assess and collect from an agent of depository a fine not to exceed one hundred dollars (\$100) for each day the agent of depository fails to comply with any of the applicable sections specified in subdivision (a) or any applicable regulation or order issued thereunder.

(l)(1) In the event that a depository or agent of depository fails to pay a fine assessed by the administrator pursuant to subdivision (k) within 30 days of receipt of the assessment, the administrator may assess and collect an addi-

tional penalty of 5 percent of the fine for each month or part thereof that the payment is delinquent.

(2) If a depository fails to pay the fines or penalties assessed by the administrator, the administrator may notify local agency treasurers with deposits in the depository.

(3) If an agent of depository fails to pay the fines or penalties assessed by the administrator, the administrator may notify local agency treasurers who have authorized the agent of depository as provided in Sections 53649 and 53656, and may by order revoke the authorization of the agent of depository as provided in subdivision (i).

(m) The amendments to this section enacted by the Legislature during the 1999–2000 Regular Session shall become operative on January 1, 2001.

53663

(a) Each agent of depository shall report in writing to the administrator within two business days after any withdrawal, substitution or addition of pooled securities and shall state the name and market value of the securities withdrawn, substituted or added together with the total deposits then secured by the pool. This information shall be available from the administrator to the treasurer upon request.

(b) Each depository shall report in writing to the administrator weekly, giving the total amount of all deposits held by the depository pursuant to this article. The report shall be as of close of business on Wednesday of each week and shall be delivered to the office of the administrator, deposited in the United States mail, postage prepaid, or delivered electronically via email, or other electronic means approved by the administrator, addressed to the office of the administrator, within five business days. Where there has occurred no change in the deposits required to be held by the depository pursuant to this article, the report required by this subdivision need only state that fact.

53664

The individual reports specified in Sections 53654, 53660, 53661, and 53663 are not public documents and are not open to inspection by the public.

53665

If a depository fails to pay all or part of the deposits of a local agency secured by pooled securities in accordance with the contract provided for in Section 53649, and on demand of its treasurer or other authorized official and the treasurer files a report with the administrator, or if the depository fails:

(a) In case the pooled securities consist of securities other than securities of the class described in subdivision (p) of Section 53651, the administrator shall order the agent of depository holding the pooled securities to convert into money that portion of the pooled securities necessary to produce an amount equal to the sum of (i) the deposits of the local agency, (ii) any accrued interest

due on the deposits, and (iii) the reasonable expenses of the agent of depository in complying with the order of the administrator and to pay the sum of items (i) and (ii) to the treasurer in satisfaction of the deposits. The agent of depository shall be reimbursed out of the proceeds of the conversion for its reasonable expenses in complying with the order of the administrator, as approved by the administrator. Any excess moneys resulting from the conversion shall be retained by the agent of depository as part of the securities pool until the depository substitutes for the excess moneys securities having a market value sufficient to bring the total of pooled securities up to the amount required by Section 53652.

(b) In case the pooled securities consist of a security of the class described in subdivision (p) of Section 53651, the administrator shall draw on the letter of credit an amount equal to the sum of (i) the deposits of the local agency, (ii) any accrued interest on the deposits, and (iii) the reasonable expenses of the administrator in paying the deposits and pay the sum of items (i) and (ii) to the treasurer in satisfaction of the deposits.

53666

The only liability that shall attach to the administrator as the result of the operation of this article is that which would attach as a result of other laws of this state.

53667

(a) Expenses incurred by the administrator in carrying out the duties and responsibilities assigned to the administrator by the sections specified in subdivision (a) of Section 53661, shall be borne by the Local Agency Deposit Security Fund, which is hereby created and continuously appropriated to the administrator for the administration of the sections specified in subdivision (a) of Section 53661. This fund shall consist of fines levied pursuant to Section 53661, fees collected pursuant to the sections specified in subdivision (a) of Section 53661, and assessments levied pursuant to this section.

(b) Each fiscal year the administrator shall levy an assessment on a pro rata basis on those depositories which at any time during the preceding fiscal year held local agency deposits. The total assessment levied on all of those depositories shall be in an amount which, when added to the amount of fines and fees that the administrator estimates will be collected during the fiscal year when the assessment is levied, is sufficient in the judgment of the administrator to meet the expenses of the administrator in administering the sections specified in subdivision (a) of Section 53661 and to provide a reasonable reserve for contingencies. The basis of the apportionment of the assessment among the depositories assessed shall be the proportion that the average amount of local agency deposits held by each of those depositories bears to the average total amount of local agency deposits held by all of those depositories as shown by the reports of depositories to the administrator for the preceding fiscal year, as required in subdivision (e) of Section 53661; provided, however, that the amount of the assessment levied on each of those depositories shall be not less than twenty-five dollars (\$25).

(c) The administrator shall notify each depository by mail of the amount levied against it. The depository shall pay the amount levied within 20 days after such notice into the Local Agency Deposit Security Fund for the administration of the sections specified in subdivision (a) of Section 53661. If payment is not made to the administrator within such time, the administrator shall assess and collect, in addition to the annual assessment, a penalty of 5 percent of the assessment for each month or part thereof that the payment is delinquent. If a depository fails to pay the assessment or penalties assessed by the administrator, the administrator may notify local agency treasurers with deposits in the depository.

53669

The treasurer or other authorized official is not responsible for money while it is deposited pursuant to this article.

53676

The treasurer is not responsible for securities delivered to and receipted for by any bank, savings and loan association, credit union, federally insured industrial loan company, or trust company.

53678

The charges for the handling and safekeeping of any such securities are not a charge against the treasurer but shall be paid by the depository owning the securities.

53679

So far as possible, all money belonging to a local agency under the control of any of its officers or employees other than the treasurer shall, and money deposited as bail coming into the possession of a judge or officer of a superior court may, be deposited as active deposits in the state or national bank, inactive deposits in the state or national bank or state or federal association, federal or state credit union, or federally insured industrial loan company in this state selected by the officer, employee, or judge of the court. For purposes of this section, an officer or employee of a local agency and a judge or officer of a superior court are prohibited from depositing local agency funds or money coming into their possession into a state or federal credit union if an officer or employee of the local agency, or a judge or officer of a superior court, also serves on the board of directors, or any committee appointed by the board of directors, or the credit committee or supervisory committee, of the particular state or federal credit union. That money is subject to this article except:

(a) Deposits in an amount less than that insured pursuant to federal law are not subject to this article.

For deposits in excess of the amount insured under any federal law a contract in accordance with Section 53649 is required and the provisions of this article shall apply.

(b) Interest is not required on money deposited in an active deposit by a judge or officer of a superior court.

(c) Interest is not required on money deposited in an active deposit by an officer having control of a revolving fund created pursuant to Chapter 2 (commencing with Section 29300) of Division 3 of Title 3.

(d) Interest is not required on money deposited in an active deposit by an officer having control of a special fund established pursuant to Article 5 (commencing with Section 29400) or Article 6 (commencing with Section 29430) of Chapter 2 of Division 3 of Title 3.

53679.1

Notwithstanding any other provision of law, the accounting practices of each county utilized prior to the effective date of this section relating to interest on trust funds shall be deemed appropriate and to have been made under the direction of the board of supervisors of that county. This section is declaratory of the law in existence prior to the enactment of this section.

53680

A tax collector of a local agency shall immediately deposit with the treasurer all money under his control, unless he deposits the money in a depository pursuant to this article under permission and instructions of the treasurer having authority to make such deposit.

53681

An officer or employee of a local agency who deposits money belonging to, or in the custody of, the local agency in any other manner than that prescribed in this article is subject to forfeiture of his office or employment.

53682

Notwithstanding any other provision in this article except Section 53652, the treasurer may deposit moneys in and enter into contracts with any depository, as defined in subdivision (c) of Section 53630, for services to be rendered by that depository that in the treasurer's judgment are to the public advantage. One copy of each contract entered into under this section shall be filed with the auditor or corresponding officer of the local agency. The contract shall:

- (a) Fix the duration of compensating deposits, if any.
- (b) Fix the interest rate of that compensating deposit, if any.
- (c) Specify the services to be rendered by the depository.
- (d) Indicate whether the depository shall bear the expenses of transportation of the money to and from the depository.
- (e) Fix the consideration payable by the agency for such services.

(f) Specify who may deposit moneys into the treasurer's active account and how those persons are to make those deposits.

53683

Notwithstanding any other provision in this article, the consideration payable by the agency as specified in subdivision (e) of Section 53682 shall be paid by the treasurer by applying such consideration as costs applied on a pro rata basis against the interest earned by all the agencies for which the treasurer invests.

53684

(a) Unless otherwise provided by law, if the treasurer of any local agency, or other official responsible for the funds of the local agency, determines that the local agency has excess funds which are not required for immediate use, the treasurer or other official may, upon the adoption of a resolution by the legislative or governing body of the local agency authorizing the investment of funds pursuant to this section and with the consent of the county treasurer, deposit the excess funds in the county treasury for the purpose of investment by the county treasurer pursuant to Section 53601 or 53635, or Section 20822 of the Revenue and Taxation Code.

(b) The county treasurer shall, at least quarterly, apportion any interest or other increment derived from the investment of funds pursuant to this section in an amount proportionate to the average daily balance of the amounts deposited by the local agency and to the total average daily balance of deposits in the investment pool. In apportioning and distributing that interest or increment, the county treasurer may use the cash method, the accrual method, or any other method in accordance with generally accepted accounting principles. Prior to distributing that interest or increment, the county treasurer may deduct the actual costs incurred by the county in administering this section in proportion to the average daily balance of the amounts deposited by the local agency and to the total average daily balance of deposits in the investment pool.

(c) The county treasurer shall disclose to each local agency that invests funds pursuant to this section the method of accounting used, whether cash, accrual, or other, and shall notify each local agency of any proposed changes in the accounting method at least 30 days prior to the date on which the proposed changes take effect.

