GOLETA WEST SANITARY DISTRICT
Special Finance Committee Meeting
Agenda
July 25, 2022
3:30 PM

UCSB Campus, Parking Lot 32
Santa Barbara, California 93106
(District Office)

In response to the spread of the COVID-19 virus, Governor Newsom declared a state of emergency which directly impacts the ability of board members and members of the public to meet safely in person. To help minimize the potential spread of the COVID-19 virus, the Goleta West Sanitary District has decided hold this public meeting telephonically pursuant the requirements of Government Code section 54953(e) (as amended by AB 361). Members of the public are invited to attend and participate in the Goleta West Sanitary District Public Meeting in one of the following ways:

Join Zoom Meeting:

https://us02web.zoom.us/j/9609647119

Meeting ID: 960 964 7119

Dial by your location

+1 669 900 6833 US (San Jose)
+1 253 215 8782 US (Tacoma)
+1 346 248 7799 US (Houston)
+1 929 205 6099 US (New York)
+1 301 715 8592 US (Washington DC)
+1 312 626 6799 US (Chicago)
877 853 5257 US Toll-free
888 475 4499 US Toll-free

Please contact the District office by phone (805-968-2617) or email (info@goletawest.org) with any questions.

Call to Order:

Roll Call: Director Lewis, Director Geyer

Questions/Comments from the public on any item not on the agenda

The Goleta West Sanitary District Board Room is accessible to people with disabilities. If additional accommodations for the disabled are needed, please call the District's Office Manager at (805) 968-2617 or e-mail your request to info@goletawest.com in advance of meeting.

Business:

1. **Discussion of Capital Improvement Projects (CIPs) financing options.**

2. **Discussion of District investment options.**

Adjournment:

Supplementary Material:

County of SB Monthly Sewer Rate Comparison Excel Spreadsheet
CSDA – CLASS – Features and Benefits
Local Agency Investment Fund (LAIF) – Information Digest
Santa Barbara County Treasurer – Investment Policy Statement

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SEWER RATE COMPARISON FOR FY 2022-2023	Monthly SFR Sewer Rate
Montecito Sanitary District	$123.33
Summerland Sanitary District	$101.58
Santa Ynez Community Services District	$79.93
City of Lompoc	$92.80
Laguna County Sanitation District	$92.08
CSA 12 (Mission Canyon)	$90.36
Los Alamos Community Services District	$70.08
Vandenberg Village Community Services District	$75.67
Carpinteria Sanitary District	$62.80
Cuyama Community Services District	$66.00
Mission Hills Community Services District	$65.03
City of Santa Barbara	$63.96
City of Guadalupe	$54.30
Goleta West Sanitary District	$21.83
Goleta Sanitary District	$44.20
City of Solvang	$34.65
City of Buellton	$30.45
City of Santa Maria	$28.36

California CLASS

California Cooperative Liquid Assets Securities System

What is California CLASS?

California Cooperative Liquid Assets Securities System (California CLASS) is a joint exercise of powers entity authorized under Section 6509.7, California Government Code. California CLASS is a pooled investment option that was created via a joint exercise of powers agreement by and among California public agencies. California CLASS offers public agencies a convenient method for investing in highly liquid, investment-grade securities carefully selected to optimize interest earnings while maximizing safety and liquidity. The California CLASS Prime and Enhanced Cash funds offer public agencies the opportunity to strengthen and diversify their cash management programs in accordance with the safety, liquidity, and yield hierarchy that provides the framework for the investment of public funds.

How is it governed and managed?

California CLASS is overseen and governed by a Board of Trustees. The Board is made up of public agency finance professionals who participate in California CLASS and are members of the Joint Powers Authority (JPA). The Board of Trustees has entered into an Investment Advisor and Administrator Agreement with Public Trust Advisors, LLC. Public Trust is responsible to the Board for all program investment and administrative activities as well as many of the services provided on behalf of the Participants.

How can we participate?

Enrolling in California CLASS is simple. Public agencies may become Participants simply by filling out the Participant Registration Form that can be found in the document center on the California CLASS website. Public agencies may submit the completed registration packet to California CLASS Client Services for processing at clientservices@californiaclass.com. To obtain account forms and fund documents, visit www.californiaclass.com/document-center/.

Endorsed By:

LEAGUE OF CALIFORNIA CITIES

www.calcities.org

California Special Districts Association

CSDA

Districts Stronger Together

www.csda.net

Participants benefit from the following:

- Same-day availability of funds in Prime Fund (11:00 a.m. PT cut-off)
- Deposits by wire or ACH
- Ratings of 'AAAm' & 'AAAf/S1'
- Prime fund transacts at stable NAV
- Portfolio securities marked-to-market daily
- Secure online access for transactions and account statements
- No withdrawal notices for Prime Fund
- Participant-to-Participant transactions
- Interest accrues daily and pays monthly
- No maximum contributions
- No minimum balance requirements
- No transaction fees*
- Annual audit conducted by independent auditing firm**
- Dedicated client service representatives available via phone or email on any business day

*You may incur fees associated with wires and/or ACH transactions by your bank, but there will be no transaction fees charged from California CLASS for such transactions.
**External audits may not catch all instances of accounting errors and do not provide an absolute guarantee of accuracy.

What are the objectives of California CLASS?

Safety

The primary investment objective of the California CLASS Prime fund is preservation of principal. Both California CLASS portfolios are managed by a team of investment professionals who are solely focused on the management of public funds nationwide. The custodian for California CLASS is U.S. Bank, N.A.

Liquidity

When you invest in the California CLASS Prime fund, you have access to your funds on any business day. You must notify California CLASS of your funds transaction requests by 11:00 a.m. PT via the internet or phone. There are no withdrawal notices for the daily-liquid California CLASS Prime fund. Enhanced Cash is a variable NAV fund that provides next-day liquidity and a one-day notification of withdrawal.

Competitive Returns

California CLASS strives to provide competitive returns while adhering to the objectives of safety and liquidity. Participants benefit from the investment expertise and institutional knowledge provided by the team of Public Trust professionals. Portfolio performance is strengthened by the extensive knowledge of California public agency cash flows that the Public Trust team possesses.

Ease of Use

To make cash management streamlined and efficient, California CLASS includes many features that make it easy to access account information and simplify record keeping. Participants can transact on any business day using the California CLASS phone number (877) 930-5213, fax number (877) 930-5214, email clientservices@californiaclass.com or via the California CLASS Online Transaction Portal at www.californiaclass.com.

Flexibility

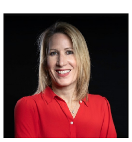
You may establish multiple California CLASS subaccounts. You will receive comprehensive monthly statements that show all of your transaction activity, interest accruals, and rate summaries. These statements have been specifically designed to facilitate public sector fund accounting and to establish a clear accounting and audit trail for your records.

Legality

California CLASS only invests in securities permitted by California State Code Section 53601; permitted investments are further restricted to those approved by the Board of Trustees as set forth in the California CLASS Investment Policies.

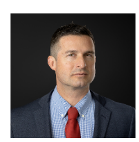
Have Questions? Contact us or visit www.californiaclass.com for more information.

Bob Shull
Director, Investment Services
bob.shull@californiaclass.com
(213) 378-2070



Laura Glenn, CFA®
Senior Director, Investment Services
laura.glenn@californiaclass.com
(404) 822-8287

Brent Turner
Regional Director of Strategy
brent.turner@californiaclass.com
(303) 999-8190



Rodrigo Bettini
Director, Investment Services
rodrigo.bettini@californiaclass.com
(813) 820-0703

Any financial and/or investment decision should be made only after considerable research, consideration, and involvement with an experienced professional engaged for the specific purpose. **Past performance is not an indication of future performance. Any financial and/or investment decision may incur losses.** Please see the Information Statement for further details on the fee calculation and other key aspects about California CLASS. California CLASS Prime is rated 'AAAm' by S&P Global Ratings. A 'AAAm' rating by S&P Global Ratings is obtained after S&P evaluates a number of factors including credit quality, market price exposure, and management. For a full description on rating methodology, please visit www.spglobal.com. California CLASS Enhanced Cash is rated by 'AAAf/S1' by FitchRatings. The 'AAAf' rating is Fitch's opinion on the overall credit profile within a fixed-income fund/portfolio and indicates the highest underlying credit quality of the pool's investments. The 'S1' volatility rating is Fitch's opinion on the relative sensitivity of a portfolio's total return and/or net asset value to assumed changes in credit spreads **and interest rates.** The 'S1' volatility rating indicates that the fund possesses a low sensitivity to market risks. For a full description on rating methodology, please visit www.fitchratings.com. Ratings are subject to change and do not remove credit risk.

THE
LOCAL AGENCY INVESTMENT FUND
INFORMATION DIGEST

A VOLUNTARY INVESTMENT PROGRAM FOR CALIFORNIA LOCAL GOVERNMENTS
ADMINISTERED BY THE CALIFORNIA STATE TREASURER

FIONA MA, CPA

March 31, 2021

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Overview of the Investment Division

Mission, Purpose and History

The mission of the Investment Division is to prudently manage the Pooled Money Investment Account (PMIA) Portfolio, the Time Deposit Program (TDP), and the Local Agency Investment Fund (LAIF) Program under the statutory authority granted by state law and consistent with the investment objectives of Safety, Liquidity, and Yield.

The State Treasurer invests taxpayer's money safely, while minimizing service costs and maximizing investment yields. The investments help manage cash flow and enhance local governments' financial security. These duties are carried out through the PMIA.

The LAIF program allows cities, counties and special districts to place money in a major portfolio at no additional costs to taxpayers, using the expertise of the Investment Division staff. Participating agencies can withdraw their funds from LAIF at any time.

Under the TDP, the PMIA deposits money with community banks at competitive rates. Eligible institutions are commercial banks, savings banks and credit unions that are federally insured and licensed to accept deposits in the State of California. Banks which receive time deposit funds can use the money to expand economic opportunities and create jobs in the communities they serve.

The Investment Division staff invests PMIA funds in a wide range of securities, using more than 75 brokers, dealers, banks and direct issuers. The PMIA is governed by the Pooled Money Investment Board (PMIB) created by the Legislature in 1955, while LAIF, created in 1977, receives oversight and guidance from the Local Investment Advisory Board (LIAB). The State Treasurer chairs both the PMIB and LIAB.

Investment Division Goals

Goal 1: Continuously monitor the credit quality of a diversified list of approved issuers of eligible securities, provide for the liquidity needs of PMIA participants, while obtaining a competitive yield from our investments.

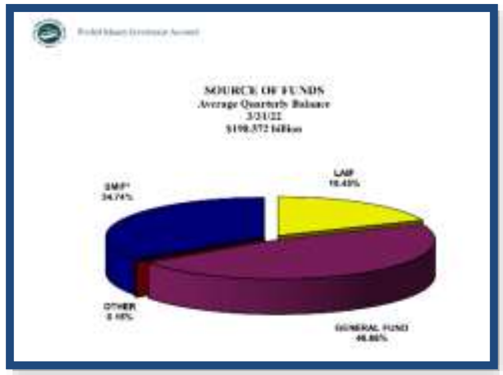
Goal 2: Maintain a highly skilled, knowledgeable, and resourceful staff that is fully cross-trained to increase operational flexibility, to ensure organizational continuity, and to ensure the Division's ability to respond to new or unexpected market changes.

Goal 3: Utilize technological innovations to enable staff to more efficiently manage their workload and to provide new and useful services to our local government partners.

Goal 4: Increase training opportunities and other efforts to prepare for generational change in staffing and management.

Division Programs

Pooled Money Investment Account (PMIA)



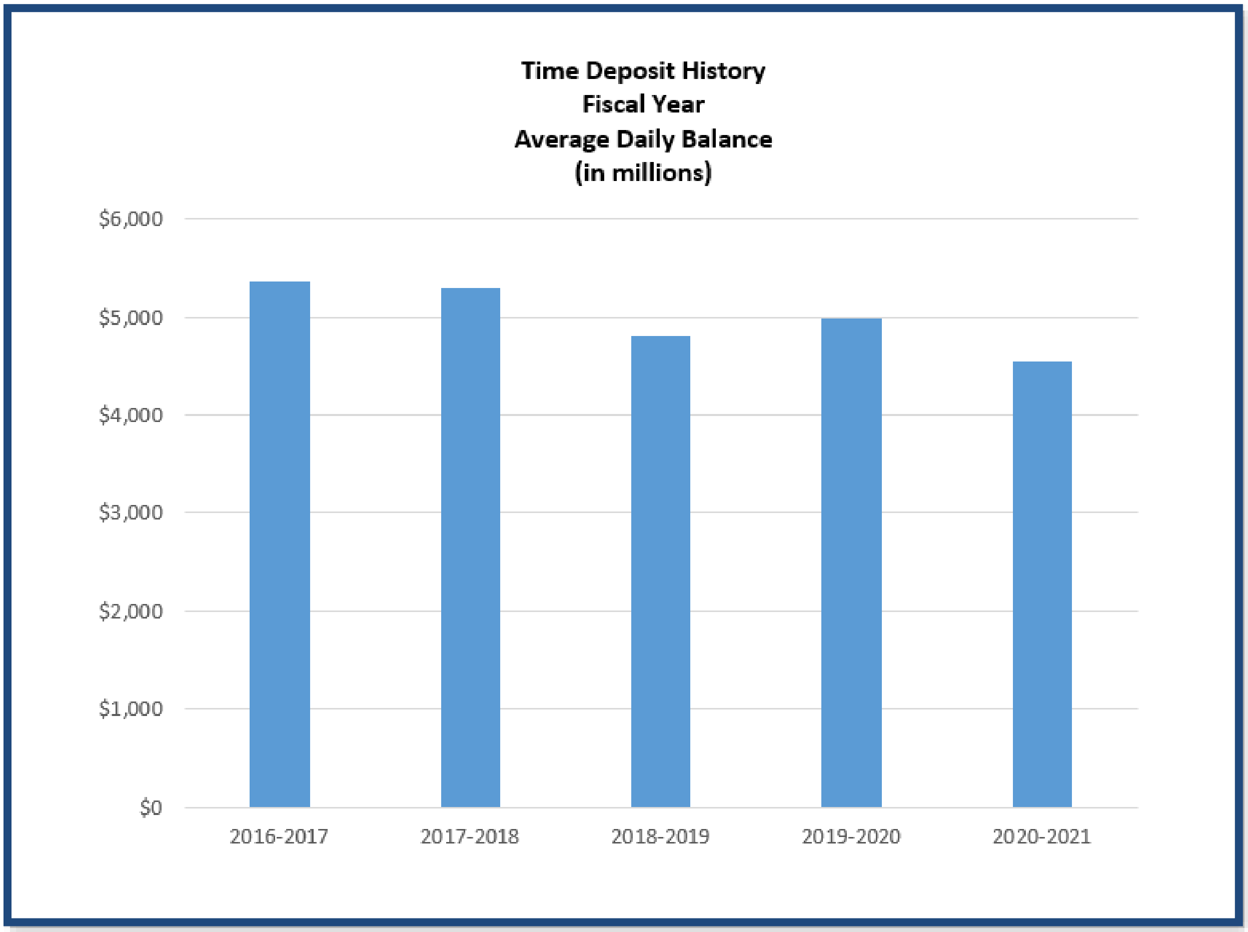
The Investment Division is responsible for managing the PMIA Portfolio. The State Treasurer, through the Investment Division, invests state and local agency money deposited in the PMIA consistent with prudent management, while it minimizes service costs and maximizes investment returns. The PMIA consists of the Surplus Money Investment Fund (SMIF), LAIF, and the General Fund. The Investment Division is responsible for the administration of the PMIA investment program on a day-to-day basis. The Centralized Treasury and Securities Management Division (CTSMD) determines the amounts available for investment while maintaining the approved compensating balance position. Therefore, there is continual adjustment of the estimates for receipts and disbursements to reflect current and available information. Subsequently, the Investment Division purchases authorized securities in accordance with the market conditions to ensure the State's daily cash needs are met. The Investment Division also acts as the agent for purchase or sale of securities on behalf of various state agencies and programs and provides support to the State Treasurer for his/her investment-related Board responsibilities on the California Public Employee's Retirement System (CalPERS) and the California State Teachers' Retirement System (CalSTRS).

Additionally, the PMIA has Policies, Goals and Objectives for the portfolio, included on page 12 of this document, to make certain that our goals of Safety, Liquidity and Yield are not jeopardized and that prudent management prevails. These policies are formulated by the Investment Division staff and reviewed by both the PMIB and the LIAB.

