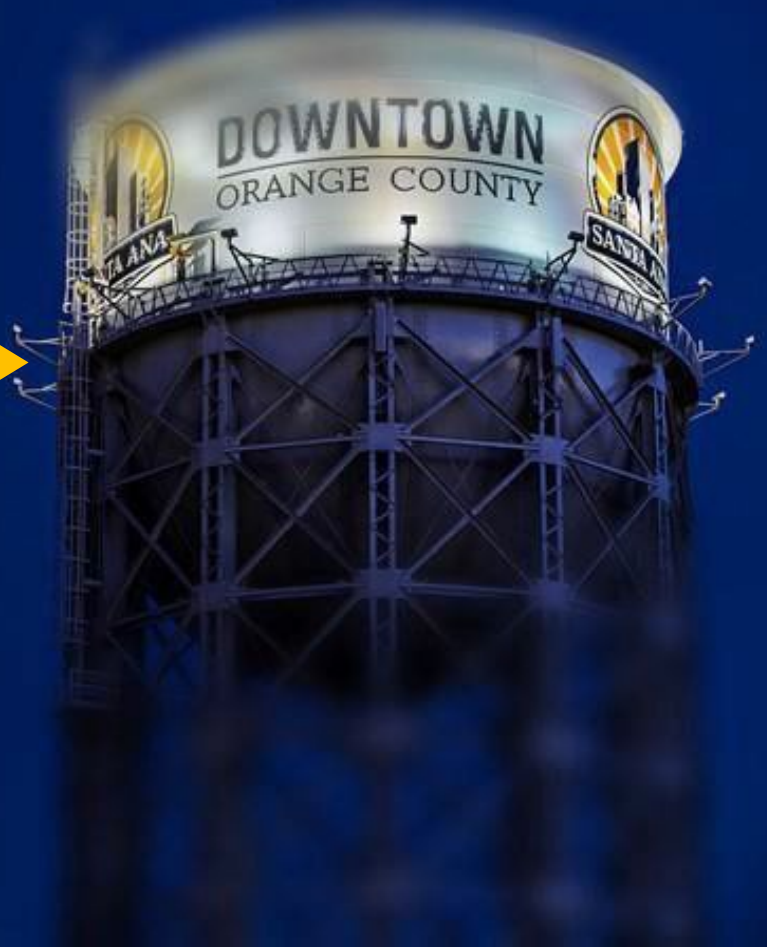


JUNE 06, 2023



City of Santa Ana

INVESTMENT POLICY STATEMENT 2023-24

TABLE OF CONTENTS

| | Page |
|---|------|
| Introduction..... | 1 |
| 1.0 Policy | 1 |
| 2.0 Scope..... | 1 |
| 3.0 Prudence..... | 2 |
| 4.0 Objectives | 3 |
| 5.0 Delegation of Authority | 6 |
| 6.0 Ethics and Conflicts of Interest | 7 |
| 7.0 Authorized Financial Institutions and Qualified Broker-Dealers..... | 8 |
| 8.0 Authorized and Suitable Investments | 9 |
| 9.0 Prohibited Investments and Investment Practices..... | 14 |
| 10.0 Investment Pools/Mutual Funds..... | 15 |
| 11.0 Collateralization/Security for Deposit of Public Funds..... | 16 |
| 12.0 Safekeeping and Custody..... | 17 |
| 13.0 Diversification | 17 |
| 14.0 Maximum Maturities | 18 |
| 15.0 Internal Controls | 18 |
| 16.0 Performance Standards..... | 19 |
| 17.0 Reporting..... | 20 |
| 18.0 Policy Considerations | 21 |
| 19.0 Policy Review, Certification, and Adoption | 21 |
| 20.0 Appendices and Glossaries | 22 |
| Appendix I - (Table of Appendices) / California Investment Code Abstracts..... | 25 |
| Appendix II - Local Agency Investment Guidelines / Allowable Investment Guidelines | i |
| Appendix III - Glossary of Common Public Local Agency Investment Terms | A |
| Appendix IV - Glossary of Common Public Local Agency Investment Terms..... | I |
| Appendix V – Broker/Dealer Questionnaire and Certification Form..... | M |

CITY OF SANTA ANA
ANNUAL STATEMENT OF INVESTMENT POLICY
JULY 1, 2023 – JUNE 30, 2024

INTRODUCTION: The purpose of this Statement of Investment Policy is intended to provide specific criteria for the prudent investment of City of Santa Ana (City) funds and to set investment objectives, policies, establish guidelines, and define responsibilities for the investment of idle or unexpended funds for the City. The ultimate investment goal is to enhance the economic status of the City while protecting funds under management and meeting the daily cash flow demands of the City.

1.0 POLICY

The policy of the City of Santa Ana is to invest idle or unexpended funds within the scope of this investment policy in a prudent and suitable manner that will provide, within the parameters of this investment policy, the highest reasonable investment return relative to the risk being assumed while maintaining maximum security and meeting all cash flow demands. This policy is intended to comply with Federal law and the Code of California for investment of public funds. In instances in which this policy is more restrictive than Federal or State law, this policy shall be controlling.

This policy is fixed and general in nature; it defines authorized investments and guides the investment decisions and security selection process. The City's Investment Policy will be regularly reviewed and adjusted to create an investment portfolio that is suitable for the City given current conditions.

2.0 SCOPE

2.1 Applicability of Investment Policy

This investment policy applies to all funds and investment transactions of the City. These funds are accounted for in the Annual Comprehensive Financial Report (ACFR), which includes the following:

- General Fund
- Special Revenue Funds
- Capital Projects Funds (includes restricted bond proceeds)
- Enterprise Funds (includes restricted bond proceeds)
- Trust and Agency Funds
- Internal Service Funds
- Any new fund created by the City of Santa Ana, unless specifically exempted

The restricted bond proceeds are invested in compliance with this investment policy and applicable bond resolutions. Individual employee retirement contribution funds and deferred compensation are excluded from this policy.

2.2 Pooling of Funds

Except for cash in certain restricted and special funds, the City of Santa Ana will consolidate cash balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

3.0 PRUDENCE

3.1 Standard of Care – Prudent Investor

The City investment program shall be managed in a professional and prudent manner worthy of the public trust and review. The standard of prudence to be used by City Investment Officials shall be the "prudent investor rule" standard and shall be applied in the context of managing the overall investment portfolio.

The "prudent investor rule" provides, pursuant to California Government Code Section 53600.3, that investments shall be made with judgment and care. When investing, reinvesting or managing public funds a trustee shall act with care, skill, prudence and diligence under circumstances then prevailing. Investment officers acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from exceptions are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

The City is governed by the California Government Code, Sections 16429.1 and Title 5, Division 2, Part 1, Chapter 4, entitled Financial Affairs, commencing with section 53630. Each investment transaction and the entire portfolio must comply with California Government Code, Sections 53600 and 53635 et seq. and this policy.

3.2 Written Investment Procedures

City Investment Officials shall establish written procedures consistent with this investment policy for the operation of the investment program. Procedures should include but not be limited to: authorized personnel, segregation of duties, internal controls, wire transfer agreements, daily cash flow review, basis for awarding bids, portfolio inventory, and reporting. The procedures document is intended to provide guidance for staff and to provide continuity in the event of an interruption of services of the Treasury and Customer Services Manager and/or Assistant Finance Director.