(d) The treasurer or other official responsible for the funds of the local agency may withdraw the funds of the local agency pursuant to the procedure specified in Section 27136.

(e) Any moneys deposited in the county treasury for investment pursuant to this section are not subject to impoundment or seizure by any county official or agency while the funds are so deposited.

(f) This section is not operative in any county until the board of supervisors of the county, by majority vote, adopts a resolution making this section operative in the county.

(g) It is the intent of the Legislature in enacting this section to provide an alternative procedure to Section 51301 for local agencies to deposit money in the county treasury for investment purposes. Nothing in this section shall, therefore, be construed as a limitation on the authority of a county and a city to contract for the county treasurer to perform treasury functions for a city pursuant to Section 51301.

53686

(a) Any audit conducted relating to the investment of local agency funds and other funds by the county treasurer in the county fund maintained pursuant to Section 53684 shall be rendered to the depository, the auditor, the controller, the secretary, or the corresponding officer of the local agency, the treasurer or other official responsible for the funds of any local agency that has funds on deposit in the county treasury, and the presiding judge of any superior court that has ordered, pursuant to Section 3412, Section 3413, or Section 3611 of the Probate Code, that assets of an estate be deposited with the county treasurer for deposit or investment.

(b) Any report rendered pursuant to Section 53646 shall be provided to the treasurer or other official responsible for the funds of any local agency that has funds on deposit in the county treasury.

Government Code Section 53820 – 53821.5

53820

As used in this article, “local agency” means county, city, regional park district, school district, community college district, or any other municipal or public corporation or district.

53821.

Subsequent to approval of the final budget and levy of taxes, if funds are needed for the immediate requirements of a local agency in any fiscal year to pay obligations lawfully incurred in the fiscal year and before the receipt of income for the fiscal year sufficient to meet the payments, money may be borrowed by:

- (a) The legislative body of a county on the recommendation of the auditor and treasurer.
- (b) The legislative body of the county having the largest area within the regional park district on the recommendation of the auditor and treasurer.
- (c) A school district, county board of education, or community college district on the request of two-thirds of the members of its governing board, approved by the county auditor and treasurer.

(d) A regional park district on the request of four-fifths of the members of its legislative body, approved by the auditor and treasurer of the county having the largest area within the district.

(e) The legislative body of a city on the recommendation of the city treasurer and chief accounting officer.

(f) The legislative body of any other municipal or public corporation or district on the recommendation of the officers performing the functions of auditor and treasurer.

53821.5

Proceeds of sales or funds set aside for the repayment of any notes issued pursuant to this article shall not be invested for a term that exceeds the term of the notes.

Government Code Section 53840-53841.5

53840

It is hereby declared the intention of the Legislature by the enactment of this article to provide an alternative procedure under which short term loans may be procured by those counties in which the board of supervisors has declared it to be county policy to make advances of current operating requirements to subsidiary political subdivisions required by law to deposit their funds in the county treasury as such advances are authorized by the provisions of Section 25 of Article XIII of the State Constitution. In any such county the board of supervisors, upon recommendation of the county treasurer with the approval of the county auditor, may borrow on July 1st or thereafter such amounts as may be required to meet current obligations payable by the county treasury, pending collection of the revenue provided for the year in progress. Amounts so borrowed shall be evidenced by notes signed by the chairman of the board of supervisors, the county auditor and the county treasurer, and the liability created thereby shall be secured by a lien on all revenue to accrue to the county treasury from any source during the year then in progress.

53841

Any amounts borrowed by a county as provided in the preceding section shall not exceed 85 percent of the total of taxes levied for all purposes on said county's tax roll for the next preceding fiscal year, and at no time during the year for which borrowed shall the unpaid total of the amounts so borrowed as shown by the auditor's accounts at the close of any month be allowed to remain at more than 85 percent of the uncollected balance of taxes for the current year as shown by said accounts.

53841.5

Proceeds of sales or funds set aside for the repayment of any notes issued pursuant to this article shall not be invested for a term that exceeds the term of the notes.

Government Code Section 53850-53851.5

53850

(a) As used in this article, “local agency” means a county, city and county, city, school district of any type, community college district, county board of education, or any other municipal or public corporation or district.

(b) For purposes of this article only, “local agency” also includes a charter school. This subdivision does not make a charter school a local agency for any purpose other than for this article.

53851

The powers conferred by this article are in addition to and an alternative to any power conferred by any other law for borrowing by a local agency and any amount borrowed hereunder shall not be considered in any limitation on the amount which may be borrowed by any such local agency under any other law.

53852

On or after the first day of any fiscal year a local agency may borrow money pursuant to this article, the indebtedness to be represented by a note or notes issued to the lender pursuant to this article. The money borrowed may be used and expended by the local agency for any purpose for which the local agency is authorized to use and expend moneys, including but not limited to current expenses, capital expenditures, investment and reinvestment, and the discharge of any obligation or indebtedness of the local agency.

53852.5

Proceeds of sales or funds set aside for the repayment of any notes issued pursuant to this article shall not be invested for a term that exceeds the term of the notes.

Government Code Section 53859-53859.02

53859

As used in this article: (a) “local agency” means county, city and county, city, school district, community college district, or any other municipal or public corporation or district.

(b) “Grant anticipation note” means a note issued upon the security of specified accounts receivable from state or federal governments, including, without limitation, grants, loans, or a combination of both, for which funds have been appropriated and committed to a local agency.

(c) “Loan” includes, but is not limited to, a borrowing by a local agency represented or to be represented by bonds of a local agency.

53859.01

The powers conferred by this article are in addition to an alternative to any powers conferred by any other law for borrowing by a local agency and any amount borrowed hereunder shall not be considered in any limitation on the amount which may be borrowed by any such local agency under any other law.

53859.02

(a) A local agency may borrow money pursuant to this article, the indebtedness to be represented by a grant anticipation note or notes issued to the lender pursuant to this article. The money borrowed may be used and expended by the local agency solely for the purpose for which the grant or loan is to be received.

(b) Proceeds of sales or funds set aside for the repayment of any notes issued pursuant to this article shall not be invested for a term that exceeds the term of the notes.

Government Code Section 57600-57607

57600

For purposes of this division:

(a) “Local financial institution” means a certified community development financial institution, a credit union, as defined in Section 165 of the Financial Code, or a small bank or an intermediate small bank, as defined in Section 25.12 of Title 12 of the Code of Federal Regulations.

(b) (1) “Public bank” means a corporation, organized under the Nonprofit Mutual Benefit Corporation Law (Part 3 (commencing with Section 7110) of Division 2 of Title 1 of the Corporations Code) or the Nonprofit Public Benefit Corporation Law (Part 2 (commencing with Section 5110) of Division 2 of Title 1 of the Corporations Code) for the purpose of engaging in the commercial banking business or industrial banking business, that is wholly owned by a local agency, local agencies, or a joint powers authority formed pursuant to the Joint Exercise of Powers Act (Article 1 (commencing with Section 6500) of Chapter 5 of Division 7 of Title 1) that is composed only of local agencies.

(2) A local agency located within a county with a population of less than 250,000 may organize a public bank only if it does so as part of a joint powers authority formed for those purposes.

(3) For purposes of paragraph (2), population shall be based on the most recent estimate of population data determined by the Demographic Research Unit of the Department of Finance.

(c) “Public bank license” means a certificate of authorization to transact business as a bank as described in Section 1042 of the Financial Code.

57601

(a) If a public bank is organized as a nonprofit mutual benefit corporation, the articles of incorporation shall include the following purpose statement: “This corporation is a nonprofit mutual benefit corporation organized under the Nonprofit Mutual Benefit Corporation Law as a public bank. The purpose of the corporation is to engage in the commercial banking business or industrial banking business and any other lawful activities which are not prohibited to a public bank by applicable laws or regulations.”

(b) If a public bank is organized as a nonprofit public benefit corporation, the articles of incorporation shall include the following purpose statement: “This corporation is a nonprofit public benefit corporation and is not organized for the private gain of any person. It is organized under the Nonprofit Public Benefit Corporation Law for the public purpose of engaging in the commercial banking business or industrial banking business as a public bank.”

(c) Notwithstanding Sections 5410 and 7411 of the Corporations Code, a public bank may make distributions to its members.

(d) All provisions of law applicable to nonprofit corporations generally, including, but not limited to, the Nonprofit Corporation Law (Division 2 (commencing with Section 5000) of Title 1 of the Corporations Code) shall apply to public banks. Whenever a provision of this division applicable to public banks is inconsistent with a provision of law applicable to nonprofit mutual benefit corporations or nonprofit public benefit corporations generally, the provision of this division shall apply, and the inconsistent provision of law applicable to nonprofit mutual benefit corporations or nonprofit public benefit corporations generally shall not apply to a public bank.

57602

(a) A public bank shall obtain and maintain deposit insurance provided by the Federal Deposit Insurance Corporation under the Federal Deposit Insurance Act (12 U.S.C. Sec. 1811 et seq.).

(b) In seeking and retaining insurance, a public bank may do all things and assume and discharge all obligations required of it that are not in conflict with state law.

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.

57604

(a) As used in this section:

(1) “Conducted in partnership with” means pursuant to a written agreement with a local financial institution to provide financial products and services to the public located within the jurisdiction of the public bank.

(2) “Infrastructure lending” means granting a loan or extending credit to a local agency for the purpose of building or improving public infrastructure, including housing projects, as defined in Section 34212 of the Health and Safety Code, and affordable housing, as defined in subdivision (a) of Section 62250.

(3) “Local agency banking” means providing any of the following services to a local agency:

(A) Accepting a deposit of any kind.

(B) Granting a loan or extension of credit of any kind.

