



**EXECUTIVE MANAGEMENT and AUDIT COMMITTEE
JANUARY 15, 2004**

SUBJECT: INVESTMENT POLICY

ACTION: ADOPT UPDATED INVESTMENT POLICY

RECOMMENDATION

- A. Adopt the updated MTA Investment Policy, Attachment I. See proposed Investment Policy changes under "Policy Implication" below.
- B. Delegate to the MTA Treasurer or his/her designees, the authority to invest MTA funds for a one-year period, pursuant to California Government Code (the Code) Section 53607. See the excerpts of the Code in Attachment II.
- C. Approve the Financial Institutions Resolution authorizing financial institutions to honor signatures of MTA Officials, Attachment III.
- D. Approve resolution that authorizes the MTA to invest monies with the Local Agency Investment Fund (LAIF), a fund administered by the California State Treasurer. Attachment IV.

ISSUE

Section 53646 of the Code, requires that the Board, on an annual basis and at a public meeting, review and approve the Investment Policy. Section 53607 of the Code, requires that the Board delegate investment authority to the MTA Treasurer on an annual basis.

Section 10.8 of the Investment Policy requires that the MTA Treasurer submit the Financial Institutions Resolution to the Board annually for approval. Approval of updated LAIF resolution required to reflect current signatories and their titles.

POLICY IMPLICATION

The Board approves the objectives and guidelines that direct the investment of MTA's operating funds. Key revisions to the MTA Investment Policy clarifies its scope and incorporates language consistent with finance standards and practices. A summary of changes to the current MTA Investment Policy is provided below. County Counsel has reviewed and concurred with the revised changes to the policy.

Section Change	Current Text	Proposed Text	Rationale
Section 2.1	Investments may only be made as authorized by the California Government Code Section 53600 et seq. the (“Code”) and this policy...	Investments may only be made as authorized by the California Government Code (“Code”) Section 53600 et seq., Sections <i>16429.1 through 16429.4</i> and this policy....	Include reference to Code Sections for Local Agency Investment Fund.
Section 2.2	This policy sets forth the MTA’s guidelines for the investment of surplus General, Special Revenue, Capital Projects, Enterprise (excluding cash and investments with fiscal agents), Internal Service, and Expendable Trust Funds....	This policy sets forth the MTA’s guidelines for the investment of surplus General, Special Revenue, Capital Projects, Enterprise (excluding cash and investments with fiscal agents), Internal Service, Expendable Trust Funds, <i>and any new fund created by the Board, unless specifically exempted....</i>	Subject new funds authorized by the Board to be covered by the MTA Investment Policy unless specifically exempted.
Section 4.4	Officers and employees involved in the investment process shall be governed by the Los Angeles County Metropolitan Transportation Authority Ethics Policy and annually shall file a Statement of Economic Disclosure with the MTA’s Ethics Office.	Officers and employees involved in the investment process shall be governed by the standards <i>regarding ethical behavior and conflicts of interest</i> established in the Los Angeles County Metropolitan Transportation Authority Ethics Policy and annually shall file a Statement of Economic Disclosure with the MTA’s Ethics Office.	To incorporate explicit language recommended by the Association of Public Treasurers of the United States and Canada.
Section 5.2	In order to reduce overall portfolio risk, investments shall be diversified among types of investments, maturities of those investments, issuers and depository institutions...	In order to reduce overall portfolio risk, investments shall be <i>diversified among security type, maturity, issuer and depository institutions...</i>	Revised text to increase clarity.
Section 5.4	N/a	State and local government sponsored Investment Pools and money market mutual funds as authorized by this policy are subject to due diligence review prior to investing and on a continual basis as established in Section 5.1 A, #11 and #12.	To incorporate language as recommended by the Association of Public Treasurers of the United States and Canada.
Section 7.1	Securities and collateral for repurchase agreements shall be purchased and maintained for the benefit of the MTA in the Trust Department or safekeeping department of a bank as established by a written third party safekeeping	Securities and collateral for repurchase agreements shall be purchased and maintained for the benefit of the MTA in the Trust Department or safekeeping department of a bank as established by a written third party safekeeping agreement between the MTA and the bank.	To cross reference specific collateralization levels.

	agreement between the MTA and the bank.	<i>Specific collateralization levels are defined in Section 5.1A.</i>	
Section 8.3 – Item F	N/a	Percentage of the portfolio represented by each investment category.	To incorporate language as recommended by the Association of Public Treasurers of the United States and Canada.
Section 8.3 – Item F	N/a	Percentage of the portfolio represented by each investment category.	To incorporate language as recommended by the Association of Public Treasurers of the United States and Canada.
Section 5.1A - #12: Type of Investment	State of California Local Agency Investment fund (LAIF), or other Local Government Investment Pools (LGIP) established by public California entities.	State of California Local Agency Investment fund (LAIF) <i>California Government Code Section 16429.1 through 16429.4</i> , or other Local Government Investment Pools (LGIP) established by public California entities.	Include reference to Code Sections for Local Agency Investment Fund.

The approval of the Financial Institutions Resolution will assist staff in implementing the administrative duties arising from policy directives such as opening, closing and changing bank accounts.

ALTERNATIVES CONSIDERED

The MTA Investment Policy and the Code require an annual review and adoption of the Investment Policy, the delegation of investment authority and the annual approval of the Financial Institutions Resolution. Should the Board elect not to delegate the investment authority annually or approve the Financial Institutions Resolution, the Board would assume daily responsibility for the investment of MTA working capital funds and for the approval of routine administrative actions.

FINANCIAL IMPACT

This action has no impact on the FY 2004 MTA Operating budget. Investment management fees and related expenses are funded from interest income.

BACKGROUND

The MTA Investment Policy provides staff and external investment managers with guidelines to enable the MTA to maximize its return on investments subject to the primary objectives of safety and liquidity. The delegation of investment authority transfers to the MTA Treasurer the responsibility and accountability to perform the investment function for a one-year period.

Financial Institutions require Board authorization to establish custodial, trustee and commercial bank accounts. In accordance with the MTA's Investment Policy, staff reviewed the resolution and determined no changes were needed.

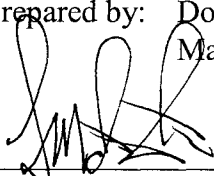
NEXT STEPS

Immediately upon Board approval, distribute revised MTA Investment Policy to external investment managers and broker-dealers. Issue copies of the Investment Policy and Financial Institutions Resolution to our financial institutions.

ATTACHMENTS

Attachment I:	MTA Investment Policy
Attachment II:	California Government Code: Section 53600 to 53609, Section 53646, Section 16429.1 to 16429.4
Attachment III:	Financial Institutions Resolution
Attachment IV:	Investment of Monies in LAIF Resolution

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ATTACHMENT I

Los Angeles County Metropolitan Transportation Authority

INVESTMENT POLICY

Approved by the LACMTA Board of Directors on January 22, 2004.

INVESTMENT POLICY

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1.0 Policy

It is the policy of the Los Angeles County Metropolitan Transportation Authority (MTA) to ensure that the temporarily idle funds of the agency are prudently invested to preserve capital and provide necessary liquidity, while maximizing earnings.

2.0 Scope

- 2.1 Investments may only be made as authorized by the California Government Code ("Code") Section 53600 et seq., Sections 16429.1 through 16429.4 ~~the ("Code")~~ and this policy. This policy conforms to the Code as well as to customary standards of prudent investment management. Should the provisions of the Code become more restrictive than those contained herein, such provisions will be considered as immediately incorporated in this policy. Changes to the code which are less restrictive than this Policy may be adopted by the MTA Board of Directors (Board).
- 2.2 This policy sets forth the MTA's guidelines for the investment of surplus General, Special Revenue, Capital Projects, Enterprise (excluding cash and investments with fiscal agents), Internal Service, Expendable Trust Funds, and any new fund created by the Board, unless specifically exempted. Excluded from this policy are guidelines for the investment of proceeds related to debt financings, defeased lease transactions, Agency (Deferred Compensation, 401K, and Benefit Assessment District) and Pension Trust Funds.
- 2.3 Internal and external portfolio managers may be governed by Portfolio Guidelines which on an individual basis may differ from the total fund guidelines outlined herein. The Treasurer is responsible for monitoring and ensuring that the total funds subject to this policy remain in compliance with this policy, and shall report to the Board regularly on compliance.

3.0 Investment Objectives

- 3.1 The primary objectives, in priority order, of the MTA's investment activities shall be:
- A. Safety: Safety of principal is the foremost objective of the investment program. The MTA's investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The MTA shall seek to ensure that capital losses are avoided whether from institutional default, broker-dealer default, or erosion of market value. Diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.
 - B. Liquidity: The MTA's investment portfolio will remain sufficiently liquid to enable MTA to meet all operating requirements that might be reasonably anticipated.
 - C. Yield: The MTA shall manage its funds to maximize the return on investments consistent with the two objectives above, with the goal of exceeding the performance benchmarks (Section 12.0) over a market cycle (typically a three to five year period).
- 3.2 It is the MTA's policy to hold investments to maturity or until market value equals or exceeds (historical) cost. However, if the MTA's liquidity needs require that investments be sold at a loss, or because of a downgrade of credit quality, national or public policy issues, or to take advantage of market conditions which will result in a gain on reinvestment of the sale proceeds, the security may be sold and the decline in value shall be recorded as a loss.

Internal and external investment managers shall report such losses to the Treasurer, Executive Officer, Finance, and Chief Financial Officer quarterly.

3.3 Investments shall be made with the judgment, skill, and diligence of a prudent investor acting in like capacity under circumstances then prevailing, for the sole benefit of the MTA, and shall take into account the benefits of diversification in order to protect the MTA's investment from the risk of substantial loss.

3.4 The standard of prudence to be used by investment officials shall be the "prudent investor" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with this investment policy, written portfolio guidelines and procedures and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in the quarterly investment report to the Board, and appropriate action is taken to control adverse developments.

4.0 Delegation of Authority

4.1 The Board shall be the trustee of funds received by the MTA. In accordance with the California Government Code (CGC) Section 53607, the Board hereby delegates the authority to invest or reinvest the MTA's funds, to sell or exchange securities so purchased and to deposit securities for safekeeping to the Treasurer for a one year period, who thereafter assumes full responsibility for such transactions and shall make a monthly report of those transactions to the Board. Subject to review by the Board, the Board may renew the delegation of authority each year.

4.2 The Treasurer shall establish written procedures for the operation of the investment program consistent with this investment policy, including establishment of appropriate written agreements with financial institutions. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. The Treasurer may engage independent investment managers to assist in the investment of the MTA's financial assets.