4.0 **OBJECTIVES**

The primary objectives, in priority order, for the City of Santa Ana's investment activities shall be *Safety, Liquidity, and Yield*:

4.1 **Safety of Principal**

Safety of principal is the foremost objective of the City of Santa Ana, care must be taken to ensure the preservation of capital and the protection of principal. Each investment transaction shall be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk by following guideline listed below.

A. Credit Risk

Credit Risk is the risk of loss due to the failure of the security issuer or backer to redeem the outstanding debt at the stated maturity date. Credit risk also applies to the overall market perception of the financial strength and capacity of the issuer. The City of Santa Ana will minimize credit risk by:

- i. Limiting investments to authorized investments as set forth in Section 10.0 of this investment policy;
- ii. Pre-qualifying the financial institutions, broker-dealers, intermediaries, and advisors with which the City will do business;
- iii. Diversifying the investment portfolio so that potential losses on individual securities will be minimized.
- iv. Holding a minimum percentage of the total portfolio in highly marketable short-term treasuries, checking with interest, government pooled account, or a combination of all three. The minimum percentage shall be set monthly by the FMSA Investment Advisory Committee based on a rolling twenty-four month analysis of the City's minimum cash position requirements adjusted for any exceptional anticipated cash out flows.

B. Market or Interest Rate Risk

Market or interest rate risk is the risk that the market value of securities in the portfolio may fall due to changes in general interest rates. The City of Santa Ana will minimize interest market interest rates, by:

- i. Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity, and
- ii. Purchasing investments with the intent to hold until maturity; and

- iii. By investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools and limiting the average maturity of the portfolio in accordance with this policy.

4.2 Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (*static liquidity*). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (*dynamic liquidity*). The City's cash flow shall be updated on a daily basis and will be considered prior to the investment of securities, which will reduce the necessity to sell investments for liquidity purposes.

4.3. Yield (Return on Investment)

The City's investment portfolio shall be designed with the objective of attaining a market-average rate of return throughout budgetary and economic cycles taking into account the investment risk constraints and liquidity needs. The return on investments is to be accorded secondary importance compared to the safety and liquidity objectives described above. The core of investments will focus on relatively low risk securities with an expectation of earning a reasonable return relative to the risk being assumed. It is the general policy of the City to hold investments until market value equals or exceeds amortized cost or book value of the security. Securities shall not be sold prior to maturity with the following exceptions:

- A. a declining credit security could be sold early to minimize loss of principal;
- B. a simultaneous purchase of a security and the sale of another (security swap) to enhance the quality, yield, or target duration in the portfolio; or
- C. a sale of a specific security prior to its maturity and a capital gain or loss recorded in order to improve the credit quality, liquidity, or rate of return of the portfolio in response to market conditions and/or City risk preferences;
- D. general liquidity needs of the investment portfolio require that a security be sold;

- E. pre-payment of City debt or contribution servicing obligation. In the event the City is presented with an option for prepayment of a City debt or contribution servicing obligation, the following analysis will be conducted by with regards to a comparison between the amortized savings, which may be realized by exercising such prepayment option and:
- i. the current portfolio yield;
 - ii. the trend of the debt or contribution servicing obligation;
 - iii. whether variances in the trend are substantial;
 - iv. the City's net cash position; and
 - v. the market value of investment instrument(s) recommended by staff to be liquidated to fulfill a prepayment election.

Upon completion of said analysis, a recommendation shall be presented to the FMSA Investment Advisory Committee for consideration and submittal to the Executive Director of Finance and Management Services Agency for his/her approval or rejection.

When selling a security prior to maturity, City Investment Officials and/or officers (*see generally subsection 5.1 et seq. - Investment Authority and Responsibility*) must be prepared to justify the reasons and explain any gains or losses.

Compliance with the investment policy does not measure return, but rather manages risk. Policy compliance does not provide a benchmark to meet or exceed, but is a model to follow. The City will benchmark its investment portfolio performance to the appropriate "treasuries constant maturity" rate based on portfolio maturities of the investment plan.

The City shall strive to maintain one hundred percent (100%) investment of idle funds after consideration for a compensating balance to cover the cost of services provided by the City's depository bank. The funds available for investment are determined by cash flow projections updated daily. Investments are monitored so that legal limits on types of investments are not exceeded.

5.0 DELGATION OF AUTHORITY

5.1 Investment Authority and Responsibility

The authority for conducting investment transactions resides with the Executive Director of Finance and Management Services Agency (FMSA) as chief fiscal officer and ex officio City Treasurer. The Executive Director for (FMSA) under the general direction of the City Council, shall be responsible for all investment transactions undertaken and shall establish a system of controls to regulate the investment activities of subordinate officials.

5.2 Delegation of Authority

The Executive Director for FMSA or her/his designees (Investment Officials) shall invest all funds for the City in accordance with the City adopted investment policy. The Executive Director for FMSA hereby delegates day-to-day responsibility for the investment of City funds to the FMSA Financial Analyst. Managerial and supervisory responsibility for the investment of City funds may be held by either the Assistant Director of Finance and Management Services (Assistant Director) or the Treasury and Customer Services Manager (Treasury Manager). Each designee shall act in accordance with the established policies and internal controls set forth in the investment policy.

5.3 Assignment of Activities

Supporting and ancillary activities, including but not limited to: cash flow analysis, municipal or corporate bond credit worthiness evaluation, investment risk assessment, portfolio analysis, purchase and sale recommendation, safekeeping, policy and investment procedures review recommendation, and monthly and quarterly reporting, may be assigned to qualified persons within Treasury or within the FMSA Accounting or Administrative Services divisions as deemed appropriate by either the Director and/or Assistant Finance Director.

5.4 Qualified Persons

Qualified Persons shall refer to: (1) persons holding either a California Municipal Treasurers Association, California Treasury Certificate and/or Certified California Municipal Treasurer Certificate; or an Association of Public Treasurers of the United States and Canada, Certified Public Finance Administrator Certificate, or a National Association of State Treasurers Certificate in Public Treasury Management; or (2) persons who are performing investment related duties under the guidance and direction of certificate holders. Working together, Investment Officials and Qualified Persons comprise the FMSA investment staff.

5.5 FMSA Investment Advisory Committee

To provide a regular departmental forum and consultive body for evaluating investment portfolio performance and strategy, internal procedures and controls, and for making recommendations to the Executive Director for FMSA in her/his capacity as chief fiscal officer and City Treasurer, a FMSA Investment Advisory Committee is established. All authorized Investment Officials are de facto standing members of the FMSA Investment Advisory Committee. At the discretion of the Executive Director for FMSA, other FMSA investment staff may be authorized membership on the committee. Meetings shall be held regularly on a basis determined by the Executive Director for FMSA. The FMSA Investment Advisory Committee's evaluations and recommendations are subject to the approval of the Executive Director for FMSA, who services as committee chair.

6.0 ETHICS AND CONFLICTS OF INTEREST

6.1 Investment Officials and Officers

Investment Officials, officers, and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Investment Officials, officers and employees shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Investment Officials, officers and employees shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City of Santa Ana.

6.2 Statement of Economic Interests

Investment Officials and officers authorized to approve investment decisions shall be required to submit an annual Statement of Economic Interests, also known as a Form 700 in accordance with California Government Code, Section 1090 et seq. The Form 700 provides transparency and ensures accountability in two ways:

- 1) It provides necessary information to the public about official's and officer's personal financial interests to ensure that officials and officers are making decisions in the best interest of the public and not enhancing their personal finances.
- 2) It serves as a reminder to the public official of potential conflicts of interest so the official or officer can abstain from making or participating in governmental decisions that are deemed conflicts of interest.