(4) “Participation lending” means purchasing or selling an interest in a loan or loans originated by or sold to a local financial institution, or originating, leading, or directing a loan transaction involving a local financial institution pursuant to a written agreement with the local financial institution.

(5) “Person” means a person as defined in Section 127 of the Financial Code, except that a person does not mean a local agency as defined in Section 50001 of the Government Code, but includes any individual employed by a local agency.

(6) “Retail activities” means providing any kind of financial product or service to a person that is typically offered or provided by a local financial institution, including, but not limited to, all of the following:

(A) Accepting a deposit of any kind from a person, including the issuance of shares by a credit union.

(B) Granting a loan or extension of credit, of any kind, to a person.

(7) “Wholesale lending” means granting a loan or extension of credit to a local financial institution.

(b) Except as provided in paragraph (2) of subdivision (c), a public bank shall conduct retail activities in partnership with local financial institutions and shall not compete with local financial institutions.

(c) A public bank may do both of the following:

(1) Engage in all of the following banking activities:

(A) Local agency banking.

(B) Infrastructure lending.

(C) Wholesale lending.

(D) Participation lending.

(2) Engage in retail activities without partnering with a local financial institution, if those retail activities are not offered or provided by local financial institutions in the jurisdiction of the local agency or agencies that own the public bank.

57605

For the purposes of Section 1280 of the Financial Code, any person or entity, including a local agency, that owns, controls, or holds an ownership interest in a public bank is not a bank holding company by reason of that ownership interest.

57606

(a) Before submitting an application to organize and establish a public bank pursuant to Section 1020 of the Financial Code, a local agency shall conduct a study to assess the viability of the proposed public bank. The study shall include, but is not limited to, all of the following elements:

(1) A discussion of the purposes of the bank including, but not limited to, achieving cost savings, strengthening local economies, supporting community economic development, and addressing infrastructure and housing needs for localities.

(2) A fiscal analysis of costs associated with starting the proposed public bank.

(3) An estimate of the initial amount of capital to be provided by the local agency to the proposed public bank.

(4) Financial projections, including a pro forma balance sheet and income statement, of the proposed public bank for at least the first five years of operation. The financial projections shall include an estimate of the time period for when expected revenues meet or exceed expected costs and an estimate of the total operating subsidy that the local agency may be required to provide until the proposed public bank generates sufficient revenue to cover its costs. In addition to projections that assume favorable economic conditions, the analysis shall also include a downside scenario that considers the effect of an economic recession

on the financial results of the proposed public bank. The projections may include the downside scenario of continuing to do business with the local government's current banker or bankers.

(5) A legal analysis of whether the proposed structure and operations of the public bank would likely comply with Section 6 of Article XVI of the California Constitution, but nothing herein shall compel the waiver of any attorney-client privilege attaching to that legal analysis.

(6) An analysis of how the proposed governance structure of the public bank would protect the bank from unlawful insider transactions and apparent conflicts of interest.

(b) The study may include any of the following elements:

(1) A fiscal analysis of benefits associated with starting the proposed public bank, including, but not limited to, cost savings, jobs created, jobs retained, economic activity generated, and private capital leveraged.

(2) A qualitative assessment of social or environmental benefits of the proposed public bank.

(3) An estimate of the fees paid to the local agency's current banker or bankers.

(4) A fiscal analysis of the costs, including social and environmental, of continuing to do business with the local agency's current banker or bankers.

(c) (1) The study required by subdivision (a) shall be presented to and approved by the governing body of the local agency, and a motion to move forward with an application for a public banking charter shall be approved by a majority vote of the governing body at a public meeting prior to the local agency submitting an application pursuant to Section 1020 of the Financial Code. In addition, the local agency shall include a copy of the study required by subdivision (a) in the application submitted to the Commissioner of Business Oversight.

(2) Before the local agency submits an application pursuant to Section 1020 of the Financial Code, the motion to move forward with an application for a public banking charter shall be subject to voter approval at the next regularly scheduled election held at least 180 days following the vote of the governing body.

(3) The voter approval requirement described in paragraph (2) shall apply to a local agency entering into a joint powers authority formed pursuant to the Joint Exercise of Powers Act (Article 1 (commencing with Section 6500) of Chapter 5 of Division 7 of Title 1) after the study required in subdivision (a) has been completed and before submitting an application to organize and establish a public bank pursuant to Section 1020 of the Financial Code.

(4) As used in paragraphs (2) and (3), "local agency" does not include a charter city.

(d) The local agency shall make available to the public the financial models and key assumptions used to estimate the elements described in paragraphs (2) through (4) of subdivision (a) before presenting the study to the governing body of the local agency as required by subdivision (c).

57607

- (a) The Commissioner of Business Oversight shall not issue more than two public bank licenses in a calendar year.
- (b) The Commissioner of Business Oversight shall not issue a public bank license if issuing that public bank license would cause there to be more than 10 public banks authorized to transact business pursuant to Division 1.1 (commencing with Section 1000) of the Financial Code.
- (c) The Commissioner of Business Oversight shall conduct a study of public banking in California within two years after the date upon which the commissioner issues the 10th public bank license.
- (d) The Commissioner of Business Oversight shall not issue a public bank license after the expiration of a period of seven years from the date upon which the commissioner first promulgates regulations for the purpose of carrying out the commissioner's duties under this division.

Glossary

A

ACTIVE MANAGEMENT STRATEGY

Investment strategy based on a manager or a team of managers actively managing a fund's portfolio with the goal of outperforming benchmarks through analytical research, forecasts, and their own judgment and experience.

ACCRETION

The accumulation of value that occurs during the duration or time between a bond's issuance and maturity.

ACCRUED INTEREST

Coupon interest accumulated on a bond or note since the last interest payment or, for a new issue, from the dated date to the date of delivery.

AMORTIZATION OF COSTS

Reconciliation of the purchase price of a security and par value resulting in net interest.

ARBITRAGE

Transactions by which securities are bought and sold in different markets at the same time for the sake of the profit arising from a yield difference in the two markets. The 1986 Tax Reform Act made this practice by municipalities illegal solely as a borrowing tactic, except under certain safe-harbor conditions.

ASSET ALLOCATION

The division of an investment portfolio among different asset categories, such as stocks, bonds, and cash.

ASSET-BACKED SECURITIES

Securities that are supported by pools of assets, such as installment loans or leases, or by pools of revolving lines of credits. Asset-backed securities are structured as trusts in order to perfect a security interest in the underlying assets.

AVERAGE

An arithmetic mean of selected stocks intended to represent the behavior of the market or some component of it.

B

BANK DEPOSITS

Deposits in banks or other depository institutions that may be in the form of demand accounts (checking) or investments in accounts that have a fixed term and negotiated rate of interest.

BANK NOTES

A senior, unsecured, direct obligation of a bank or U. S. branch of a foreign bank.

BANKERS' ACCEPTANCE

A draft or bill or exchange accepted by a bank or trust company. The accepting institution, as well as the issuer, guarantees payment of the bill.

BASIS POINTS

Refers to the yield on bonds. Each percentage point of yield in bonds equals 100 basis points (1/100% or 0.01%). If a bond yield changes from 7.25% to 7.39%, that is a rate of 14 basis points.

BENCHMARK

A passive index used to compare the performance, relative to risk and return, of an investor's portfolio.

BOND PROCEEDS

The money paid to the issuer by the purchaser or underwriter of a new issue of municipal securities. These moneys are used to finance the project or purpose for which the securities were issued and to pay certain costs of issuance as may be provided in the bond contract.

BONDS

A debt obligation of a firm or public entity. A bond represents the agreement to repay the debt in principal and, typically, in interest on the principal.

BOOK RETURN

Book return includes interest, amortization/accretion of premiums/discounts, realized gains and losses, over a given period of time.

BOOK VALUE

The value at which an asset is carried on a balance sheet.

BROKER

A person or firm that acts as an intermediary by purchasing and selling securities for others rather than for its own account.

BUY AND HOLD STRATEGY

A strategy based on holding all securities until maturity, regardless of fluctuations in the market.

C

CALL OPTION

The terms of the bond contract giving the issuer the right to redeem or call an outstanding issue of bonds prior to its stated date of maturity.

CALL RISK

The risk to a bondholder that the bond issuer will exercise a callable bond feature and redeem the issue prior to maturity.

CALLABLE SECURITIES

An investment security that contains an option allowing the issuer to retire the security prior to its final maturity date.

CASH FLOW

A comparison of cash receipts (revenues) to required payments (debt service, operating expenses, etc.).

CERTIFICATE OF DEPOSIT

A short-term, secured deposit in a financial institution that usually returns principal and interest to the lender at the end of the loan period. Certificates of Deposit (CDs) differ in terms of collateralization and marketability. Those appropriate to public agency investing include:

Negotiable Certificates of Deposit

Generally, short-term debt instrument that usually pays interest and is issued by a bank, savings or federal association, state or federal credit union, or state-licensed branch of a foreign bank. The majority of negotiable CDs mature within six months while the average maturity is two weeks. Negotiable CDs are traded in a secondary market and are payable upon order to the bearer or initial depositor (investor). Negotiable CDs are insured by FDIC up to \$250,000, but they are not collateralized beyond that amount.

Non-Negotiable Certificates of Deposit

CDs that carry a penalty if redeemed prior to maturity. A secondary market does exist for non-negotiable CDs, but redemption includes a transaction cost that reduces returns to the investor. Non-negotiable CDs issued by banks and savings and loans are insured by the Federal Deposit Insurance Corporation up to the amount of \$250,000, including principal and interest. Amounts deposited above this amount may be secured with other forms of collateral through an agreement between the investor and the issuer. Collateral may include other securities including Treasuries or agency securities such as those issued by the Federal National Mortgage Association.