Time Deposit Program (TDP)

The TDP was created in 1945 under Government Code Section 16500 et seq. (see Appendix C). The program allows the State Treasurer to place deposits with eligible California financial institutions. The program assures a yield to the PMIA above the Treasury Bill yield and makes money available to community banks at generally better rates than they can get from other sources. All time deposits are fully collateralized. Eligible institutions include federally-insured commercial banks, savings banks and credit unions authorized to accept deposits in the State of California. Participants must be headquartered in the State of California and also have a Community Reinvestment Act rating of not less than satisfactory. This rating is based on the institution's lending and investment practices and the services it offers to the community. The lending evaluation examines the institution's activities with respect to home mortgage loans, as well as loans for small businesses, small farms, and community development, including affordable housing and not-for-profit organizations that meet low-to-moderate income housing needs.

The State Treasurer places a high priority on community investment. Every effort is made to ensure access to the TDP for institutions that rely more on public and private deposits to lend and invest within their neighborhoods. By accessing funds through the TDP, financial institutions can re-invest in the California communities they serve.



The Local Agency Investment Fund

The Local Agency Investment Fund (LAIF) is a voluntary program created by statute in 1977 as an investment alternative for California's local governments and special districts and continues today under Treasurer Fiona Ma's administration (see Appendix A). The enabling legislation for LAIF is codified in Section 16429.1 et seq. of the California Government Code.

This program offers local agencies the opportunity to participate in a major portfolio, which invests hundreds of millions of dollars, using the investment expertise of the State Treasurer's Office investment staff. This in-house management team is comprised of civil servants who have worked for the State Treasurer's Office for decades.

The LAIF is approximately 18% of the PMIA. The PMIA began in 1953 and oversight is provided by the Pooled Money Investment Board (PMIB) and an in-house Investment Committee. The PMIB members are the State Treasurer, Director of Finance, and State Controller.

The Local Investment Advisory Board (LIAB) provides oversight for LAIF. The Board consists of five members. The chairman is the State Treasurer or his/her designated representative. Two members who are qualified by training and experience in the field of investment or finance, and 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, are appointed by the State Treasurer. The term of each appointment is two years or at the pleasure of the appointing authority.

All securities purchased for the PMIA are authorized under Government Code Sections 16430 and 16480.4 (see Appendix B). The State Treasurer's Office takes delivery of all securities purchased on a delivery versus payment basis using a third party custodian. All investments are purchased at market and a market valuation is conducted monthly.

Additionally, the PMIA has Policies, Goals and Objectives for the portfolio to make certain that our goals of Safety, Liquidity and Yield are not jeopardized and that prudent management prevails. These policies are formulated by investment staff and reviewed by both the PMIB and the LIAB on an annual basis.

LAIF administrative costs are minimal and are assessed quarterly. The Government Code states that administrative costs are not to exceed 5% of quarterly earnings of the fund. However, if the 13-week Daily Treasury Bill Rate on the last day of the fiscal year is below 1%, then administrative costs shall not exceed 8% of quarterly earnings of the fund for the subsequent fiscal year (Government Code Section 16429.1). These fees cover actual costs to administer the LAIF program. A history of administrative costs can be found at www.treasurer.ca.gov/pmia-laif/historical/admin_costs.asp.

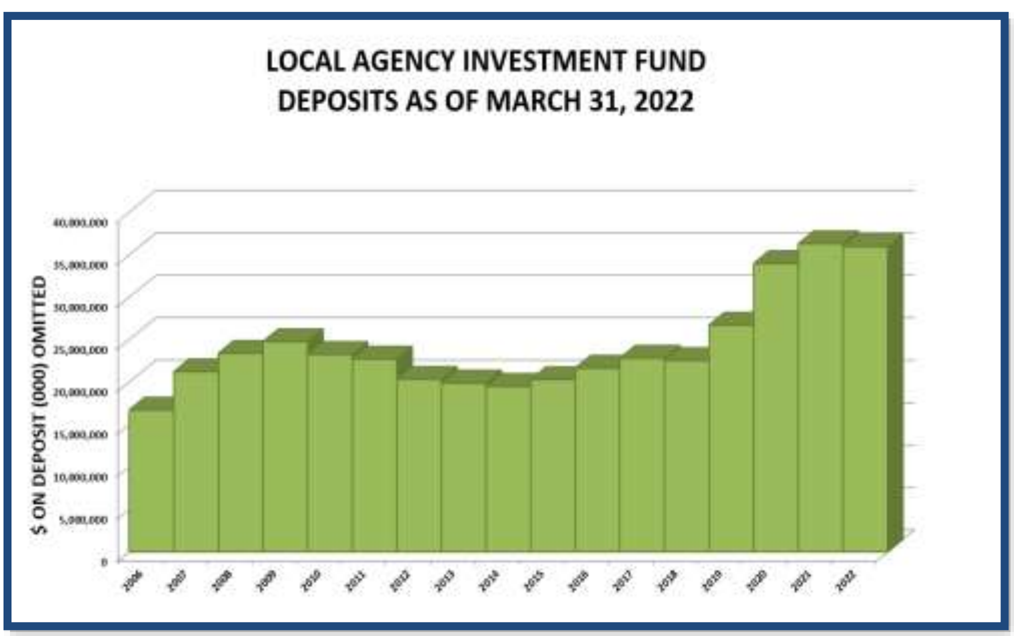
Interest is calculated on a dollar-day basis to guarantee equitable distribution among all member funds and is paid quarterly.

The State Treasurer's Office is audited by the Bureau of State Audits on an annual basis and the resulting audit report is posted to the State Treasurer's Office website following its publication. The Bureau of State Audits also has a continuing audit process throughout the year. All investment and LAIF claims are audited on a daily basis by the State Controller's Office as well as through an in-house audit process.

Moneys deposited in LAIF are afforded certain statutory protection. Government Code Section 16429.3 states that "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, or (b) impoundment or seizure by any state official or state agency."

During the 2002 legislative session, Government Code Section 16429.4 was added to provide further protection. This section states that "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."

The LAIF has grown from 293 participants and $468 million in 1977 to 2,394 participants and $36 billion as of March 31, 2022.



Board Members

Local Investment Advisory Board

Chairman:

FIONA MA, CPA, State Treasurer

Members:

WALTER HALL
Retired Director
Royal Bank of Canada

SUNG HYUN
Director of Finance/City Treasurer
City of Buena Park

AMY LEE
Founder of 3S LLC
3S San Francisco

RAFI MANOUKIAN
City Treasurer
City of Glendale

http://www.treasurer.ca.gov/pmia-laif/liab-members.asp

Pooled Money Investment Board

Chairman:

FIONA MA, CPA, State Treasurer

Members:

BETTY T. YEE
State Controller

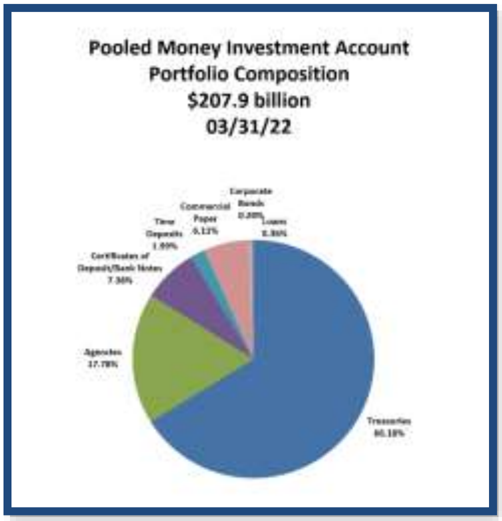
KEELY BOSLER
Director of Finance

<u>Safety, Liquidity and Yield</u>

LAIF provides local agencies a way to invest cash held in the treasury pool that may be withdrawn as needed on a same-day basis to meet an agency's cash flow needs, while realizing interest generated by the PMIA. The Investment Division places the goals of Safety, Liquidity, and Yield above all others, and in this order. These goals are stated in the Investment Policy, which can be found on page 12.

Safety

Due to the portfolio's characteristics, credit risk is minimal. The pool is managed to ensure the safety of the portfolio by investing in high quality securities and by maintaining a mix of securities that provide reasonable assurance that no single investment or class of investments will have a disproportionate impact on the total portfolio. Additionally, LAIF funds are protected by statute and are not borrowable.



Furthermore, LAIF funds are not affected by a budget impasse. (Government Code Section 16429.4) The Court of Appeal issued a decision on the *Jarvis Taxpayers Association v. Connell* case on May 29, 2002, where the court held that the Controller may disburse funds during a budget impasse when the state and federal law properly authorize or require their payment, despite the absence of a budget act or emergency appropriation.

Liquidity

The pool is managed to ensure that normal cash needs, as well as unscheduled cash needs, can be met. Adequate liquidity shall be maintained to ensure the unforeseen cash needs, whether ordinary or extraordinary. The pool will maintain a "cash flow generated" portfolio balance sufficient to cover the one-month prepared cash forecast, as well as the six-month prepared cash forecast. Further, sufficient marketable treasuries will be maintained to cover unforeseen withdrawals or delayed deposits. The following chart demonstrates the liquidity of the PMIA.

Pooled Money Investment Account
Portfolio as of 03-31-22

PAR VALUES MATURING BY DATE AND TYPE

Maturities in Millions of Dollars[1]

ITEM	1 day to 30 days	31 days to 60 days	61 days to 90 days	91 days to 120 days	121 days to 150 days	151 days to 180 days	181 days to 210 days	211 days to 270 days	271 days to 1 year	1 year to 2 years	2 years to 3 years	3 years to 4 years	4 years to 5 years/out	Total	Weight (% of Total)
TREASURY	$ 1,100	$ 10,450	$ 3,350	$ 13,200	$ 7,950	$ 8,150	$ 5,050	$ 10,800	$ 17,350	$ 39,600	$20,400			$137,500	66.04%
AGENCY[2]	$ 3,006	$ 3,325	$ 4,215	$ 4,600	$ 3,348	$ 3,300	$ 4,500	$ 3,675	$ 2,083	$ 4,125	$ 1,500	$ 325	$ 100	$ 38,103	18.30%
CDs + BNs	$ 6,000	$ 2,100	$ 2,350	$ 2,025	$ 700	$ 850	$ 990	$ 500	$ 150					$ 15,338	7.37%
CP	$ 3,875	$ 1,300	$ 2,750	$ 1,050	$ 750	$ 850	$ 990	$ 300						$ 12,725	6.11%
TDs	$ 1,180	$ 849	$ 1,393	$ 344	$ 191	$ 179								$ 4,138	1.99%
CORP BND						$ 95			$ 55	$ 25	$ 99	$ 58	$ 84	$ 416	0.20%
REPO														$ -	0.00%
BAs														$ -	0.00%
TOTAL	$ 15,161	$ 18,024	$ 14,058	$ 22,119	$ 12,939	$ 13,414	$ 11,180	$ 15,375	$ 19,638	$ 43,750	$21,999	$ 393	$ 184	$208,214	100.00%
Percent	7.28%	8.66%	6.75%	10.62%	6.21%	6.44%	5.36%	7.38%	9.43%	21.01%	10.57%	0.19%	0.09%		
Cumulative %	7.28%	15.94%	22.69%	33.31%	39.53%	45.97%	51.33%	58.71%	68.15%	89.16%	99.72%	99.91%	100.00%		

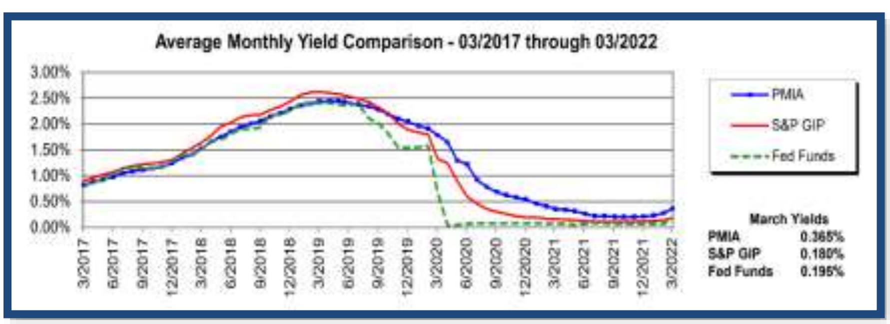
[1] Figures are rounded to the nearest million. Percentages may be off due to rounding. Totals do not include PMIA and General Fund loans.
[2] SBA Floating Rate Securities are represented at coupon change date. Mortgages are represented at current book value.

Yield

PMIA investments and deposits are made in such a way as to realize the maximum return consistent with safe and prudent treasury management. The rate of return is maintained on a consistent level representative of current market yield direction.

Sales gains and losses will not be incurred as to radically alter the final quarterly apportionment rate. Significant sales gains will be offset for restructuring purposes to maintain consistent current return as well as to maximize future portfolio performance. Significant sales losses shall be incurred only by consent of the Treasurer, or when sufficient profits negate the alteration of the apportionment rate.

The chart below illustrates the PMIA yield compared to the Fed Funds rate and other local government investment pools.



All of the PMIA goals, objectives and policies are observed by the Director of Investments or his/her designee, monitored by the Treasurer's Investment Committee, and reviewed continually by the Treasurer or his/her designee.

State Treasurer's Office
Pooled Money Investment Account (PMIA)

Statement of Portfolio Management Goals, Objectives and Policies

All state money held by the State Treasurer in Treasury trust accounts, and all money in the State Treasury is appropriated for the purpose of investment and deposit as provided in Section 16480 et. seq. of the Government Code.

Goal I. Portfolio Safety/Diversification

The pool will be managed to ensure the safety of the portfolio by investing in high quality securities and by maintaining a mix of securities that will provide reasonable assurance that no single investment or class of investments will have a disproportionate impact on the total portfolio.

Objective: In addition to the safety provided by investing in high quality securities, the safety of the portfolio is enhanced three ways by maintaining a diverse, prudent mix of investments: 1) Spreading investments over different investment types minimizes the impact any one industry/investment class can have on the portfolio; 2) Spreading investments over multiple credits/issuers within an investment type minimizes the credit exposure of the portfolio to any single firm/institution; and 3) Spreading investments over various maturities minimizes the risk of portfolio depreciation due to a rise in interest rates.

Policy: The portfolio shall contain a sufficient number and diversity of marketable securities so that a reasonable portion of the portfolio can be readily converted to cash without causing a material change in the value of the portfolio. Limitation and eligibility as to specific investments are to be determined by the Pooled Money Investment Board in the case of Commercial Paper, the Treasurer's Investment Committee in the case of new dealer authorizations, and the State Treasurer's Investment Division in all other matters.

Goal II. Liquidity

The pool will be managed to ensure that normal cash needs, as well as scheduled extraordinary cash needs can be met. Further, adequate liquidity shall be maintained to ensure the unforeseen cash needs, whether ordinary or extraordinary

Objective: The pool will maintain a "cash flow generated" portfolio balance sufficient to cover specifically the one-month prepared cash forecast, as well as generally the six month prepared cash forecast. Further, sufficient marketable treasuries will be maintained to cover unforeseen withdrawals or delayed deposits.

Policy: First priority is given to maintaining specific calendar liquidity, as dictated by the most recent cash forecast. Second priority is the maintenance of Treasury Bill positions adequate to meet unscheduled needs. Final consideration would be given to “other” investments deemed appropriate to portfolio maintenance, enhancement, or restructuring

Goal III. Rate of Return

Pooled investments and deposits shall be made in such a way as to realize the maximum return consistent with safe and prudent treasury management.

Objective: The rate of return will be maintained on a consistent level representative of current market yield direction.

Policy: Sales gains/losses will not be incurred to the point of radically altering the final quarterly apportionment rate. Significant sales gains will be offset for restructuring purposes to maintain consistent current return, as well as maximizing future portfolio performance. Significant sales losses shall be incurred only by consent of the Treasurer, or when sufficient profits negate the alteration of the apportionment rate. Range bonds and inverse yielding securities are examples of the types of investments which are precluded by the above stated objective.

Conformance

All of the foregoing goals, objectives and policies shall be observed by the Director of Investments or his/her designee and monitored and reviewed continually by the Treasurer or his/her designee.

State Treasurer's Office
Pooled Money Investment Account (PMIA)

Statement of Portfolio Management Guidelines

The State Treasurer's Investment Division has set forth a general declaration of portfolio goals, objectives and policies. Following are various guidelines necessary to the good faith observance of these policies.

I. Guidelines for Maintaining Safety/Diversification

There are few statutory limitations placed on individual categories of authorized investments. However, this does not entitle the investment staff to “carte blanche” participation in these security types. In the absence of direct statutory limitations, the “prudent person rule” shall be utilized by the investment staff. As market conditions change, altering credit risk, marketability, yield spreads, and securities availability, application of this rule shall govern any investment decision. This application shall be discussed as soon as time permits with the Director of Investments. At the Director of Investments determination, the situation may be discussed with the Treasurer or his/her designee.