7.0 AUTHORIZED FINANCIAL INSTITUTIONS AND QUALIFIED BROKER-DEALERS

7.1 Authorized Financial Institutions

The City shall transact business only with commercial banks insured by the Federal Deposit Insurance Corporation (FDIC), savings and loans and registered investment securities dealers.

7.2 Qualified Broker-Dealers

The purchase by the City of any investment other than those 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 and registered with Financial Industry Regulatory Authority (FINRA), or 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 a brokerage firm designated as a Primary Government Dealer by the Federal Reserve Bank, and who is registered with FINRA.

7.3 Selection Process - City of Santa Ana Broker-Dealer Questionnaire

The City's FMSA investment staff shall investigate all institutions which wish to do business with the City as a Qualified City of Santa Ana Broker-Dealer, in order to determine if they are adequately capitalized, make markets in securities appropriate to the City's needs, certify having read and understood the City of Santa Ana Annual Statement of Investment Policy and agreeing to abide by the conditions set forth therein. This will be done by having the Financial Institutions complete and return the appropriate City of Santa Ana Broker-Dealer Questionnaire, along with their most current FINRA Report and Audited Financial Statement (available within one-hundred, twenty (120) days of the Institution's fiscal year-end). Audited Financial Statements may be made available online. Financial Institutions currently certified as Qualified City of Santa Ana Broker-Dealers shall complete and return the appropriate City of Santa Ana Broker-Dealer Questionnaire triennially, but shall be subject to the Audited Financial Statement and FINRA annual reporting requirements annually. However, if the interaction with a currently certified Qualified City of Santa Ana Broker-Dealer is limited to investment trades through an electronic trading platform, then the Broker-Dealer is exempt from completion of a questionnaire, but shall remain subject to the Audited Financial Statement and FINRA reporting requirements annually.

7.4 Selection Criteria

In selecting external Broker-Dealers, past performance, stability, financial strength, reputation, area of expertise, and willingness and ability to provide the highest investment return at the lowest cost to the City within the parameters of this Investment policy and the California Government Code shall be primary considerations. FMSA investment staff will only conduct business with registered representatives of broker-dealers that have a minimum of three (3) years of continuous

experience working for a primary dealer or five (5) years of continuous experience working for a non-primary dealer. FMSA investment staff will only purchase or sell securities from registered representatives that possess an active Series 7 license, an active Series 66 license, or an active Series 63 license, and who submit a FINRA form U4 (employment history) and a current FINRA form U5 Disclosure Statement and have completed the City's Broker-Dealer questionnaire.

7.5 List of Approved Financial Institutions/Qualified Broker-Dealers

Staff shall maintain a list of Financial Institutions/Qualified Broker-Dealers authorized to provide investment services to the City, along with their FINRA Report.

8.0 AUTHORIZED AND SUITABLE INVESTMENTS

8.1 Allowable Investment Instruments – State Law

California Government Code Section 53601 establishes allowable investment instruments applicable to all local agencies along with maximum maturities, maximum specified percentages of total portfolio, and minimum quality requirements. Section 53601.1 authorizes local agencies to invest in financial futures or financial option contracts in any of the allowable investment categories enumerated in section 53601.

8.2 Authorized Investments

City of Santa Ana further restricts permitted investments to those listed below and where applicable, the Investment Advisory Committee may reduce maximum maturities, or maximum specified percentages of total portfolio (concentration limits), and may increase minimum quality requirements. Within this scope, the City diversifies its investments by types of investments, maturity dates, concentration limits, and quality requirements.

A. United States Treasury Bills, Notes, and Bonds, for which the full faith and credit of the United States are pledged for payment of principal and interest. Purchases of this category shall not exceed five years to maturity. There is no percentage limit in this category.

B. Obligations issued by a Federal Agency or a United States Government Sponsored Enterprise. Federal Agency Issues include, but are not limited to GNMA (Government National Mortgage Association), FFCB (Federal Farm Credit Bank), FHLB (Federal Home Loan Bank), FHLMC (Federal Home Loan Mortgage Corporation), FNMA (Federal National Mortgage Association), FHA (Federal Housing Administration), and TVA (Tennessee Valley Authority). Although there is no percentage limitation on these issues, purchases of this category shall not exceed five years to maturity and the "prudent investor" rule shall apply for a single agency name as U.S. Government backing is implied rather than guaranteed.

- C. Supranational Obligations in United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, with a maximum remaining maturity of five years or less, and eligible for purchase or sale within the United States. Investments under this subdivision shall be rated "AA" or better by an NRSRO and shall not exceed thirty (30%) percent of the cost value of the investment portfolio.
- D. Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as banker's acceptances, which are eligible for purchase by the Federal Reserve System. Purchases of banker's acceptances may not exceed one hundred eighty (180) days or forty percent (40%) of the cost value of the Fund which may be invested pursuant to this section. However, no more than thirty percent (30%) of the City's cost value of the investment portfolio may be invested in the banker's acceptances of any one commercial bank pursuant to this section.
- E. 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 be organized and operating within the United States, as a general corporation, shall have total assets in excess of five-hundred, million dollars (\$500,000,000), and has debt other than commercial paper, if any, that is rated "A" or higher by NRSRO. The entity is organized within the United States as a special purpose corporation, trust, or limited liability company; has program wide credit enhancements including, but not limited to: over-collateralization, letters of credit, or a surety bond; has commercial paper that is rated "A-1" or higher, or the equivalent, by an NRSRO. Eligible commercial paper shall have a maximum maturity of two hundred seventy (270) days or less. The City may purchase no more than ten percent (10%) of the outstanding commercial paper of any single corporate issue. Purchases of commercial paper may not exceed twenty-five percent (25%) of the investment portfolio.
- F. Repurchase Agreements. For purposes of this section, the term "repurchase agreement" means a purchase of securities by the local agency pursuant to an agreement by which the seller will repurchase the securities on or before a specified date and for a specified amount and will deliver the underlying securities to a third-party custodian. The City may invest in repurchase agreements with primary dealers of the Federal Reserve with which the City has entered into a Securities Industry and Financial Markets Association (SIFMA) Master Repurchase Agreement (MRA) which specifies terms and conditions of repurchase agreements. The market value of securities used as collateral for repurchase agreements shall not be allowed to fall below one hundred two percent (102%) of the value of the repurchase agreement and shall be adjusted no less than quarterly by the tri-party custodial agent. The investments in repurchase agreements shall be in compliance if the underlying securities are

brought back up to one hundred two percent (102%) no later than the next business day. The underlying collateral shall be limited to United States Government Treasury Bills, Notes, and Bonds, or obligations issued by a Federal Agency or United States Government Sponsored Enterprises obligations. Upon the written approval of the Executive Director for FMSA, substituted securities may be pledged for collateral but shall consist only of investments permitted within this investment policy with a maximum maturity of five (5) years. If there is a default of the broker, the collateral securities can be sold. Since the securities are valued daily, it is likely that the sale proceeds will equal or exceed the value of the repurchase agreement amount. Purchases in this category shall not exceed one (1) year or twenty percent (20%) of the cost value of the investment portfolio. Retail repurchase agreements and reverse agreements shall not be authorized for purchase.

