

**PTSC**

**Public  
Transportation  
Services  
Corporation**

One Gateway  
Plaza, Los  
Angeles, CA 90012

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PTSC Board  
August 17, 2006

**SUBJECT: INVESTMENT POLICY**

**ACTION: ADOPT UPDATED INVESTMENT POLICY**

**RECOMMENDATION**

- A. Adopt the updated PTSC Investment Policy, Attachment I.
- B. Delegate the authority to invest PTSC funds for a one-year period to the PTSC Chief Financial Officer

**ISSUE**

Section 53646 of the California Government Code (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 Treasurer on an annual basis.

**POLICY IMPLICATION**

The Board approves the objectives and guidelines that direct the investment of operating funds. The revisions to the Investment Policy are primarily editorial to clarify its scope and incorporate language consistent with finance standards and practices. See the summary of the changes to the current Investment Policy in Attachment II.

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 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 working capital funds and for the approval of routine administrative actions.



Metropolitan Transportation Authority

**Metro**

**FINANCIAL IMPACT**

This action has no impact on the FY 2006 budget.

**BACKGROUND**

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

**NEXT STEPS**

Immediately upon Board approval, implement the changes to the PTSC Investment Policy.

**ATTACHMENTS**

- Attachment I: PTSC Investment Policy
- Attachment II: Summary of Proposed Changes to PTSC Investment Policy
- Attachment III: California Government Code: Section 16429.1 to 16429.4 and Section 53600 to 53609

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Terry Matsumoto  
Chief Financial Officer, PTSC

*Public Transportation Services Corporation*

# INVESTMENT POLICY

Approved on August 17, 2006.

# INVESTMENT POLICY

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## 1.0 Policy

It is the policy of the Public Transportation Services Corporation (PTSC) 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 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 Board of Directors (Board).
- 2.2 This policy sets forth the 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 investment activities shall be:
  - A. Safety: Safety of principal is the foremost objective of the investment program. The investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The PTSC 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 investment portfolio will remain sufficiently liquid to meet all operating requirements that might be reasonably anticipated.
  - C. Yield: The PTSC 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 policy to hold investments to maturity or until market value equals or exceeds (historical) cost. However, if 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, the Executive Officer, Finance and the 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 PTSC, and shall take into account the benefits of diversification in order to protect the 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 PTSC. In accordance with the California Government Code (CGC) Section 53607, the Board hereby delegates the authority to invest or reinvest the 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 its 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 Public Transportation Services Corporation Ethics Policy and annually shall file a Statement of Economic Disclosure with the Ethics Office.

#### **5.0 Permitted Investments**

5.1 All 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 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 maturity<sup>1</sup>, variable rate, floating rate or inverse floating rate investments, financial futures and options, and mortgage derived interest or principal only strips. Callable or puttable 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 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 funds are deposited or invested. The PTSC's Financial Advisor (FA) will conduct competitive processes to recommend providers of financial services including commercial banking, investment management, investment measurement and custody services.
- 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 main depository institutions will be selected on a periodic and timely basis.

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<sup>1</sup>California 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.

- 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 funds with disadvantaged business enterprises, provided that those institutions have met the 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 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 PTSC 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. 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.

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, 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, PTSC Procedures, and applicable State and Federal laws.

6.4 Depositories and external investment managers 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 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 from loss;
- D. Agrees to notify the PTSC 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.

6.5 All broker-dealers who do business with the PTSC'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.

Failure to submit a Receipt of Investment Policy shall preclude the PTSC 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 PTSC Funds**

7.1 Securities and collateral for repurchase agreements shall be purchased and maintained for the benefit of the PTSC in the Trust Department or safekeeping department of a bank as established by a written third party safekeeping agreement between the PTSC 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 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 PTSC'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 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, the Executive Officer, Finance and the 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 PTSC 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 employees or agents. Such internal controls shall be approved by the Executive Officer, Finance and Treasurer 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 PTSC 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 Assistant Treasurer, the Controller, and if not resolved promptly, to the Executive Officer, Finance and Treasurer.
- 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 cash flow model. The cash flow model shall be updated monthly based upon the actual and projected cash flow.

Annually, the Treasurer shall notify the external investment managers of the 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 PTSC. The 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 reasons why it is in the best interests of the PTSC to replace or retain the investment manager.

### Portfolio

### Investment Benchmarks

Intermediate Duration Portfolios

Merrill Lynch 1-3 year Government  
& Corporate Index

Short Duration Portfolios

Three month Treasury Bill

## SUMMARY OF AUTHORIZED INVESTMENT TYPES &amp; 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%	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.
3.	Registered state warrants or treasury notes or bonds of the State of California.	25%	Same maturity restriction 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 maturity restriction 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.
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. Minimum rating of A or its equivalent or better by a nationally recognized rating source.