Following are various considerations/limitations as they pertain to specific investment types:

A. U.S. Treasury Securities

1) Maximum maturity:	Statutory:	None.
	Policy:	5 years.
2) Maximum par value, total portfolio:		None.
3) Maximum par value per name:		None.
4) Maximum par value per maturity:		None.

5) Credit: Full faith and credit of the Federal Government.

Treasury Bills are maintained for liquidity, trading, and yield enhancement as the underlying security in a Reverse Repurchase transaction. Treasury strips and full coupon securities are purchased for average maturity preservation, liquidity, and trading.

B. Agencies (Federal and Supranational)

1) Maximum maturity: Statutory: None.
Policy: 5 years.

2) Maximum par value, total portfolio: None.

3) Maximum par value per name: None.

4) Maximum par value per maturity: None.

5) Credit: Despite there being no statutory limitations concerning this category, prudent investment practice necessitates constant credit analysis of certain issuing entities. Although there exists an implicit or explicit government guarantee of the various issues, market perception may limit the liquidity of these securities.

C. Bankers Acceptances (Domestic and Foreign)

1) Maximum maturity: Statutory: None.
Policy: 180 days.

2) Maximum par value, total portfolio: None.

3) Maximum par value per name: None.

4) Maximum par value per maturity: None.

5) Credit: A banker's acceptance is a money market instrument and, like most money markets, it is safe and liquid, particularly when the paying bank has a high credit rating.

D. Certificates of Deposits

1) Maximum maturity: Statutory: None.
Policy: 5 years.

2) Maximum par value, total portfolio: None.

3) Maximum par value per name: None.

4) Maximum par value per maturity: None.

5) Credit: Institutions must be rated average or better, by a nationally recognized statistical rating organization utilized by the State Treasurer's Investment Division and must pass a credit evaluation by the investment staff. This evaluation may include a review of such criteria as geographic location, market perception, management factors, and overall fiscal soundness. Liquidity as far as both credit risk and marketability in the secondary level are addressed. There must be a market for the name in which at least three major dealers will bid or offer at a given moment.

The approved investments will be posted to the STO website.

E. *Collateralized Time Deposits*

1)	Maximum maturity:	Statutory:	None.
		Policy:	1 year.
2)	Maximum par value, total portfolio:		None.
3)	Maximum par value per name:	Statutory:	Shall not exceed the net worth of the institution.
		Policy:	Shall not exceed the net worth of the institution or an amount considered prudent; whichever is less.
4)	Maximum par value per maturity:		None.

5) Location: Institutions must be headquartered in the State of California.

6) Credit: Institutions must be rated average or better, by a nationally recognized statistical rating organization utilized by the State Treasurer's Investment Division and must pass a credit evaluation by the investment Staff. This evaluation may include a review of such criteria as geographic location, market perception, loan diversity, management factors, overall fiscal soundness and the Community Reinvestment Act Rating. If, while holding a pool deposit, an institution is downgraded below acceptable levels by the rating agencies, the following steps shall be taken:

   a) Notify the Centralized Treasury and Securities Management Division, Collateral Management Section to monitor collateral closely.

b) Review financials and update credit report.

c) Determine the appropriate plan of action which may include early termination of the time deposit, or allow the time deposit to mature.

7) Collateral must comply with Government Code, Sections 16500 (et seq. (bank deposits)) and 16600 (et seq. (savings and loan association and credit union deposits)).

F. *Commercial Paper*

1) Maximum maturity:		Statutory:	270 days.
		Policy:	Same.
2) Maximum par value, total portfolio:		Statutory:	30% of the current portfolio.
		Policy:	Same.
3) Maximum par value per name:		Statutory:	10% of outstanding.
		Policy:	Same.
4) Maximum par value per maturity:			None.

5) Credit: Commercial paper eligible for investment under this subdivision must be rated ***"Prime"*** quality as defined by a nationally recognized statistical rating organization utilized by the State Treasurer's Investment Division and must be issued by a federally or state-chartered bank or a state-licensed branch of a foreign bank, corporation, trust, special purpose corporation, or limited liability company approved by the Pooled Money Investment Board. Furthermore, these entities must be either (1) organized and operating within the United States and have total assets in excess of five hundred million dollars ($500,000,000) or (2) must be organized within the United States and have programwide credit enhancements including, but not limited to, overcollateralization, letters of credit or surety bonds.

The list of approved investments will be posted to the STO website.

G. *Corporate Bonds/Notes*

1) Maximum maturity:		Statutory:	None.
		Policy:	5 years.
2) Maximum par value, total portfolio:			None.

3) Maximum par value per name: None.

4) Maximum par value per maturity: None.

5) Credit: Securities eligible for investment under this subdivision must be issued by corporations (including banks) organized and operating within the United States and shall be within the top three ratings of a nationally recognized statistical rating organization utilized by the State Treasurer's Investment Division.

   The list of approved investments will be posted to the STO website.

H. *Repurchases (RP) and Reverse Repurchase (RRP)*

1) Maximum maturity: Statutory: None.
   Policy: 1 year.

2) Maximum par value, total portfolio: Statutory: None.
   Policy: RRP is limited to 10% of the current portfolio.

3) Maximum par value per name: None.

4) Maximum par value per maturity: None.

5) Credit:

   a) Must have on file, a signed Security Loan Agreement and/or General Repurchase Agreement. Repurchase Agreement may be either STO General Agreement or Bond Market Association Standard Agreement

   b) Reverses and reverse repurchases are only done with long established and/or well capitalized broker-dealers.

I. *Negotiable Order of Withdrawal (NOW) Accounts*

1) Maximum maturity: Statutory: None.
   Policy: Open ended.

2) Maximum par value, total portfolio: Statutory: None.
   Policy: 5%.

3)	Maximum par value per name:	Statutory:	Shall not exceed the net worth of the Institution.
		Policy:	Same.
4)	Maximum par value per maturity:	Statutory:	None.
		Policy:	None.

5) Credit: Institutions must be rated average or better by a nationally recognized statistical rating organization utilized by the State Treasurer's Investment Division, and must pass a credit evaluation by the investment staff. All other conditions, regulations, or requirements associated with demand and time deposits will also apply.

6) Purpose: The NOW will act as an intra-day cushion to accommodate unexpected cash flow irregularities. In lieu of late sales to cover unexpected increases in disbursements, or in lieu of late investment limitations to cover unexpected increases in revenues, the NOW account will provide pre-market and post-market liquidity and investment flexibility.

J. *Foreign Government Bonds/Notes*

1)	Maximum maturity:	Statutory:	5 years.
		Policy:	Same.
2)	Maximum par value, total portfolio:	Statutory:	1% of the current portfolio.
		Policy:	Same.
3)	Maximum par value per name:	Statutory:	None.
		Policy:	None.
4)	Maximum par value per maturity:	Statutory:	None.
		Policy:	None.

5) Credit: Must be direct obligations of the government of a foreign country that the International Monetary Fund lists as an advanced economy and for which the full faith and credit of that country has been pledged for the payment of principal and interest, if the securities are rated investment grade or its equivalent, or better, by a nationally recognized statistical rating organization.

K. *Money Market Mutual Funds*

1)	Maximum maturity:	Statutory:	None.
		Policy:	Open ended.
2)	Maximum par value, total portfolio:	Statutory:	10% of the current portfolio.
		Policy:	Same.

3)	Maximum par value per name:	Statutory:	10% of the mutual fund's total assets.
		Policy:	Same.
4)	Maximum par value per maturity:	Statutory:	None.
		Policy:	None.

5) Credit: Money market mutual funds eligible for investment under this subdivision must invest in securities and obligations described in Sections A, B, or H of this Policy. The financial institutions issuing the shares must have at least 5 years of investment experience in these funds and have at least $10 billion in assets under management. In addition, money market mutual funds must have attained the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations utilized by the State Treasurer's Investment Division.

II. Guidelines for Maintaining Liquidity

First priority will be the cash flow needs as reported on both the monthly and six-month cash forecasts. These forecasts will be updated daily using the current investment input, as well as adjustment information provided by the Centralized Treasury and Securities Management Division.

Sufficient Treasury securities will be maintained for unscheduled cash needs. It has been determined that Treasury Bills having maximum maturity of one year will be used for this purpose. Because of their federal government guarantee, as well as the short maturity, the exposure to market risk is minimal

Due to the make-up of the portfolio participants, an average maturity of 120 days to eighteen months will be maintained.

III. Guidelines for Maintaining Rate of Return

It is important to focus on providing a consistent rate of return, not only to the quarterly participants of the pool, but the longer-term depositors as well. It is often the case that investments made with long-term deposits create the base rate to the portfolio. Since sales gains/losses impact the portfolio on a quarterly basis, large gains/losses are to be avoided. Failure to offset gains or losses proportionately could result in an uneven or erratic earnings apportionment rate history. Extreme positions or styles of trading are prohibited.

Current investment strategies and economic releases are regularly discussed amongst the investment staff. Decisions of value and direction are made to accommodate the occurrence of all those events which might be considered reasonable and probable.

Although securities trading is allowed for purposes of enhancing portfolio return, specific limitations have been established to protect the portfolio rate of return:

1) Prior to taking a position, apparent value and size will be discussed between the Director of Investments, or his/her designee, and the trader involved.

2) During a “when issued” (W.I.) period, long positions shall never exceed the amount intended to be purchased.

3) Short positions will not be taken at any time.

4) Trading positions are to be reported daily to the Director of Investments.

Description of PMIA Securities

U.S. Treasury Bills

Commonly called bill, or T-bill, a Treasury bill is a short-term (maturities up to a year), discounted government security (secured by the full-faith and credit of the U.S. government) sold through competitive bidding at weekly and monthly auctions. One-, three- and six-month bills are auctioned weekly, and one-year bills monthly. Treasury bills are the most widely used of all government debt securities and are the primary instrument of Federal Reserve monetary policy.

U.S. Treasury Notes

Treasury notes are debt obligations of the U.S. government, issued at various schedules (monthly in most cases) and are intermediate securities with maturities from 1 to 10 years.

U.S. Treasury Strips

Originally issued by the U.S. Treasury in complete form as principal and interest obligations. Strips, or Zero Coupon's as they are often referred, are the result of separating the interest obligation from the principal and trading the body of the bond and the individual coupon obligations as separate securities.

Agencies and Supranationals

"Agencies" is a term used to describe two types of bonds: bonds issued or guaranteed by U.S. federal government agencies; and bonds issued by government-sponsored enterprises (GSEs)—corporations created by Congress to foster a public purpose, such as affordable housing. Bonds issued or guaranteed by federal agencies are backed by the "full faith and credit of the U.S. government".

A "Supranational" is an entity that is formed by two or more central governments through international treaties. The purpose for creating a supranational is to promote economic development for the member countries. The International Bank for Reconstruction and Development (IBRD) and the Inter-American Development Bank (IADB) are two examples of supranational institutions.

The following is a list of various obligations authorized by statute: Farm Credit System, including Banks for Co-Ops, Federal Intermediate Credit Banks, Federal Land Banks, Farm Credit Consolidated Systemwide Discount Notes, Federal Farm Credit Banks Consolidated

Systemwide Bonds, Federal Home Loan Banks, Federal Home Loan Mortgage Corporation, Discount Notes and Debentures, Federal National Mortgage Association, Student Loan Marketing Association, United States Postal Services, FHA Debenture obligations, Government National Mortgage Association, Export-Import Bank of the United States, Farmers Home Administration, Maritime Administration, Small Business Administration, Tennessee Valley Authority, Asian Development Bank, Commodity Credit Corporation (CCC), Inter-American Development Bank, and International Bank for Reconstruction and Development (IBRD).

Agency Discount Notes

A discount note is a short-term debt obligation issued at a discount to par. Discount notes are similar to Treasury bills and are typically issued by government-sponsored agencies or highly rated corporate borrowers. (e.g. FHLB, FHLMC, FNMA, IBRD)

Certificates Of Deposit (CD)

Issued by commercial banks and thrift institutions against funds deposited for specified periods of seven days or longer and earn specific rates of interest. Major banks and thrifts also issue variable rate CD's with maturities of up to five years. Variable rates are adjusted every 30, 90, or 180 days, and usually includes a fixed spread to the benchmark rate for major bank CD's, as compiled and published by the Federal Reserve Bank of New York. Yankee CD's, also authorized by statute, are U.S. dollar-denominated CD's issued by foreign banks domiciled in the United States. Australian, Canadian, French, German, Japanese, Nordic, Swiss, and UK banks are active issuers of Yankee CD's.

Bank Notes

Bank Notes are senior, unsecured promissory notes issued in the United States on either an underwritten or continuously-offered basis by domestic commercial banks. Bank Notes are very similar to CD's, represent senior debt of the bank which are on equal footing with all other senior obligations of the bank, except deposit liabilities or obligations that are secured or subject to any priorities or preferences.

Time Deposits

Interest-bearing deposits with specific maturities negotiated with California banks, savings and loans and credit unions. These deposits are secured with collateral pledged by the financial institution and in compliance with the Government Code. Required collateralization levels are monitored on a regular basis. In addition, financial institutions are evaluated for credit criteria.

Banker’s Acceptance

A short-term credit investment created by a non-financial firm and guaranteed by a bank to make payment. Acceptances are traded at discounts from face value in the secondary market. Banker’s acceptances are considered very safe instruments and are used extensively in foreign trade.

Commercial Paper

Short-term obligations with maturities ranging from 1 to 270 days issued by banks, corporations and other borrowers and discounted. Commercial Paper can be issued directly or through brokers. Commercial paper is the only authorized investment with restrictions pertaining to the amount eligible for investments. No more than 10% of any one issuer’s outstanding may be held by the PMIA.

Corporate Bonds

Debt securities issued by a company instead of a government. Corporate bonds are a major way companies raise funds for their operations or for a specific project. The risk of a corporate bond for a bondholder depends on the creditworthiness of the issuing company. As with all bonds, corporate bonds have a stated coupon rate and a maturity date, at which time the principal is repaid to bondholders.

REMICs

A real estate mortgage investment conduit (REMIC) is a special purpose vehicle that is used to pool mortgage loans and issue mortgage-backed securities (MBS). Real estate mortgage investment conduits hold commercial and residential mortgages in trust and issue interests in these mortgages to investors. REMICs piece together mortgages into pools based on risk and issue bonds or other securities to investors. These securities then trade on the secondary mortgage market. FNMA and FHLMC are some of the more prominent issuers of REMICs.

Repurchase Agreements (AKA – Repo)

Consists of two simultaneous transactions. One is the purchase of securities by an investor from a bank or dealer. The other is the commitment by the bank or dealer to repurchase the securities at the same price at some mutually agreed upon future date. Most transactions are for maturities from 1 to 3 days.

Reverse Repurchases (AKA – Reverse Repo)

Technically called matched sales-purchase agreements, are essentially the mirror image of a Repurchase Agreement. In this instance, the investor is the owner of the collateral, and the bank or dealer is the lender of money.

Negotiable Order of Withdrawal (AKA – NOW Account)

A Negotiable Order of Withdrawal account (NOW account) is a deposit account that pays interest on which checks may be written. NOW accounts are offered by commercial banks, mutual savings banks, and savings and loan associations.

Frequently Asked Questions

LAIF Account

What entities are permitted to invest in LAIF?

Local governmental units, nonprofit corporations whose membership is confined to public agencies or public officials, and qualified quasi-governmental agencies can invest in LAIF. (Government Code Section 16429.1)

Does LAIF allow multiple accounts and subaccounts for each participating agency?

No. However, agencies are permitted to open separate bond proceeds accounts.

What documents are required to open a LAIF account?

A Certified Board Resolution (adopted by the entity's governing body) and a New LAIF Account form (available online at http://www.treasurer.ca.gov/pmia-laif/forms/new.pdf) are required to open a regular LAIF account. In addition to these documents, a Bond Application and Official Statement are required to open a LAIF bond proceed account. Please see "How to Participate" at http://www.treasurer.ca.gov/pmia-laif/answer/howto.asp and contact LAIF staff at 916-653-3001 for more information.

What are the LAIF procedures for depositing and withdrawing funds?

See "Procedures for LAIF Transactions" at www.treasurer.ca.gov/pmia-laif/answer/procedures.asp.

How do I obtain a copy of the wiring instructions for my LAIF transactions?

Contact LAIF staff at 916-653-3001 for the wiring instructions for your bank.

Are there minimum and/or maximum LAIF account balance restrictions?