- G. 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. However, the City shall not invest in negotiable certificates of deposit issued by a state or federal credit union if a member of the City Council or any City personnel with investment decision making authority 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. Effective January 1, 2020 no more than fifty percent (50%) of the cost value of the City's investment portfolio may be invested in deposits, including certificates of deposit, through a placement service as authorized under Government Code 53601.8 (excludes negotiable certificates of deposit authorized under Section 53601(i)). On January 1, 2026, the maximum percentage of the portfolio shall revert back to thirty percent (30%) percent. Investments made pursuant to Government Code Section 53635.8 remain subject to a maximum of thirty percent (30%) of the cost value of the investment portfolio. The amounts so invested shall be subject to the limitations of Government Code Section 53638 which generally provides that the deposit shall not exceed the shareholder's equity of any depository bank, or the total net worth of any depository savings association or federal association, or the total of the unimpaired capital and surplus of an insured industrial loan company. Purchases of this category shall not exceed five years to maturity.
- H. Local Agency Investment Fund - State Pool. The City may invest in the Local Agency Investment Fund (LAIF) established by the State Treasurer under California Government Code Section 16429.1 for the benefit of local agencies. LAIF provides daily liquidity; therefore, there is no final stated maturity for this investment category. Although there is no percentage limitation on this fund, the "prudent investor" rule shall apply for a single agency name. In keeping with LAIF deposit limit investments, City LAIF investments shall not exceed \$75 million per active account, unless a greater deposit limit for regular accounts is authorized by the State Treasurer during the term of this Statement of Investment Policy, in which case City LAIF investments may increase up to that limit.

- I. California Cooperative Liquid Assets Securities System (CLASS) Prime Fund – Joint Powers of Authority Pool. The City may invest in the California CLASS Prime Fund established by a joint exercise of powers entity authorized under California Government Code Section 6509.7 for the benefit of all public agencies in the State of California that have authority to invest their treasury funds. The California CLASS Prime Fund provides daily liquidity; therefore, there is no final stated maturity for this investment category. Although there is no percentage limitation on this fund, the “prudent investor” rule shall apply for a single agency name. The California CLASS Prime Fund does not limit a maximum or minimum investment balance, in which case City California CLASS Prime Fund investments may increase or decrease based on pool performance, daily cash flow needs, etc.
- J. City of Santa Ana Bonds. The City may invest in bonds issued by the City or agency of the City including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the City or agency of the City. The City shall at all times adhere to restrictions and limitations of the bond indenture. Purchases of this category shall not exceed five years to maturity. There is no percentage limit in this category.
- K. Other State of California Local Agency Bonds. The City may invest in other State of California Local Agency Bonds. Notes, warrants or other evidence 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. Investments in this category shall be restricted to instruments that have a ranking of A-1 or higher, or the equivalent by not less than two of the following nationally recognized statistical rating organizations: Moody’s, Standard & Poor’s or Fitch. Purchases of this category shall not exceed five years to maturity. There is no percentage limit in this category.
- L. Medium Term Corporate Notes (MTN) 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 shall be rated in a rating category of “A” or its equivalent or better by a nationally recognized rating service. Purchases in this category shall not exceed five (5) years to maturity or thirty percent (30%) of the cost value of the investment portfolio. Purchases in a single issuer in this category shall not exceed five percent (5%) of the cost value of the investment portfolio.
- M. Shares of beneficial interest otherwise known as money market shares issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940. The company shall have met either of the following criteria:

1. Attain the highest ranking or the highest letter and numerical rating provided by not less than two NRSROs, and
2. Retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five (5) years' experience investing in the securities and obligations authorized by subsection (a) to (k), inclusive, and subdivisions (m) to (o), inclusive, of Section 53601 of the Government Code and with assets under management in excess of five-hundred, million dollars (\$500,000,000). The purchase price of shares of beneficial interest, (mutual funds) purchased pursuant to this subdivision shall not include any commission that these companies may charge.

Investments in this category shall be restricted to money market mutual funds that seek to maintain a Net Asset Value of \$1. Money market mutual funds provide daily liquidity; therefore, there is no final stated maturity for this investment category. Investments in mutual funds shall be restricted to funds that have the highest ranking or the highest letter and numerical rating provided by not less than two of the following nationally recognized statistical rating organizations: Moody's, Standard & Poor's or Fitch. Purchases in this category shall not exceed 20% of the book value of the investment portfolio. Purchases in a single mutual fund shall not exceed 10% of the book value of the Portfolio.

8.3 Suitability of Investments

Suitability, not simply return, is the standard for selecting investments for the portfolio. The Executive Director for FMSA, and all authorized Investment Officials and other supporting FMSA investment staff shall review the following when selecting or recommending investments for the City:

- Sufficient liquidity to meet current obligations
- Appropriate level of market risk
- Diversified portfolio
- Legal investments
- Market rate of return

The Executive Director for FMSA and his/her designees are not required to invest in all the investment options authorized in this Statement of Investment Policy. Selection will be based on cash flow characteristics, exposure to market risk, rate of return, the technical ability of the staff responsible for administering the program, and the availability of time and tools for staff to engage in conservative, but effective, management of the City's investment portfolio.

9.0 PROHIBITED INVESTMENTS AND INVESTMENT PRACTICES

9.1 Ineligible Investments - State Law

Certain investments, however, are prohibited by California Government Code Section 53601.6. Accordingly, the City shall not invest in any inverse floaters, range notes, mortgage derived, or interest-only strips or other securities which could result in zero-interest accrual if held to maturity. However, prohibited securities that were purchased and are currently held in the City's portfolio, as of the date of this policy adoption, which were previously allowed under the California Government Code, yet are now prohibited due to changes in the Code may be held until their maturity dates.

9.2 Disallowed Investments - Higher Perceived Risk

Besides investments prohibited by statute, this policy disallows investments in the following due to a higher perceived risk:

- Asset-backed securities (ABS) – securities supported by pools of installment loans or leases or by pools of revolving lines of credit;
- Derivatives – financial instruments which have a principal and/or interest payment subject to uncertainty as to timing and/or amount including financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities);
- Investment agreements – contracts regarding funds deposited by an investor often separated into those offered by banks and those offered by insurance companies commonly known as Guaranteed Investment Contracts (GICs) or Guaranteed Investment Agreements (GIAs);
- Mortgage-backed securities – securities created when a mortgage or purchaser of residential real estate mortgages creates a pool of mortgages and markets undivided interests or participation in the pool, including principal only strips;
- Reverse Repurchase agreements – agreements involving the borrowing of cash from a financial institution for the purchase of securities in which a financial asset is instead pledged as a collateral for a loan in which the roles of borrower and lender are reversed.
- Securities lending agreements – agreements allowing local agencies to earn incremental income on their investment portfolio by loaning securities in their portfolio to financial services companies for a limited time;
- Unregistered securities – purchases of private resales of unregistered securities to institutions, such as Securities Act of 1933, Section 5, Rule 144A securities.

9.3 Prohibited Investment Practices

Assets of the City shall not be invested pursuant to the following investment practices:

- Trading of securities strictly for speculation or solely for the realization of short-term trading gains.
- A contract providing for the compensation of an agent or fiduciary solely based upon the performance of the invested assets.
- If a fiduciary or other third party with custody of public investment transaction records of the City fails to produce records within a reasonable time, when requested by the City, the City shall make no new investments with or through the fiduciary or third party and shall not renew maturing investments with or through the fiduciary or third party.

10.0 INVESTMENT POOLS/MUTUAL FUNDS

The Executive Director for FMSA or his/her designee shall be required to investigate all local government investment pools and money market mutual funds, other than the state Local Agency Investment Fund (LAIF), prior to investing and perform at least a quarterly review thereafter while the City is invested in the pool or the money market fund.