## SUMMARY OF AUTHORIZED INVESTMENT TYPES &amp; 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 a nationally recognized rating source. 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 a nationally recognized rating source.	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. Minimum rating for the issuer of A or its equivalent or better by a nationally recognized rating source.

## SUMMARY OF AUTHORIZED INVESTMENT TYPES &amp; RESTRICTIONS \*

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

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#	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 PTSC'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. Repurchase agreements shall be executed through Primary Broker-Dealers. Reverse repurchase agreements are prohibited. Collateral must have a minimum credit rating permitted by this policy for the investment category.</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 &amp; 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 &amp; 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.

**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
14.	Mortgage-backed securities	15% combined with any asset-backed securities	<p>Pass-Through securities: Limited to Government Agency or Government Sponsored issuers, fixed rate, effective maturity of 5 years.</p> <p>CMOS: Limited to Government Agency or Government Sponsored Issuers "AAA" rated Planned Amortization Classes (PAC) only. The following are prohibited: ARMS, floaters, interest or principal (IOs, POs), Targeted Amortization Classes, companion, subordinated, collateral classes, or zero accrual structures.</p>

APPENDIX A

PUBLIC TRANSPORTATION SERVICES CORPORATION

CERTIFICATION OF UNDERSTANDING

The Public Transportation Services Corporation (PTSC) 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 PTSC's Investment Policy as well as applicable Federal and State laws.*
2. *You meet the requirements as outlined in Investment Policy.*
3. *You agree to make every reasonable effort to protect the assets from loss.*
4. *You agree to notify the PTSC in writing of any potential conflicts of interest.*
5. *You agree to notify the PTSC in writing of any changes in personnel with decision-making authority over funds within 24 hours of such event.*

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

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:

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

PTSC use only:

Approved: \_\_\_\_\_ Disapproved: \_\_\_\_\_ Date: \_\_\_\_\_

Signature: \_\_\_\_\_

PTSC Treasurer

APPENDIX B

PUBLIC TRANSPORTATION SERVICES CORPORATION

BROKER-DEALER RECEIPT OF INVESTMENT POLICY

We are in receipt of the Public Transportation Services Corporation's (PTSC) Investment Policy.

We have read the policy and understand the provisions and guidelines of the policy. All salespersons covering PTSC'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 PTSC.

Signed \_\_\_\_\_  
Name Name  
\_\_\_\_\_  
Title Title  
\_\_\_\_\_  
Firm Name  
\_\_\_\_\_  
Date Date

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

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

PTSC use only:  
Approved: \_\_\_\_\_ Disapproved: \_\_\_\_\_ Date: \_\_\_\_\_  
Signature: \_\_\_\_\_  
PTSC Treasurer

APPENDIX C

# PUBLIC TRANSPORTATION SERVICES CORPORATION

## 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? \_\_\_\_\_

8. What is the date of your Firm's fiscal year-end? \_\_\_\_\_

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

\_\_\_\_\_

10. Please provide your Wiring and Delivery Instructions.

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11. 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

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

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

<u>Entity</u>	<u>Contact Person</u>	<u>Telephone No.</u>	<u>Client Since</u>
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14. What reports, confirmations, and other documentation would PTSC receive? Please include samples of research reports or market information that your firm regularly provides to government agency clients.

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

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16. 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

17. If yes, please explain

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18. Please provide your most recent audited financial statements within 120 days of your fiscal year-end.

19. Please indicate the current licenses of the PTSC representatives:

Agent: \_\_\_\_\_ License or registration: \_\_\_\_\_



## APPENDIX D

### PUBLIC TRANSPORTATION SERVICES CORPORATION

#### 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.

**ATTACHMENT II**  
**Summary of Proposed Changes to PTSC Investment Policy**

<b>Section Change</b>	<b>Current Text</b>	<b>Proposed Text</b>	<b>Rationale</b>
5.1A Item # 2	Same as above	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.	To specify the restrictions for this investment category.
5.1A Item # 3	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.	Same maturity restriction 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.	To clarify the maturity restriction for this investment category.
5.1A Item # 4	Same as above	Same maturity restriction 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.	To specify the restrictions for this investment category.
5.1A Item # 5	No more than 15% of the portfolio may be invested in any one Federal Agency or government-sponsored issue.	No more than 15% of the portfolio may be invested in any one Federal Agency or government-sponsored issue. Minimum rating of A or its equivalent or better by a nationally recognized rating source.	To specify the credit restrictions for this investment category.