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

4.4 Officers and employees involved in the investment process shall be governed by the standards regarding ethical behavior and conflicts of interest established in the Los Angeles County Metropolitan Transportation Authority Ethics Policy and annually shall file a Statement of Economic Disclosure with the MTA's Ethics Office.

5.0 Permitted Investments

5.1 All MTA funds which are not required for immediate cash expenditures shall be invested in income producing investments or accounts, in conformance with the provisions and restrictions of this investment policy as defined in Section 5.1A of this investment policy (Attached) and as specifically authorized by the California Government Code, (Sections 53600, et seq.).

5.2 In order to reduce overall portfolio risk, investments shall be diversified among security type, maturity, issuer and depository institutions. See Section 5.1A for specific concentration limits by type of investment. The following issue concentration limits shall apply:

- A. No more than 15% of the portfolio may be invested in any one Federal Agency or government-sponsored issue.

- B. The obligations of a single corporation or depository institution shall not exceed 10% of the funds subject to this policy. In calculating this concentration limit, commercial paper, bankers' acceptances, medium term notes, asset-backed securities, and negotiable certificates of deposit shall be included; deposits collateralized per Section 7.3 of this policy are excluded from this calculation.

5.3 Maturities of individual investments shall be diversified to meet the following objectives:

- A. Investment maturities will be first and foremost determined by the MTA's anticipated cash flow requirements.
- B. No investment instrument shall be purchased which has an effective maturity of more than five years from the date of purchase, unless the instrument is specifically approved by the Board or is approved by the Board as part of an investment program and such approval must be granted no less than three months prior to the investment.
- C. The average duration of the externally managed funds subject to this policy shall not exceed 150% of the benchmark duration. The weighted average duration of the internal portfolios shall not exceed three (3) years.

5.4 State and local government sponsored Investment Pools and money market mutual funds as authorized by this policy are subject to due diligence review prior to investing and on a continual basis as established in Section 5.1 A, #11 and #12.

5.5 This Investment Policy specifically prohibits the investment of any funds subject to this policy in the following securities:

- A. Derivative securities, defined as any security that derives its value from an underlying instrument, index, or formula, are prohibited. The derivative universe includes, but is not limited to, structured and range notes, securities that could result in zero interest accrual if held to maturity¹, variable rate, floating rate or inverse floating rate investments, financial futures and options, and mortgage derived interest or principal only strips. Callable or putable securities with no other option features, securities with one interest rate step-up feature, and inflation-indexed securities meeting all other requirements of this Policy are excluded from this prohibition, as are fixed rate mortgage-backed securities and asset-backed securities.

- B. Reverse repurchase agreements.

6.0 Selection of Depository Institutions, Investment Managers and Broker-Dealers

6.1 To minimize the risk to MTA's overall cash and investment portfolio, prudence and due diligence as outlined below shall be exercised with respect to the selection of Financial Institutions in which MTA's funds are deposited or invested. The MTA's Financial Advisor (FA) will conduct competitive processes to recommend providers of financial services including commercial banking, investment management, investment measurement and custody services.

¹California Debt and Investment Advisory Commission definition: Zero interest accrual means the security has the potential to realize zero interest depending upon the structure of the security. Zero coupon bonds and similar investments that start at a level below the face value are legal because their value does increase.

- A. In selecting Depositories pursuant to California Government Code (CGC) Sections 53600 (et seq.), the credit worthiness, financial stability, and financial history of the institution, as well as the cost and scope of services and interest rates offered shall be considered. No funds will be deposited in an institution unless that institution has been evaluated by a nationally recognized independent rating service as satisfactory or better. The MTA's main depository institutions will be selected on a periodic and timely basis.
- B. Deposits of \$100,000 or less which are insured pursuant to federal law by the Federal Deposit Insurance Corporation (FDIC), or the National Credit Union Administration (NCUA) may be excluded from the independent rating service evaluation requirement above and from the collateralization requirements of Section 7.3 of this policy, at the Treasurer's discretion. A written waiver of securitization shall be executed, provided to the Depository Institution, and kept on file in the Treasury Department.
- C. The Treasurer shall seek opportunities to deposit MTA funds with disadvantaged business enterprises, provided that those institutions have met the MTA's requirements for safety and reliability and provide terms that are competitive with other institutions.

6.2 In selecting external investment managers and brokers, past performance, stability, financial strength, reputation, area of expertise, and willingness and ability to provide the highest investment return at the lowest cost to the MTA within the parameters of this Investment Policy and the Code shall be considered. External investment managers must be registered with the Securities and Exchange Commission (SEC) under the Investment Advisor Act of 1940.

6.3 Pursuant to Code Section 53601.5, the MTA and its investment managers shall only purchase statutorily authorized investments either from the issuer, from a broker-dealer licensed by the state, as defined in Section 25004 of the Corporations Code, from a member of a federally regulated securities exchange, a national or state-chartered bank, a federal or state association (as defined by Section 5102 of the Financial Code), or from a brokerage firm designated as a primary government dealer by the Federal Reserve Bank.

- A. Internal investment manager will only purchase or sell securities from broker-dealers that are Primary Dealers in U.S. Government Securities or are a direct affiliate of a Primary Dealer.
- B. External investment managers may purchase or sell securities from non-Primary Dealers qualified under U.S. Securities and Exchange Commission Rule 15C3-1, the Uniform Net Capital Rule, and provided that the dealer is a certified member of the National Association of Securities Dealers. External investment managers shall submit to the MTA, at least quarterly, a list of the non-Primary Dealers used during the period.
- C. External investment managers must certify in writing that they will purchase securities in compliance with this Investment Policy, MTA Procedures, and applicable State and Federal laws.
- D. Internal investment managers will only purchase securities from broker-dealers who have returned a signed Receipt of Investment Policy and completed the Broker-Dealer Questionnaire, and have been approved by the Treasurer (see Appendices B and C). A current copy of the Broker-Dealer's financial statements will be kept on file in the Treasury Department.

- 6.4 Depositories, and external investment managers, who do business with the MTA shall sign a Certification of Understanding. The Certification of Understanding (see Appendix A) states that the entity:
- A. Has read and is familiar with the MTA's Investment Policy and Guidelines as well as applicable Federal and State Law;
 - B. Meets the requirements as outlined in this Policy;
 - C. Agrees to make every reasonable effort to protect the assets of the MTA from loss;
 - D. Agrees to notify the MTA in writing of any potential conflicts of interest.

Completed certifications shall be filed in the Treasurer's Office. Failure to submit a Certification of Understanding shall result in the withdrawal of all funds held by that financial institution, or investment manager and/or the rescission of any and all authority to act as an agent to purchase or invest funds for the MTA.

- 6.5 All broker-dealers who do business with the MTA's internal investment managers shall sign a Receipt of Investment Policy. The Receipt of Investment Policy (see Appendix B) states that the broker-dealer:
- A. Has received, read, and understands the Policy;
 - B. Has communicated the requirements of the Policy to all personnel who may select investment opportunities for presentation to MTA.

Failure to submit a Receipt of Investment Policy shall preclude MTA from purchasing or selling securities from such broker-dealer. Completed receipts shall be filed in the Treasurer's Office.

7.0 Custody and Safekeeping of Securities and MTA Funds

- 7.1 Securities and collateral for repurchase agreements shall be purchased and maintained for the benefit of the MTA in the Trust Department or safekeeping department of a bank as established by a written third party safekeeping agreement between the MTA and the bank. Specific collateralization levels are defined in Section 5.1A.
- 7.2 All investment transactions shall be settled "delivery vs. payment", with the exception of deposits, mutual fund investments, and Local Agency Investment Fund or other Local Government Investment Pools. Delivery may be physical, via a nationally recognized securities depository such as the Depository Trust Company, or through the Federal Reserve Book Entry system.
- 7.3 Funds deposited by the MTA shall be secured by a Depository in compliance with the requirements of California Government Code Section 53652. Such collateralization shall be designated and agreed to in writing.
- 7.4 Original copies of negotiable certificates of deposit shall be held in a qualified safekeeping institution.

8.0 Reports and Communications

- 8.1 The Treasurer is responsible for ensuring compliance with all applicable Local, State, and Federal laws governing the reporting of investments made with public funds. All investment portfolios will be monitored for compliance. Non-compliance issues will be included in the quarterly Board report as stated in Section 8.3 of this Policy.
- 8.2 The Treasurer shall annually submit a statement of investment policy to the Board for approval. The existing approved policy will remain in effect until the Board approves the recommended statement of investment policy.
- 8.3 The Treasurer shall render a quarterly cash, investment, and transaction report to the CEO and Board, and quarterly to the Internal Auditor within 30 days following the end of the quarter covered by the report. The report shall include a description of MTA's funds, investments, or programs that are under the management of contracted parties, including lending programs. The report shall include as a minimum:
- A. Portfolio Holdings by Type of Investment and Issuer
 - B. Maturity Schedule and Weighted Average Maturity (at market)
 - C. Weighted Average Yield to Maturity
 - D. Return on Investments versus Performance Benchmarks on a quarterly basis
 - E. Par, Book and Market Value of Portfolio for current and prior quarter-end
 - F. Percentage of the portfolio represented by each investment category
 - G. Total Interest Earned
 - H. Total Interest Received
 - I. A statement of compliance with this policy, or notations of non-compliance.
 - J. At each calendar quarter-end a subsidiary ledger of investments will be submitted with the exception listed in 8.3J.
 - K. For investments that have been placed in the Local Agency Investment Fund, in Federal Deposit Insurance Corporation-insured accounts in a bank or savings and loan association, in National Credit Union Administration insured accounts in a credit union, in a county investment pool, or in shares of beneficial interest issued by a diversified management company that invest in the securities and obligations as authorized by this Policy and the Code, the most recent statement received from these institutions may be used in lieu of the information required in 8.3I.
 - L. At each calendar quarter-end the report shall include a statement of the ability to meet expenditure requirements for the next six months.
- 8.4 Internal and external investment managers shall monitor investments and market conditions and report on a regular and timely basis to the MTA Treasurer.

- A. Internal and external investment managers shall submit monthly reports to the Treasurer, such reports to include all of the information referenced in Section 8.3, items A-J of this policy. Portfolios shall be marked-to-market monthly and the comparison between historical cost (or book value) and market value shall be reported as part of this monthly report.
- B. Internal and external investment managers shall monitor the ratings of all investments in their portfolios on a continuous basis and report all credit downgrades of portfolio securities to the Treasurer in writing within 24 hours of the event. If an existing investment's rating drops below the minimum allowed for new investments made pursuant to this policy, the investment manager shall also make a written recommendation to the Treasurer as to whether this security should be held or sold.
- C. External and internal Investment Managers shall immediately inform the Treasurer, Executive Officer, Finance, and Chief Financial Officer in writing of any major adverse market condition changes and/or major portfolio changes. The Executive Officer, Finance shall immediately inform the Board in writing of any such changes.
- D. External investment managers shall notify the MTA internal managers daily of all trades promptly, via fax.
- E. Internal investment managers will maintain a file of all trades.