The City authorizes pooled investment fund deposits with LAIF, which is authorized under provisions in Section 16429.1 of the California Government Code as an allowable investment for local agencies, even though some of the individual investments of the pool are not allowed as a direct investment by a local agency such as the City of Santa Ana. The City also authorizes pooled investment fund deposits with California CLASS Prime Fund, which is authorized under Section 6509.7 of the California Government Code as an allowable investment for local agencies that have the authority to invest their treasury funds.

Government sponsored investment pools (Local Agency Investment Fund (LAIF), County Pools, Joint Powers Authority Pools, and the State Treasury Voluntary Investment Program Fund), are sources for short-term cash management.

Before seeking City Council approval for participation in one or more additional investment pools/money market mutual funds, the Executive Director for FMSA or his/her designees will conduct a thorough investigation the prospective pool prior to recommending City investment.

Before recommending investing in a prospective pool, the following issues must be reviewed:

- A. The pool must meet the requirements of state statute.
- B. The pool must provide a written statement of policy and objectives.
- C. A questionnaire developed by FMSA investment staff and approved by the Treasury and Customer Services Manager or Assistant Director of Finance

shall address the following general topics:

- i. A description of eligible investment securities, and a written statement of investment policy and objectives.
- ii. A description of interest calculations and how it is distributed, and how gains and losses are treated.
- iii. A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited.
- iv. A description of who may invest in the program and how often, including size and frequency of minimum and maximum deposits, and how many withdrawal transactions are allowed (daily, monthly, quarter, annually, etc.).
- v. A description of what type of notice is required by the program from the participant to make minimum and maximum deposit and withdrawal transactions.
- vi. A description of how and who in the governing body of the program is authorized to make program changes, including frequency. The description must include how program participants are informed of program changes and impacts.
- vii. A schedule for receiving statements and portfolio listings.
- viii. A description of how reserves, retained earnings, etc. are utilized by the pool.
- ix. A model of the fee schedule, and when and how it is assessed.
- x. A description of eligibility and/or acceptance of bond proceeds.
- xi. The pool must contain only the types of investment allowed by California Code.

Upon approval for participation in one or more additional investment pools the FMSA investment staff shall thereafter on an annual basis investigate and reconfirm the pool's compliance with items listed above and shall monitor the pool's performance reports.

11.0 COLLATERALIZATION/SECURITY FOR DEPOSIT OF PUBLIC FUNDS

Money must be deposited in state or national banks, state or federal savings associations or state or federal credit unions in the State of California. It may be in inactive deposits, active deposits or interest-bearing active deposits. The deposits cannot exceed the amount of the bank's or savings and loan's paid up capital and surplus.

The bank or savings and loan must secure the active and inactive deposits with eligible securities having a market value of one-hundred, ten percent (110%) of the total amount of the deposits. State law also allows as an eligible security, first trust deeds having a value of one-hundred, fifty percent (150%) of the total amount of the deposits. A third class of

collateral is letters of credit drawn on the Federal Home Loan Bank (FHLB).

The Treasurer may waive, at his/her discretion, security for that portion of a deposit which is insured pursuant to federal law. Currently, the first two-hundred, fifty-thousand dollars (\$250,000) of a deposit is federally insured.

12.0 SAFEKEEPING AND CUSTODY

12.1 Perfected Interest and Delivery versus Payment

In accordance with California Government Code Section 53601, to protect against potential losses caused by collapse of individual securities dealers, all securities owned by the City, except securities used as collateral for repurchase agreements, shall be kept in safekeeping with "*perfected interest*" by the City's custodial bank or a third party bank trust department, acting as agent for the City under the terms of a custody agreement executed by the bank and by the City. Perfected interest refers to establishment of a superior ownership right in and legal control over the securities assets held by the bank custodian on the City's behalf and is intended to protect the City from the custodial bank's own creditors in the event of a bank default and filing for bankruptcy. All securities, excepting investments which are not deliverable (such as LAIF, California CLASS Prime Fund, direct time certificates of deposit, and money market mutual funds), will be received and delivered using standard "*delivery versus payment*". Delivery versus payment refers to delivery of securities with an exchange of money for the securities at the time of delivery, rather than delivery of securities with an exchange of a signed receipt for the securities.

13.0 DIVERSIFICATION

The purpose of diversification is to reduce overall portfolio risk while attaining market rates of return and to enable the City to meet all anticipated cash requirements. The investment portfolio shall consist of various types of securities approved by state statute and this Statement of Investments Policy. Investments shall vary in issuers, asset classes, industries and maturities to meet City's financial obligations. Diversifying the investment portfolio will help mitigate the loss of funds as a result of failure of any one issuer. Investments shall further be diversified between structures and imbedded options within the security.

The investments shall be diversified by:

- Limiting investments to avoid over-concentration in securities of a specific issuer (excluding treasury bills).
- Limiting investment in securities that have higher credit risks.
- Limiting certificates of deposit to the maximum federally insured amount.
- Investing in securities with varying maturities.
- Investing a minimum percentage of the total portfolio as established by the FMSA Investment Advisory Committee in highly marketable short-term treasuries, checking accounts with interest, government pooled account, or a combination of all three (See Section 4.1 (A)(iv)).

14.0 **MAXIMUM MATURITIES**

14.1 **Maximum Maturities**

To the extent possible, the City of Santa Ana will attempt to match its investments with anticipated cash flow requirements and thus maturities shall coincide as nearly as possible with the anticipated need. The maximum durations for authorized investments pursuant to section 8. 2 subsections (A) through (F) are as follows:

- United States Treasury Bills, Notes, and Bonds – five (5) years maximum maturity
- Obligations issued by a Federal Agency or a United States Government Sponsored Enterprise – five (5) years maximum maturity
- Supranational Obligations - five (5) years maximum maturity
- Bills of Exchange/Banker's acceptances - one hundred eighty (180) days maximum maturity.
- Commercial Paper - two hundred seventy (270) days maximum maturity
- Repurchase Agreements – one (1) year maximum maturity
- Negotiable Certificates of Deposit - five (5) years maximum maturity
- Local Agency Investment Fund (LAIF) State Pool - no final stated maturity
- City of Santa Ana Bonds - five (5) years maximum maturity
- Other State of California Local Agency Bonds - five (5) years maximum maturity
- Medium Term Corporate Notes - five (5) years maximum maturity
- Shares of Beneficial Interest/Money Market Shares - no final stated maturity

(See also subsection 8.2 generally for additional information on City authorized concentration limits and quality requirements.)

14.2 **Average Maturity**

In accordance with the goal of minimizing interest rate risk (see subsection 4.1(b)) the City of Santa Ana will to the extent possible attempt to aim for an average investment portfolio maturity of 3 years.

15.0 **INTERNAL CONTROLS**

The Executive Director for FMSA is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity are protected from loss, theft or misuse. The Finance Department, with oversight and approval of the Executive Director for FMSA, has developed a system of internal investment controls and a segregation of responsibilities of investment functions in order to assure an adequate system of internal control over the investment function. No investment personnel may engage in an investment transaction except as provided for under the terms of this policy and the procedure established by the Executive Director for FMSA.