CDARS (CERTIFICATE OF DEPOSIT ACCOUNT REGISTRY SYSTEM)

A private CD placement service that allows local agencies to purchase more than \$250,000 in CDs from a single financial institution (must be a participating institution of CDARS) while still maintaining FDIC insur-

ance coverage. CDARS is currently the only entity providing this service. CDARS facilitates the trading of deposits between the California institution and other participating institutions in amounts that are less than \$250,000 each, so that FDIC coverage is maintained.

CD PLACEMENT SERVICE

A service that allows local agencies to purchase more than \$250,000 in CDs from a single financial institution while still maintaining FDIC insurance coverage. See “CDARS”.

COLLATERALIZATION OF DEPOSITS

Process by which a bank or financial institution pledges securities, or other deposits for the purpose of securing the repayment of deposited funds.

COMMERCIAL PAPER

An unsecured short-term promissory note issued by corporations or municipalities, with maturities ranging from 2 to 270 days.

CONVEXITY

A measure of the price sensitivity of a fixed income security to changes in interest rates. Convexity is influenced by such factors as the coupon rate, maturity, and any call options that may or may not exist. Prices rise at increasing rates as yields fall and prices decline at decreasing rates as yields rise.

CORPORATE NOTES AND BONDS

Debt instruments, typically unsecured, issued by corporations, with original maturities in most cases greater than one year and less than ten years.

COUNTY POOLED INVESTMENT FUNDS

The aggregate of all funds from public agencies placed in the custody of the county treasurer or chief finance officer for investment and reinvestment.

COUPON

The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value; a certificate attached to a bond evidencing interest due on a payment date.

CREDIT RATING

Various alphabetical and numerical designations used by credit rating or nationally recognized statistical rating organizations (NRSROs), institutional investors, Wall Street underwriters, and commercial rating companies to give relative indications of bond and note creditworthiness.

Long-term Ratings

The three most commonly used NRSROs are Standard & Poor's, Fitch Ratings, and Moody's. Standard & Poor's and Fitch Ratings use the same system, starting with their highest rating, of AAA, AA, A, BBB, BB, B, CCC, CC, C, and D for default. Moody's Investors Service uses Aaa, Aa, A, Baa, Ba, B, Caa, and Ca. Each of the services use pluses (+), minuses (-), or numerical modifiers to indicate steps within each category. The S&P ratings from AA to CCC may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories. Moody's appends numerical modifiers 1, 2, and 3 to each generic rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating

category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category. The top four letter categories are considered investment grade ratings.

Short-term Ratings

Standard & Poor's short-term ratings system is A-1+, A-3, B, C, and / for default. Fitch Ratings use F1+, F3, B, C, and / for default. Finally, Moody's uses P1 and P3, anything below P3 is considered not prime.

CREDIT RISK

The chance that an issuer will be unable to make scheduled payments of interest and principal on an outstanding obligation. Another concern for investors is that the market's perception of an issuer/borrower's credit will cause the market value of a security to fall, even if default is not expected.

CUSIP NUMBER

The Committee on Uniform Security Information Procedures (CUSIP) Number refers to a security's identification number assigned to each publicly traded security by the CUSIP Service Bureau operated by Standard & Poor's for the American Bankers Association. The CUSIP Number is a nine-character identifier unique to the issuer, the specific issue and the maturity, if applicable (the first six characters identifying the issuer, the next two identifying the security and the last digit providing a check digit to validate the accuracy of the preceding CUSIP number).

CUSTODIAN

A bank or other financial institution that keeps custody of stock certificates and other assets.

D

DEALER

Someone who acts as a principal in all transactions, including underwriting, buying, and selling securities, including from their own account.

DEFAULT RISK

The risk that issuers/borrowers will be unable to make the required payments on their debt obligations.

DEFEASED BOND ISSUES

Issues that have sufficient money to retire outstanding debt when due so that the agency is released from the contracts and covenants in the bond document.

DELIVERY VS. PAYMENT (DVP)

The payment of cash for securities as they are delivered and accepted for settlement.

DERIVATIVE

Securities that are based on, or derived from, some underlying asset, reference date, or index.

DISCOUNT

Discount means the difference between the par value of a security and the cost of the security, when the cost is below par. Investors purchase securities at a discount when return to the investor (yield) is higher than the stated coupon (interest rate) on the investment.

DISCOUNT RATE

The interest rate used in discounted cash flow (DCF) analysis to determine the present value of future cash flows. The discount rate in DCF analysis takes into account not just the time

value of money, but also the risk or uncertainty of future cash flows; the greater the uncertainty of future cash flows, the higher the discount rate.

DIVERSIFICATION

The allocation of different types of assets in a portfolio to mitigate risks and improve overall portfolio performance.

DURATION

A measure of the timing of the cash flows to be received from a security that provides the foundation for a measure of the interest rate sensitivity of a bond. Duration is a volatility measure and represents the approximate percentage change in price divided by the percentage change in interest rates. A high duration measure indicates that for a given level of movement in interest rates, prices of securities will vary considerably.

E

EFFECTIVE DURATION

Duration measures the weighted average of the present value of the cash flows of a fixed-income investment. Effective duration measures the price sensitivity of fixed-income investments, especially for those with embedded option features such as call options. As yields rise, the effective duration of a callable investment rises to reflect the fact that it has become less likely to be called. The more rates rise, the longer the effective duration will become, approaching the duration to maturity. The converse is true in a declining interest rate environment (that is, the more rates fall, the shorter the effective duration will become, approaching the duration to call). For securities without an embedded option, the duration to call, maturity, and effective duration

are all the same. The calculation for effective duration is complicated and involves averaging the duration under a simulation of many possible interest rate scenarios in the future.

EVENT RISK

The risk associated with a changing portfolio value due to a market event causing swings in market prices and/or spreads.

EXTENDABLE NOTES

Securities with maturity dates that can be extended by mutual agreement between the issuer and investor. When investing in these types of securities, the maturity date plus the stated extendable option must not exceed the time frames that are allowed in California Government Code or the investment policy for the investment type.

F

FIDUCIARY

An individual who holds something in trust for another and bears liability for its safekeeping.

FIRST TIER SECURITIES

Securities that have received short-term debt ratings in the highest category from the requisite nationally recognized statistical-rating organizations (NRSROs), or are comparable unrated securities, or are issued by money market funds, or government securities. [See SEC Rules: Paragraph (A)(12) of rule 2A-7.]

FLOATING RATE SECURITY

A security that has a variable or “floating” interest rate.

FUTURES

Futures are exchange-traded contracts either to buy (long) or sell (short) a financial instrument, such as a five-year U.S. Treasury note at a specific price and on a specific future date. Although investing in futures is permitted under California Government Code Section 53601.1, few local agencies do, except for specific, limited purposes, usually related to their own debt issuance.

G

GOVERNMENT ACCOUNTING STANDARDS BOARD (GASB)

A standard-setting body, associated with the Financial Accounting Foundation, which prescribes standard accounting practices for governmental units.

GOVERNMENT SPONSORED ENTERPRISES (GSE)

Privately held corporations with public purposes created by the U.S. Congress to reduce the cost of capital for certain borrowing sectors of the economy. Securities issued by GSEs carry the implicit backing of the U.S. Government, but they are not direct obligations of the U.S. Government. For this reason, these securities will offer a yield premium over Treasuries.

GUARANTEED INVESTMENT CONTRACT (GIC)

An agreement acknowledging receipt of funds for deposit, specifying terms for withdrawal, and guaranteeing a rate of interest to be paid.



IRMA

An independent registered municipal advisor (IRMA) is registered as a municipal advisor with the SEC and MSRB and has a fiduciary duty to the issuer(s) that he/she advises on the issuance of municipal securities and investment of the proceeds of issued debt.

IRMA EXEMPTION

Pursuant to the Municipal Advisor Rule (MA Rule), underwriters may provide advice to municipal issuers only where certain exceptions or exemptions apply. The Independent Registered Municipal Advisor Exemption (IRMA Exemption) applies where: (1) the issuer has retained an IRMA that is not recently associated (within the last two years of seeking to use the exemption) with the underwriter, (2) the underwriter receives a written notice from the issuer that they are represented by the IRMA and will rely on their advice, and the underwriter can reasonably rely on that notice, and (3) the underwriter provides a written notice to the issuer and IRMA stating that the underwriter is not a municipal advisor and has no fiduciary duty to the issuer, and the issuer must have adequate time to review that notice.

INDEX

An index is an indicator that is published on a periodic basis that shows the estimated price and/or yield levels for various groups of securities.

INTEREST

The amount a borrower pays to a lender for the use of his or her money.

INTEREST RATE RISK

Interest rate risk is the risk that an investment's value will change due to a change in the absolute level of interest rates, spread between two rates, shape of the yield curve, or any other interest rate relationship.

INVESTMENT AGREEMENTS

Investment agreements are contracts with respect to funds deposited by an investor. Investment agreements are often separated into those offered by banks and those offered by insurance companies. In the former case, they are sometimes referred to as “bank investment contracts.”

INVESTMENT OVERSIGHT COMMITTEE

A committee of three to eleven members formed under Section 27131 to monitor and review a county’s investment policy by causing an annual audit and discussing its finding at an open meeting. Although cities and other local agencies are not required to compose an investment oversight committee, the State Legislature has declared that all local agencies “should participate in reviewing the policies that guide the investment of those funds.”

INSTITUTIONAL ACCOUNT

As defined by the Financial Industry Regulatory Authority (FINRA), an institutional account includes one of the following: (1) a bank, savings and loan association, insurance company or registered investment company; (2) an investment adviser registered either with the SEC under Section 203 of the Investment Advisers Act or with a state securities commission (or any agency or office performing like functions); or (3) any other person (whether a natural

person, corporation, partnership, trust or otherwise) with total assets of at least \$50 million.