9.0 Portfolio Guidelines

Portfolio Guidelines are the operating procedures used to implement the Investment Policy approved by the Board. The Treasurer may impose additional requirements or constraints within the parameters set by the Investment Policy.

10.0 Internal Control

- 10.1 The Treasurer shall establish a system of internal controls designed to prevent losses of public funds arising from fraud, employee or third party error, misrepresentation of third parties, unanticipated changes in financial markets, or imprudent actions by MTA employees or agents. Such internal controls shall be approved by the Executive Officer, Finance and shall include authorizations and procedures for investment transactions, custody/safekeeping transactions, opening and closing accounts, wire transfers, and clearly delineate reporting responsibilities.
- 10.2 Treasury personnel and MTA officials with signature authority shall be bonded to protect against possible embezzlement and malfeasance, or at the option of the governing board self-insured.
- 10.3 Electronic transfer of funds shall be executed upon the authorization of two official signatories.
- 10.4 Transaction authority shall be separated from accounting and record keeping responsibilities.
- 10.5 All investment accounts shall be reconciled monthly with custodian reports and broker confirmations by a party that is independent of the investment management function. Discrepancies shall be brought to the attention of the investment manager, the Treasurer, the Controller, and if not resolved promptly, to the Executive Officer, Finance.

- 10.6 The Treasurer shall establish an annual process of independent review by an external auditor. This review will provide independent confirmation of compliance with policies and procedures.
- 10.7 The Treasurer is responsible for the preparation of the MTA's cash flow model. The cash flow model shall be updated monthly based upon the MTA's actual and projected cash flow.

Annually, the Treasurer shall notify the external investment managers of the MTA's cash flow requirements for the next twelve months. The Treasurer shall monitor actual to maximum maturities within the parameters of this policy.

- 10.8 The Treasurer shall annually submit the Financial Institutions Resolution to the Board for approval. The existing resolution will remain in effect until the Board approves the recommended resolution.

11.0 Purchasing Guidelines

- 11.1 Investment managers shall purchase and sell securities at the price and execution that is most beneficial to the MTA. The MTA's liquidity requirements shall be analyzed and an interest rate analysis shall be conducted to determine the optimal investment maturities prior to requesting bids or offers. Investments shall be purchased and sold through a competitive bid/offer process. Bids/offers for securities of comparable maturity, credit and liquidity shall be received from at least three financial institutions, if possible.

- 11.2 Such competitive bids/offers shall be documented on the investment managers' trade documentation. Supporting documentation from the Wall Street Journal, Bloomberg or other financial information system shall be filed with the trade documentation as evidence of general market prices when the purchase or sale was effected.

12.0 Benchmarks

Internal and external investment managers' performance shall be evaluated against the following agreed upon benchmarks. If the investment manager does not meet its benchmark over a market cycle (3 to 5 years), the Treasurer shall determine and set forth in writing to the Executive Officer, Finance reasons why it is in the best interests of the MTA to replace or retain the investment manager.

<u>Portfolio</u>	<u>Investment Benchmarks</u>
Intermediate Duration Portfolios	Merrill Lynch 1-3 year Government & Corporate Index
Short Duration Portfolios	Three month Treasury Bill

SUMMARY OF AUTHORIZED INVESTMENT TYPES & RESTRICTIONS *

* See California Government Code Section 53601 for further clarification with regard to securities permitted herein.

** The percentage of portfolio authorized is based on market value.

#	Type of Investment	% of Portfolio Authorized **	Other Restrictions
1.	Bonds Issued by the Authority.	100%	Maximum effective maturity of five (5) years unless a longer maturity is approved by Board of Directors, either specifically or as part of an investment program, at least three (3) months prior to purchase.
2.	United States Treasury notes, bonds, bills or certificates of indebtedness or those for which the full faith and credit of the United States are pledged for the payment of principal and interest.	100%	Same as above
3.	Registered state warrants or treasury notes or bonds of the State of California.	25%	Same as above. Such obligations must be rated A1, SP-1 or equivalent or better short term; or Aa/AA or better long term, by a national rating agency.
4.	Bonds, notes, warrants, or other evidences of indebtedness of any local agency within the State of California.	25%	Same as above
5.	Obligations issued by banks for cooperatives, federal land banks, federal intermediate credit banks, the Federal Home Loan Banks, the Tennessee Valley Authority, or in obligations, participations or other instruments of or issued by, a federal agency or a United States Government-sponsored enterprise.	50%	No more than 15% of the portfolio may be invested in any one Federal Agency or government-sponsored issue.

SUMMARY OF AUTHORIZED INVESTMENT TYPES & RESTRICTIONS *

* See California Government Code Section 53601 for further clarification with regard to securities permitted herein.

** The percentage of portfolio authorized is based on market value.

#	Type of Investment	% of Portfolio Authorized **	Other Restrictions
6.	Bill of exchanges or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers acceptances of the highest letter and numerical rating as provided for by Moody's Investors Service, Inc., and Standard & Poor's Corporation.	40%	Purchases of bankers acceptances may not exceed 180 days maturity. No more than 10% of the portfolio may be invested in any one bank or corporate issuer.
7.	Commercial paper of "prime" quality of the highest ranking or of the highest letter and numerical rating as provided for by Moody's Investors Service, Inc., or Standard & Poor's Corporation. Eligible paper is further limited to issuing corporations that are organized and operating within the United States and having total assets in excess of five hundred million dollars (\$500,000,000) and having an "A" or higher rating for the issuer's debentures, other than commercial paper, if any, as provided for by Moody's Investors Service, Inc. or Standard & Poor's Corporation.	25%	Purchases of eligible commercial paper may not exceed 270 days maturity nor represent more than 10% of the outstanding paper of an issuing corporation. No more than 10% of the portfolio may be invested in any one Corporate or bank issuer. If rated by more than one service, both ratings must meet the minimum criteria.
8.	Negotiable certificates of deposits issued by a nationally or state-chartered bank or a state or federal savings and loan association, a state or federal credit union, or by a state-licensed branch of a foreign bank. The legislative body of the local agency, the treasurer or other official of the local agency having custody of the money are prohibited from investing in negotiable certificates of deposit of a state or federal credit union if a member of the legislative body or any other specified city officer or employee also serves on the board of directors or certain committees of that credit union.	30%	Maximum maturity of five (5) years unless a longer maturity is approved by Board of Directors, either specifically or as part of an investment program, at least three (3) months prior to purchase. No more than 10% of the portfolio may be invested in any one bank name.

SUMMARY OF AUTHORIZED INVESTMENT TYPES & RESTRICTIONS *

* See California Government Code Section 53601 for further clarification with regard to securities permitted herein.

** The percentage of portfolio authorized is based on market value.

#	Type of Investment	% of Portfolio Authorized **	Other Restrictions
9.	<p>Investments in repurchase agreements or securities lending agreement. The repurchase agreement must be covered by a master written agreement in the form of the current Public Securities Association agreement. The securities lending agreement must be covered by a Masters Securities Loan Agreement.</p> <p>Repurchase agreements and securities lending agreements shall be collateralized at all times. Collateral shall be limited to obligations of the United States and Federal Agencies with an initial margin of at least 102% of the value of the investment, and shall be in compliance if brought back up to 102% no later than the next business day. Collateral shall be delivered to a third party custodian in all cases. Collateral for term repurchase agreements shall be valued daily by the MTA's investment manager (for internal funds) or external investment manager. Investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102% no later than the next business day. The Authority shall obtain a first lien and security interest in all collateral.</p>	20%	<p>See CA Government Code Section 53601, (i)</p> <p>Term of repurchase agreement cannot exceed 90 days.</p> <p>Repurchase agreements shall be executed through Primary Broker-Dealers.</p> <p>Reverse repurchase agreements are prohibited.</p>
10.	<p>Medium-term notes issued by corporations organized and operating within the United States, or by depository institutions licensed by the United States or any state and operating within the United States.</p>	30%	<p>Maximum five (5) year maturity. Notes must be rated "A" or its equivalent or better by a nationally recognized rating service.</p> <p>No more than 10% of the portfolio may be invested in one bank or corporate name. If rated by more than one rating service, both ratings must meet the minimum credit standards.</p>

SUMMARY OF AUTHORIZED INVESTMENT TYPES & RESTRICTIONS *

* See California Government Code Section 53601 for further clarification with regard to securities permitted herein.

** The percentage of portfolio authorized is based on market value.

#	Type of Investment	% of Portfolio Authorized **	Other Restrictions
11.	Shares of beneficial interest issued by diversified management companies investing in the securities and obligations as authorized, by California State Code 53601 and 53630 et seq.	20% maximum in any one or more money market fund, with no more than 10% of the total in any one bond mutual fund.	Companies must have either 1) the highest ranking or the highest letter and numerical rating provided by not less than two of the nationally recognized rating services, or (2) retained an investment advisor registered or exempt with the Securities and Exchange Commission, with no less than five years experience investing in A) Bond Funds: the securities and obligations authorized by State Code §53601 a-j inclusive and l or m; or B) Money Market Mutual Funds: money market mutual funds; both with assets under management in excess of five hundred million dollars (\$500,000,000). The purchase price may not include any commissions charged by these companies.

SUMMARY OF AUTHORIZED INVESTMENT TYPES & RESTRICTIONS *

* See California Government Code Section 53601 for further clarification with regard to securities permitted herein.

** The percentage of portfolio authorized is based on market value.

#	Type of Investment	% of Portfolio Authorized **	Other Restrictions
12.	State of California Local Agency Investment fund (LAIF) California Government Code Section 16429.1 through 16429.4, or other Local Government Investment Pools (LGIP) established by public California entities.		Maximum investment in individual Local Government Investment Pools limited to amounts permitted by California Government Code (CGC). Limit does not include funds required by law, ordinance, or statute to be invested in pool. Each pool must be evaluated and approved by the Treasurer, as to credit worthiness, security, and conformity to state and local laws. An evaluation should cover, but is not limited to establishing, a description of who may invest in the program, how often, what size deposit and withdrawal; the pool's eligible investment securities, obtaining a written statement of investment policy and objectives, a description of interest calculations and how it is distributed; how gains and losses are treated; a description of how the securities are safeguarded and how often the securities are priced and the program audited. A schedule for receiving statements and portfolio listings. A fee schedule, and when and how fees are assessed.