Internal control procedures address:

- Control of collusion
- Control of fraud
- Control of misrepresentation by third parties
- Control of employee error
- Separation of transaction authority from accounting and record keeping
- Custodial safekeeping
- Delivery versus payment
- Clear delegation of authority
- Confirmation of transactions for investment and wire transfers
- Written procedures for placing of investment transactions
- FMSA Investment Advisory Committee

In addition, cash balances are reconciled daily by non-investment employees and reconfirmed by the City's accounting staff. Accounting staff also verifies investment activities and holdings on a regular basis which are reviewed by the FMSA Investment Advisory Committee. The Executive Director for FMSA, at his/her discretion, shall establish a process for annual independent reviews by an external auditor to the extent contemplated by generally accepted auditing standards, during the course of the City's annual audit.

16.0 PERFORMANCE STANDARDS

The investment portfolio shall be managed to attain a market-average rate of return throughout budgetary and economic cycles, taking into account the City's investment risk constraints, cash flow, and policy towards the pre-payment of specific City debts or contribution servicing obligations (when finically advantageous to the City). Investment return becomes a consideration only after the basic requirements of investment safety and liquidity have been met. Because the investment portfolio is designed to operate on primarily a 'hold-to-maturity' premise, and because of the safety, liquidity, and yield priorities, the performance goal that will be used by the Executive Director for FMSA to determine whether market yields are being achieved shall be the average of the monthly LAIF rate and the 12-month rolling average 2-Year Constant Maturity Treasury (CMT) rate. Having a goal does not imply that the City Treasurer will add additional risk to the Investment Portfolio in order to attain or exceed that goal.

17.0 **REPORTING**

Government Code Section 53646(b)(1) previously mandated that annual investment policies and quarterly reports be rendered to the legislative body (for the City of Santa Ana - the City Council). AB 2853 amended Government Code Section 53646 making these requirements permissive rather than mandatory. Although the Annual Statement of Investment Policy and Quarterly Reports to City Council are no longer required, we believe it to be both prudent and in keeping with the spirit of the City's Sunshine Policy that these documents continue to be provided. The Executive Director for FMSA shall therefore continue to render to the City Council an annual Statement of Investment Policy and regular reports to the City Manager and the City Council containing detailed information on all securities, investments, and moneys of the City. The reports will be submitted to the City Manager and City Council on a monthly basis and will be rendered formally to the City Council on a quarterly basis as part of a scheduled open City Council Meeting agenda within forty-five (45) days following the end of each quarter.

The report will contain the following information on the funds that are subject to this investment policy:

- 1) Type of investment and name of issuer;
- 2) Date of maturity;
- 3) Par amount;
- 4) Dollar amount invested in all securities, and investments and monies held by the City (amortized cost or book value);
- 5) Weighted average maturity of the investments;
- 6) Current market value as of the date of report of all funds held by the City and under the management of any outside party that is not also a local agency or LAIF and the source of the valuation;
- 7) Source of the market value information;
- 8) A list of the any funds, investments or programs, including loans, under the management of contracted parties such as LAIF, investment. pools, outside money managers, and securities lending agents);
- 9) A statement of compliance with the investment policy or an explanation for non-compliance; and
- 10) A statement of the local agency's ability to meet its pool's expenditure requirements for the next six months, as well as an explanation of why sufficient money will not be available if that is the case.

18.0 POLICY CONSIDERATIONS

18.1 Exemptions

Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy as long as it was in compliance with State of California law and the City's investment policy in effect at the time of purchase. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.

18.2 Stabilization Fund

Except for cash in certain restricted and special funds, the consolidation of cash balances from all funds and the maintenance of portfolio liquidity (both static and dynamic) as provided for in this policy taken together with the monthly affirmation to the City Manager and City Councilmembers of the City's ability to meet its pool's expenditure requirements for the next six months shall be deemed to functionally meet and exceed the requirements of Article VI., Sec. 610, of the City of Santa Ana Charter as relates to the maintenance of a stabilization fund.

18.3 Amendments

In the event this policy is amended prior to the end of its twelve month fiscal year term the amended Statement of Investment Policy shall be resubmitted to City Council for review and adoption by City Council Resolution.

18.4 Approval

This Statement of Investment Policy is approved by City Council on this 06th day of June, 2023 pursuant to City Council Resolution # 2023-_____.

19.0 POLICY REVIEW, CERTIFICATION, AND ADOPTION

19.1 Policy Review

This Statement of Investment Policy shall be reviewed at least annually to ensure its consistency with the overall objectives of preservation of PRINCIPAL, LIQUIDITY, AND YIELD, and to: 1) reflect changes in applicable California state codes, 2) maintain its relevance to current financial and economic trends, and 3) meet the needs of the City of Santa Ana.

19.2 Policy Certification

This certified Statement of Investment Policy will be resubmitted to the Association of Public Treasurers of the United States and Canada (APTUS&C) and the California Municipal Treasurers Association (CMTA) for review and re-certification every five (5) years, or more often in the event of significant legislative changes, or changes in industry standards, or substantive non-administrative modifications to the body of the policy statement, exclusive of revisions or additions to appendices or glossaries. In FY 2019-20, the City of Santa Ana received Investment Policy

Certifications from both the APTUS&C at the international North American level and the CMTA at the state level, and in FY 2021-22, the City of Santa Ana received Investment Policy Certification from CMTA at the state level.

19.3 Adoption

The Executive Director for FMSA shall annually render this Statement of Investment Policy to the City Council and City Manager. The City Council shall annually review and adopt this Statement of Investment Policy by resolution at a public meeting.

20.0 APPENDICIES & GLOSSARIES

20.1 California Investment Code Abstracts - Appendix I.

20.2 California Local Agency Investment Guidelines - Appendix II.

20.3 Glossaries of Terms

Appendix III. (Glossary of Referenced Terms - City of Santa Ana Investment Policy & Related California Codes)

Appendix IV. (Glossary of Additional Common Public Local Agency Investment Terms)

Appendix V. (Broker-Dealer Questionnaire and Certification Form)

Submitted to the Santa Ana City Council for approval, this 06th day of June 2023.

Kathryn Downs, CPA
Executive Director & City Treasurer
Finance & Management Services
Agency

AG:RP

APPENDICIES

| | |
|----------------------------|---------|
| TABLE OF APPENDICIES | Page 24 |
|----------------------------|---------|

APPENDIX I.

CALIFORNIA INVESTMENT CODE ABSTRACTS

| | |
|--------------------------------------|---------|
| CORPORATIONS CODE SECTION 25004..... | Page 24 |
| FINANCIAL CODE SECTION 5102..... | Page 25 |
| GOVERNMENT CODE SECTION 53630..... | Page 26 |
| GOVERNMENT CODE SECTION 53635..... | Page 27 |
| GOVERNMENT CODE SECTION 53601..... | Page 28 |
| GOVERNMENT CODE SECTION 53601.1..... | Page 40 |
| GOVERNMENT CODE SECTION 53601.6..... | Page 41 |
| GOVERNMENT CODE SECTION 53638..... | Page 42 |
| GOVERNMENT CODE SECTION 53646..... | Page 43 |
| GOVERNMENT CODE SECTION 6509.7..... | Page 45 |
| GOVERNMENT CODE SECTION 16429.1..... | Page 46 |

APPENDIX II.