Yes. Regular LAIF account balances are capped at $75 million. There is no minimum account balance requirement. Bond proceeds accounts have no minimum or maximum balance restrictions.

How many transactions are permitted each month?

Each regular LAIF account is permitted 15 transactions per month.

Is there a minimum and/or maximum transaction amount for deposits and withdrawals?

Yes. For regular LAIF accounts, the minimum transaction amount is $5,000 and the maximum transaction amount is $75 million. Bond proceeds accounts have a one-time deposit with no cap and are set-up with a monthly drawdown schedule.

Does LAIF require advance notice for deposits and/or withdrawals?

No. However, for cash flow purposes, we request one day prior notice for deposits and withdrawals of $10 million or more.

Is there a cutoff time for deposits and withdrawals?

Yes. LAIF transactions completed by 10:00 a.m. Monday – Friday will receive same day credit. Also, transactions may be requested 10 calendar days in advance of the effective date.

Can a LAIF account remain open with a zero balance?

Yes. Regular LAIF accounts will remain open with a zero balance unless a request is made to close the account. Bond proceed accounts will automatically be closed when the balance is zero.

Are confirmation numbers provided for each transaction?

Yes. Confirmation numbers are given at the time of the transaction and are also included in the monthly statements.

How do I request changes to my LAIF account?

Address, authorization and banking information change forms are available online at www.treasurer.ca.gov/pmia-laif/laif.asp under "Forms." Change forms must be signed by two (2) persons authorized by the agency's resolution and then returned to LAIF. A sample resolution is also available if the authorized signers change. Please contact LAIF staff at 916-653-3001 for further assistance.

How do I request a copy of a statement?

Monthly statements are available online for one year under "Reporting Documents" at www.treasurer.ca.gov/pmia-laif/laif.asp. For requests beyond one year, please contact LAIF staff at 916-653-3001 for assistance.

Are LAIF funds borrowable?

No. “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.” (Government Code Section 16429.3)

Will LAIF funds still be available if there is a State budget impasse?

Yes. The Court of Appeal issued a decision on the Jarvis Taxpayers Association v. Connell case on May 29, 2002 where the court held that the Controller may disburse funds during a budget impasse when the state and federal law properly authorizes or requires their payment, despite the absence of a budget act or emergency appropriation. “The right of a city, county, city and county, special district, nonprofit corporation, or 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 16429.4)

Is LAIF Considered a 2a7?

No. As a part of the Pooled Money Investment Account (PMIA), LAIF does not exist on its own, it is a subset of the PMIA. Due to this comingling of funds LAIF is not a 2a7 External Investment Pool (nor is the PMIA/LAIF “2a7 like”) and as such exempt from Government Accounting Standards Board (GASB) Rule 72.

Administration

How much are LAIF’s administrative costs?

Administrative costs are not to exceed 5% of quarterly earnings of the fund. However, if the 13-week Daily Treasury Bill Rate on the last day of the fiscal year is below 1%, then administrative costs shall not exceed 8% of quarterly earnings of the fund for the subsequent fiscal year. (Government Code Section 16429.1) These fees cover actual costs to administer the LAIF program. A history of administrative costs can be found at www.treasurer.ca.gov/pmia-laif/historical/admin_costs.asp.

How often are administrative fees assessed and how are they paid?

Administrative fees are assessed quarterly. For each LAIF account, these fees are deducted from quarterly earnings prior to interest posting.

Are there additional fees for wiring funds?

No. LAIF does not charge a fee for wires or book transfers. However, your financial institution may charge a fee for LAIF transfers.

Interest

What's the current interest rate on the Pool?

For current interest rates on the Pool, go to http://www.treasurer.ca.gov/pmia-laif/performance/PMIA-LAIF_perform.pdf

What methodology is used to calculate interest (simple maturity, yield to maturity, etc.)?

Interest is calculated on a dollar-day basis to guarantee equitable distribution among all member funds.

How frequently is interest paid?

Interest is paid quarterly and is posted to the LAIF accounts on the 15th of the month, or previous business day if the 15th is a non-working day, after the quarter end (i.e., January 15, April 15, July 15 and October 15).

How are gains and/or losses reported (factored monthly or only when realized)?

Gains and/or losses are reported when realized.

Reporting

How often is the portfolio yield reported to participants?

The portfolio yield is updated weekly. See "PMIA/LAIF Performance" at http://www.treasurer.ca.gov/pmia-laif/performance/pmia-laif_perform.pdf. To receive weekly electronic performance updates, please contact LAIF staff at 916-653-3001 to be added to the subscriber list.

Are administrative fees of the Pool deducted before quoting the yield?

No. The yield is quoted prior to deduction of administrative fees.

Where can I find reporting documents for the Pool?

The following reports can be found at http://www.treasurer.ca.gov/pmia-laif/pmia/index.asp under "Reporting Documents": Disclosure Statements, Market Valuation, Maturity Schedule, Monthly Reports, Quarterly Reports, Annual Reports, and Independent Auditor's Report by Bureau of State Audits.

Is the Pool insured?

No. However, due to the portfolio's characteristics, credit risk is minimal.

Securities

Does the Pool provide a written statement of the PMIA Investment Policy?

Yes. A written statement of the PMIA Investment Policy can be found at www.treasurer.ca.gov/pmia-laif/answer/policy.pdf. The policy includes a description of authorized securities, credit standards of investments, allowable maturity range of investments, the maximum allowable dollar weighted average portfolio maturity, the limits of portfolio concentration permitted for each type of security, and the policy on reverse repos.

Is the Pool rated?

No. The Pool is not rated.

Security

What are the safekeeping practices of the Pool?

The Treasurer may place and maintain for safekeeping as a trust deposit with any qualified trust company, other than the depositor bank, or with the Federal Reserve Bank or any branch thereof any securities that have been received by the Treasurer. (Government Code Section 16551) The Treasurer utilizes a custodian bank.

Is the Pool subject to audit by an independent auditor?

Yes. The Pool is audited annually by the Bureau of State Audits and the resulting report is posted to the website at www.treasurer.ca.gov/pmia-laif/reports/bsa.pdf.

Who makes the portfolio decisions?

Investment decisions are made by the State Treasurer and the Investment Division staff of the State Treasurer's Office.

How do the investment managers monitor the credit risk of the securities in the Pool?

A written statement of portfolio management goals, objectives and policies, along with independent market valuations, are used to monitor the credit risk of the securities in the Pool.

How is the Pool monitored?

The Pool is monitored by the Pooled Money Investment Board, Local Investment Advisory Board and the Bureau of State Audits to ensure compliance with written policies.

How often are the portfolio's market and securities value reported?

These values are reported quarterly and can be found at www.treasurer.ca.gov/pmia-laif/reports/quarterly.asp.

What method is used to value the portfolio?

The amortized cost and current value methods are used to value the portfolio.

Does the pool distribute detailed reports of its holdings?

Yes. These reports are distributed on a monthly basis and can be found at www.treasurer.ca.gov/pmia-laif/reports/monthly.asp.

Appendix A

Local Agency Investment Fund Statutes

Government Code

16429.1 Creation, maintenance, and operation of Local Agency Investment Fund

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. However, if the 13-week Daily Treasury Bill Rate, as published by the United States Department of the Treasury on the last day of the state's fiscal year is below 1 percent, then the above-noted reasonable costs shall not exceed a maximum of 8 percent of the earnings of this fund for the subsequent fiscal year, shall not exceed the amount appropriated in the annual Budget Act for this function, and shall be deducted from the earnings prior to distribution. The amount of the deduction shall be credited as reimbursements to the state agencies, including the Treasurer, the Controller, and the Department of Finance, having incurred costs in carrying out the provisions of this section.
m. The Treasurer shall prepare for distribution a monthly report of investments made during the preceding month.
n. As used in this section, "local agency," "local governmental unit," and "local governmental official" includes a campus or other unit and an official, respectively, of the California State University who deposits moneys in funds described in Sections 89721, 89722, and 89725 of the Education Code.

16429.2 Local Investment Advisory Board

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 one hundred dollars ($100) 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 Deposits; Prohibited Transfers and Loans; Impoundment or Seizure

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 Right of Withdrawal

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.

Appendix B

Pooled Money Investment Account Statutes

Government Code

16430 Eligible Securities for Investment of Surplus Moneys

Eligible securities for the investment of surplus moneys shall be any of the following:

a. Bonds or interest-bearing notes or obligations of the United States, or those for which the faith and credit of the United States are pledged for the payment of principal and interest.
b. Bonds or interest-bearing notes on obligations that are guaranteed as to principal and interest by a federal agency of the United States.
c. Bonds and notes of this state, or those for which the faith and credit of this state are pledged for the payment of principal and interest.
d. Bonds or warrants, including, but not limited to, revenue warrants, of any county, city, metropolitan water district, California water district, California water storage district, irrigation district in the state, municipal utility district, or school district of this state.
e. Any of the following:
    1. Bonds, consolidated bonds, collateral trust debentures, consolidated debentures, or other obligations issued by federal land banks or federal intermediate credit banks established under the Federal Farm Loan Act, as amended (12 U.S.C. Sec. 2001 et seq.).
    2. Debentures, consolidated debentures, and other obligations issued by the Central Bank for Cooperatives and banks for cooperatives established under the Farm Credit Act of 1933, as amended (12 U.S.C. Sec. 2001 et seq.).
    3. Bonds, debentures, and other obligations of the Federal Home Loan Bank Board established under the Federal Home Loan Bank Act (12 U.S.C. Sec. 1421 et seq.).
    4. Stocks, bonds, debentures, and other obligations of the Federal National Mortgage Association established under the National Housing Act, as amended (12 U.S.C. Sec. 1701 et seq.).
    5. Bonds of any federal home loan bank established under that act.
    6. Obligations of the Federal Home Loan Mortgage Corporation.
    7. Bonds, notes, and other obligations issued by the Tennessee Valley Authority under the Tennessee Valley Authority Act, as amended (16 U.S.C. Sec. 831 et seq.).
    8. Other obligations guaranteed by the Commodity Credit Corporation for the export of California agricultural products under the Commodity Credit Corporation Charter Act, as amended (15 U.S.C. Sec. 714 et seq.).
    9. Bonds, notes, warrants, and other securities not in default that are the direct obligations of the government of a foreign country that the International Monetary Fund lists as an advanced economy and for which the full faith and credit of that

country has been pledged for the payment of principal and interest, if the securities are rated investment grade or its equivalent, or better, by a nationally recognized rating organization. Securities eligible for investment pursuant to this subdivision shall satisfy all of the following:

A. Be United States dollar denominated with a maximum maturity of five years or less, and eligible for purchase and sale within the United States.

B. The combined par value of all of the investments authorized by this subdivision do not exceed 1 percent of the total par value of Pooled Money Investment Account assets at the time of purchase.

C. The government of the foreign country issuing the securities shall submit to the federal jurisdiction of the courts of the United States and to the state of the California courts when disputes arise related to the investments.

f. 1. Commercial paper of "prime" quality as defined by a nationally recognized organization that rates these securities, if the commercial paper is issued by a federally or state-chartered bank or a state-licensed branch of a foreign bank, corporation, trust, or limited liability company that is approved by the Pooled Money Investment Board as meeting the conditions specified in either subparagraph (A) or subparagraph (B):

A. Both of the following conditions:

i. Organized and operating within the United States.

ii. Having total assets in excess of five hundred million dollars ($500,000,000).

B. Both of the following conditions:

i. Organized within the United States as a federally or state-chartered bank or a state-licensed branch of a foreign bank, special purpose corporation, trust, or limited liability company.

ii. Having programwide credit enhancements including, but not limited to, overcollateralization, letters of credit, or surety bond.

2. A purchase of eligible commercial paper may not do any of the following:

A. Exceed 270 days maturity.

B. Represent more than 10 percent of the outstanding paper of an issuing federally or state-chartered bank or a state-licensed branch of a foreign bank, corporation, trust, or limited liability company.

C. Exceed 30 percent of the resources of an investment program.

3. At the request of the Pooled Money Investment Board, an investment made pursuant to this subdivision shall be secured by the issuer by depositing with the Treasurer securities authorized by Section 53651 of a market value at least 10 percent in excess of the amount of the state's investment.

g. Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers acceptances, that are eligible for purchase by the Federal Reserve System.

h. Negotiable certificates of deposits issued by a federally or state-chartered bank or savings and loan association, a state-licensed branch of a foreign bank, or a federally or state-chartered credit union. For the purposes of this section, negotiable certificates of deposits are not subject to Chapter 4 (commencing with Section 16500) and Chapter 4.5 (commencing with Section 16600).

i. The portion of bank loans and obligations guaranteed by the United States Small Business Administration or the United States Farmers Home Administration.
j. Bank loans and obligations guaranteed by the Export-Import Bank of the United States.
k. Student loan notes insured under the Guaranteed Student Loan Program established pursuant to the Higher Education Act of 1965, as amended (20 U.S.C. Sec. 1001 et seq.) and eligible for resale to the Student Loan Marketing Association established pursuant to Section 133 of the Education Amendments of 1972, as amended (20 U.S.C. Sec. 1087-2).
l. Obligations issued, assumed, or guaranteed by the International Bank for Reconstruction and Development, the Inter-American Development Bank, the Asian Development Bank, the African Development Bank, the International Finance Corporation, or the Government Development Bank for Puerto Rico.
m. Bonds, debentures, and notes issued by corporations organized and operating within the United States. Securities eligible for investment under this subdivision shall be within the top three ratings of a nationally recognized rating service.
n. Negotiable Order of Withdrawal Accounts (NOW Accounts), invested in accordance with Chapter 4 (commencing with Section 16500).
o. Shares of any money market mutual fund subject to registration by, and under the regulatory authority of, the United States Securities and Exchange Commission, provided that all of the following conditions are met:
    1. The money market mutual fund invests in securities and obligations described in one or more of the following: subdivision (a), (b), or (e) of this section or repurchase agreements or reverse repurchase agreements described in Section 16480.4.
    2. The financial institution issuing shares of the money market mutual fund has at least five years of experience investing in the types of securities and obligations being purchased by the state and has assets under management in the money market mutual fund in excess of ten billion dollars ($10,000,000,000).
    3. The money market mutual fund shall have attained the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations, as defined by the United States Securities and Exchange Commission.
    4. The financial institution shall not impose a commission on the purchase or sale of fund shares by the state.
    5. The state shall not purchase more than 10 percent of a money market mutual fund's total assets.
    6. The state shall not invest more than 10 percent of the pool's funds in any single money market mutual fund meeting the requirements of this subdivision.

16480.4 Securities Eligible for Investment; Sale, Exchange Or Repurchase

a. Amounts available for investment under this article may be invested and reinvested by the State Treasurer in any securities described in Sections 16430, of this code or in loans to the General Fund as provided in Section 16310 of this code. Such securities may be sold by the State Treasury or exchanged by him for other securities of the kind authorized to be purchased hereunder, if, in his discretion, such sale or exchange appears to be in the best interests of the state. The State Treasurer may enter into repurchase agreements or reverse repurchase agreements of any securities described in Section 16430.
b. The State Treasurer may hire or engage the services of an investment analyst to assist in such investment decisions.
c. For purposes of this section, the term “repurchase agreement” means a purchase of securities by the State Treasurer pursuant to an agreement by which the seller will repurchase such securities on or before a specified date and for a specified amount.
d. For purposes of this section, the term “reverse repurchase agreement” means a sale of securities by the State Treasurer pursuant to an agreement by which the State Treasurer will repurchase such securities on or before a specified date and for a specified amount.

Appendix C

Government Code

Title 2, Division 4, Part 2, Chapter 4. Bank Deposits

Article 1. General

16500. As used in this chapter, "eligible bank" means a state or national bank located in this state, selected by the Treasurer for the safekeeping of money belonging to or in the custody of the state, that has received an overall rating of not less than "satisfactory" in its most recent evaluation by the appropriate federal financial supervisory agency of the bank's record of meeting the credit needs of the state's communities, including low- and moderate-income neighborhoods, pursuant to Section 2906 of Title 12 of the United States Code**.** An eligible bank is eligible to receive deposits only to the extent that it furnishes the security required by this chapter.

16500.5. (a) The definitions in Section 1700 of, and Chapter 1 (commencing with Section 99) of Division 1 of, the Financial Code apply to this section.

(b) In this chapter, for purposes of being an eligible bank for the safekeeping of moneys belonging to, or in the custody of, the state, 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" shall 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 1750) of Chapter 13.5 of Division 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.