SUMMARY OF AUTHORIZED INVESTMENT TYPES & RESTRICTIONS *

* See California Government Code Section 53601 for further clarification with regard to securities permitted herein.

** The percentage of portfolio authorized is based on market value.

#	Type of Investment	% of Portfolio Authorized **	Other Restrictions
13.	Asset-backed securities	15% combined with any mortgage-backed securities	Limited to senior class securities with effective maturities of no more than 5 years. Further limited to securities rated in a rating category of "AAA", and issued by an issuer having an "A" or higher rating for the issuer's debt as provided for by a nationally recognized rating service. Further limited to fixed rate, publicly offered, generic credit card and automobile receivables only. Deal size must be at least \$250 million, and tranche size must be at least \$25 million.

APPENDIX A

**LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION
AUTHORITY**

CERTIFICATION OF UNDERSTANDING

The Los Angeles County Metropolitan Transportation Authority (MTA) Investment Policy as approved by the Board of Directors requires that all Financial Institutions and Investment Managers doing business with the agency sign a Certification of Understanding acknowledging that:

1. *You have read and are familiar with the MTA's Investment Policy as well as applicable Federal and State laws.*
2. *You meet the requirements as outlined in MTA's Investment Policy.*
3. *You agree to make every reasonable effort to protect the assets of the MTA from loss.*
4. *You agree to notify MTA in writing of any potential conflicts of interest.*
5. *You agree to notify MTA in writing of any changes in personnel with decision-making authority over MTA funds within 24 hours of such event.*

Failure to submit a Certification of Understanding shall result in the withdrawal by the MTA of all funds held by the financial institution or investment manager and the immediate revocation of any rights to act as an agent of MTA for the purchase of securities or investment of funds on behalf of MTA.

The Board of Directors is committed to the goals of the Community Reinvestment Act (CRA). As part of the certification process for depository institutions, it is requested that you remit evidence of your most recent CRA rating.

SIGNED: _____ DATE: _____
Print Name and Title _____

After reading and signing this Certification of Understanding please return with *any* supporting documentation to:

LACMTA
Treasury Department
Attention: Treasurer
One Gateway Plaza
Los Angeles, CA 90012-2932

LACMTA use only:

Approved: _____ Disapproved: _____ Date: _____

Signature: _____

LACMTA Treasurer

APPENDIX B

**LOS ANGELES COUNTY METROPOLITAN
TRANSPORTATION AUTHORITY**

BROKER-DEALER RECEIPT OF INVESTMENT POLICY

We are in receipt of the Los Angeles County Metropolitan Transportation Authority's (MTA) Investment Policy.

We have read the policy and understand the provisions and guidelines of the policy. All salespersons covering MTA's account will be made aware of this policy and will be directed to give consideration to its provisions and constraints in selecting investment opportunities to present to MTA.

Signed _____
Name Name

Title Title

Firm Name

Date Date

After reading and signing this Receipt of Investment Policy, please return with supporting documentation to:

MTA
Treasury Department
Attention: Treasurer
One Gateway Plaza
Los Angeles, CA 90012-2932

MTA use only:

Approved: _____ Disapproved: _____ Date: _____
Signature: _____
LACMTA Treasurer

APPENDIX C

**LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION
AUTHORITY**

BROKER/DEALER QUESTIONNAIRE

1. Name of Firm _____

2. Address _____
(Local) (National Headquarters)

3. Telephone No. () _____ Telephone No. () _____
(Local) (National Headquarters)

4. Primary Representative Manager/Partner-in-Charge

Name _____	Name _____
Title _____	Title _____
Telephone No. _____	Telephone No. _____
No. of Yrs. in Institutional Sales _____	No. of Yrs. in Institutional Sales _____
Number of Years with Firm _____	Number of Years with Firm _____

5. Are you a Primary Dealer in U.S. Government Securities? .
 YES NO

If NO, Is the parent company or its subsidiary a Primary Dealer in U.S. Government Securities? Provide proof of certification.

YES NO

Please explain your firm's relationship to the Primary Dealer below:

Please provide proof certification from the National Association of Securities Dealer.

6. Are you a Broker instead of Dealer, i.e., you DO NOT own positions of Securities?
 YES NO

7. What is the net capitalization of your Firm? _____

What is the date of your Firm's fiscal year-end? _____

Is your Firm owned by a Holding Company? If so, what is its name and net capitalization?

Please provide your Wiring and Delivery Instructions.

Which of the following instruments are offered regularly by your local desk?

- T-Bills Treasury Notes/Bonds Discount Notes NCD's
- Agencies (specify) _____
- BA's (Domestic) BA's (Foreign) Commercial Paper
- Med-Term Notes Repurchase Agreements

Does your Firm specialize in any of the instruments listed above?

Please identify your comparable government agency clients in the MTA's geographical area.

<u>Entity</u>	<u>Contact Person</u>	<u>Telephone No.</u>	<u>Client Since</u>
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

What reports, confirmations, and other documentation would MTA receive? Please include samples of research reports or market information that your firm regularly provides to government agency clients.

What precautions are taken by your Firm to protect the interests of the public when dealing with government agencies as investors?

Have you or your Firm been censored, sanctioned or disciplined by a Regulatory State or Federal Agency for improper or fraudulent activities, related to the sale of securities within the past five years? YES NO

If yes, please explain

APPENDIX D

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY

INVESTMENT POLICY GLOSSARY

ASKED: The price at which securities are offered from a seller.

BANKERS' ACCEPTANCE (BA): Time drafts which a bank "accepts" as its financial responsibility as part of a trade finance process. These short-term notes are sold at a discount, and are obligations of the drawer (or issuer - the bank's trade finance client) as well as the bank. Once accepted, the bank is irrevocably obligated to pay the BA upon maturity if the drawer does not.

BID: The price offered by a buyer of securities.

BOOK VALUE: The original cost of the investment, plus accrued interest and amortization of any premium or discount.

BROKER: A broker brings buyers and sellers together for a commission.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a certificate. Large-denomination CD's are typically negotiable (marketable or transferable).

COLLATERAL: Securities, evidence of deposit, or other property which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public moneys.

COMMERCIAL PAPER (CP): Unsecured promissory notes issued by companies and government entities at a discount. Commercial paper is negotiable, although it is typically held to maturity. The maximum maturity is 270 days, with most CP issued for terms of less than 30 days.

CUSTODY or SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

DELIVERY VERSUS PAYMENT: Delivery of securities with a simultaneous exchange of money for the securities.

FEDERAL AGENCIES AND U.S. GOVERNMENT SPONSORED ENTERPRISES (AGENCIES): U.S. Government related organizations, the largest of which are government financial intermediaries assisting specific credit markets (housing, agriculture). They include:

- ◆ Federal Home Loan Banks (FHLB)
- ◆ Federal Home Loan Mortgage Corporation (FHLMC or “Freddie Mac”)
- ◆ Federal National Mortgage Association (FNMA or “Fannie Mae”)
- ◆ Federal Farm Credit Banks (FFCB)
- ◆ Student Loan Marketing Association (SLMA or “Sallie Mae”)
- ◆ Tennessee Valley Authority (TVA)

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase/reverse repurchase agreements that establishes each party’s rights in the transactions. A master agreement will specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

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

MEDIUM TERM NOTES (MTN): Interest bearing, continuously offered debt, issued in the 9 month to ten year maturity range. Deposit notes, like Certificates of Deposit, actually represent an interest bearing deposit at a bank or other depository institution.

OFFER: The price asked by a seller of securities.

PAR VALUE: The face value, or principal amount payable at maturity.

PRIMARY DEALER: A group of government securities dealers who 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.

REPURCHASE AGREEMENT (RP OR REPO): A purchase of securities under a simultaneous agreement to sell these securities back at a fixed price on some future date. This is in essence a collateralized investment, whereby the security “buyer” in effect lends the “seller” money for the period of the agreement, and the difference between the purchase price and sale price determining the earnings. Dealers use RP extensively to finance their positions.

SECURITIES & EXCHANGE COMMISSION (SEC): An agency created by Congress to protect investors in securities transactions by administering securities legislation.

TREASURY BILLS: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

TREASURY NOTES AND BONDS: Long-term U.S. Treasury securities having initial maturities of 2 to 30 years.

YIELD: The rate of annual income return on an investment, expressed as a percentage.

YIELD TO MATURITY (YTM): The rate of return earned on an investment considering all cash flows and timing factors: interest earnings, discounts, and premiums above par.

GOVERNMENT CODE

SECTION 53600-53609

53600. As used in this article, "local agency" means county, city, city and county, including a chartered city or county, school district, community college district, public district, county board of education, county superintendent of schools, or any public or municipal corporation.

53600.3. Except as provided in subdivision (a) of Section 27000.3, all governing bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds pursuant to this chapter are trustees and therefore fiduciaries subject to the prudent investor standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law.

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

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

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

this section, in a negotiable, bearer, registered, or nonregistered format, shall require delivery of the securities to the local agency, including those purchased for the agency by financial advisers, consultants, or managers using the agency's funds, by book entry, physical delivery, or by third-party custodial agreement. The transfer of securities to the counterparty bank's customer book entry account may be used for book entry delivery.

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

(a) Bonds issued by the local agency, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency or by a department, board, agency, or authority of the local agency.

(b) United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest.

(c) Registered state warrants or treasury notes or bonds of this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of the state.

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

(e) Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.

(f) Bankers acceptances otherwise known as bills of exchange or time drafts that are drawn on and accepted by a commercial bank. Purchases of bankers acceptances may not exceed 180 days' maturity or 40 percent of the agency's money that may be invested pursuant to this section. However, no more than 30 percent of the agency's money may be invested in the bankers acceptances of any one commercial bank pursuant to this section.

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

(g) Commercial paper of "prime" quality of the highest ranking or of the highest letter and number rating as provided for by Moody's Investors Service, Inc. (Moody's), Standard and Poor's (S&P), or Fitch Financial Services, Inc. (Fitch). The corporation that issues the commercial paper shall be organized and operating within the United States, shall have total assets in excess of five hundred million dollars (\$500,000,000), and shall issue debt, other than commercial paper, if any, that is rated "A" or higher by Moody's, S&P, or Fitch. Eligible commercial paper shall have a maximum

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

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

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

(2) Investments in repurchase agreements may be made, on any investment authorized in this section, when the term of the agreement does not exceed one year. The market value of securities that underlay a repurchase agreement shall be valued at 102 percent or greater of the funds borrowed against those securities and the value shall be adjusted no less than quarterly. Since the market value of the underlying securities is subject to daily market fluctuations, the investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102 percent no later than the next business day.