LOCAL AGENCY INVESTMENT GUIDELINES TABLES

| | |
|--|--------------|
| ALLOWABLE INVESTMENT INSTRUMENTS PER STATE GOVERNMENT CODE (AS OF JANUARY 1, 2023) APPLICABLE TOO ALL LOCAL AGENCIES (FIGURE 1) - LOCAL AGENCY INVESTMENT GUIDELINES..... | Page i |
| ALLOWABLE INVESTMENT INSTRUMENTS TABLE OF NOTES FOR FIGURE 1 - LOCAL AGENCY INVESTMENT GUIDELINES | Pages ii-iii |

APPENDIX III.

| | |
|---|-----------|
| GLOSSARY OF REFERENCED TERMS - CITY OF SANTA ANA INVESTMENT POLICY AND RELATED CALIFORNIA CODES..... | Pages A-H |
|---|-----------|

APPENDIX IV.

| | |
|---|-----------|
| GLOSSARY OF ADDITIONAL COMMON PUBLIC LOCAL AGENCY INVESTMENT TERMS..... | Pages I-L |
|---|-----------|

APPENDIX V.

| | |
|---|-----------|
| BROKER / DEALER QUESTIONNAIRE AND CERTIFICATION FORM..... | Pages M-O |
|---|-----------|

CORPORATIONS CODE - CORP

TITLE 4. SECURITIES [25000 - 31516]

(Title 4 added by Stats. 1949, Ch. 384.)

DIVISION 1. CORPORATE SECURITIES LAW OF 1968 [25000 - 25707]

(Division 1 repealed and added by Stats. 1968, Ch. 88.)

PART 1. DEFINITIONS [25000 - 25023]

(Part 1 added by Stats. 1968, Ch. 88.)

CORPORATIONS CODE

SECTION

25004.

(a) "Broker-dealer" means any person engaged in the business of effecting transactions in securities in this state for the account of others or for his own account. "Broker-dealer" also includes a person engaged in the regular business of issuing or guaranteeing options with regard to securities not of his own issue. "Broker-dealer" does not include any of the following:

- (1) Any other issuer.
 - (2) An agent, when an employee of a broker-dealer or issuer.
 - (3) A bank, trust company, or savings and loan association.
 - (4) Any person insofar as he buys or sells securities for his own account, either individually or in some fiduciary capacity, but not as part of a regular business.
 - (5) A person who has no place of business in this state if he effects transactions in this state exclusively with (A) the issuers of the securities involved in the transactions or (B) other broker-dealers.
 - (6) A broker licensed by the Real Estate Commissioner of this state when engaged in transactions in securities exempted by subdivision (f) or (p) of Section 25100 or in securities the issuance of which is subject to authorization by the Real Estate Commissioner of this state or in transactions exempted by subdivision (e) of Section 25102.
 - (7) An exchange certified by the Commissioner of Corporations pursuant to this section when it is issuing or guaranteeing options. The commissioner may by order certify an exchange under this section upon such conditions as he by rule or order deems appropriate, and upon notice and opportunity to be heard he may suspend or revoke such certification, if he finds such certification, suspension, or revocation to be in the public interest and necessary and appropriate for the protection of investors.
- (b) For purposes of this section, an agent is an employee of a broker-dealer under paragraph (2) of subdivision (a) when the agent is employed by or associated with the broker-dealer under all of the following conditions:
- (1) The agent is subject to the supervision and control of the broker-dealer.
 - (2) The agent performs under the name, authority, and marketing policies of the broker-dealer.
 - (3) The agent discloses to investors the identity of the broker-dealer.
 - (4) The agent is reported pursuant to subdivision (c) of Section 25210 and the rules adopted thereunder.

(Amended by Stats. 2004, Ch. 461, Sec. 1. Effective January 1, 2005.)

FINANCIAL CODE - FIN

DIVISION 2. SAVINGS ASSOCIATION LAW [5000 - 10009]

(Division 2 repealed and added by Stats. 1983, Ch. 1091, Sec. 2.)

CHAPTER 1. Short Title, General Definitions, and General Provisions [5000 - 5330]

(Chapter 1 added by Stats. 1983, Ch. 1091, Sec. 2.)

ARTICLE 2. General Definitions [5100 - 5124]

(Article 2 added by Stats. 1983, Ch. 1091, Sec. 2.)

FINANCIAL CODE

SECTION

5102.

(a) "Association" or "savings association" means a mutual or stock savings association, savings and loan association or savings bank subject to the provisions of this division, but excluding a federal association.

(b) "Federal association" means a savings and loan association or federal savings bank that is chartered by the Office of Thrift Supervision under Section 5 of the Home Owners' Loan Act of 1933 (12 U.S.C. Sec. 1464), as amended.

(Amended by Stats. 1990, Ch. 1118, Sec. 8.)

GOVERNMENT CODE - GOV

TITLE 5. LOCAL AGENCIES [50001 - 57550]

(Title 5 added by Stats. 1949, Ch. 81.)

DIVISION 2. CITIES, COUNTIES, AND OTHER AGENCIES [53000 - 55821]

(Division 2 added by Stats. 1949, Ch. 81.)

PART 1. POWERS AND DUTIES COMMON TO CITIES, COUNTIES, AND OTHER AGENCIES [53000 - 54999.7]

(Part 1 added by Stats. 1949, Ch. 81.)

CHAPTER 4. Financial Affairs [53600 - 53997]

(Chapter 4 added by Stats. 1949, Ch. 81.)

ARTICLE 2. Deposit of Funds [53630 - 53686]

(Article 2 added by Stats. 1949, Ch. 81.)

GOVERNMENT CODE SECTION 53630.

As used in this article:

- (a) "Local agency" means county, city, city and county, including a chartered city or county, a community college district, or other public agency or corporation in this state.
- (b) "Treasurer" means treasurer of the local agency.
- (c) "Depository" means a state or national bank, savings association or federal association, a state or federal credit union, or a federally insured industrial loan company, in this state in which the moneys of a local agency are deposited.
- (d) "Agent of depository" means a trust company or trust department of a state or national bank located in this state, including the trust department of a depository where authorized, and the Federal Home Loan Bank of San Francisco, which is authorized to act as an agent of depository for the purposes of this article pursuant to Section 53657.
- (e) "Security" means any of the eligible securities or obligations listed in Section 53651.
- (f) "Pooled securities" means eligible securities held by an agent of depository for a depository and securing deposits of one or more local agencies.
- (g) "Administrator" means the Administrator of Local Agency Security of the State of California.
- (h) "Savings association or federal association" means a savings association, savings and loan association, or savings bank as defined by Section 5102 of the Financial Code.
- (i) "Federally insured industrial loan company" means an industrial loan company licensed under Division 7 (commencing with Section 18000) of the Financial Code, the investment certificates of which are insured by the Federal Deposit Insurance Corporation.
- (j) "Corporation" includes a limited liability company.

(Amended by Stats. 2004, Ch. 118, Sec. 19.7. Effective January 1, 2005.)

. . .

**GOVERNMENT CODE
SECTION
53635.**

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

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

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

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

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

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

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

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

. . .

**GOVERNMENT CODE
SECTION
53601.**

This section shall apply to a local agency that is a city, a district, or other local agency that does not pool money in deposits or investments with other local agencies, other than local agencies that have the same governing body. However, Section 53635 shall apply to all local agencies that pool money in deposits or investments with other local agencies that have separate governing bodies. The legislative body of a local agency having moneys in a sinking fund or moneys in its treasury not required for the immediate needs of the local agency may invest any portion of the moneys that it deems wise or expedient in those investments set forth below. A local agency purchasing or obtaining any securities prescribed in this section, in a negotiable, bearer, registered, or nonregistered format, shall require delivery of the securities to the local agency, including those purchased for the agency by financial advisers, consultants, or managers using the agency's funds, by book entry, physical delivery, or by third-party custodial agreement. The transfer of securities to the counterparty bank's customer book entry account may be used for book entry delivery.