16501. Under the conditions as the Treasurer with the approval of the Director of Finance may establish, the Treasurer may deposit money in banks outside this state when the banks are fiscal agents of the state or custodians of securities owned by the state, if the banks have an overall rating of not less than "satisfactory" in their most recent evaluation by the appropriate federal financial supervisory agency of the banks' record of meeting the credit needs of the communities in which the bank is located, including low- and moderate-income neighborhoods, pursuant to Section 2906 of Title 12 of the United States Code.

16502. All other money in the State Treasury or under the control of the Treasurer belonging to or in the custody of the State, shall, so far as possible, be deposited by the Treasurer to the credit of the State in eligible banks. Any sum in the State Treasury so deposited is deemed to be in the State Treasury. Any other amount so deposited is deemed to be held in trust by the Treasurer.

16503. Subject to the limitations of Article 4.5 (commencing with Section 16480) of Chapter 3, the Treasurer shall determine what amounts of money shall be deposited: As time deposits, and the rates of interest to be received.

(b) As demand deposits, and the rates of interest to be received, if any.

16504. Subject to the applicable contract, the Treasurer may call in money from time deposits and place it in demand deposits, when necessary to meet current requirements; and time money in his possession for which there is no demand may be placed as demand deposits.

16505. Deposits in any bank shall not exceed the total of its net worth.

16506. All money belonging to or in the custody of the state under the control of any state officer or employee, other than the Treasurer, except petty cash funds authorized by the Department of Finance, shall be deposited in such state or national banks in this state and under such conditions as the Director of Finance prescribes. Banks receiving such deposits shall be required to deposit with the Treasurer the same security as is required by this chapter for deposits made by the Treasurer. Banks receiving deposits of money from a county advanced or apportioned to it pursuant to Section 4481 of the Food and Agricultural Code shall be required to secure such deposits in accordance with Article 2 (commencing with Section 53630) of Chapter 4, Part 1, Division 2 of Title 5.

16507. A State officer is not liable on his official bond for losses caused by the failure of a bank in which is made a deposit of money belonging to an inmate of a State institution, if the officer was required or permitted by law to act as a trustee or fiduciary with respect to the money and if he made the deposit in good faith and in accordance with law.

16508. The Treasurer is not responsible for any money deposited in a bank pursuant to this chapter, and while it remains so deposited.

16509. The Treasurer is responsible for the safekeeping, management and disbursement of the certificates of deposit received and the securities deposited with him, the interest received on deposits, and the proceeds of any sale under this chapter. The State is responsible for the custody and safe return of any securities so deposited.

16510. Any State officer or employee who deposits any money belonging to or in the custody of the State in any manner other than as prescribed in this chapter is subject to forfeiture of his office or employment.

Article 2. Security for Deposits

16520. Security shall not be required for that portion of any deposit that is insured under any law of the United States.

16521. To be eligible to receive and retain demand or time deposits, a bank shall deposit with the Treasurer as security for such deposits, securities specified in Section 16522, and approved by the Treasurer, in an amount in value at least 10 percent in excess of the amount deposited with the bank. Uncollected funds shall be excluded from the amount deposited in a demand account with a bank when determining the security requirements for such deposits.

16522. The following securities may be received as security for demand and time deposits:

(a) Bonds, notes, or other obligations of the United States, or those 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 those 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) (42 U.S.C. Sec. 1441 et seq.) or any obligations of a public housing agency (as defined in the United States Housing Act of 1937) (42 U.S.C. Sec. 1437 et seq.) 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 county, city, town, metropolitan water district, municipal utility district, municipal water district, bridge and highway district, flood control district, school district, water district, water conservation district or irrigation district within this state, and, in addition, revenue or tax anticipation notes, and revenue bonds payable solely out of the revenues from a revenue-producing property owned, controlled or operated by this state, or such local agency or district, or by a department, board, agency, or authority thereof.

(d) Registered warrants of this state.

(e) 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 (Public Law 64-158) 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 (Public Law 73-75), as amended, consolidated obligations of the Federal Home Loan Banks established under the Federal Home Loan Bank Act (12 U.S.C. Sec. 1421 et seq.), bonds, debentures, and other obligations of the Federal National Mortgage Association and of the Government National Mortgage Association established under the National Housing Act of 1934 (Public Law 73-479) as amended, in the bonds of any federal home loan bank established under said act, bonds, debentures, and other obligations of the Federal Home Loan Mortgage Corporation established under the Emergency Home Finance Act of 1970 (Public Law 91-351) and in bonds, notes, and other obligations issued by the Tennessee Valley Authority under the Tennessee Valley Authority Act of 1933 (16 U.S.C. 831), as amended.

(f) Bonds and notes of the California Housing Finance Agency issued pursuant to Chapter 7 (commencing with Section 41700) of Part 3 of Division 31 of the Health and Safety Code.

(g) Promissory notes secured by first mortgages and first trust deeds upon residential real property located in California, provided that:

> (1) Notwithstanding Section 16521, the promissory notes shall at all times be in an amount in value at least 50 percent in excess of the amount deposited with the bank;
>
> (2) The Treasurer issues regulations, establishes procedures for determining the value of the promissory notes and develops standards necessary to protect the security of the deposits so collateralized;
>
> (3) The depository may exercise, enforce, or waive any right or power granted to it by promissory note, mortgage, or deed of trust; and
>
> (4) The following may not be used as security for deposits:
>
> > (A) Any promissory note on which any payment is more than 90 days past due,
> >
> > (B) 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, or
> >
> > (C) 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.

(h) Bonds issued by the State of Israel.

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

(j) Any municipal securities, as defined by Section 3(a)(29) of the Securities Exchange Act of June 6, 1934, (15 U.S.C. 78, as amended), which are issued by this state or any local agency thereof.

(k) Letters of credit issued by the Federal Home Loan Bank of San Francisco, which shall be in the form and shall contain provisions as the Treasurer may prescribe, and shall include the following terms:

> (1) The Treasurer shall be the beneficiary of the letter of credit.
>
> (2) The letter of credit shall be clean and irrevocable, and shall provide that the Treasurer may draw upon it up to the total amount in the event of the failure of

the bank or if the bank refuses to permit the withdrawal of funds by the Treasurer or any other authorized state officer or employee.

(3) Notwithstanding Section 16521, the letter of credit shall at all times be an amount in value of at least 100 percent of the amount deposited with the bank.

(l) An eligible bank that has been selected by the Treasurer for the safekeeping of money belonging to, or in the custody of, the state, and that has its headquarters located outside of the state, may submit letters of credit that are drawn on its regional federal home loan bank as security, solely for deposits maintained in the Treasurer's demand accounts, and subject to the terms set forth in paragraphs (1) and (2) of subdivision (k).

16523. If it appears to him necessary for the security of the State, the Treasurer shall require as a condition of eligibility that a bank furnish an indemnity bond approved by the Treasurer, conditioned against loss by any depreciation in value that may occur in securities deposited as security for the safekeeping and prompt payment of deposits. The sureties shall not be stockholders of the principal.

16525. In lieu of deposits of securities, any otherwise eligible bank may deposit with the Treasurer bonds of admitted surety insurers as security for demand and time deposits.

16526. An admitted surety insurer is not eligible as surety for demand or time deposits in any one bank in amounts in excess of 10 percent of the capital and surplus of the surety as shown in the preceding report issued by the United States Treasury Department.

16527. On demand of the Treasurer, the Insurance Commissioner shall issue a certificate showing the qualifications of any admitted surety insurer as surety for demand or time deposits.

16528. The bond of an admitted surety insurer shall not be accepted as security for demand or time deposits unless it has been certified by the Insurance Commissioner as meeting the requirements of this chapter and unless it also holds a certificate of authority from the United States Treasury Department under which it is eligible as surety on federal bonds.

16529. The form of bonds required under this chapter shall be prescribed by the Attorney General.

16530. A surety upon any bond to secure demand or time deposits may terminate the bond as to future liability by giving 10 days' written notice of termination to the Treasurer. Such notice of termination shall not affect any liability accruing prior to the expiration of the 10-day period. Within 10 days after receipt of such a notice of termination, the Treasurer shall require other acceptable security or withdraw the deposits secured by the bond to be terminated.

16531. That portion of any security for deposit that is in excess of the requirements of this article may be withdrawn or released on the written consent of the Treasurer.

16532. If any bank fails to pay all or any part of such deposits on demand of the Treasurer, pursuant to the terms and conditions of the contract relating to the deposit that is to be withdrawn in whole or in part, the Treasurer shall forthwith recover upon or convert the security therefor into money and disburse it according to law.

16533. If at any time the security deposited with the Treasurer is not deemed satisfactory by the Treasurer, he may require such additional security as is satisfactory to him.

Article 3. Custody of Securities

16550. As used in this article, "qualified trust company" means the trust department of any State or National bank in this State or a trust company authorized to act as such in this State.

16551. With the consent of the bank owning securities deposited or to be deposited with him or her as security, the Treasurer may:

(a) Authorize any qualified trust company, other than the depositor bank, or any federal reserve bank or any branch thereof or any state or national bank located in any city designated as a reserve or central reserve city by the Board of Governors of the Federal Reserve System to receive as his or her agent deposits of any securities approved under this chapter.

(b) Place and maintain for safekeeping as a trust deposit with any qualified trust company, other than the depositor bank, or with any federal reserve bank or any branch thereof any securities that have been received by him or her under this chapter.

(c) Whenever any qualified trust company accepts such securities under paragraph (a) or (b) such trust company, with the prior approval of the Treasurer, may keep such securities for safekeeping with any state or national bank located in a city designated as a reserve or central reserve city by the Board of Governors of the Federal Reserve System.

16552. The Treasurer shall take from the qualified trust company or from any federal reserve bank or any branch thereof a receipt for any securities received by it under this article. Neither the Treasurer nor the State is responsible for the custody and safe return of such securities until they are withdrawn from the qualified trust company or from any federal reserve bank or any branch thereof by the Treasurer.

16553. Any qualified trust company or any federal reserve bank or any branch thereof to which securities are delivered, either as agent or depositary for the Treasury, shall make such disposition of the securities as the Treasurer directs and is responsible only for strict compliance with written instructions given to it by the Treasurer. All such securities are at all times subject to the order of the Treasurer.

16554. The charges of any qualified trust company or of any federal reserve bank or any branch thereof for the handling and safekeeping of such securities are not a charge against the Treasurer but shall be paid by the owner.

16560. The Treasurer shall enter into such contracts with such depositaries as in his judgment will be to the public advantage so to do. The contracts shall fix the duration of deposits and the rates of interest to be received, if any, the interest payment dates, and provide conditions for their withdrawal, repayment, and security.

16561. In order to obtain as high rates of interest as possible, the contracts may contain any conditions necessary to conform with Section 19 of the Federal Reserve Act, as amended, and with regulations established pursuant thereto by the Board of Governors of the Federal Reserve System, and demand deposits shall be subject to withdrawal at any time upon demand of the Treasurer.

16562. The contracts covering demand state deposits shall provide that each depositary shall render daily to the Treasurer a statement of the account showing the date of deposits, payments or withdrawals there from made during the day and the balance or amount of money of the state held by it at the close of the day. In the event that such demand deposits are interest bearing, the contract also shall provide that on the interest payment dates the depositary shall also furnish a statement showing the amount of interest due thereon together with the payment of the interest due. The contracts covering time or interest-bearing term deposits shall provide that the interest to be paid by the depositary bank shall be paid upon the expiration of the certificate or certificates of deposit issued as a part of the contract. The contract may also provide for periodic interest payments during the term of the deposit. The contract governing time deposits shall also provide that the amounts of interest shall be reported by the depositary bank at the time of payment of the interest, by statement showing the balances or amounts of money of the state held by it during the period and the amount of accrued interest thereon.

16563. The contracts shall be executed by the depositaries in triplicate. The Treasurer shall file one copy of each contract with the Controller.

16564. At the time of depositing State money in any bank, designated as a depositary, the Treasurer shall take and preserve a receipt, certificate of deposit, or such other evidence of the deposit as the Treasurer may require, stating the amount deposited and referring to the contract made between the depositary bank and the Treasurer.

16565. On the order of the Treasurer, depositary banks shall handle, collect and pay all checks, drafts and other exchange in the same manner and under the same conditions as checks, drafts, and other exchange of other depositors are handled, collected and paid.

Title 2, Division 4, Part 2, Chapter 4.5. Savings and Loan Association Deposits

Article 1. General

16600. (a) As used in this chapter, the following definitions shall apply:

(1) "Eligible savings and loan association" means a state or federal savings association, as defined in Section 5102 of the Financial Code, located in this state, insured by the Federal Savings and Loan Insurance Corporation, and selected by the Treasurer for the safekeeping of money belonging to or in the custody of the state. An "eligible savings and loan association" must have received an overall rating of not less than "satisfactory" in its most recent evaluation by the appropriate federal financial supervisory agency of the association's record of meeting the credit needs of the state's communities, including low- and moderate-income neighborhoods, pursuant to Section 2906 of Title 12 of the United States Code.

(2) "Eligible credit union" means a state or federal credit union located in this state, insured by the National Credit Union Administration, and selected by the

Treasurer for the safekeeping of money belonging to or in the custody of the state.

(b) An eligible savings and loan association or credit union is eligible to receive deposits only to the extent it furnishes the security required by this chapter.

16601. Notwithstanding Section 16502, all other money in the State Treasury or under the control of the Treasurer belonging to or in the custody of the state, shall, so far as possible, be deposited by the Treasurer to the credit of the state in eligible banks as defined in Section 16500, eligible savings and loan associations, and eligible credit unions. Any sum in the State Treasury so deposited is deemed to be in the State Treasury. Any other amount so deposited is deemed to be held in trust by the Treasurer.

16602. Subject to the limitations of Article 4.5 (commencing with Section 16480) of Chapter 3, the Treasurer shall determine what amounts of money shall be deposited as deposits in savings and loan associations, and credit unions, and the rates of interest to be received.

16603. Subject to the applicable contract, the Treasurer may call in money from deposits in savings and loan associations and credit unions and place it in demand deposits in banks when necessary to meet current requirements.

16604. Deposits in any savings and loan association or credit union shall not exceed the total of its net worth.

16605. Notwithstanding Section 16506, all money belonging to or in the custody of the state under the control of any state officer or employee, other than the Treasurer, except petty cash funds authorized by the Department of Finance, shall be deposited in state or national banks in this state, state and federal savings associations in this state, as defined in Section 5102 of the Financial Code, and credit unions in this state, and under conditions as the Director of Finance prescribes. Savings and loan associations or credit unions receiving deposits shall be required to deposit with the Treasurer the same security as is required by this chapter for deposits made by the Treasurer. Savings and loan associations or credit unions receiving deposits of money from a county advanced or apportioned to it pursuant to Section 4481 of the Food and Agricultural Code shall be required to secure deposits in accordance with Article 2 (commencing with Section 53630) of Chapter 4 of Part 1 of Division 2 of Title 5.

16606. A state officer is not liable on his or her official bond for losses caused by the failure of a savings and loan association or credit union in which a deposit is made of money belonging to an inmate of a state institution, if the officer was required or permitted by law to act as a trustee or fiduciary with respect to the money and if he or she made the deposit in good faith and in accordance with law.

16607. The Treasurer is not responsible for any money deposited in a savings and loan association or credit union pursuant to this chapter, and while it remains so deposited.

16608. The Treasurer is responsible for the safekeeping, management and disbursement of the certificates of deposit received and the securities deposited with him, the interest received on deposits, and the proceeds of any sale under this chapter. The state is responsible for the custody and safe return of any securities so deposited.

16609. Any state officer or employee who deposits any money belonging to or in the custody of the state in any manner other than as prescribed in this chapter or Chapter 4 (commencing with Section 16500) is subject to forfeiture of his office or employment.

Article 2. Security for Deposits

16610. Security shall not be required for that portion of any deposit that is insured under any law of the United States.

16611. To be eligible to receive and retain deposits, a savings and loan association and credit union shall deposit with the Treasurer as security for deposits, securities specified in Section 16612, and approved by the Treasurer, in an amount in value at least 10 percent in excess of the amount deposited with the savings and loan association or credit union.

16612. The following securities may be received as security for deposits:

(a) Bonds, notes, or other obligations of the United States, or those 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 such 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 (42 U.S.C. Sec. 1452 et seq.) 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 county, city, town, metropolitan water district, municipal utility district, municipal water district, bridge and highway district, flood control district, school district, water district, water conservation district or irrigation district within this state, and, in addition, revenue on tax anticipation notes, and revenue bonds payable solely out of the revenues from a revenue-producing property owned, controlled or operated by this state, or such local agency or district, or by a department, board, agency, or authority thereof.

(d) Registered warrants of this state.