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

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

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

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

(D) Funds obtained or funds within the pool of an equivalent amount to that obtained from selling a security to a counterparty by way of a reverse repurchase agreement or securities lending agreement shall not be used to purchase another security with a maturity longer than 92 days from the initial settlement date of the reverse repurchase agreement or securities lending agreement, unless the reverse repurchase agreement or securities lending agreement includes

a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement or securities lending agreement and the final maturity date of the same security.

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

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

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

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

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

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

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

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

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

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

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

(j) Medium-term notes, defined as all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Notes eligible for investment under this subdivision shall be rated "A" or better by a nationally recognized rating service. Purchases of medium-term notes shall not include other instruments authorized by this section and may not exceed 30 per cent of the agency's money that may be invested pursuant to this section.

(k) (1) Shares of beneficial interest issued by diversified management companies that invest in the securities and obligations as

authorized by subdivisions (a) to (j), inclusive, or subdivisions (m) or (n) and that comply with the investment restrictions of this article and Article 2 (commencing with Section 53630). However, notwithstanding these restrictions, a counterparty to a reverse repurchase agreement or securities lending agreement is not required to be a primary dealer of the Federal Reserve Bank of New York if the company's board of directors finds that the counterparty presents a minimal risk of default, and the value of the securities underlying a repurchase agreement or securities lending agreement may be 100 percent of the sales price if the securities are marked to market daily.

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

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

(A) Attained the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations.

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

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

(A) Attained the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations.

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

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

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

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

requirements of the Uniform Commercial Code or federal regulations applicable to the types of securities in which the security interest is granted.

(n) Any mortgage passthrough security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable passthrough certificate, or consumer receivable-backed bond of a maximum of five years' maturity. Securities eligible for investment under this subdivision shall be issued by an issuer having an "A" or higher rating for the issuer's debt as provided by a nationally recognized rating service and rated in a rating category of "AA" or its equivalent or better by a nationally recognized rating service. Purchase of securities authorized by this subdivision may not exceed 20 percent of the agency's surplus money that may be invested pursuant to this section.

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

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

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

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

53601.7. Notwithstanding the investment parameters of Sections 53601 and 53635, a local agency that is a county or a city and county may invest any portion of the funds that it deems wise or expedient, using the following criteria:

(a) No investment shall be made in any security, other than a security underlying a repurchase or reverse purchase agreement, that, at the time of purchase, has a term remaining to maturity in excess of 397 days, and that would cause the dollar-weighted average maturity of the funds in the investment pool to exceed 90 days.

(b) All corporate and depository institution investments shall meet or exceed the following credit rating criteria at time of purchase:

(1) Short-term debt shall be rated at least "A -1" by Standard & Poor's Corporation, "P-1" by Moody's Investors Service, Inc., or "F-1" by Fitch Ratings. If the issuer of short-term debt has also issued long-term debt, this long-term debt rating shall be rated at least "A," without regard to +/- or 1, 2, 3 modifiers, by Standard & Poor's Corporation, Moody's Investors Service, Inc., or Fitch Ratings.

(2) Long-term debt shall be rated at least "A," without regard to +/- or 1, 2, 3 modifiers, by Standard & Poor's Corporation, Moody's Investors Service, Inc., or Fitch Ratings.

(c) No more than 5 percent of the total assets of the investments held by a local agency may be invested in the securities of any one issuer, except the obligations of the United States government, United States government agencies, and United States government-sponsored enterprises. No more than 10 percent may be invested in any one mutual fund.

(d) Where this section specifies a percentage limitation for a particular category of investment, that percentage is applicable only at the date of purchase. A later increase or decrease in a percentage resulting from a change in values or assets shall not constitute a violation of that restriction. If subsequent to purchase, securities are downgraded below the minimum acceptable rating level, the securities shall be reviewed for possible sale within a reasonable amount of time after the downgrade.

(e) Within the limitations set forth in this section, a local agency electing to invest its funds pursuant to this section may invest in the following securities:

(1) Direct obligations of the United States Treasury or any other obligation guaranteed as to principal and interest by the United States government.

(2) Bonds, notes, debentures, or any other obligations of, or securities issued by, any federal government agency, instrumentality, or government-sponsored enterprise.

(3) Registered state warrants or treasury notes or bonds of this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or other entity of the state.

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

(5) Bankers Acceptance, otherwise known as bills of exchange or time drafts drawn on and accepted by a commercial bank, primarily used to finance international trade. Purchases of bankers acceptances may not exceed 180 days to maturity.

(6) Short-term unsecured promissory notes issued by corporations for maturities of 270 days or less. Eligible commercial paper is further limited to the following:

(A) Issuing corporations that are organized and operating within the United States, having total assets in excess of five hundred million dollars (\$500,000,000).

(B) Maturities for eligible commercial paper that may not exceed 270 days and may not represent more than 10 percent of the outstanding paper of an issuing corporation.

(7) A certificate representing a deposit of funds at a commercial bank for a specified period of time and for a specified return at maturity. Eligible certificates of deposit shall be issued by a nationally or state-chartered bank or a state or federal association, as defined in Section 5102 of the Financial Code, or by a state-licensed branch of a foreign bank. For purposes of this

subdivision, certificates of deposits shall not come within Article 2 (commencing with Section 53630), except that the amount so invested shall be subject to the limitations of Section 53638. The legislative body of a local agency and the treasurer or other official of the local agency having legal custody of the money may not invest local agency funds, or funds in the custody of the local agency, in negotiable certificates of deposit issued by a state or federal credit union if a member of the legislative body of the local agency, or any person with investment decisionmaking authority in the administrative office, manager's office, budget office, auditor-controller's office, or treasurer's office of the local agency also serves on the board of directors, or any committee appointed by the board of directors, other credit committee or the supervisory committee of the state or federal credit union issuing the negotiable certificate of deposit.

(8) Repurchase agreements, reverse repurchase agreements, or securities lending agreements of any securities authorized by this section, if the agreements meet the requirements of this paragraph and the delivery requirements specified in Section 53601. Investments in repurchase agreements may be made, on any investment authorized by this section, when the term of the agreement does not exceed one year. The market value of the securities that underlay a repurchase agreement shall be valued at 102 percent or greater of the funds borrowed against those securities, and the value shall be adjusted no less than quarterly. Because the market value of the underlying securities is subject to daily market fluctuations, the investments in repurchase agreements shall be in compliance with this section if the value of the underlying securities is brought back to 102 percent no later than the next business day. Reverse repurchase agreements may be utilized only when all of the following criteria are met:

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

(B) The total of all reverse repurchase agreements on investments owned by the local agency not purchased or committed to purchase does not exceed 20 percent of the market value of the portfolio.

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

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

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

"Securities," for purposes of this paragraph, means securities of the same issuer, description, issue date, and maturity.

(9) All debt securities issued by a corporation or depository institution with a remaining maturity of not more than 397 days,

including securities specified as "medium -term notes," as well as other debt instruments originally issued with maturities longer than 397 days, but which, at time of purchase, have a final maturity of 397 days or less. Eligible medium -term notes shall be issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States.

(10) (A) Shares of beneficial interest issued by diversified management companies that invest in the securities and obligations described in this subdivision and that comply with the investment restrictions of this section. However, notwithstanding these restrictions, a counterparty to a reverse repurchase agreement shall not be required to be a primary dealer of the Federal Reserve Bank of New York if the company's board of directors finds that the counterparty presents a minimal risk of default. The value of the securities underlying a repurchase agreement may be 100 percent of the sales price if the securities are marked to market daily.

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

(C) All shares of beneficial interest described in this paragraph shall have met either of the following criteria:

(i) Attained the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations.

(ii) Retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission and who has not less than five years' experience investing in money market instruments and with assets under management in excess of five hundred million dollars (\$500,000,000).

(11) Any mortgage passthrough security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable passthrough certificate, or consumer receivable-backed bond.

Securities eligible for investment under this paragraph shall be issued by an issuer having an "A" or higher rating from the issuer's debt as provided by a nationally recognized rating service and rated in a rating category of "AA" or its equivalent or better by a national recognized rating.

(12) Contracts issued by insurance companies that provide the policyholder with the right to receive a fixed or variable rate of interest and the full return of principal at the maturity date.

(13) Any investments that would qualify under SEC Rule 2a-7 of the Investment Company Act of 1940 guidelines. These investments shall also meet the limitations detailed in this section.

(f) For purposes of this section, all of the following definitions shall apply:

(1) "Repurchase agreement" means a purchase of securities pursuant to an agreement by which the counterparty seller will repurchase the securities on or before a specified date and for a specified amount and the counterparty will deliver the underlying securities to the local agency by book entry, physical delivery, or by third-party custodial agreement.

(2) "Significant banking relationship" means any of the following activities of a bank:

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

(B) Financing of a local agency's securities or funds as deposits.

(C) Acceptance of a local agency's securities or funds as deposits.

(3) "Reverse repurchase agreement" means a sale of securities by

the local agency pursuant to an agreement by which the local agency will repurchase the securities on or before a specified date and includes other comparable agreements.

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

(5) "Local agency" means a county or city and county.

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

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

(i) This section shall remain in effect only until January 1, 2007, and as of that date is repealed, unless a later enacted statute, that is enacted before January 1, 2007, deletes or extends that date.

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

53603. The legislative body may make the investment by direct purchase of any issue of eligible securities at their original sale or after they have been issued.

53604. The legislative body may sell, or exchange for other eligible securities, and reinvest the proceeds of, the securities purchased.

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

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

53607. The authority of the legislative body to invest or to

reinvest funds of a local agency, or to sell or exchange securities so purchased, may be delegated for a one-year period by the legislative body to the treasurer of the local agency, who shall thereafter assume full responsibility for those transactions until the delegation of authority is revoked or expires, and shall make a monthly report of those transactions to the legislative body. Subject to review, the legislative body may renew the delegation of authority pursuant to this section each year.

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

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

Deferred compensation funds are public pension or retirement funds for the purposes of Section 17 of Article XVI of the Constitution.



GOVERNMENT CODE

SECTION 53630-53686

53630. As used in this article:

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

(b) "Treasurer" means treasurer of the local agency.

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

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

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

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

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

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

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

53630.1. The Legislature hereby finds that the solvency and creditworthiness of each individual local agency can impact the solvency and creditworthiness of the state and other local agencies within the state. Therefore, to protect the solvency and creditworthiness of the state and all of its political subdivisions, the Legislature hereby declares that the deposit and investment of public funds by local officials and local agencies is an issue of statewide concern.

53630.5. (a) The definitions in Section 1700 of, and Chapter 1 (commencing with Section 99) of Division 1 of, the Financial Code apply to this section.