L

LIBOR

Acronym for “London Interbank Offered Rate,” which represented the average rate at which a leading bank can obtain unsecured funding in the London interbank market. LIBOR served as a benchmark for various interest rates. Obligations of parties to such transactions are typically expressed as a spread to LIBOR. In response to concerns that the benchmark was being manipulated, the publication for one-week and two-month LIBOR ceased at the end of 2021 and the remaining tenors of LIBOR ceased after June 30, 2023.

LIQUIDITY

The measure of the ability to convert an instrument to cash on a given date at full face or par value.

LIQUIDITY RISK

The risk that a security, sold prior to maturity, will be sold at a loss of value. For a local agency, the liquidity risk of an individual investment may not be as critical as how the overall liquidity of the portfolio allows the agency to meet its cash needs.

LOCAL AGENCY INVESTMENT FUND

A voluntary investment fund open to government entities and certain non-profit organizations in California that is managed by the State Treasurer’s Office.

LOCAL GOVERNMENT INVESTMENT POOL (LGIP)

Investment pools that range from the State Treasurer’s Office Local Agency Investment Fund (LAIF) to county pools, to Joint Powers Authorities (JPAs). These funds are not subject to the same SEC rules applicable to money market mutual funds.

M

MARKET RISK

The chance that the value of a security will decline as interest rates rise. In general, as interest rates fall, prices of fixed income securities rise. Similarly, as interest rates rise, prices fall. Market risk also is referred to as systematic risk or risk that affects all securities within an asset class similarly.

MARKET VALUE

The price at which a security is trading and presumably could be purchased or sold at a particular point in time.

MATURITY

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

MEDIUM-TERM NOTE

Corporate or depository institution debt securities meeting certain minimum quality standards (as specified in the California Government Code) with a remaining maturity of five years or less.

MONEY MARKET MUTUAL FUNDS

MMF’s are mutual funds that invest exclusively in short-term money market instruments. MMF’s seek the preservation of capital as a primary

goal while maintaining a high degree of liquidity and providing income representative of the market for short-term investments.

MORTGAGE BACKED SECURITIES

Mortgage-backed securities (MBS) are created when a mortgagee or a purchaser of residential real estate mortgages creates a pool of mortgages and markets undivided interests or participations in the pool. MBS owners receive a prorata share of the interest and principal cash flows (net of fees) that are “passed through” from the pool of mortgages. MBS are complex securities whose cash flow is determined by the characteristics of the mortgages that are pooled together. Investors in MBS face prepayment risk associated with the option of the underlying mortgagors to pre-pay or payoff their mortgage. Most MBS are issued and/or guaranteed by federal agencies and instrumentalities (e.g., Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA), and Federal Home Loan Mortgage Corporation (FHLMC)).

MORTGAGE PASS-THROUGH OBLIGATIONS

Securities that are created when residential mortgages (or other mortgages) are pooled together and undivided interests or participations in the stream of revenues associated with the mortgages are sold.

MUNICIPAL ADVISOR RULE (MA RULE)

A regulation of non-dealer "municipal advisors" such as financial advisors, swap advisors, GIC brokers, etc. In addition, the rule pertains to banks and broker dealers acting as municipal advisors. Municipal advisors have a

fiduciary responsibility to the government agency receiving their services and they must register with the Securities Exchange Commission (SEC). Municipal finance professionals that do not have a fiduciary duty to issuers cannot provide advice to governments unless certain exemptions are met. The SEC has published a list of frequently asked questions: www.sec.gov/info/municipal/mun-advisors-faqs.pdf.

MUNICIPAL NOTES, BONDS, AND OTHER OBLIGATIONS

Obligations issued by state and local governments to finance capital and operating expenses.

MUTUAL FUNDS

An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments.

N

NET ASSET VALUE

Net asset value (NAV) is a term used in the mutual fund industry to determine the average price per share of a pool or mutual fund. How this measure varies over time provides information on whether the pool is stable or variable. NAV is the market value of all securities in a mutual fund, less the value of the fund’s liabilities, divided by the number of shares in the fund outstanding. Shares of mutual funds are purchased at the fund’s offered NAV.

NET PRESENT VALUE

An amount that equates future cash flows with their value in present terms.

NEW ISSUE

Securities sold during the initial distribution of an issue in a primary offer-

ing by the underwriter or underwriting syndicate.

NOTE

A written promise to pay a specified amount to a certain entity on demand or on a specified date. Usually bearing a short-term maturity of a year or less (though longer maturities are issued—see “Medium-Term Note”).

O

OPTIONS

An option is a contract that gives the buyer the right to buy or sell an obligation at a specified price for a specified time. Exchange Traded Options are standardized option contracts that are actively traded on the Chicago Board of Exchange on a daily basis whereas Over-the-Counter Options are traded directly between the buyer and seller at agreed upon prices and conditions (the former type of option is therefore more liquid than the latter).

P

PAR AMOUNT OR PAR VALUE

The principal amount of a note or bond which must be paid at maturity. Par, also referred to as the “face amount” of a security, is the principal value stated on the face of the security. A par bond is one sold at a price of 100% of its principal amount.

PLACEMENT SERVICE CERTIFICATES OF DEPOSIT

Certificates of deposit placed with a private sector entity that assists in the placement of certificates of deposit with eligible financial institutions located in the United States.

PLACEMENT SERVICE DEPOSIT

Deposits at depository institutions placed by a private sector placement service entity.

PORTFOLIO

Combined holding of more than one stock, bond, commodity, real estate investment, cash equivalent, or other asset. The purpose of a portfolio is to reduce risk by diversification.

PREMIUM

Premium means the difference between the par value of a security and the cost of the security, when the cost is above par. Investors pay a premium to purchase a security when the return to the investor (yield) is lower than the stated coupon (interest rate) on the investment.

PRICE

Price is the amount of monetary consideration required by a willing seller and a willing buyer to sell an investment on a particular date.

PRINCIPAL

The face value or par value of a debt instrument, or the amount of capital invested in a given security.

PROSPECTUS

A disclosure document that must be provided to any prospective purchaser of a new securities offering registered with the SEC that typically includes information on the issuer, the issuer’s business, the proposed use of proceeds, the experience of the issuer’s management, and certain certified financial statements (also known as an “official statement”).

PRUDENT INVESTOR STANDARD

A standard of conduct where a person acts with care, skill, prudence, and diligence when investing, re-investing, purchasing, acquiring, exchanging, selling, and managing funds. The test of whether the standard is being met is if a prudent person acting in such a situation would engage in similar conduct to ensure that investments safeguard principal and maintain liquidity.

PUBLIC BANK

A corporation, organized as either a nonprofit mutual benefit corporation or a nonprofit public benefit corporation for the purpose of engaging in the commercial banking business or industrial banking business, that is wholly owned by a local agency, as specified, local agencies, or a joint powers authority.

Q

QUALIFIED INSTITUTIONAL BUYER

Federal regulations define qualified institutional buyer (QIB) as any of the following entities, acting for its own account or the accounts of other QIBs, that in the aggregate owns and invests on a discretionary basis at least \$100 million in securities of issuers that are not affiliated with the entity: insurance company, investment company, small business investment company, a Rural Business Investment Company, a plan (established and maintained by a public agency) for the benefit of its employees, employee benefit plan, trust fund (bank or trust company), business development company, 501(c)(3), investment adviser, and dealer, an institution that qualifies as an accredited investor. 17 CFR § 230.144A and 230.145

R

REINVESTMENT RISK

The risk that interest rates may be lower than the yield on a fixed income security when the investor seeks to reinvest interest income or repaid principal from the security.

REPURCHASE AGREEMENTS

An agreement of one party (for example, a financial institution) to sell securities to a second party (such as a local agency) and simultaneous agreement by the first party to repurchase the securities at a specified price from the second party on demand or at a specified date.

REVERSE REPURCHASE AGREEMENTS

An agreement of one party (for example, a financial institution) to purchase securities at a specified price from a second party (such as a public agency) and a simultaneous agreement by the first party to resell the securities at a specified price to the second party on demand or at a specified date.

RISK

The uncertainty of maintaining the principal or interest associated with an investment due to a variety of factors.

RULE G-37 OF THE MUNICIPAL SECURITIES RULEMAKING BOARD

Federal regulations to sever any connection between the making of political contributions and the awarding of municipal securities business.

S

SAFEKEEPING SERVICE

Offers storage and protection of assets provided by an institution serving as an agent.

SAFETY

In the context of investing public funds, safety relates to preserving the principal of an investment in an investment portfolio; local agencies address the concerns of safety by controlling exposure to risks.

SOFR

Acronym for “Secured Overnight Financing Rate,” which represents a broad measure of the cost of borrowing cash overnight collateralized by Treasury securities.

SECURITIES AND EXCHANGE COMMISSION (SEC)

The federal agency responsible for supervising and regulating the securities industry.

SECURITIES LENDING AGREEMENT

An agreement of one party (for example, a local agency) to borrow securities at a specified price from a second party (for example, another local agency) with a simultaneous agreement by the first party to return the security at a specified price to the second party on demand or at a specified date. These agreements generally are collateralized and involve a third party custodian to hold the securities and collateral. Economically similar to reverse repurchase agreement.

SETTLEMENT DATE

The date when a trade is final. The ownership of the security is trans-

ferred to the buyer and the payment of funds is transferred to the seller. The date establishes a legal transfer of ownership.

SUPRANATIONAL INSTITUTIONS

International institutions formed by two or more governments that transcend boundaries to pursue mutually beneficial economic or social goals. There are three supranational institutions that issue obligations that are eligible investments for California local agencies: the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), and Inter-American Development Bank (IADB).

T

TAX AND REVENUE ANTICIPATION NOTES (TRANS)

Notes issued in anticipation of receiving tax proceeds or other revenues at a future date.

TOTAL RETURN

Total return includes interest, realized gains and losses, and unrealized gains and losses over a given period of time.