(e) 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 and of the Government National Mortgage Association established under the National Housing Act as amended, in the bonds of any federal home loan bank established under said act, bonds, debentures, and other obligations of the Federal Home Loan Mortgage Corporation established under the Emergency Home Finance Act of 1970, and in bonds, notes, and other obligations issued by the Tennessee Valley Authority under the Tennessee Valley Authority Act, as amended.

(f) Bonds and notes of the California Housing Finance Agency issued pursuant to Chapter 7 (commencing with Section 41700) of Part 3 of Division 31 of the Health and Safety Code.

(g) Promissory notes secured by first mortgages and first trust deeds upon residential real property located in California, provided that:

(1) Notwithstanding Section 16611, the promissory notes shall at all times be in an amount in value at least 50 percent in excess of the amount deposited with the savings and loan association;

(2) The State Treasurer issues regulations, establishes procedures for determining the value of the promissory notes and develops standards necessary to protect the security of the deposits so collateralized;

(3) The depository may exercise, enforce, or waive any right or power granted to it by promissory note, mortgage, or deed of trust; and

(4) The following may not be used as security for deposits:

(i) Any promissory note on which any payment is more than 90 days past due,

(ii) 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, or

(iii) 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.

(h) Bonds issued by the State of Israel.

(i) Letters of credit issued by the Federal Home Loan Bank of San Francisco, which shall be in the form and shall contain provisions as the Treasurer may prescribe, and shall include the following terms:

(1) The Treasurer shall be the beneficiary of the letter of credit.

(2) The letter of credit shall be clean and irrevocable, and shall provide that the Treasurer may draw upon it up to the total amount in the event of the failure of the savings and loan association or credit union or if the savings and loan association or credit union refuses to permit the withdrawal of funds by the Treasurer or any other authorized state officer or employee.

(3) Notwithstanding Section 16611, the letter of credit shall at all times be in an amount in value of at least 100 percent of the amount deposited with the savings and loan association or credit union.

16613. If it appears to him or her necessary for the security of the state, the Treasurer shall require as a condition of eligibility that a savings and loan association or credit union furnish an indemnity bond approved by the Treasurer, conditioned against loss by any depreciation in value that may occur in securities deposited as security for the safekeeping and prompt payment of deposits. The sureties shall not be stockholders of the principal.

16614. In lieu of deposits of securities, any otherwise eligible savings and loan association or credit union may deposit with the Treasurer bonds of admitted surety insurers as security for demand and time deposits.

16615. An admitted surety insurer is not eligible as surety for deposits in any one savings and loan association or credit union in amounts in excess of 10 percent of the capital and surplus of the surety as shown in the preceding report issued by the United States Treasury Department.

16616. On demand of the Treasurer, the Insurance Commissioner shall issue a certificate showing the qualifications of any admitted surety insurer as surety for deposits.

16617. The bond of an admitted surety insurer shall not be accepted as security for deposits unless it has been certified by the Insurance Commissioner as meeting the requirements of this chapter and unless it also holds a certificate of authority from the United States Treasury Department under which it is eligible as surety on federal bonds.

16618. The form of bonds required under this chapter shall be prescribed by the Attorney General.

16619. A surety upon any bond to secure deposits may terminate the bond as to future liability by giving 10 days' written notice of termination to the Treasurer. Such notice of termination shall not affect any liability accruing prior to the expiration of the 10-day period. Within 10 days after receipt of such a notice of termination, the Treasurer shall require other acceptable security or withdraw the deposits secured by the bond to be terminated.

16620. That portion of any security for deposit that is in excess of the requirements of this article may be withdrawn or released on the written consent of the Treasurer.

16621. If any savings and loan association or credit union fails to pay all or any part of deposits on demand of the Treasurer, pursuant to the terms and conditions of the contract relating to the deposit that is to be withdrawn in whole or in part, the Treasurer shall forthwith recover upon or convert the security therefor into money and disburse it according to law.

16622. If at any time the security deposited with the Treasurer is not deemed satisfactory by the Treasurer, he may require such additional security as is satisfactory to him.

Article 3. Custody of Securities

16625. As used in this article, "qualified trust company" means the trust department of any state or national bank in this state or a trust company authorized to act as such in this state.

16626. With the consent of the savings and loan association or credit union owning securities deposited or to be deposited with him or her as security, the Treasurer may:

(a) Authorize any qualified trust company or any federal reserve bank or any branch thereof or any state or national bank located in any city designated as a reserve or central reserve city by the Board of Governors of the Federal Reserve System or the Federal Home Loan Bank of San Francisco to receive as his or her agent deposits of any securities approved under this chapter.

(b) Place and maintain for safekeeping as a trust deposit with any qualified trust company, or with any federal reserve bank or any branch thereof or the Federal Home Loan Bank of San Francisco any securities that have been received by him or her under this chapter.

(c) Whenever any qualified trust company accepts securities under paragraph (a) or (b) the trust company, with the prior approval of the Treasurer, may keep the securities for safekeeping with any state or national bank located in a city designated as a reserve or central reserve city by the Board of Governors of the Federal Reserve System.

16627. The Treasurer shall take from the qualified trust company or from any federal reserve bank or any branch thereof or the Federal Home Loan Bank of San Francisco a receipt for any securities received by it under this article. Neither the Treasurer nor the state is responsible for the custody and safe return of such securities until they are withdrawn from the qualified trust company or from any federal reserve bank or any branch thereof or from the Federal Home Loan Bank of San Francisco by the Treasurer.

16628. Any qualified trust company or any federal reserve bank or any branch thereof or the Federal Home Loan Bank of San Francisco to which securities are delivered, either as agent or depositary for the Treasury, shall make such disposition of the securities as the Treasurer directs and is responsible only for strict compliance with written instructions given to it by the Treasurer. All such securities are at all times subject to the order of the Treasurer.

16629. The charges of any qualified trust company or of any federal reserve bank or any branch thereof or the Federal Home Loan Bank of San Francisco for the handling and safekeeping of such securities are not a charge against the Treasurer but shall be paid by the owner.

16630. The Treasurer shall enter into contracts with savings and loan associations as in his or her judgment will be to the public advantage so to do. The contracts shall fix the duration of deposits and the rates of interest to be received, if any, the interest payment date, and provide conditions for their withdrawal, repayment, and security.

16631. In order to obtain as high rates of interest as possible, the contracts may contain any conditions necessary to conform with Section 5B of the Federal Home Loan Bank Act, as amended (12 USC Sec. 1425 (b)), and with regulations established pursuant thereto by the Federal Home Loan Bank Board.

16632. The contracts covering deposits shall provide that the interest to be paid by the savings and loan association or credit union shall be paid upon the expiration of the certificate or certificates of deposit issued as a part of the contract. The contract may also provide for periodic interest payments during the term of the deposit. The contract governing deposits shall also provide that the amounts of interest shall be reported by the savings and loan association or credit union at the time of payment of the interest, by statement showing the balances or amounts of money of the state held by the association or credit union during the period and the amount of accrued interest thereon.

16633. The contracts shall be executed by the savings and loan associations and credit unions in triplicate. The Treasurer shall file one copy of each contract with the Controller.

16634. At the time of depositing state money in any savings and loan association or credit union, designated as a depository, the Treasurer shall take and preserve a receipt, certificate of deposit, or any other evidence of the deposit as the Treasurer may require, stating the amount deposited and referring to the contract made between the depository savings and loan association or credit union and the Treasurer.

SANTA BARBARA COUNTY

TREASURER

INVESTMENT POLICY

STATEMENT

August 2020

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INTRODUCTION:

The County of Santa Barbara's Investment Policy has been prepared in accordance with State law. This policy is presented annually to the Treasury Oversight Committee for review and to the Board of Supervisors for approval, pursuant to the requirements of Sections 53646(a) and 27133 of the California Government Code. The County establishes investment policies that meet its current investment goals. The County may change this policy as its investment objectives change.

I. POLICY STATEMENT

The purpose of this Investment Policy is to provide a basis for the implementation and management of a prudent, conservative investment program. It is the policy of the Santa Barbara County Treasurer (the Treasurer) to invest public funds in a manner which provides the maximum security of principal invested with secondary emphasis on achieving the highest return, while meeting the daily cash flow needs of the Investment Pool participants and conforming to all applicable State statutes and County resolutions governing the investment of public funds.

As an elected official of the County of Santa Barbara, the Treasurer must manage public monies in a way that is consistent with investment oversight and sound investment practices. To have a policy which only concerns itself with maximizing return is reckless. The basic concept of investment management is the risk/reward relationship. A higher promised return on any investment may indicate a higher level of risk. Risk management must be an integral part of any prudent investment policy. Risk management must include adequate internal controls so Investment Pool participants and the public have confidence that public monies are secure. Though all investments contain a degree of risk, the proper exercise of prudence, the maintenance of a high level of ethical standards, and the proper delegation of authority reduces the potential for loss.

II. PURPOSES

This Investment Policy is set forth by the Treasurer for the following purposes:

A. To implement the investment program in accordance with its legislative parameters and the authority to invest which is hereby delegated to the Treasurer by the Board of Supervisors;

B. To establish a clear understanding for the Board of Supervisors, County management, responsible employees, citizens, and third parties of the objectives, policies and guidelines for the investment of County idle and surplus funds;

C. To offer guidance to investment staff and any external investment advisors on the investment of the Investment Pool.

III. OBJECTIVES

The objectives of this Investment Policy are, in order of priority:

A. Safety of principal. The primary objective of the Treasurer's investment program is to safeguard investment principal by mitigating exposure to risk factors, including, but not limited to, market (interest rate) risk, credit risk, and reinvestment risk. Specific risk parameters are set forth in Sections XII and XIII.

B. Maintenance of sufficient liquidity to meet cash flow needs.

C. Attainment of a "market average rate of return" consistent with the primary objectives of safety and liquidity.

Investments must always be in compliance with all federal, state and local laws governing the investment of moneys under the control of the Treasurer, this Investment Policy, and the Prudent Investor standard of care.

IV. SCOPE

This Statement of Investment Policy applies to county, school and special district fund assets deposited in the County Treasury and under control of the Treasurer. It does not apply to assets that are not deposited in the County Treasury, including, but not limited to:

A. Bond Funds (the investment of which is governed by the bond documents);

B. Assets of Investment Pool participants other than assets on deposit in the County Treasury (which are the responsibility of the participant's governing body); and

C. Deferred Compensation Plan assets (which are invested for the benefit of participants in the Plan).

D. The Treasurer may direct specific-purpose assets belonging to the county or other Investment Pool participants in instruments the earnings of which are not shared, but credited to the specific-purpose fund. The investments for these direct investment pools shall be made in accordance with this Policy, except that investments may be for periods greater than five years when a longer term is advantageous for the investment of money held for specific purposes. Investments for periods longer than five years require prior approval of the governing body in accordance with Government Code Section 53601.

V. STANDARD OF CARE

A. **The Prudent Investor Standard** is the appropriate standard of care for the Investment Pool. This standard shall be used by investment officials and shall be applied in the context of managing an overall portfolio. Investment staff acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported within 30 days and appropriate action is taken to control adverse developments.

B. **The Prudent Investor Standard Defined:** 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, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct 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 of an overall strategy, a trustee is authorized to acquire investments as authorized by law.

VI. DELEGATION OF AUTHORITY

Authority to manage the County's investment program is derived from the California Government Code Sections 53600 *et seq.*, and Sections 53630 *et seq.*

The Treasurer is authorized by Santa Barbara County Code Section 2-24.8 to invest or reinvest the funds of the county and the funds of the other depositors in the county treasury, pursuant to Government Code Chapter 4 (commencing with Section 53600) of Par 1 of Division 2 of Title 5.

Within the Treasurer's office, the Treasurer has the authority to appoint individuals responsible for management of the portfolio, to make investments and to direct the receipt and delivery of investment securities at the custody bank.

VII. ETHICS AND CONFLICTS OF INTEREST

Individuals performing the investment function and members of the Treasury Oversight Committee shall maintain the highest standards of conduct. They must maintain their independence and not have actual conflicts of interest. In addition, they shall avoid the appearance of having conflicts of interest or having lack of independence.

All investment personnel shall disclose to the Treasurer any financial interests in financial institutions that conduct business with the County of Santa Barbara and shall disclose any material financial positions that could be related in a conflicting manner to the investment strategies and performance of the County of Santa Barbara's investment portfolio. In accordance with State law, the Treasurer and individuals responsible for management of the portfolio shall complete and submit State of California Form 700, Statement of Economic Interests Disclosure. Should any conflicts be disclosed, the Treasurer will resolve such matters as soon as practical.

The Treasurer, individuals responsible for management of the portfolio, and members of the Treasury Oversight Committee will not accept a gift or gifts aggregating more than the Fair Political Practices Commission (FPPC) guidelines in a calendar year from an advisor, broker, dealer, banker, or other persons with whom the Treasurer conducts business.

The Treasurer, individuals responsible for management of the portfolio, and members of the Treasury Oversight Committee may not accept any honorarium from advisors, brokers, dealers, bankers, or other persons with whom the Treasurer conducts business or may, in the future, conduct business.

A member of the Treasury Oversight Committee may not be employed by an entity that has contributed to the campaign of a candidate for the office of the Treasurer or a candidate for a legislative body of a local agency that has deposited funds in the County Treasury in the previous three years or while a member of the Committee. 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.

A member of the Treasury Oversight Committee 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.

VIII. SAFEKEEPING OF SECURITIES

To protect against potential losses by collapse of individual securities dealers, and to enhance access to securities, interest payments and maturity proceeds, all securities owned by the County shall be deposited for safekeeping with the custodial bank that has contracted to provide the Treasurer with custody and security clearance services or with a tri-party custodian bank under a written tri-party custody agreement. These third party trust department arrangements provide the County with a perfected interest in, ownership of and control over the securities held by the bank custodian on the County's behalf, and are intended to protect the County from the bank's own creditors in the event of a bank default and filing for bankruptcy. Securities are not to be held in investment firm/broker dealer accounts.

IX. DELIVERY VS. PAYMENT

All security transactions are to be conducted using industry-standard "delivery-versus-payment" procedures.

X. INTERNAL CONTROLS

The Treasurer shall establish and document a system of internal controls that is prudent and comprehensive. Internal controls shall be designed to provide reasonable assurances that the combined Investment Pool assets are protected. The concept of reasonable assurance recognizes that the cost of control should not exceed the benefits likely to be derived.

Internal controls are designed to ensure separation of transaction authority from accounting and record keeping and to prevent loss of public funds due to fraud, employee error, misrepresentation by third parties, unanticipated market changes, or imprudent actions by employees of the Treasurer's office.

No investment personnel may engage in an investment transaction except as provided under this investment policy and the procedures established by the Treasurer.

XI. AUTHORIZED DEALERS AND INSTITUTIONS

The Treasurer shall determine which financial institutions are authorized to provide investment services to the County. Institutions eligible to transact investment business with the County include but are not limited to:

- Primary government dealers (including their parent and subsidiaries) as designated by the Federal Reserve Bank;
- Nationally or state-chartered banks;
- The Federal Reserve Bank;
- Regional dealers; and
- Direct issuers of securities eligible for purchase by the County.

Selection of financial institutions and broker/dealers authorized to engage in transactions with the County shall be at the sole discretion of the County.

All financial institutions which desire to become authorized dealers for investment transactions must complete the Santa Barbara County's "Request For Qualification" form Each qualified dealer must certify in writing that they have reviewed the relevant California Government Code Sections and the County's Investment Policy and that all securities offered to the County shall comply fully and in every instance with all provisions of the Code and with this Investment Policy.

The authorized dealers and financial institutions must not have made any political contribution to the Treasurer, Board of Supervisors or candidates for these offices for 48 months before and any time during their engagement with the County.

Public deposits shall be made in accordance with State law. Deposits shall be insured by the Federal Deposit Insurance Corporation, or, to the extent the amount exceeds the insured maximum, shall be collateralized with securities in accordance with State law.

The Treasurer, or designee, will create and review periodically an approved list of firms and financial institutions authorized to do business with the Treasurer. The Treasurer will maintain firms on the authorized list as long as it is in the best interest of the County to do so.

XII. PERMITTED INVESTMENTS

A. Authorized Investments

All investments shall be made in accordance with the California Government Code Sections 53630 *et seq.* and as described within this Investment Policy. Percentage allowances per this policy shall be determined by the overall portfolio size at book value on the close of the date any security is purchased. Permitted investments under this policy shall include:

1. Securities issued by the US Treasury, provided that
    a. There shall be no restriction on the percentage of portfolio investment in US Treasury securities, and
    b. The final maturity shall not exceed five years.