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

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

(2) Any California branch office of a foreign (other state) national bank that the bank is authorized to maintain under federal law.

(3) Any California branch office of a foreign (other nation) bank that the bank is licensed to maintain under Article 3 (commencing with Section 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.

53631. Under those conditions as the treasurer of a local agency fixes with the approval of the legislative body, he or she may establish accounts at banks within or without the state and deposit money in those accounts to the extent necessary to pay the principal and interest of bonds to pay any warrant that has been presented for payment, or to fund any electronic disbursement of funds from the treasury of the local agency. This article does not apply to deposits for those purposes.

53632. There are three classes of deposits:

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

53632.5. There are three classes of security for deposits:

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

53633. The treasurer shall determine the amounts of money to be deposited as inactive, active, and interest-bearing active deposits, except as otherwise provided in Section 53679.

53634. The treasurer may call in money from inactive deposits and place it in active deposits as current demands require. When there is money in his possession for which there is no demand as inactive deposits, he may place it as active deposits.

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

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

A local agency that is a county, a city and county, or other local agency that pools money in deposits or investments with other agencies may invest in commercial paper pursuant to subdivision (g)

of Section 53601, except that the local agency shall be subject to the following concentration limits:

- (1) No more than 40 percent of the local agency's money may be invested in eligible commercial paper.
 - (2) No more than 10 percent of the local agency's money that may be invested pursuant to this section may be invested in the outstanding commercial paper of any single corporate issuer.
 - (3) No more than 10 percent of the outstanding commercial paper of any single corporate issuer may be purchased by the local agency.
- (b) Notwithstanding Section 53601, the City of Los Angeles shall be subject to the concentration limits of this section for counties and cities and counties with regard to the investment of money in eligible commercial paper.

53635.2. As far as possible, all money belonging to, or in the custody of, a local agency, including money paid to the treasurer or other official to pay the principal, interest, or penalties of bonds, shall be deposited for safekeeping in state or national banks, savings associations, federal associations, credit unions, or federally insured industrial loan companies in this state selected by the treasurer or other official having legal custody of the money; or may be invested in the investments set forth in Section 53601. To be eligible to receive local agency money, a bank, savings association, federal association, or federally insured industrial loan company shall have received an overall rating of not less than "satisfactory" in its most recent evaluation by the appropriate federal financial supervisory agency of its record of meeting the credit needs of California's communities, including low- and moderate-income neighborhoods, pursuant to Section 2906 of Title 12 of the United States Code. Sections 53601.5 and 53601.6 shall apply to all investments that are acquired pursuant to this section.

53635.7. In making any decision that involves borrowing in the amount of one hundred thousand dollars (\$100,000) or more, the legislative body of the local agency shall discuss, consider, and deliberate each decision as a separate item of business on the agenda of its meeting as prescribed in Chapter 9 (commencing with Section 54950). As used in this section, "borrowing" does not include bank overdrafts or security lending.

53636. Money so deposited is deemed to be in the treasury of the local agency.

53637. The money shall be deposited in any bank, savings association or federal association, state or federal credit union, or federally insured industrial loan company with the objective of realizing maximum return, consistent with prudent financial management, except that money shall not be deposited in any state or federal credit union if a member of the legislative body of a local agency, or any person with investment decisionmaking authority of the administrative office, manager's office, budget office, auditor-controller's office, or treasurer's office of the local agency, also serves on the board of directors, or any committee appointed by the board of directors, or the credit committee or supervisory committee, of the state or federal credit union.

53638. (a) The deposit shall not exceed the shareholder's equity of any depository bank. For the purposes of this subdivision, shareholder's equity shall be determined in accordance with Section 118 of the Financial Code, but shall be deemed to include capital notes and debentures.

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

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

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

53639. Except as otherwise provided in Section 53682, the depository shall bear the expenses of transportation of money to and from the depository.

53640. Except as otherwise provided in Section 53682, the depository shall handle, collect, and pay all checks, drafts, and other exchange without cost to the local agency.

53641. When money is deposited in a depository, the treasurer or other authorized official shall take and preserve a receipt, certificate of deposit, or other evidence of the deposit as he or she requires.

53642. The money deposited may be drawn out by check or order of the treasurer or other official authorized to make such deposit.

53643. The treasurer may deposit any part of the money as agreed upon between the treasurer and the depository.

53644. If an agreement is not made:

(a) Active deposits and interest thereon are subject to withdrawal upon the demand of the treasurer or other authorized official, subject to any penalties which may be prescribed by federal law or regulation.

(b) Inactive deposits are subject to notice of at least thirty days before withdrawal.

53645. Interest shall be computed and paid by the depository, as follows:

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

(b) For inactive deposits, interest shall be computed on a 360-day basis, and shall be paid quarterly.

53646. (a) (1) In the case of county government, the treasurer shall annually render to the board of supervisors and any oversight committee a statement of investment policy, which the board shall review and approve at a public meeting. Any change in the policy shall also be reviewed and approved by the board at a public meeting.

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

(b) (1) The treasurer or chief fiscal officer shall render a quarterly report to the chief executive officer, the internal auditor, and the legislative body of the local agency. The quarterly report shall be so submitted within 30 days following the end of the quarter covered by the report. Except as provided in subdivisions (e) and (f), this report shall include the type of investment, issuer, date of maturity and dollar amount invested on all securities, investments and moneys held by the local agency, and shall additionally include a description of any of the local agency's funds, investments, or programs, that are under the management of contracted parties, including lending programs. With respect to all securities held by the local agency, and under management of any outside party that is not also a local agency or the State of California Local Agency Investment Fund, the report shall also include a current market value as of the date of the report, and shall include the source of this same valuation.

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

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

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

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

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

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

agency from these institutions in lieu of the information required by paragraph (1) of subdivision (b) regarding investments in these institutions.

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

(g) Except as provided in subdivisions (h) and (i), each city, county, or city and county shall submit copies of its second and fourth quarter reports to the California Debt and Investment Advisory Commission within 60 days after the close of the second and fourth quarters of each calendar year. Any city, county, or city and county not required to submit a report pursuant to subdivision (h) or (i) shall file with the commission a written statement within 60 days of the end of the second and fourth quarters of the calendar year stating the distribution and amount of its investment portfolio and that it is therefore not subject to this reporting requirement. This subdivision shall become inoperative on January 1, 2007.

(h) A city shall not be required to submit a quarterly report to the commission if, during the entire reporting period, the city has maintained 100 percent of its investment portfolio in (1) the treasury of the county in which it is located for investment by the county treasurer pursuant to Section 53684, (2) the Local Agency Investment Fund created by Section 16429.1, (3) National Credit Union Share Insurance Fund-insured accounts in a credit union, in accounts insured or guaranteed pursuant to Section 14858 of the Financial Code, or in Federal Deposit Insurance Corporation-insured accounts in a bank or savings and loan association, or (4) in any combination of these.

(i) A county or city and county shall not be required to submit a quarterly report to the commission if, during the entire reporting period, the county has maintained 100 percent of its investment portfolio in (1) the Local Agency Investment Fund created by Section 16429.1, (2) National Credit Union Share Insurance Fund-insured accounts in a credit union, in accounts insured or guaranteed pursuant to Section 14858 of the Financial Code, or in Federal Deposit Insurance Corporation-insured accounts in a bank or savings and loan association, or (3) in any combination of these.

(j) The city, county, or city and county investor of any public funds, no later than 60 days after the close of the second quarter of each calendar year and 60 days after the subsequent amendments thereto, shall provide the statement of investment policy required pursuant to this section, to the California Debt and Investment Advisory Commission.

53647. (a) Interest on all money deposited belongs to, and shall be paid quarterly into the general fund of, the local agency represented by the officer making the deposit, unless otherwise directed by law.

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

53647.5. Notwithstanding any other provision of law, interest earned on any bail money deposited in a bank account pursuant to

Section 1463.1 of the Penal Code and Section 53679 of this code shall, if the board of supervisors so directs, be allocated for the support of the courts in that county.

53648. Notwithstanding this article, the treasurer may deposit moneys in, and enter into contracts with, a state or national bank, savings association or federal association, federal or state credit union, or federally insured industrial loan company, pursuant to a federal law or a rule of a federal department or agency adopted pursuant to the law if the law or rule conflicts with this article in regulating the payment of interest on deposits of public moneys by any of the following:

- (a) Banks which are Federal Reserve System members or whose deposits are insured by the Federal Deposit Insurance Corporation.
- (b) Savings associations or federal associations which are federal home loan bank members or whose deposits are insured by the Federal Savings and Loan Insurance Corporation.
- (c) State or federal credit unions whose accounts are insured by the National Credit Union Share Insurance Fund or guaranteed by the California Credit Union Share Guaranty Corporation or insured or guaranteed pursuant to Section 14858 of the Financial Code, unless a member of the legislative body of a local agency, or any person with investment decisionmaking authority of the administrative office, manager's office, budget office, auditor-controller's office, or treasurer's office of the local agency, also serves on the board of directors, or any committee appointed by the board of directors, or the credit committee or supervisory committee, of the state or federal credit union.
- (d) A federally insured industrial loan company.

53648.5. Upon the removal by federal law of the conflicting federal law or rule the agreement between the treasurer or other authorized official and a depository may be terminated by either party.

53649. The treasurer is responsible for the safekeeping of money in his or her custody and shall enter into any contract with a depository relating to any deposit which in his or her judgment is to the public advantage. The depository, and the agent of depository to the extent the agent of depository has been notified of deposits and the amount thereof, are responsible for securing moneys deposited pursuant to such a contract in accordance with Section 53652. One copy of each contract shall be filed with the auditor, controller, secretary, or corresponding officer of the local agency. The contract shall:

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

that a treasurer may withdraw deposits in the event a depository fails to pay the assessments, fines, or penalties assessed by the administrator or may withdraw authorization for the placement of pooled securities in an agent of depository in the event that the agent of depository fails to pay the fines or penalties assessed by the administrator.

53651. Eligible securities are any of the following:

(a) United States Treasury notes, bonds, bills or certificates of indebtedness, or obligations for which the faith and credit of the United States are pledged for the payment of principal and interest, including the guaranteed portions of small business administration loans, so long as the loans are obligations for which the faith and credit of the United States are pledged for the payment of principal and interest.

(b) Notes or bonds or any obligations of a local public agency (as defined in the United States Housing Act of 1949) or any obligations of a public housing agency (as defined in the United States Housing Act of 1937) for which the faith and credit of the United States are pledged for the payment of principal and interest.

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

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

(e) Registered warrants of this state.