TRUSTEE, TRUST COMPANY OR TRUST DEPARTMENT OF A BANK

A financial institution with powers to act in a fiduciary capacity for the benefit of the bondholders in enforcing the terms of the bond contract.

U

UNDERWRITER

A dealer that purchases a new issue of municipal securities for resale.

U.S. TREASURY OBLIGATIONS

Debt obligations of the U.S. Government sold by the Treasury Department in the forms of bills, notes, and bonds. Bills are short-term obligations that mature in one year or less and are sold at a discount. Notes are obligations that mature between one year and ten years. Bonds are long-term obligations that generally mature in ten years or more.

W

WEIGHTED AVERAGE MATURITY (WAM)

The average maturity of all the securities that comprise a portfolio, typically expressed in days or years.

Y

YIELD

The current rate of return on an investment security generally expressed as a percentage of the securities current price.

YIELD CURVE

A graphic representation that shows the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity.

YIELD-TO-CALL

The rate of return to the investor earned from payments of principal and interest, with interest compounded semi-annually at the stated yield when the security is redeemed on a specified call date. In addition, if the security is redeemed at a premium call price, the amount of the premium is also reflected in the yield.

YIELD-TO-MATURITY

The rate of return to the investor earned from payments of principal and interest, with interest compounded semi-annually at the stated yield as long as the security remains outstanding until the maturity date.

YIELD-TO-WORST

For a given dollar price on a municipal security, the lowest of the yield calculated to the pricing call, par option or maturity.

Z

ZERO-COUPON BOND

A bond on which interest is not payable until maturity (or earlier redemption), but compounds periodically to accumulate to a stated maturity amount. Zero-interest bonds are typically issued at a discount and repaid at par upon maturity.

Index of Statutory Changes Effective 1996 to Present

1995

SB 564 **AUTHOR: JOHNSTON** **SECTION(S): 53646**

Summary of Changes: Requires treasurers to produce an annual investment policy and provide detailed quarterly investment reports.

SB 866 **AUTHOR: CRAVEN** **SECTION(S): 53601, 53635
AND 53859.02**

Summary of Changes: Authorizes the County Board of Supervisors to delegate investment authority to the County Treasurer and requires board to establish a treasury oversight committee (with specific membership requirements). Requires delivery of securities by book entry, physical delivery or third-party custodial agreement. Specifies funds invested for repayment of notes cannot exceed the term of the notes. Lastly, sets requirements for those elected or appointed to county auditor, director of finance and county treasurer.

1996

SB 864 **AUTHOR: CRAVEN
AND KILLEA** **SECTION(S): 27000.7,
27131, 27132.1, 27132.2,
27132.3, 27136, 53601,
53601.6, 53635 AND
53646**

Summary of Changes: Restricts campaign contributions by members of county oversight committees, relaxes restrictions on repurchase agreements, increases the amount of portfolio concentration for investment in mutual funds, and allows for greater use of account statements in quarterly investment reports.

1997

No changes

1998

SB 1793 **AUTHOR: GREENE** **SECTION(S): 53601
AND 53635**

Summary of Changes: Authorizes that where there is a percentage limitation for a particular investment, that percentage is applicable only at the date of purchase. In addition, investments in repurchase agreements are considered to be in compliance if the value of the underlying securities is brought back up to 102% no later than the next business day.

1999

AB 323 **AUTHOR: BALDWIN** **SECTION(S): 27132.3**

Summary of Changes: Prohibits a member of an oversight committee from securing employment with a financial service company that does business with the committee's county treasurer for one year after leaving the committee.

AB 343 **AUTHOR: CAMPBELL** **SECTION(S): 53635.7,
53601.2 AND 53635.2**

Summary of Changes: Authorizes counties to increase the amount of commercial paper (CP) held in their portfolios from 15% to 40%, removes the 31-day dollar-weighted maturity requirement for purchases above the original 15%, limits CP investments with any single issuing corporation to 10% of the county's surplus money, and clarifies that "borrowing" does not include bank overdrafts.

AB 530 **AUTHOR: PAPAN** **SECTION(S): 53601
AND 53635**

Summary of Changes: Authorizes local governments to enter into securities lending agreements provided they meet the same statutory requirements as reverse-repurchase agreements. No more than 20% of the investment portfolio may be comprised of securities lending agreements.

AB 1679 **AUTHOR: ASSEMBLY LOCAL** **SECTION(S): 53601
GOVERNMENT COMMITTEE AND 53635**

Summary of Changes: Amends the definition of medium-term notes, specifying that these instruments shall have a remaining maximum maturity of 5 years or less. It also emphasizes that purchases of medium-term notes shall not include other investment instruments allowable under current state law.

2000

AB 2220 **AUTHOR: BATTIN** **SECTION(S): 53601,
53601.2, 53635 AND
53635.2**

Summary of Changes: Revises the maximum maturity for bankers acceptances from 270 to 180 days, and prime quality commercial paper from 180 to 270 days.

AB 2539 **AUTHOR: ASSEMBLY** **SECTION(S): 53601 AND
JUDICIARY COMMITTEE** **53635**

Summary of Changes: Non-substantive, technical changes including punctuation.

2001

AB 609 **AUTHOR: KELLEY** **SECTION(S): 53601,
53601.5, 53601.6 AND
53635**

Summary of Changes: Authorizes local agencies to invest non surplus money in a sinking fund provided that the money is not required for immediate needs. The bill also revises the definition of commercial paper and prohibits the legislative body of a local agency and the treasurer or other official having custody of the county's money from investing in negotiable certificates of deposit of a state or federal credit union if a member of the legislative body or any other specified city officer or employee also serves on the board of directors or certain committees of that credit union.

2002

AB 2182 **AUTHOR: CAMPBELL** **SECTION(S): 53601.7**

Summary of Changes: Authorizes a county or city and county to invest in high quality money market funds (direct obligations of the United States Treasury or any other obligation guaranteed as to principal and interest by the United States government, bonds, notes, debentures, or other obligations of, or securities issued by, any federal government agency, instrumentality, or government-sponsored enterprise, and state treasury notes, bonds, or registered state warrants).

AB 3034 **AUTHOR: ASSEMBLY** **SECTION(S): 53601
JUDICIARY COMMITTEE**

Summary of Changes: Non-substantive, technical changes consisting of grammatical and other errors without substantively changing the law.

**SB 1326 AUTHOR: SENATE LOCAL SECTION(S): 53601, 53635
GOVERNMENT COMMITTEE AND 53646**

Summary of Changes: Renames the California Debt and Investment Advisory Commission (CDIAC), deletes a requirement to select a vice-chair and secretary, and requires, by May 1, 2006, a specified report to the Legislature. The bill makes related changes in provisions relating to municipal investments.

2003

**SB 787 AUTHOR: BATTIN SECTION(S): 53601 AND
53635**

Summary of Changes: Authorizes local agencies to purchase asset-backed commercial paper of prime quality to be of the highest ranking as provided by a nationally recognized statistical-rating organization and that the entity issuing the commercial paper must meet certain conditions as stated in 53601 (g).

2004

AB 969 AUTHOR: CORREA SECTION(S): 53601

Summary of Changes: Authorizes a local agency that has surplus money or a sinking fund in its treasury to invest that money in shares of beneficial interest issued by a JPA. In addition, the bill requires a JPA issuing the shares to retain an investment advisor that meets specified criteria.

2005

No changes

2006

**AB 1794 AUTHOR: DEVORE SECTION(S): 53635 AND
53601.7**

Summary of Changes: Extends the sunset date to January 1, 2011 for local agencies to invest in short-term unsecured promissory notes issued by corporations for maturities of 270 days or less, and amends statute to state that no more than 10% of the total assets of the investments that a local entity makes may be invested in any one issuer's commercial paper.

**AB 2011 AUTHOR: VARGAS SECTION(S): 53601.8 AND
53635.8**

Summary of Changes: The bill authorizes the investment of up to 30% of surplus funds in certificates of deposit at a commercial bank, savings bank, savings and loan association, or credit union that uses a private sector entity that assists in the placement of certificates of deposit under specified conditions, until January 1, 2012.

2007

AB 1745 AUTHOR: ASSEMBLY SECTION(S): 53601
REVENUE AND TAXATION
COMMITTEE

Summary of Changes: This bill authorizes local agencies to invest in registered treasury notes and bonds issued by any of the 50 states.

2008

SB 1124 AUTHOR: SENATE LOCAL SECTION(S): 53601, 53635
GOVERNMENT COMMITTEE AND 53635.8

Summary of Changes: Repeals the requirement for local governments to provide annual statements of investment policies, and quarterly investment reports to the CDIAC. In addition, the bill corrects various incorrect statutory cross-references regarding local agency investments.

SB 1498 AUTHOR: SENATE JUDICIARY SECTION(S): 53601
COMMITTEE

Summary of Changes: Non-substantive, technical changes consisting mostly of punctuation, correcting spelling errors, updating words, i.e., may to shall, any to a, money to moneys, and use of acronym for Nationally Recognized Statistical Rating Organization.

SB 344 AUTHOR: MACHADO SECTION(S): 5925

Summary of Changes: Authorizes state and local governments to repurchase or acquire instruments and outstanding bonds issued by or on their behalf.

2009

SB 113 AUTHOR: SENATE LOCAL SECTION(S): 53601.6,
GOVERNMENT COMMITTEE 53601.8 AND 53646

Summary of Changes: Corrects an incorrect cross reference for local agency investments in certificates of deposits and repeals requirement to submit a statement of investment policy to the CDIAC.

2010

SB 1330 AUTHOR: SENATE JUDICIARY SECTION(S): 53601
COMMITTEE

Summary of Changes: Non-substantive, technical changes consisting of changes to references within 53601 due to re-numeration of subsections of 53601 and changing the word subdivision to subdivisions.