2. Securities issued and fully guaranteed as to payment by an agency, or issued by a government sponsored enterprise of the US Government, provided that
    a. There shall be no restriction on the percentage of portfolio investment in US Government agencies and sponsored enterprises,
    b. The final maturity shall not exceed five years, unless specifically authorized by the governing body, and

3. Bonds, notes, warrants or certificates of indebtedness issued by the state of California and all other 49 states, local agencies within California, or the County of Santa Barbara provided that
    a. The maximum allowable portfolio investment in this category shall be 10%,
    b. The final maturity shall not exceed five years.

4. Banker's acceptances provided that
   a. The maximum allowable portfolio investment in banker's acceptances shall be 40%,
   b. The final maturity shall not exceed 180 days,
   c. Maximum exposure to any one issuer shall be limited to 5% of the total portfolio, and
   d. The issuer's short term obligations shall be rated by at least two of the three major rating services a minimum of P1 by Moody's, A1 by S&P or F1 by Fitch.

5. Commercial Paper provided that
   a. The maximum allowable portfolio investment in commercial paper shall be 40%,
   b. The final maturity shall not exceed 270 days,
   c. The obligation is issued by a US corporation with total assets exceeding $500 million,
   d. The investment in paper of any one issuer may not exceed 10% of the outstanding debt of that issuer,
   e. Maximum exposure to any one issuer (including MTNs, CP, and other obligations) shall be limited to 5% of the total portfolio, and
   f. The issuer's short term obligations shall be rated by at least two of the three major rating services a minimum of P1 by Moody's, A1 by S&P or F1 by Fitch.

6. State of California Local Agency Investment Fund (LAIF) provided that
   a. The County may invest up to the maximum amount permitted by LAIF, and
   b. the fund's reports allow the Treasurer to adequately judge the risk inherent in LAIF's portfolio.

7. Managed investment pools pursuant to California Government Code 53601(p) for which shares of beneficial interest issued by a joint powers authority organized pursuant to Government Code Section 6509.7 that invests in the securities and obligations authorized in subdivisions (a) to (o) of Government Code Section 53601, 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:
   a. The adviser is registered or exempt from registration with the Securities and Exchange Commission.
   b. The adviser has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (o) Government Code Section 53601, inclusive.
   c. The adviser has assets under management in excess of five hundred million dollars ($500,000,000).

8. Negotiable certificates of deposit (NCDs) provided that
    a. The maximum allowable portfolio investment in NCDs shall be 30%,
    b. The final maturity shall not exceed one year,
    c. Maximum exposure to any one issuer shall be limited to 5% of the total portfolio, and
    d. The issuer's short term obligations shall be rated by at least two of the three major rating services a minimum of P1 by Moody's, A1 by S&P or F1 by Fitch.
    e. The issuer shall be a national or state chartered bank or a licensed branch of one of the top 100 foreign banks.

9. Bank deposits (Non-negotiable certificates of deposit) which are fully collateralized with securities in accordance with California law, provided that
    a. The maximum allowable portfolio investment in time non-negotiable certificates of deposit shall be 10%, and
    b. The final maturity shall not exceed one year.

10. Repurchase agreements collateralized with securities authorized under XII.A.1. and XII.A.2 of this policy maintained at a level of at least 102% of the market value of the repurchase agreements, provided that
    a. There shall be no restriction on the percentage of portfolio investment.
    b. The maximum allowable portfolio investment in repurchase agreements shall be one year,
    c. The repurchase agreements are the subject of a master repurchase agreement between the County and the provider of the repurchase agreement. The master repurchase agreement shall be substantially in the form developed by the Public Securities Association, and
    d. The counterparty to the repurchase agreements is a primary government securities dealer as designated by the Federal Reserve Bank of New York and state chartered banks.

11. Securities lending and reverse repurchase agreements
    a. The total of reverse repurchase agreements and securities that are subject to a securities lending agreement may not exceed 20% of the County's total portfolio,
    b. To the extent that the County's authorized securities lending agent does not utilize the full 20% allocation, the County may enter into reverse repurchase agreements in accordance with the government code. The term to maturity of such reverse repurchase agreements may not exceed 92 days, and the maturity of securities purchased with the proceeds of reverse repos must match the maturity of the reverse repurchase agreement, and
    c. The counterparty to the agreements is a primary government securities dealer as designated by the Federal Reserve Bank of New York.

12. Medium Term or Corporate Notes (MTNs) of United States corporations & Depository Institutions or Medium Term Notes of U.S. Corporations and Depository Institutions issued under the Temporary Liquidity Guarantee Program, guaranteed by the Federal Deposit Insurance Corporation provided that
    a. The maximum allowable portfolio investment in MTNs shall be 30%,
    b. The final maturity shall not exceed 5 years,
    c. The maximum allowable portfolio investment in MTNs with maturity in excess of 3 years shall be 10%,
    d. The obligation shall be issued by a corporation organized and operating within the U.S. or by a depository institution licensed in the U.S. or any state and operating within the U.S.,
    e. Maximum exposure to any one issuer (including MTNs, CP and other obligations) shall be limited to 5% of the total portfolio, and
    f. The issuer of non-TLGP notes shall be rated AA by at least two of the three major rating services of Moody's, S&P, and Fitch if maturity is greater than 3 years and shall be rated AA- by at least two of the three major rating services of Moody's, S&P, and Fitch if maturity is 3 years or less. TLGP notes shall be rated AAA by one of the three major rating services.

13. Money Market Mutual Funds provided that
    a. The maximum allowable portfolio investment in Money Market Funds shall be 15%,
    b. The Fund is registered with the Securities and Exchange Commission,
    c. The Fund must have as one of its primary objectives that it will strive to maintain a $1.00 net asset value and share price,
    d. The Fund shall have retained an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years experience investing in the securities and obligations authorized by California Government Code Section 53601 (a through j) and with assets under management in excess of $500 million, and
    e. The issuer shall be rated AAA by at least two of the three major rating services of Moody's, S&P, and Fitch.

14. FDIC Insured Deposit Accounts authorized pursuant to California Government Code Sections 53601.8 and 53635.8.
    a. The deposit of funds may be placed directly with a selected depository institution not to exceed the issuance limit from the Federal Deposit Insurance Corporation (FDIC).
    b. A selected depository may use a private sector entity to help place deposits with one or more commercial bank or savings bank located in the United States,
    c. The full amount of each deposit and the interest that may accrue on each such deposit shall at all times be insured by the Federal Deposit Insurance Corporation (FDIC),

d. The maximum exposure to the fund shall be no more than 10%,
e. There is no minimum credit requirement for FDIC insured deposit accounts whether directly placed or placed through a private sector entity.

15. Supranationals
    a. The fund may invest in United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by multi-national organizations.
    b. Permissible issuers for purposes of investment are International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC) and Inter-American Development Bank (IADB),
    c. The maximum maturity of an issue shall be 5 years,
    d. The maximum exposure to the fund for this category shall be 30%,
    e. The maximum exposure to a single issuer shall be 10% of the fund value, and
    f. The security must be rated AA by at least one rating agency from the following: Moody’s, Standard & Poor’s, or Fitch.

B. Prohibited Investment and Practices

1. State law notwithstanding, any investments not specifically described herein are prohibited, including, but not limited to, mutual funds (other than money market funds as described above), unregulated and/or un-rated investment pools or trusts, collateralized mortgage obligations and futures and options.

2. In accordance with Government Code Section 53601.6, investments in inverse floaters, range notes, or mortgage derived interest-only strips is prohibited.

3. Investment in any security that could result in a zero interest accrual if held to maturity is prohibited.

4. Purchasing or selling securities on margin is prohibited.

XIII. PORTFOLIO RISK MANAGEMENT

A. Mitigating Credit Risk in the Portfolio

Credit risk is the risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. The Treasurer shall mitigate credit risk by adopting the following strategies:

1. The diversification requirements included in Section XII (A) are designed to mitigate credit risk in the portfolio.

2. No more than 5% of the total portfolio may be invested in securities of any single issuer, other than the US Government, its agencies and sponsored enterprises.

3. The County may elect to sell a security prior to its maturity and record a capital gain or loss in order to improve the quality, liquidity or yield of the portfolio in response to market conditions or the County's risk preferences.

4. If the securities owned by the County are downgraded by Moody's, S&P, or Fitch to a level below the quality required by this Investment Policy, it shall be the County's policy to review the credit situation and make a determination as to whether to sell or retain such securities in the portfolio. The Treasurer will use discretion in determining whether to sell or hold the security based on its current maturity, the loss in value, the economic outlook for the issuer, and other relevant factors.

5. The Treasurer will continue to monitor and reevaluate the security on an ongoing basis in order to reaffirm or change the decision to hold a downgraded security.

6. If a decision is made to retain a downgraded security in the portfolio, the status of the investment will be reported quarterly to the Board of Supervisors.

B. Mitigating Market Risk in the Portfolio

Market risk is the risk that the portfolio will decline in value (or will not optimize its value) due to changes in the general level of interest rates. The County recognizes that, over time, longer-term portfolios generally achieve higher returns. On the other hand, longer-term portfolios have a higher volatility of return. The County shall mitigate market risk by providing adequate liquidity for cash needs, and by making longer-term investments only with funds that are not needed for current cash flow purposes. The County further recognizes that certain types of securities, including variable rate securities, and securities with embedded options, will affect the market risk profile of the portfolio differently in different interest rate environments. The County, therefore, adopts the following strategies to control and mitigate its exposure to market risk:

1. All investments are categorized according to the period of time from settlement date to maturity date. Market circumstances and risk-return calculations for increased yield may require an extended schedule. In no event shall more than 75 percent of the funds available be invested for longer than one year.

2. The maximum stated final maturity of individual securities in the portfolio shall be five years, except as otherwise stated in this policy. The five-year maturity of callable securities is measured to the final maturity date, not to a call date.

3. Maturity of investments should be governed by the Treasury's demand for funds through analysis of revenue and expenditure activity over prior periods. The portfolio shall be structured in such manner that securities mature concurrent with cash needs.

C. Mitigating Reinvestment Risk in the Portfolio

Reinvestment risk is the risk that cash flows from securities will be reinvested at interest rates that are lower than the rate of the original investment. Securities that are highly subject to reinvestment risk include mortgage-backed and callable securities.

The County, therefore, adopts the following strategies to control and mitigate its exposure to reinvestment risk:

1. The portfolio shall include securities with a range of durations and maturities.

2. Mortgage-backed securities are prohibited.

3. Investment in callable securities is limited to 50%.

XIV. REPORTING AND DISCLOSURE

A. Quarterly Reports

The Treasurer shall submit a quarterly investment report to the Board of Supervisors, County Executive Office, Auditor-Controller and Treasury Oversight Committee within 30 days following the end of the quarter covered by the report. This report shall disclose, at a minimum, the following investment information:

1. The type of investment, issuer, date of maturity, par and dollar amount invested on all securities, investments and moneys;

2. A description of any funds, investments, or programs that are under the management of contracted parties, including lending programs;

3. A current market value as of the date of the report and the source of this valuation;

4. A statement of compliance with the investment policy or manner in which the portfolio is not in compliance;

5. A statement denoting that ability of the County to meet its expenditure requirements for the next six months or an explanation as to why sufficient money may not be available.

B. Annual Review

The investment policy shall be reviewed at least annually to ensure its consistency with the overall objectives of preservation of principal, liquidity and return, and its relevance to current law and financial and economic trends.

Any internal or external audit reports shall be presented to the Treasury Oversight Committee, together with a plan of implementation of audit recommendations.

XV. TREASURY OVERSIGHT COMMITTEE

The Board of Supervisors shall establish a Treasury Oversight Committee pursuant to Section 27131 of the California Government Code. The Committee shall consist of between three and eleven member nominated by the Treasurer and confirmed by the Board of Supervisors. Any changes to the Investment Policy Statement shall be reviewed by the Treasury Oversight Committee.

Pursuant to Section 53646 and 53607 of California Government Code, the Treasurer shall annually render to the Board of Supervisors for review and approval the Investment Policy Statement and renew the delegation of investment authority.

Pursuant to California Government Code Section 27137, the county treasury oversight committee is not allowed to direct individual investment decisions, select individual investment advisors, brokers, or dealers, or impinge on the day-to-day operations of the county treasury.

XVI. APPORTIONMENT OF EARNINGS AND COSTS

Investment earnings shall be apportioned to all pool participants quarterly based upon the ratio of the average daily balance of each individual fund to the average daily balance of all funds in the investment pool. The amount of interest apportioned shall be determined using the accrual method of accounting, whereby interest will be apportioned for the quarter in which it was actually earned. As provided by Sections 27013, 27133 and 27135 of the Government Code, the Treasurer shall deduct those administrative costs associated with investing, depositing, banking, auditing, reporting or otherwise handling or managing funds from the gross interest earnings before the interest earnings are apportioned.

XVII. VOLUNTARY PARTICIPANTS

The Treasurer does not solicit any agency's voluntary entry into the Investment Pool. However, should any agency solicit entry, the agency shall comply with the requirements of section 53684 of the Government Code and provide to the Treasurer a resolution adopted by their governing board stating that they have excess funds available for the purpose of investment. The resolution shall specify the amount of monies to be invested, the person authorized to coordinate the transaction, the anticipated time frame for deposit, and the agency's willingness to be bound to the 30 day written notice requirement for withdrawals, as well as the Treasurer's ability to deduct pro-rata administrative charges permitted by Section XVII of this investment policy. Any solicitation for entry into the Investment Pool must have the Treasurer's prior written approval.

XVIII. PARTICIPANT WITHDRAWAL

Before a local agency withdraws funds from the Investment Pool, it must submit a withdrawal request to the Treasurer. The Treasurer shall review the withdrawal request based on the size of the withdrawal, the remaining balances in the Investment Pool after the withdrawal, current market conditions, effect on cash flows, availability of funds, the circumstances involving the request, and whether the withdrawal would adversely affect other depositors in the Investment Pool. Exiting pool participants will not recognize posted GASB 31 fair market value gains or losses, except in extraordinary circumstances, as defined by the Treasurer at that time.

XIX. LEGISLATIVE CHANGES

Any State of California legislative action that further restricts allowable maturities, investment type, or percentage allocations will be incorporated immediately into the Investment Policy.

Appendix I

AUTHORIZED INVESTMENT SUMMARY TABLE

AUTHORIZED INVESTMENTS	DIVERSIFICATION	PURCHASE RESTRICTIONS	MATURITY	CREDIT QUALITY (S&P/MOODY'S/FITCH)
U.S. Treasury Obligations	100%	None	Max 5 years	NA
Notes, participation's or obligations issued by an agency of the federal government or U.S. government sponsored enterprises	100%	None	Max 5 years	NA
Bonds, notes, warrants, or certificates of indebtedness issued by the state and all other 49 states, or local agencies, or County of Santa Barbara	10%	None	Max 5 year	NA
Bankers Acceptances among the 100 largest banks by size of deposits.	40%	Max 5% of portfolio per issuer	Max 180 days	A1 / P1 / F1 by at least 2 of the 3 rating agencies
Commercial paper of U.S. corporations with total assets exceeding $500,000,000	40%	Max 10% of outstanding paper of any one issuer & max 5% per any one issuer	Max 270 days	A1 / P1 / F1 by at least 2 of the 3 rating agencies
State of California- Local Agency Investment Fund (LAIF)	As limited by LAIF	As limited by LAIF	NA	NA
Managed Investment Pool pursuant to GC 53601(p)	As limited by each investment pool	As limited by each investment pool	NA	NA
Negotiable CDs issued by national or state chartered banks or a licensed branch of the top 100 foreign banks	30%	Max 5% of any one issuer	Max 1 year	A1 / P1 / F1 by at least 2 of the 3 rating agencies
Collateralized Time Deposits	10%	As stipulated in Ca. Government Code 53630 et al	Max 1 year	NA
Repurchase Agreements with 102% collateral limited to U.S. treasuries & agencies with maturity not exceeding 5 yrs	100%	Contract must be on file	1 yr	Restricted to primary dealers and state chartered banks on eligible list
Reverse Repurchase Agreements	20%	Contract must be on file	92 days	Restricted to primary dealers on eligible list
Medium Term Notes or Corporate Notes on U.S. corporation	30%/ 10%in maturity greater than 3 years	Max 5% of any one issuer	Max 5 years	AA by at least 2 of the 3 rating agencies if more than 3 yrs; AA- up to 3 yrs. AAA if TLGP.
Money Market mutual funds that meet requirements of Ca. Government Code	15%	Registered with SEC; no NAV adjustments; no front end loads	Immediate liquidity	AAA by at least 2 of the 3 rating agencies
Callable Securities	50%	As above	As above	As above

FDIC Insured Deposit Accounts Authorized Under California Government Code Sections 53601.8 and 53635.8	10%	Max $100MM per placement service	Immediate liquidity	Not Applicable
Supranationals	30%	As above	5 years	AA by at least 1 rating agency

Appendix II

GLOSSARY OF TERMS

ACCRUED INTEREST – The amount of interest that is earned, but unpaid since the last payment date.