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

(g) Notes, tax anticipation warrants or other evidence of indebtedness issued pursuant to Article 7 (commencing with Section

53820), Article 7.5 (commencing with Section 53840) or Article 7.6 (commencing with Section 53850) of this Chapter 4.

(h) State of California notes.

(i) Bonds, notes, certificates of indebtedness, warrants or other obligations issued by: (1) any state of the United States (except this state), or the Commonwealth of Puerto Rico, or any local agency thereof having the power to levy taxes, without limit as to rate or amount, to pay the principal and interest of such obligations, or (2) any state of the United States (except this state), or the Commonwealth of Puerto Rico, or a department, board, agency or authority thereof except bonds which provide for or are issued pursuant to a law which may contemplate a subsequent legislative appropriation as an assurance of the continued operation and solvency of the department, board, agency or authority but which does not constitute a valid and binding obligation for which the full faith and credit of such state or the Commonwealth of Puerto Rico are pledged, which are payable solely out of the revenues from a revenue-producing source owned, controlled or operated thereby; provided the obligations issued by an entity described in (1), above, are rated in one of the three highest grades, and such obligations issued by an entity described in (2), above, are rated in one of the two highest grades by a nationally recognized investment service organization that has been engaged regularly in rating state and municipal issues for a period of not less than five years.

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

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

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

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

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

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

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

53651.2. (a) To be an eligible security under subdivision (m) of Section 53651, a promissory note placed in a securities pool on or after January 1, 1987, shall comply with all of the following provisions:

(1) Each promissory note shall be secured by a first mortgage or first trust deed on improved 1 to 4 unit residential real property located in California, shall be fully amortized over the term of the note, and shall have a term of no more than 30 years. Any first mortgage or first trust deed which secures a promissory note providing for negative amortization shall be removed from the securities pool and replaced with an eligible security under

subdivision (m) of Section 53651 if the loan to value ratio exceeds 85 percent of the original appraised value of the security property as a consequence of negative amortization .

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

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

(1) Any promissory note on which any payment is more than 60 days past due.

(2) Any promissory note secured by a mortgage or deed of trust as to which there is a lien prior to the mortgage or deed of trust. For the purposes of this paragraph, no liens specified in Section 766 of the Financial Code shall be considered a prior encumbrance unless any installment or payment thereunder (other than a rental or royalty under a lease) is due and delinquent.

(3) Any promissory note secured by a mortgage or deed of trust as to which a notice of default has been recorded pursuant to Section 2924 of the Civil Code or an action has been commenced pursuant to Section 725a of the Code of Civil Procedure.

(c) The depository may exercise, enforce, or waive any right granted to it by the promissory note, mortgage, or deed of trust.

(d) For purposes of this article, the market value of a promissory note which is an eligible security under subdivision (m) of Section 53651, shall be determined in accordance with the regulations adopted by the Treasurer under paragraph (2) of subdivision (m) of Section 53651, as the regulations and statute were in effect on December 31, 1986. However, if and when regulations on the subject are adopted by the administrator, the market value shall be determined in accordance with those regulations of the administrator.

53651.4. (a) A depository that uses eligible securities of the class described in subdivision (m) of Section 53651 shall, within 90 days after the close of each calendar year or within a longer period as the administrator may specify, file with the administrator a report of an independent certified public accountant regarding compliance with this article and with regulations and orders issued by the administrator under this article with respect to eligible securities of that class. The report shall be based upon the audit, shall contain the information, and shall be in the form the administrator may prescribe. The depository shall provide a copy of the report to the treasurer on request.

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

deposits in the examined state bank upon request of the treasurer.

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

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

53651.6. (a) To be an eligible security under subdivision (p) of Section 53651, a letter of credit shall be in such form and shall contain such provisions as the administrator may prescribe, and shall include all of the following terms:

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

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

53652. To secure active or inactive deposits a depository shall at all times maintain with the agent of depository eligible securities in securities pools, pursuant to Sections 53656 and 53658, in the amounts specified in this section. Uncollected funds shall be excluded from the amount deposited in the depository when determining the security requirements for the deposits.

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

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

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

53653. When in his or her discretion local conditions so warrant, the treasurer may waive security for the portion of any deposits as is insured pursuant to federal law, notwithstanding this article. For deposits equivalent to and not less than the maximum amount insured pursuant to federal law for which a treasurer has waived security under this section, a treasurer at his or her discretion may also waive security for the interest accrued on the deposits which, when added to the deposits, would cause the sum of the interest and deposits to exceed the maximum amount insured pursuant to federal law, provided that the interest is computed by the depository on the

average daily balance of the deposits, paid monthly and computed on a 360-day basis.

53654. (a) The depository may add securities to the pool or substitute securities of equal value for those in the pool at any time, but shall not interchange classes of security, as defined in Section 53632.5, without prior approval of the treasurer.

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

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

53655. A placement of securities by a depository with an agent of depository pursuant to this article shall have the effect of perfecting a security interest in those securities in the local agencies having deposits in that depository notwithstanding provisions of the Uniform Commercial Code to the contrary and notwithstanding that the agent of depository may be the trust department of the depository.

53656. (a) At the time the treasurer enters into a contract with the depository pursuant to Section 53649, he or she shall authorize the agent of depository designated by the depository, but including the trust department of the depository only when acceptable to both the treasurer and the depository, to hold securities of the depository in accordance with this article to secure the deposit of the local agency.

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

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

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

(1) A state or federal regulatory agency has taken possession of the depository.

(2) A conservator, receiver, or other legal custodian has been appointed for the depository.

53657. (a) No person shall act as an agent of depository unless that person is a trust company located in this state, the trust department of a bank located in this state, or the Federal Home Loan Bank of San Francisco, and is authorized by the administrator to act

as an agent of depository.

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

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

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

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

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

53658. An agent of a depository may hold and pool securities to secure deposits for one or more depositories pursuant to Section 53656, but shall maintain a separate pool for each said depository. Each local agency shall have an undivided security interest in the pooled securities in the proportion that the amount of its deposits bears to the total amount of deposits secured by the pooled securities.

53659. Whenever an agent of depository accepts securities pursuant to Section 53656 it may, with the authorization of the depository, place such securities for safekeeping with a Federal Reserve Bank or branch thereof or with any bank located in a city designated as a reserve city by the Board of Governors of the Federal Reserve System or with the Federal Home Loan Bank of San Francisco or with a trust company located in this state. Authority for such placement together with the names of the banks or, including the Federal Home Loan Bank of San Francisco, trust companies to be so used, shall be contained in the contract between the treasurer and the depository required in Section 53649.

53660. When deposits of a local agency are secured by pooled securities pursuant to Section 53656, the agent of depository shall make available to the treasurer for review at a mutually agreed upon time and location all of the following information which may be in the form of a copy of the report required in subdivision (e) of Section 53661:

(a) A certification that there are securities in the pool in the amounts required by Section 53652 to secure deposits.

(b) A certified report of the individual securities then on deposit in the pool with the location and total market value thereof.

(c) The total amount of deposits then reported by the depository to be secured by the pool.

53661. (a) The Commissioner of Financial Institutions shall act as Administrator of Local Agency Security and shall be responsible for the administration of Sections 53638, 53651, 53651.2, 53651.4, 53651.6, 53652, 53654, 53655, 53656, 53657, 53658, 53659, 53660, 53661, 53663, 53664, 53665, 53666, and 53667.

(b) The administrator shall have the powers necessary or convenient to administer and enforce the sections specified in subdivision (a).

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

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

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

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

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

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

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

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

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

(C) When that depository is a federal association, to the Office

of Thrift Supervision.

(D) When that depository is a savings association, to the Commissioner of Financial Institutions.

(E) When that depository is a federal credit union, to the National Credit Union Administration.

(F) When that depository is a state credit union or a federally insured industrial loan company, to the Commissioner of Financial Institutions.

(h) The administrator may require from each treasurer a registration report and at appropriate times a report stating the amount and location of each deposit together with other information deemed necessary by the administrator for effective operation of this article. The facts recited in any report from a treasurer to the administrator are conclusively presumed to be true for the single purpose of the administrator fulfilling responsibilities assigned to him or her by this article and for no other purpose.

(i) (1) If, after notice and opportunity for hearing, the administrator finds that any depository or agent of depository has violated or is violating, or that there is reasonable cause to believe that any depository or agent of depository is about to violate, any of the sections specified in subdivision (a) or any regulation or order issued under any of those sections, the administrator may order the depository or agent of depository to cease and desist from the violation or may by order suspend or revoke the authorization of the agent of depository. The order may require the depository or agent of depository to take affirmative action to correct any condition resulting from the violation.

(2) (A) If the administrator makes any of the findings set forth in paragraph (1) with respect to any depository or agent of depository and, in addition, finds that the violation or the continuation of the violation is likely to seriously prejudice the interests of treasurers, the administrator may order the depository or agent of depository to cease and desist from the violation or may suspend or revoke the authorization of the agent of depository. The order may require the depository or agent of depository to take affirmative action to correct any condition resulting from the violation.

(B) Within five business days after an order is issued under subparagraph (A), the depository or agent of depository may file with the administrator an application for a hearing on the order. The administrator shall schedule a hearing at least 30 days, but not more than 40 days, after receipt of an application for a hearing or within a shorter or longer period of time agreed to by a depository or an agent of depository. If the administrator fails to schedule the hearing within the specified or agreed to time period, the order shall be deemed rescinded. Within 30 days after the hearing, the administrator shall affirm, modify, or rescind the order; otherwise, the order shall be deemed rescinded. The right of a depository or agent of depository to which an order is issued under subparagraph (A) to petition for judicial review of the order shall not be affected by the failure of the depository or agent of depository to apply to the administrator for a hearing on the order pursuant to this subparagraph.

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

(4) In case the administrator issues an order under paragraph (1) or (2) suspending or revoking the authorization of an agent of depository, the administrator may order the agent of depository at its own expense to transfer all pooled securities held by it to such agent of depository as the administrator may designate in the order.

The agent of depository designated in the order shall accept and hold the pooled securities in accordance with this article and regulations and orders issued under this article.

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

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

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

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

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

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

(1) (1) In the event that a depository or agent of depository fails to pay a fine assessed by the administrator pursuant to subdivision (k) within 30 days of receipt of the assessment, the administrator may assess and collect an additional penalty of 5 percent of the fine for each month or part thereof that the payment is delinquent.

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

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

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

53663. (a) Each agent of depository shall report in writing to the administrator within two business days after any withdrawal, substitution or addition of pooled securities and shall state the name and market value of the securities withdrawn, substituted or

added together with the total deposits then secured by the pool. This information shall be available from the administrator to the treasurer upon request.