**SB 1344 AUTHOR: KEHOE SECTION(S): 53601.8
AND 53635.8**

Summary of Changes: Deletes the sunset date associated with the authorization for local agencies to investment up to 30% of their surplus funds in certificates of deposit at a commercial bank, savings bank, savings and loan association, or credit union that uses a private sector entity that assists in the placement of certificates of deposit.

2011

**SB 194 AUTHOR: SENATE SECTION(S): 53601
GOVERNANCE AND
FINANCE COMMITTEE**

Summary of Changes: Authorizes local agencies to invest in negotiable certificates of deposit issued by a federally licensed branch of a foreign bank.

2012

**SB 1033 AUTHOR: SENATE BUDGET SECTION(S): 16340
AND FISCAL REVIEW
COMMITTEE**

Summary of Changes: Establishes the Voluntary Investment Program Fund within the State Treasury for the receipt of voluntary deposits from local entities.

2013

**AB 279 AUTHOR: DICKINSON SECTION(S): 53601.8
AND 53635.8**

Summary of Changes: Authorizes local agencies to invest up to 30% of their surplus funds in deposits at a commercial or savings bank, savings and loan, or credit union using a private sector deposit placement service until January 1, 2017.

2014

AB 1933 AUTHOR: LEVINE SECTION(S): 53601

Summary of Changes: Authorizes local agencies to invest in United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by certain banks (supranationals), and would require these investments to be rated "AA" or better and to not exceed 30% of the agency's moneys that may be invested.

AB 2298 AUTHOR: RODRIGUEZ SECTION(S): 53663

Summary of Changes: Authorizes state chartered financial institutions that maintain local agency deposits to submit their weekly reports to the Administrator of Local Agency Security of the State of California electronically via email or other electronic means approved by the administrator.

2015

AB 283 AUTHOR: DABABNEH SECTION(S): 53601.8 AND 53635.8

Summary of Changes: Extends the authority to use a private sector entity to assist placing deposits to January 1, 2021; allows local agencies to invest up to 30% of its surplus funds in placement service certificates of deposit (CDs) and 30% in negotiable certificates of deposit; and enables a local agency to invest up to 30% with the same deposit placement service provider. Upon the sunset date of January 1, 2021, a public agency may no longer use a placement service provider to place deposits; however, the private entity would be able to assist a local agency with the placement of CDs.

2016

SB 974 AUTHOR: SENATE LOCAL GOVERNMENT COMMITTEE SECTION(S): 53601

Summary of Changes: Clarifies and amends the statutory rating requirements contained in Government Code 53601. Specifically rating requirements now refer to a rating category which is inclusive of any rating modifiers such as “+”/”-“ or numbers and to include equivalent ratings from Nationally Recognized Statistical Rating Organizations (NRSRO). The specific sections of code that are amended are Government Code Sections 53601(h)(1)(C) Commercial Paper, 53601(k) Medium Term Notes, 53601(o) Mortgage Passthrough Securities, and 53601(q) Supranationals.

2017

No changes

2018

AB 1770 AUTHOR: STEINORTH SECTION(S): 53601(O)

Summary of Changes: Clarifies the statutory maximum remaining maturity requirement of five years applies to all asset-backed securities enumerated in this subdivision and eliminates the issuer rating requirement.

2019

AB 857 **AUTHOR: CHIU** **SECTION(S): 53601(R),
53635(C) AND 53635.2**

Summary of Changes: Adds to Government Code 53601: “(r) Commercial paper, debt securities, or other obligations of a public bank, as defined in Section 57600.” In addition, Government Code 53635 is amended by the addition of “(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.” Lastly, Government Code 53635.2 is amended to add public banks to the list of depository institutions.

AB 945 **AUTHOR: MCCARTY** **SECTION(S): 53601.8
AND 53635.8**

Summary of Changes: Amends a local agency’s authorization to invest and deposit surplus funds in deposits, certificates of deposit or another form, at specified types of financial institutions. Beginning January 1, 2020, until January 1, 2026, the percentage of surplus funds that can be invested by a city, district, or other local agency that does not pool money in deposits or investments with other local agencies with a different governing body increases to 50%. On and after January 1, 2026, the portfolio limitation of cities, districts, and agencies returns to 30% of the agency’s surplus funds.

2020

SB 998 **AUTHOR: MOORLACH** **SECTION(S): 53601(H),
53601(K) AND 53601.6**

Summary of Changes: Amends the authorization of local agencies, other than counties or a city and county pursuant to subdivision (a) of Section 53635, to invest no more than 10% of its total investment assets in commercial paper and the medium-term notes of any single issuer. Authorizes federally recognized Indian tribes in California to invest in JPA investment pools. Beginning January 1, 2021, until January 1, 2026, local agencies that have \$100 million or more of investment assets, are authorized to invest up to 40% of their moneys in eligible commercial paper. Also, beginning January 1, 2021, until January 1, 2026, local agencies are authorized to 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. Local agencies are authorized to hold these instruments until their maturity dates. On and after January 1, 2026, the portfolio limitation of local agencies authorized under 53601(h) returns to 25% of eligible commercial paper and local agencies are no longer permitted to invest any funds in securities that could result in zero interest accrual if held to maturity.

2021

No changes

2022

SB 1489 AUTHOR: SENATE SECTION(S): 53601
GOVERNANCE AND AND 53646
FINANCE COMMITTEE

Summary of Changes: Amends an investment’s term or remaining maturity to be measured from the settlement forward date to final maturity. A security purchased pursuant to 53601 is prohibited from having a settlement date exceeding 45 days from the time of investment. In addition, Government Code 53646 is amended to extend the time that the treasurer or chief fiscal officer has to render a quarterly report to the chief executive officer, the internal auditor, and the legislative body of the local agency by 15 days, from 30 to 45, following the end of the quarter.

2023

SB 882 AUTHOR: SENATE SECTION(S): 53601(O)
GOVERNANCE AND AND 27000.7
FINANCE COMMITTEE

Summary of Changes: Clarifies that privately backed securities, which include 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, are permissible investments by local agencies. The security must 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. In addition, purchased securities shall not exceed 20% of the agency’s surplus moneys that may be invested pursuant to this section. Furthermore, Government Code 27000.7 is amended to eliminate the requirement for the offices of county treasurer, county tax collector, or county treasurer-tax collector to have a valid certificate issued by the Treasury Management Association.

2024

AB 2618 AUTHOR: CHEN SECTION(S): 53601(K)

Summary of Changes: This bill extends the authority for a local agency to invest up to 50% (rather than 30%) of its surplus funds in deposits at a commercial bank, savings bank, savings and loan association, or credit union under specified conditions, until January 1, 2031. This bill would also require the California Debt and Investment Advisory Commission to submit a prescribed report to the appropriate policy committees of the Legislature on the deposit of surplus funds pursuant to existing law by local agencies on or before January 1, 2030.

Index

B

BOND PROCEEDS, GC Section 53601(m), 18–19

BUY AND HOLD STRATEGY, 10

C

CASH FLOW

Liquidity certification, GC Section 53646(b)(3), 37–38

COMPLIANCE

GC Section 53601, 15–16

Portfolio concentration, 16–17

COUNTY POOLS

Cash flow projections, 37–38

Voluntary depositors, 8

D

DURATION, 39–41

G

GAN PROCEEDS, 28

GOVERNMENT CODE SECTIONS

- 5925 Acquisition of Bonds, 11
- 16340 Voluntary Investment Program Fund, 10–13
- 16429.1 Local Agency Investment Fund (LAIF), 10, 12–13
- 27000.3 County Treasurer, prudent investor, 9
- 27000.5 County Treasurer, objectives, 9
- 27131 Oversight Committees, establishment, 44–47
- 27132 Oversight Committees, membership, 44, 46–48

- 27132.4 Oversight Committees, open meetings, 44
- 27133 Oversight Committees, review and oversight, 6-7
- 27134 Oversight Committees, audits by, 47
- 27137 Oversight Committees, involvement, 47
- 53600.3 Investment of Surplus, prudent investor, 9, 30-31
- 53600.5 Investment of Surplus, objectives, 9, 31
- 53601 Investment of Surplus, authorized investments, 9-31
- 53601.1 Investment of Surplus, authorized investments, 31
- 53601.6 Investment of Surplus, prohibited investments, 10-11, 19-20
- 53601.8 Investment of Surplus, certificates of deposit placement, 10-14
- 53607 Transactions Reporting, 33-37
- 53608 Investment of Surplus, deposit of securities, 28-29
- 53635 Deposit of Funds, investments, 10-13
- 53635.2 Deposit of Funds, money in custody of local agency, 10, 14-15
- 53635.8 Deposit of Funds, certificates of deposit placement, 10-14
- 53638 Deposit of Funds, maximum deposits, 10
- 53646 Deposit of Funds, policy statement, 33-36, 37-38, 42
- 53684 Deposit of Funds, investment by county treasurer, 10
- 53821.5 Tax and Revenue Anticipation Notes, 28
- 53841.5 Tax and Revenue Anticipation Notes, 28
- 53852.5 Tax and Revenue Anticipation Notes, 28
- 53859.02 Grant Anticipation Notes, 28



INVESTMENT ADVISORS/MANAGERS, 29-30

INVESTMENT INSTRUMENT TYPES

- Bankers' acceptances, 10, 12-13
- California local agency obligations, 12
- Certificates of deposit (negotiable, non-negotiable and placement service), 10, 12-13
- Collateralized bank deposits, 10, 12-13
- Commercial paper, 12-13, 23, 34
- Corporate, GC Section 53601(k), 22-23
- County pooled investment funds, 12
- Derivatives, 19
- Joint Powers Authority pool, 12-13
- Local agency bonds, 12
- Local Agency Investment Fund (LAIF), 12, 28, 33-36
- Medium-term notes, GC Section 53601(k), 12-13, 22-23
- Mortgage pass-through securities, 12-13
- Mutual funds and money market mutual funds, 12-13, 26-27
- Placement service deposits, 12-13
- Repurchase agreements, 10, 12
- Reverse repurchase agreements and securities lending agreements, GC Section 53601(l), 12-13, 24-26
- SEC rule 2a-7 allowable investments, 12-13, 27