BANKERS ACCEPTANCES – 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. With the credit strength of a bank behind it, the bankers acceptance usually qualifies as a money market instrument. In its simplest and most traditional form, a bankers acceptance is merely a check drawn on a bank by an importer or exporter of goods.

BASIS POINT - A unit of measurement used in the valuation of fixed-income securities equal to 1/100 of 1 percent of yield, e.g., "1/4" of 1 percent is equal to 25 basis points.

BID - The indicated price at which a buyer is willing to purchase a security or commodity.

BOOK ENTRY – The system maintained by the Federal Reserve, by which most money market securities are delivered to an investor’s custodian bank. The Federal Reserve maintains a computerized record of the ownership of these securities and records any changes in ownership corresponding to payments made over the Federal Reserve wire (delivery versus payment).

BOOK VALUE - The value at which a security is carried on the inventory lists or other financial records of an investor. The book value may differ significantly from the security's current value in the market.

BROKER/DEALER – Any person engaged in the business of effecting transactions in securities in this state for the account of others or for her/his own account. Broker/dealer also includes a person engaged in the regular business of issuing or guaranteeing options with regard to securities not of her/his own issue.

CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION (CDIAC)- The CDIAC provides information, education, and technical assistance on public debt and investments to local public agencies and other public finance professionals.

CALLABLE BOND - A bond issue in which all or part of its outstanding principal amount may be redeemed before maturity by the issuer under specified conditions.

CALL PRICE - The price at which an issuer may redeem a bond prior to maturity. The price is usually at a slight premium to the bond's original issue price to compensate the holder for loss of income and ownership.

CALL RISK - The risk to a bondholder that a bond may be redeemed prior to maturity.

CASH SALE/PURCHASE - A transaction which calls for delivery and payment of securities on the same day that the transaction is initiated.

COLLERATERALIZATION - Process by which a borrower pledges securities, property, or other deposits for the purpose of securing the repayment of a loan and/or security.

COMBINED INVESTMENT POOL – The county maintains a combined Investment Pool with cash and investments which provide cash flow for the funding needs of the participants. The combined Investment Pool is managed by the Santa Barbara County Treasurer. The combined Investment Pool is carried at amortized cost and includes accrued interest.

COMMERCIAL PAPER - An unsecured short-term promissory note issued by banks, corporations and other borrowers with temporarily idle cash, with maturities ranging from 2 to 270 days. Such instruments are usually discounted, although some are interest bearing. It is issued only by top-rated concerns and is nearly always backed by bank lines of credit.

CONFIRMATION – Formal memorandum from a broker/dealer to the Treasurer giving the details of a securities transaction, i.e., purchase or sale.

COUPON RATE - The annual rate of interest received by an investor from the issuer of certain types of fixed-income securities. Also known as the "interest rate."

CREDIT QUALITY - The measurement of the financial strength of a bond issuer. This measurement helps an investor to understand an issuer's ability to make timely interest payments and repay the loan principal upon maturity. Generally, the higher the credit quality of a bond issuer, the lower the interest rate paid by the issuer because the risk of default is lower. Credit quality ratings are provided by nationally recognized rating agencies.

CREDIT RISK - The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

CURRENT YIELD (CURRENT RETURN) - A yield calculation determined by dividing the annual interest received on a security by the current market price of that security.

CUSTODIAN/CUSTODY – The financial institution where the investments purchased by the County Treasury are held.

DELIVERY VERSUS PAYMENT (DVP) - A type of securities transaction in which the purchaser pays for the securities when they are delivered either to the purchaser or his/her custodian.

DERIVATIVE - Financial instrument created from, or whose value depends upon, one or more underlying assets or indexes of asset values.

DISCOUNT - The amount by which the par value of a security exceeds the price paid for the security.

DIVERSIFICATION – The spreading of risk by investing in assets among a range of security types by sector, maturity, and quality rating.

DURATION - A measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security. This calculation is based on three variables: term to maturity, coupon rate, and yield to maturity. The duration of a security is a useful indicator of its price volatility for given changes in interest rates.

EARNINGS APPORTIONMENT – The quarterly interest distribution to the Investment Pool participants where the actual investment costs incurred by the Treasurer are deducted from the interest earnings of the Investment Pool.

FAIR VALUE - The amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

FEDERAL FUNDS - Funds placed in Federal Reserve banks by depository institutions in excess of current reserve requirements. These depository institutions may lend Fed funds to each other overnight or on a longer basis. They may also transfer funds among each other on a same-day basis through the Federal Reserve banking system. Fed funds are considered to be immediately available funds.

FEDERAL FUNDS RATE - Interest rate charged by one institution lending Federal funds to the other.

FITCH IBCA, INC. (FITCH) – One of the three best known rating agencies in the United States, the others being Moody's Investment Service, Inc. (Moody's), and Standard and Poor's Corporation (S & P). The County Treasury uses all three as its primary rating sources in determining eligibility for securities purchases.

GUARANTEED INVESTMENT CONTRACTS (GICS) – An agreement acknowledging receipt of funds for deposit, specifying terms for withdrawal, and guaranteeing a rate of interest to be paid.

GOVERNMENT SECURITIES - An obligation of the U.S. government, backed by the full faith and credit of the government. These securities are regarded as the highest quality of investment securities available in the U.S. securities market. See "Treasury Bills, Notes, and Bonds."

HIGHLY LIQUID – The most eminent type of security that is easily converted to cash because there are many interested buyers and sellers to trade large quantities at a reasonable price.

IDLE FUNDS – funds in the combined Investment Pool not required for immediate cash needs.

ILLIQUID – A security that is difficult to buy or sell or has a wide spread between bid price and offer price in the secondary market. There are few buyers and sellers willing to trade large quantities at a reasonable price.

INFORMAL COMPETITIVE BID – A verbal or written bid submitted to the County Treasury by a broker/dealer for a specific issue at a specific price or yield.

INTEREST RATE - See "Coupon Rate."

INTEREST RATE RISK - The risk associated with declines or rises in interest rates which cause an investment in a fixed-income security to increase or decrease in value.

INTERNAL CONTROLS - An internal control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse. The internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that 1) the cost of a control should not exceed the benefits likely to be derived and 2) the valuation of costs and benefits requires estimates and judgments by management. Internal controls should address the following points:

1. **Control of collusion** - Collusion is a situation where two or more employees are working in conjunction to defraud their employer.
2. **Separation of transaction authority from accounting and record keeping** - By separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction, a separation of duties is achieved.
3. **Custodial safekeeping** - Securities purchased from any bank or dealer including appropriate collateral (as defined by state law) shall be placed with an independent third party for custodial safekeeping.
4. **Avoidance of physical delivery securities** - Book-entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities.

5. **Clear delegation of authority to subordinate staff members** - Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.
6. **Written confirmation of transactions for investments and wire transfers** - Due to the potential for error and improprieties arising from telephone and electronic transactions, all transactions should be supported by written communications and approved by the appropriate person. Written communications may be via fax if on letterhead and if the safekeeping institution has a list of authorized signatures.
7. **Development of a wire transfer agreement with the lead bank and third-party custodian** - The designated official should ensure that an agreement will be entered into and will address the following points: controls, security provisions, and responsibilities of each party making and receiving wire transfers.

INVERTED YIELD CURVE - A chart formation that illustrates long-term securities having lower yields than short-term securities. This configuration usually occurs during periods of high inflation coupled with low levels of confidence in the economy and a restrictive monetary policy.

INVESTMENT POLICY - A concise and clear statement of the objectives and parameters formulated by an investor or investment manager for a portfolio of investment securities.

INVESTMENT-GRADE OBLIGATIONS - An investment instrument suitable for purchase by institutional investors under the prudent person rule. Investment-grade is restricted to those obligations rated BBB or higher by a rating agency.

LIQUID - An asset that can be converted easily and quickly into cash because of the willingness of interested buyers and sellers to trade large quantities at a reasonable price.

LOCAL AGENCY INVESTMENT FUND (LAIF) – The State of California investment pool in which money of local agencies is pooled as a method for managing and investing local funds.

LOCAL AGENCY OBLIGATION – An indebtedness issued by a local agency, department, board, or authority within the State of California.

LONG-TERM – A security with the maturity greater than one year.

MARK-TO-MARKET - The process whereby the book value or collateral value of a security is adjusted to reflect its current market value.

MARKET RISK - The risk that the value of a security will rise or decline as a result of changes in market conditions.

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 payment of a financial obligation is due. The final stated maturity is the date on which the issuer must retire a bond and pay the face value to the bondholder. See "Weighted Average Maturity."

MEDIUM TERM NOTES – Corporate Notes and Deposit Notes that are obligations of banks, corporations, and insurance companies. They are issued at a specific rate of return for a specific period of time.

MONEY MARKET MUTUAL FUND - Mutual funds that invest solely in money market instruments (short-term debt instruments, such as Treasury bills, commercial paper, bankers' acceptances, repos and federal funds).

MOODY’S INVESTORS SERVICE, INC. (Moody’s) - One of the three best known rating agencies in the United States, the others being Standard and Poor’s Corporation (S & P) and Fitch IBCA, Inc. (Fitch). The County Treasury uses all three as its primary rating sources in determining eligibility for securities purchases.

MUTUAL FUND - An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments. Mutual funds are regulated by the Investment Company Act of 1940 and must abide by the following Securities and Exchange Commission (SEC) disclosure guidelines:

1. Report standardized performance calculations.
2. Disseminate timely and accurate information regarding the fund's holdings, performance, management and general investment policy.
3. Have the fund's investment policies and activities supervised by a board of trustees, which are independent of the adviser, administrator or other vendor of the fund.
4. Maintain the daily liquidity of the fund's shares.
5. Value their portfolios on a daily basis.
6. Have all individuals who sells SEC-registered products licensed with a self-regulating organization (SRO) such as the National Association of Securities Dealers (NASD).
7. Have an investment policy governed by a prospectus which is updated and filed by the SEC annually.

NATIONAL ASSOCIATION OF SECURITIES DEALERS (NASD) - A self-regulatory organization (SRO) of brokers and dealers in the over-the-counter securities business. Its regulatory mandate includes authority over firms that distribute mutual fund shares as well as other securities.

NEGOTIABLE CERTIFICATE OF DEPOSIT – A Money Market instrument representing a receipt from a bank for a deposit at a specified rate of interest for a specified period of time that is traded in the secondary markets.

NET ASSET VALUE - The market value of one share of an investment company, such as a mutual fund. This figure is calculated by totaling a fund's assets which includes securities, cash, and any accrued earnings, subtracting this from the fund's liabilities and dividing this total by the number of shares outstanding. This is calculated once a day based on the closing price for each security in the fund's portfolio.

NO LOAD FUND - A mutual fund which does not levy a sales charge on the purchase of its shares.

NOMINAL YIELD - The stated rate of interest that a bond pays its current owner, based on par value of the security. It is also known as the "coupon," "coupon rate," or "interest rate."

NONCALLABLE – A bond that is exempt from any kind of redemption for a stated time period.

NOTE – A written promise to pay a specific amount to a certain entity on demand or on a specified date.

OFFER - An indicated price at which market participants are willing to sell a security or commodity. Also referred to as the "Ask price."

PAR - Face value or principal value of a bond, typically $1,000 per bond.

PORTFOLIO – Combined holding of more than one stock, bond, cash equivalent, or other asset. The purpose of a portfolio is to reduce risk by diversification.

POSITIVE YIELD CURVE - A chart formation that illustrates short-term securities having lower yields than long-term securities.

PREMIUM - The amount by which the price paid for a security exceeds the security's par value.

PRIMARY DEALER – A group of securities dealers that submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC) registered securities broker-dealers and banks.

PRIME RATE - A preferred interest rate charged by commercial banks to their most creditworthy customers. Many interest rates are keyed to this rate.

PRINCIPAL - The face value or par value of a debt instrument. Also may refer to the amount of capital invested in a given security.

PROSPECTUS - A legal document that must be provided to any prospective purchaser of a new securities offering registered with the SEC. This can include 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 RULE - An investment standard where a person acts with care, skill, prudence, and diligence when investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing funds. The test of whether the standard is met is if a prudent person acting in such a situation would engage in similar conduct to ensure investments safeguard principal and maintain liquidity.

PUT OPTION – The sale of an option to another party giving them the right to sell to the Investment Pool a security at a specified price within a specified time period.

RATING – Evaluation of financial institutions’ investment and credit risks by professional rating services. The County Treasury utilizes the ratings designations of Moody’s, S&P and Fitch.

REGISTERED STATE WARRANT – A short-term obligation of a state governmental body issued in anticipation of revenue.

REGULAR WAY DELIVERY - Securities settlement that calls for delivery and payment on the third business day following the trade date (T+3); payment on a T+1 basis is currently under consideration. Mutual funds are settled on a same day basis; government securities are settled on the next business day.

REINVESTMENT RISK - The risk that a fixed-income investor will be unable to reinvest income proceeds from a security holding at the same rate of return currently generated by that holding.

REPURCHASE AGREEMENT (REPO) - An agreement of one party to sell securities at a specified price to a second party and a simultaneous agreement of the first party to repurchase the securities at a specified price or at a specified later date.

REVERSE REPURCHASE AGREEMENT (REVERSE REPO) - An agreement of one party to purchase securities at a specified price from a second party 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.

SAFEKEEPING – A custodian bank’s action to store and protect an investor’s securities by segregating and identifying the securities.

SECURITIES AND EXCHANGE COMMISSION (SEC) – Agency created by Congress to protect investors in securities transactions by administering securities laws. The statutes administered by the SEC are designed to promote full public disclosure and protect the investing public against malpractice in the securities market.

SECURITIES LENDING – A transaction wherein the Investment Pool transfers its securities to broker/dealers and other entities for collateral which may be cash or securities and simultaneously agrees to return the collateral for the same securities in the future.

SERIAL BOND - A bond issue, usually of a municipality, with various maturity dates scheduled at regular intervals until the entire issue is retired.

SHORT-TERM – A security with a maturity one year or less.

STANDARD AND POOR'S CORPORATION (S&P) – One of the three best known rating agencies in the United States, the others being Moody's Investment Service, Inc. (Moody's), and Fitch IBCA, Inc. (Fitch). The County Treasury uses all three as its primary rating sources in determining eligibility for securities purchases.

SWAP - Trading one asset for another.

TOTAL RETURN - The sum of all investment income plus changes in the capital value of the portfolio. For mutual funds, return on an investment is composed of share price appreciation plus any realized dividends or capital gains. This is calculated by taking the following components during a certain time period. (Price Appreciation) + (Dividends paid) + (Capital gains) = Total Return.

TREASURY BILLS - Short-term U.S. government non-interest bearing debt securities with maturities of no longer than one year and issued in minimum denominations of $10,000. Auctions of three- and six-month bills are weekly, while auctions of one-year bills are monthly. The yields on these bills are monitored closely in the money markets for signs of interest rate trends.

TREASURY NOTES - Intermediate U.S. government debt securities with maturities of one to 10 years and issued in denominations ranging from $1,000 to $1 million or more.

TREASURY BONDS - Long-term U.S. government debt securities with maturities of ten years or longer and issued in minimum denominations of $1,000. Currently, the longest outstanding maturity for such securities is 30 years.

VOLATILITY - A degree of fluctuation in the price and valuation of securities.

WEIGHTED AVERAGE MATURITY (WAM) - The average maturity of all the securities that comprise a portfolio. According to SEC rule 2a-7, the WAM for SEC registered money market mutual funds may not exceed 90 days and no one security may have a maturity that exceeds 397 days.

WHEN ISSUED (WI) - A conditional transaction in which an authorized new security has not been issued. All "when issued" transactions are settled when the actual security is issued.

YIELD - The current rate of return on an investment security generally expressed as a percentage of the security's current price.

YIELD-TO-CALL (YTC) - The rate of return an investor earns from a bond assuming the bond is redeemed (called) prior to its nominal maturity date. Yield Curve - A graphic representation that depicts the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity. A normal yield curve may be alternatively referred to as a positive yield curve.

YIELD-TO-MATURITY - The rate of return yielded by a debt security held to maturity when both interest payments and the investor's potential capital gain or loss are included in the calculation of return.

ZERO-COUPON SECURITIES - Security that is issued at a discount and makes no periodic interest payments. The rate of return consists of a gradual accretion of the principal of the security and is payable at par upon maturity.