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

53664. The individual reports specified in Sections 53654, 53660, 53661, and 53663 are not public documents and are not open to inspection by the public.

53665. If a depository fails to pay all or part of the deposits of a local agency secured by pooled securities in accordance with the contract provided for in Section 53649, and on demand of its treasurer or other authorized official and the treasurer files a report with the administrator, or if the depository fails:

(a) In case the pooled securities consist of securities other than securities of the class described in subdivision (p) of Section 53651, the administrator shall order the agent of depository holding the pooled securities to convert into money that portion of the pooled securities necessary to produce an amount equal to the sum of (i) the deposits of the local agency, (ii) any accrued interest due on the deposits, and (iii) the reasonable expenses of the agent of depository in complying with the order of the administrator and to pay the sum of items (i) and (ii) to the treasurer in satisfaction of the deposits. The agent of depository shall be reimbursed out of the proceeds of the conversion for its reasonable expenses in complying with the order of the administrator, as approved by the administrator. Any excess moneys resulting from the conversion shall be retained by the agent of depository as part of the securities pool until the depository substitutes for the excess moneys securities having a market value sufficient to bring the total of pooled securities up to the amount required by Section 53652.

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

53666. The only liability that shall attach to the administrator as the result of the operation of this article is that which would attach as a result of other laws of this state.

53667. (a) Expenses incurred by the administrator in carrying out the duties and responsibilities assigned to the administrator by the sections specified in subdivision (a) of Section 53661, shall be borne by the Local Agency Deposit Security Fund, which is hereby created and continuously appropriated to the administrator for the administration of the sections specified in subdivision (a) of

Section 53661. This fund shall consist of fines levied pursuant to Section 53661, fees collected pursuant to the sections specified in subdivision (a) of Section 53661, and assessments levied pursuant to this section.

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

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

53669. The treasurer or other authorized official is not responsible for money while it is deposited pursuant to this article.

53676. The treasurer is not responsible for securities delivered to and receipted for by any bank, savings and loan association, credit union, federally insured industrial loan company, or trust company.

53678. The charges for the handling and safekeeping of any such securities are not a charge against the treasurer but shall be paid by the depository owning the securities.

53679. So far as possible, all money belonging to a local agency under the control of any of its officers or employees other than the treasurer or a judge or officer of a municipal court shall, and all money coming into the possession of a judge or officer of a municipal court may, be deposited as active deposits in the state or national bank, inactive deposits in the state or national bank or state or federal association, federal or state credit union, or federally insured industrial loan company in this state selected by the officer, employee, or judge of the court. For purposes of this section, an officer or employee of a local agency and a judge or

officer of a municipal court are prohibited from depositing local agency funds or money coming into their possession into a state or federal credit union if an officer or employee of the local agency, or a judge or officer of a municipal court, also serves on the board of directors, or any committee appointed by the board of directors, or the credit committee or supervisory committee, of the particular state or federal credit union. Such money is subject to this article except:

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

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

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

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

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

53679.1. Notwithstanding any other provision of law, the accounting practices of each county utilized prior to the effective date of this section relating to interest on trust funds shall be deemed appropriate and to have been made under the direction of the board of supervisors of that county. This section is declaratory of the law in existence prior to the enactment of this section.

53680. A tax collector of a local agency shall immediately deposit with the treasurer all money under his control, unless he deposits the money in a depository pursuant to this article under permission and instructions of the treasurer having authority to make such deposit.

53681. An officer or employee of a local agency who deposits money belonging to, or in the custody of, the local agency in any other manner than that prescribed in this article is subject to forfeiture of his office or employment.

53682. Notwithstanding any other provision in this article except Section 53652, the treasurer may deposit moneys in and enter into contracts with any depository, as defined in subdivision (c) of Section 53630, for services to be rendered by that depository that in the treasurer's judgment are to the public advantage. One copy of each contract entered into under this section shall be filed with the auditor or corresponding officer of the local agency. The contract shall:

(a) Fix the duration of compensating deposits, if any.

(b) Fix the interest rate of that compensating deposit, if any.

(c) Specify the services to be rendered by the depository.

(d) Indicate whether the depository shall bear the expenses of transportation of the money to and from the depository.

(e) Fix the consideration payable by the agency for such services.

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

53683. Notwithstanding any other provision in this article, the consideration payable by the agency as specified in subdivision (e) of Section 53682 shall be paid by the treasurer by applying such consideration as costs applied on a pro rata basis against the interest earned by all the agencies for which the treasurer invests.

53684. (a) Unless otherwise provided by law, if the treasurer of any local agency, or other official responsible for the funds of the local agency, determines that the local agency has excess funds which are not required for immediate use, the treasurer or other official may, upon the adoption of a resolution by the legislative or governing body of the local agency authorizing the investment of funds pursuant to this section and with the consent of the county treasurer, deposit the excess funds in the county treasury for the purpose of investment by the county treasurer pursuant to Section 53601 or 53635.

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

Prior to distributing that interest or increment, the county treasurer may deduct the actual costs incurred by the county in administering this section in proportion to the average daily balance of the amounts deposited by the local agency and to the total average daily balance of deposits in the investment pool.

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

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

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

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

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

53686. (a) Any audit conducted relating to the investment of local agency funds and other funds by the county treasurer in the county

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

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

GOVERNMENT CODE

SECTION 16429.1-16429.4

16429.1. (a) There is in the State Treasury the Local Agency Investment Fund, which fund is hereby created. Notwithstanding Section 13340, all money in the fund is hereby appropriated without regard to fiscal years to carry out the purpose of this section. 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 one-half of 1 percent of the earnings of this fund, shall be deducted from the earnings prior to distribution. The amount of this deduction shall be credited as reimbursements to the state agencies, including the Treasurer, the Controller, and the Department of Finance, having incurred costs in carrying out the provisions of this section.

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

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

16429.2. There is created the Local Investment Advisory Board consisting of five members. The chairman shall be the State Treasurer or his or her designated representative. Two members who are qualified by training and experience in the field of investment or finance, shall be appointed by the State Treasurer. Two members who are treasurers, finance or fiscal officers or business managers, employed by any county, city or local district or municipal corporation of this state, shall be appointed by the Treasurer.

The term of office of each appointed member of the board is two years, but each appointed member serves at the pleasure of the appointing authority. A vacancy in the appointed membership, occurring other than by expiration of term, shall be filled in the same manner as the original appointment, but for the unexpired term only.

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

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

16429.3. Moneys placed with the Treasurer for deposit in the Local Agency Investment Fund by cities, counties, special districts, nonprofit corporations, or qualified quasi-governmental agencies shall not be subject to either of the following:

(a) Transfer or loan pursuant to Sections 16310, 16312, or 16313.

(b) Impoundment or seizure by any state official or state agency.

16429.4. The right of a city, county, city and county, special district, nonprofit corporation, or qualified quasi-governmental agency to withdraw its deposited moneys from the Local Agency Investment Fund, upon demand, may not be altered, impaired, or denied, in any way, by any state official or state agency based upon the state's failure to adopt a State Budget by July 1 of each new fiscal year.

ATTACHMENT III
FINANCIAL INSTITUTIONS RESOLUTION

RESOLVED, that any financial institutions, including all banks and their correspondent banks doing business with the Los Angeles County Metropolitan Transportation Authority (MTA), are hereby authorized, requested and directed to honor all checks, drafts, wires, or other orders for payment of money drawn in the MTA's name on its account(s) (including those drawn on the individual order of any person or persons whose names appear thereon as a signer or signers thereof) when bearing the original and/or facsimile signature of the Chair, Chief Executive Officer, Deputy Chief Executive Officer, Chief Financial Officer, Executive Officer Finance & Treasurer, or Assistant Treasurer (collectively, MTA Officials). MTA Officials are the only MTA representatives empowered to open, close or authorize changes to accounts on behalf of MTA. MTA Officials may designate individuals as Official Signatories for the MTA's financial accounts. The duties of Official Signatories shall be limited to check signing, wire or fund transfers, balance reporting and/or monitoring of bank processes within policy guidelines.

And those financial institutions, including correspondent banks, currently doing business with the MTA shall be entitled to honor and charge the MTA for all such checks, drafts, wires, or other orders for the payment of money, regardless of by whom or by what means when the actual or facsimile signature or signatures resemble the specimens filed with those financial institutions by the Secretary or other officer of the MTA.

CERTIFICATION

The undersigned, duly qualified and acting as Secretary of the Los Angeles County Metropolitan Transportation Authority, certifies that the attached is a true and correct copy of a Resolution adopted at a legally convened meeting of the Board of Directors of the Los Angeles County Metropolitan Transportation Authority held on _____.

Dated: _____

Michele Jackson
MTA Board Secretary

(SEAL)

**RESOLUTION OF THE LOS ANGELES COUNTY METROPOLITAN
TRANSPORTATION AUTHORITY**

One Gateway Plaza
Los Angeles, CA 90012-2952

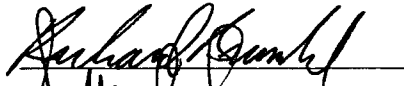
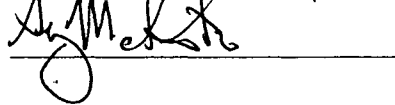



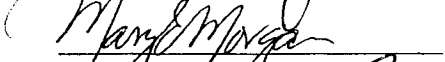

213-922-4143

**AUTHORIZING INVESTMENT OF MONIES
IN THE LOCAL AGENCY INVESTMENT FUND**

Whereas, Pursuant to Chapter 730 of the statutes of 1976 Section 16429.1 was added to the California Government Code to create a Local Agency Investment Fund in the State Treasury for the deposit of money of a local agency for purposes of investment by the State Treasurer; and

Whereas, the Board of Directors does hereby find that the deposit and withdrawal of meony in the Local Agency Investment Fund in accordance with the provisions of Section 16429.1 of the Government Code for the purpose of investment as stated therein, and verification by the State Treasurer's Office of all banking information provided in that regard.

Be it further resolved, that the following Los Angeles County Metropolitan Transportation Authority officers or their successors in office shall be authorized to order the deposit or withdrawal of monies in the Local Agency Investment Fund:

Name	Title	Signature
Richard Brumbaugh	Chief Financial Officer	
Terry Matsumoto	Executive Officer, Finance & Treasurer	
Michelle Caldwell	Deputy Executive Officer, Finance	
Donna R. Mills	Assistant Treasurer	
Michael J. Smith	Assistant Treasurer	
Mary Morgan	Principal Financial Analyst	
Marshall Liu	Sr. Financial Analyst	

Passed and Adopted, by the Board of Directors of the Los Angeles County Metropolitan Transportation Authority, County of Los Angeles, State of California on _____.