ATTACHMENT II  
Summary of Proposed Changes to PTSC Investment Policy

Section Change	Current Text	Proposed Text	Rationale
5.1A Item # 7	<p>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 &amp; 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 &amp; Poor's Corporation.</p>	<p>Commercial paper of "prime" quality of the highest ranking or of the highest letter and numerical rating as provided for by a nationally recognized rating source. 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 a nationally recognized rating source.</p>	<p>To conform language to the California Government Code.</p>

ATTACHMENT II  
Summary of Proposed Changes to PTSC Investment Policy

Section Change	Current Text	Proposed Text	Rationale
5.1A Item # 8	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.	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. Minimum rating for the issuer of A or its equivalent or better by a nationally recognized rating source.	To specify the credit restrictions for this investment category.
5.1A Item # 9	See CA Government Code Section 53601, (i)  Term of repurchase agreement cannot exceed 90 days. Repurchase agreements shall be executed through Primary Broker-Dealers. Reverse repurchase agreements are prohibited.	See CA Government Code Section 53601, (i)  Term of repurchase agreement cannot exceed 90 days. Repurchase agreements shall be executed through Primary Broker-Dealers. Reverse repurchase agreements are prohibited. Collateral must have a minimum credit rating permitted by this policy for this investment category.	To specify the credit restrictions for this investment category.

**GOVERNMENT CODE**  
**SECTION 16429.1-16429.4****ATTACHMENT III**

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

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

(c) Notwithstanding any other provisions of law, an officer of any nonprofit corporation whose membership is confined to public agencies or public officials, or an officer of a qualified quasi-governmental agency, with the consent of the governing body of that agency, having money in its treasury not required for immediate needs, may remit the money to the Treasurer for deposit in the Local Agency Investment Fund for the purpose of investment.

(d) Notwithstanding any other provision of law or of this section, a local agency, with the approval of its governing body, may deposit in the Local Agency Investment Fund proceeds of the issuance of bonds, notes, certificates of participation, or other evidences of indebtedness of the agency pending expenditure of the proceeds for the authorized purpose of their issuance. In connection with these deposits of proceeds, the Local Agency Investment Fund is authorized to receive and disburse moneys, and to provide information, directly with or to an authorized officer of a trustee or fiscal agent engaged by the local agency, the Local Agency Investment Fund is authorized to hold investments in the name and for the account of that trustee or fiscal agent, and the Controller shall maintain a separate account for each deposit of proceeds.

(e) The local governmental unit, the nonprofit corporation, or the quasi-governmental agency has the exclusive determination of the length of time its money will be on deposit with the Treasurer.

(f) The trustee or fiscal agent of the local governmental unit has the exclusive determination of the length of time proceeds from the issuance of bonds will be on deposit with the Treasurer.

(g) The Local Investment Advisory Board shall determine those quasi-governmental agencies which qualify to participate in the Local Agency Investment Fund.

(h) The Treasurer may refuse to accept deposits into the fund if, in the judgment of the Treasurer, the deposit would adversely affect the state's portfolio.

(i) The Treasurer may invest the money of the fund in securities prescribed in Section 16430. The Treasurer may elect to have the money of the fund invested through the Surplus Money Investment Fund as provided in Article 4 (commencing with Section 16470) of Chapter 3 of Part 2 of Division 4 of Title 2.

(j) Money in the fund shall be invested to achieve the objective of the fund which is to realize the maximum return consistent with safe and prudent treasury management.

(k) All instruments of title of all investments of the fund shall remain in the Treasurer's vault or be held in safekeeping under control of the Treasurer in any federal reserve bank, or any branch thereof, or the Federal Home Loan Bank of San Francisco, with any trust company, or the trust department of any state or national bank.

(l) Immediately at the conclusion of each calendar quarter, all

interest earned and other increment derived from investments shall be distributed by the Controller to the contributing governmental units or trustees or fiscal agents, nonprofit corporations, and quasi-governmental agencies in amounts directly proportionate to the respective amounts deposited in the Local Agency Investment Fund and the length of time the amounts remained therein. An amount equal to the reasonable costs incurred in carrying out the provisions of this section, not to exceed a maximum of 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.

## **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 a nationally recognized statistical-rating organization (NRSRO). The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (1) or paragraph (2):

(1) The entity meets the following criteria:

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

corporation.

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

(C) Has debt other than commercial paper, if any, that is rated "A" or higher by a nationally recognized statistical-rating organization (NRSRO).

(2) The entity meets the following criteria:

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

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

(C) Has commercial paper that is rated "A-1" or higher, or the equivalent, by a nationally recognized statistical-rating organization (NRSRO).

Eligible commercial paper shall have a maximum maturity of 270 days or less. Local agencies, other than counties or a city and county, may invest no more than 25 percent of their 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 issuer. 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 percent 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).

(l) 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.

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

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

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

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

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

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

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

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

(b) 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 agreement, reverse repurchase agreement, or a securities lending 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) (1) 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.

(2) Up to 25 percent of the total assets of the investments held by a local agency may be invested in the first tier securities of a single issuer for a period of up to three business days after acquisition. The securities of no more than one issuer may be invested pursuant to this paragraph at a time.



(3) No more than 10 percent of the total assets of the investments held by a local agency 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 et seq.).

(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 paythrough 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 nationally 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) "First tier security" has the same meaning as that phrase is defined by SEC Rule 2a-7 of the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1 et seq.).

(6) "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.