- State of California obligations, 12, 24
- Supranational obligations, 12–13, 21
- U.S. Agencies (GSES), GC Section 53601(f), 12, 19–20
- U.S. Treasury obligations, 12
- Voluntary Investment Program Fund, GC Section 16340, 12–13

INVESTMENT POLICY

- Bond proceeds, GC Section 53601(m), 18
- Contents of, GC Section 27133, 6–7
- Market risk measures, 39–41
- Oversight committees, 4–5, 44–48
- Purpose of, 4
- Rendering to legislative/governing body, 4–6
- Statutory requirements—county, GC Section 53646(a)(1), 4–5
- Statutory requirements—other local agencies, GC Section 53646(a)(2), 4–5
- Update/review frequency, 5–6

INVESTMENT PORTFOLIO REPORT, GC Section 53646

- Contents of, GC Section 53646(b)(1–4), 34–38
- Dollar amount, 34
- Legislative/governing body, GC Section 53646(b), 42–43
- Liquidity certification, GC Section 53646(b)(3), 37–38
- Market risk measures, 39–41
- Market value in, 36–37
- Transactions reporting, GC Section 53607, 33–37
- 45-day requirement, GC Section 53646(b), 42–43

L

LEGISLATIVE/GOVERNING BODY

- Approval or action by, 42
- Investment policy, 4–7
- Investment portfolio report, GC Section 53646(b), 33–37
- Oversight committee, 42, 47–48
- Statutory definition, GC Section 27000.3, 9

M

MUNICIPAL ADVISOR RULE, 18–19

O

OVERSIGHT COMMITTEES

- For non-county agencies, 47–48
- Function of, GC Section 27131 and 27132, 44–47
- Investment policy, 4–6

Investment report, 42–43
Members of (including Treasurer), GC Section 27131(a), 44–46
Statutory requirements, 44–46

P

PENSION FUNDS, 7

PROHIBITED INVESTMENTS, 10–11

PRUDENT INVESTOR STANDARD

Statutorily defined, GC Section 53600.3, 9

R

RISK, 9–10

Credit/default, 9–10
Duration, 39–41
Liquidity, 9–10, 37–38
Market or interest rate, 39
Measures of (WAM and duration), 39–41

S

SAFEKEEPING, 28–29

SAFETY, LIQUIDITY, YIELD, GC Section 27000.5 and 53600.5, 9–10

**SEC 15 U.S. CODE SECTION 80A-I,
INVESTMENT COMPANY ACT OF 1940**, 11, 26–27

SUPRANATIONAL SECURITIES, GC SECTION 53601(Q), 12–13, 21

T

TRAN PROCEEDS, 28

U

**U.S. CODE SECTION 2906 OF TITLE 12,
COMMUNITY REINVESTMENT ACT OF 1977**, 14–15

W

WEIGHTED AVERAGE MATURITY (WAM), 39–40



CALIFORNIA DEBT AND INVESTMENT
ADVISORY COMMISSION

901 P Street, Room 142
Sacramento, CA 95814
phone: (916) 653-3269
fax: (916) 654-7440
e-mail: cdiac@treasurer.ca.gov
www.treasurer.ca.gov/cdiac/



STAFF REPORT

Meeting Type: Finance & Administration Committee/Board of Directors
Title: Budget Planning Update
From: Bret Uppendahl, Finance Director and Acting General Manager for Ben Horenstein
Meeting Date: March 27, 2025 *BU*

TYPE OF ITEM: Approve X Review and Comment

RECOMMENDATION: Review and comment on the District’s Two-Year Budget Process for FY 2025/26 and FY 2026/27

SUMMARY: Staff is preparing the Operating and Capital Budget for FY 2025/26 and FY 2026/27 for the Board’s consideration in June 2025. The Marin Municipal Water District (District) utilizes a two-year budget cycle that includes a five year Capital Improvement Program (CIP). The District’s current adopted budget for FY 2024/25 is \$163.8 million, which is comprised of a \$109.3 million Operating Fund, a \$49.5 million Capital Fund and \$5.0 million in planned contributions to reserves. As part of the 2022 rate setting process, the Board approved the water rate structure for a four-year period from FY 2023/24 to FY 2026/27, and therefore the revenues to support capital and operating expenditures over the next two years are largely dependent on customer water consumption levels. Today, staff will present an update on some of the key inputs to the operating budget.

DISCUSSION: The District’s Operating Budget provides funding for ongoing day-to-day operations, including water purchase, water production, watershed maintenance, regulatory compliance, water efficiency, distribution system maintenance, engineering services, meter operations, customer services and administrative support. The operating budget also provides funding for the District’s debt service, insurance, and utility costs. Many of the largest expenditure line items are non-discretionary, meaning that they are expenditures required to provide service and the underlying costs are beyond the control of the District.

The District currently has over 250 budgeted positions that support ongoing operational functions and their associated personnel costs comprise approximately 55 percent of the Operating Budget. Under the current labor contract, which is in effect through June 2027, the general salary increase will be 3.13% in FY 2025-26. The general salary increase for FY 2026-27 will be equal to consumer price index (CPI-U) for the San Francisco-Oakland-Hayward metropolitan area, but will not be greater than 5 percent or lower than 2 percent.

Other personnel costs that impact the two-year budget planning process include health insurance and retiree benefits. The District currently provides health insurance to employees through CalPERS, and the District's contribution to active employee health insurance premiums is equal to the median monthly premium for plans offered in Region 1 (Northern California). This year, CalPERS announced increases to all health plans, with an average increase of 9 percent. Based on the District's contribution formula and the enrollment status of current active employees, we expect contributions to health insurance premiums to increase by approximately \$400,000, or 8 percent, in FY 2025-26 and we are forecasting an additional increase of 6 percent in FY 2026-27.

Health insurance premium rates also impact retiree health benefits. The District currently has approximately 300 retirees who qualify for health insurance benefits. In 2009, the District established a pre-funding trust with CalPERS, also known as an OPEB trust. Over 600 public agencies in California participate in the CalPERS trust program and the purpose of the OPEB trust is to establish a funding schedule to ensure that funds are available for all future retiree healthcare obligations. Every two years, the District receives an actuarial valuation to calculate the required annual contributions. The actuarial valuation considers the number and relative ages of retirees, the underlying healthcare premium costs, and the value of the District's trust account. Under this trust arrangement, the District's required contributions are a combination of cash payments to retirees, as well as pre-funding payments to the trust. As of December 31, 2024, the District had over \$47 million in trust assets. Annual investment returns have a significant impact on the value of the trust and the corresponding annual contribution requirement. Over the life of the trust, the District's assets have grown at a 7.2 percent annualized net rate of return; however, the year-to-year results have ranged from gains exceeding 25 percent, to losses in excess of 13 percent. The most recent actuarial valuation was conducted in June 2024, indicating that the District needed to budget for contributions of \$4.1 million in FY 2025-26, which represents an increase of \$1.4 million compared to current levels. It should be noted that current contribution levels are historically low as a result of extraordinary market conditions in June 2021, and the FY 2025-26 contributions are in line with historical trends.

Pension contributions are another significant portion of the District's personnel costs. Similar to retiree healthcare benefits, the required contributions for pensions are determined by the CalPERS actuary and are largely dependent on annual investment returns. As is the case with retiree healthcare, the District's annual contributions are a combination of expected cash payments for current retirees, as well as a contribution toward future obligations for active employees. In the most recent actuarial valuation, which was conducted using data from June 30, 2023, the District has assets of \$196.7 million, which earned 5.8 percent for the fiscal year. Over the past 20 years, the compound annual rate of return has been 7.0 percent. The District currently has 399 retirees, earning an average of \$46,723 in annual benefits, and 211 active employees. Of the District's active employees, more than half are now covered under the PEPR plan, which was enacted by statewide legislation in 2013 and changed the way retirement benefits are applied to newly hired employees. As a result of the statewide legislation, the District's required contribution for PEPR employees is about half of what it is for employees hired before 2013. Overall, the District's required contributions are increasing by about \$375,000, or 3 percent, in FY 2025-26. The increase is driven largely by increases to the unfunded actuarial liability (UAL) payment, which reflects a multi-year amortization of annual investment gains and losses.

Aside from personnel costs, the largest expenditure line item is purchased water from the Sonoma County Water Agency (Sonoma Water). Historically, the District relies on purchased water for about 25 percent of the potable water supplied to customers. Sonoma Water provides drinking water to nine

different agencies in Sonoma County and Marin. Under the current contract with Sonoma Water, the District's minimum water purchase is 5,300 acre feet and the cost per acre foot is \$1,610. From 2017 to 2023, the average annual increase in purchased water from Sonoma was 5.1 percent. In 2024, the cost per acre foot increased by 10.6 percent. Sonoma Water is currently in the process of finalizing their water wholesale rates for 2025, and the initial drafts indicate an increase of 8.8 percent for Marin Water. When applied to the minimum purchase of 5,300 acre feet, the updated rates would result in a budget increase of \$750,162 for the District.

Over the coming weeks, staff will finalize revenue projections and will wrap up budget review meetings with individual departments. The Engineering Division will present an overview of the Capital Improvement Program (CIP) in April, and staff will provide a more detailed overview of each Division's operating budget in early May. The proposed budget will be presented in June for the Board's consideration.

ENVIRONMENTAL REVIEW: Not applicable.

FISCAL IMPACT: None.

ATTACHMENT(S): None.