For purposes of this section, "counterparty" means the other party to the transaction. A counterparty bank's trust department or separate safekeeping department may be used for the physical delivery of the security if the security is held in the name of the local agency. Where this section specifies a percentage limitation for a particular category of investment, that percentage is applicable only at the date of purchase. For purposes of compliance with this section, an investment's term or remaining maturity shall be measured from the settlement date to final maturity. A security purchased in accordance with this section shall not have a forward settlement date exceeding 45 days from the time of investment. Where this section does not specify a limitation on the term or remaining maturity at the time of the investment, no investment shall be made in any security, other than a security underlying a repurchase or reverse repurchase agreement or securities lending agreement authorized by this section, that at the time of the investment has a term remaining to maturity in excess of five years, unless the legislative body has granted express authority to make that investment either specifically or as a part of an investment program approved by the legislative body no less than three months prior to the investment:

- (a) Bonds issued by the local agency, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency or by a department, board, agency, or authority of the local agency.
- (b) United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest.
- (c) Registered state warrants or treasury notes or bonds of this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of the state.
- (d) Registered treasury notes or bonds of any of the other 49 states in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 states, in addition to California.
- (e) Bonds, notes, warrants, or other evidences of indebtedness of a local agency within this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency.
- (f) Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.

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

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

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

(1) The entity meets the following criteria:

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

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

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

(2) The entity meets the following criteria:

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

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

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

Eligible commercial paper shall have a maximum maturity of 270 days or less. Local agencies, other than counties or a city and county, that have less than one hundred million dollars (\$100,000,000) of investment assets under management, may invest no more than 25 percent of their moneys in eligible commercial paper. Local agencies, other than counties or a city and county, that have one hundred million dollars (\$100,000,000) or more of investment assets under management may invest no more than 40 percent of their moneys in eligible commercial paper. A local agency, other than a county or a city and a county, may invest no more than 10 percent of its total investment assets in the commercial paper and the medium-term notes of any single issuer. Counties or a city and county may invest in commercial paper pursuant to the concentration limits in subdivision (a) of Section 53635.

(i) Negotiable certificates of deposit issued by a nationally or state-chartered bank, a savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a federally licensed or state-licensed branch of a foreign bank. Purchases of negotiable certificates of deposit shall not exceed 30 percent of the agency's moneys that may be invested pursuant to this section. For purposes of this section, negotiable certificates of deposit do not come within Article 2 (commencing with Section 53630), except that the amount so invested shall be subject to the limitations of Section 53638. The legislative body of a local agency and the treasurer or other official of the local agency having legal custody of the moneys are prohibited from investing local agency funds, or funds in the custody of the local agency,

in negotiable certificates of deposit issued by a state or federal credit union if a member of the legislative body of the local agency, or a person with investment 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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(k) Medium-term notes, defined as all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Notes eligible for investment under this subdivision shall be rated in a rating category of "A" or its equivalent or better by an NRSRO. Purchases of medium-term notes shall not include other instruments authorized by this section and shall not exceed 30 percent of the agency's moneys that may be invested pursuant to this section. A local agency, other than a county or a city and a county, may invest no more than 10 percent of its total investment assets in the commercial paper and the medium-term notes of any single issuer.

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

the securities underlying a repurchase agreement or securities lending agreement may be 100 percent of the sales price if the securities are marked to market daily.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(q) United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated in a rating category of "AA" or its equivalent or better by an NRSRO and shall not exceed 30 percent of the agency's moneys that may be invested pursuant to this section.

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

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

(Amended by Stats. 2020, Ch. 235, Sec. 2. (SB 998) Effective January 1, 2021.)

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GOVERNMENT CODE **SECTION** **53601.**

This section shall apply to a local agency that is a city, a district, or other local agency that does not pool money in deposits or investments with other local agencies, other than local agencies that have the same governing body. However, Section 53635 shall apply to all local agencies that pool money in deposits or investments with other local agencies that have separate governing bodies. The legislative body of a local agency having moneys in a sinking fund or moneys in its treasury not required for the immediate needs of the local agency may invest any portion of the moneys that it deems wise or expedient in those investments set forth below. A local agency purchasing or obtaining any securities prescribed in this section, in a negotiable, bearer, registered, or nonregistered format, shall require delivery of the securities to the local agency, including those purchased for the agency by financial advisers, consultants, or managers using the agency's funds, by book entry, physical delivery, or by third-party custodial agreement. The transfer of securities to the counterparty bank's customer book entry account may be used for book entry delivery.

For purposes of this section, “counterparty” means the other party to the transaction. A counterparty bank’s trust department or separate safekeeping department may be used for the physical delivery of the security if the security is held in the name of the local agency. Where this section specifies a percentage limitation for a particular category of investment, that percentage is applicable only at the date of purchase. For purposes of compliance with this section, an investment’s term or remaining maturity shall be measured from the settlement date to final maturity. A security purchased in accordance with this section shall not have a forward settlement date exceeding 45 days from the time of investment. Where this section does not specify a limitation on the term or remaining maturity at the time of the investment, no investment shall be made in any security, other than a security underlying a repurchase or reverse repurchase agreement or securities lending agreement authorized by this section, that at the time of the investment has a term remaining to maturity in excess of five years, unless the legislative body has granted express authority to make that investment either specifically or as a part of an investment program approved by the legislative body no less than three months prior to the investment:

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

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

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

- (1) The entity meets the following criteria:

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

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

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

(2) The entity meets the following criteria:

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

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

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

Eligible commercial paper shall have a maximum maturity of 270 days or less. Local agencies, other than counties or a city and county, may invest no more than 25 percent of their moneys in eligible commercial paper. A local agency, other than a county or a city and a county, may invest no more than 10 percent of its total investment assets in the commercial paper and the medium-term notes of any single issuer. Counties or a city and county may invest in commercial paper pursuant to the concentration limits in subdivision (a) of Section 53635.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(k) Medium-term notes, defined as all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Notes eligible for investment under this subdivision shall be rated in a rating category of "A" or its equivalent or better by an NRSRO. Purchases of medium-term notes shall not include other instruments authorized by this section and shall not exceed 30 percent of the agency's moneys that may be invested pursuant to this section. A local agency, other than a county or a city and a county, may invest no more than 10 percent of its total investment assets in the commercial paper and the medium-term notes of any single issuer.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(q) United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated in a rating category of "AA" or its equivalent or better by an NRSRO and shall not exceed 30 percent of the agency's moneys that may be invested pursuant to this section.

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

This section shall become operative on January 1, 2026.

(Amended by Stats. 2020, Ch. 235, Sec. 3. (SB 998) Effective January 1, 2021.)

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GOVERNMENT CODE
SECTION
53601.1.

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

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

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GOVERNMENT CODE
SECTION
53601.6.

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

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

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

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

(Amended by Stats. 2020, Ch. 235, Sec. 4. (SB 998) Effective January 1, 2021.)

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GOVERNMENT CODE
SECTION
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 (I) of Section 53601.

(c) This section shall become operative on January 1, 2026.

(Amended by Stats. 2020, Ch. 235, Sec. 5. (SB 998) Effective January 1, 2021.)

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53601.8.

Notwithstanding any other provision of this code, a local agency that has the authority under law to invest funds, at its discretion, may invest a portion of its surplus funds in deposits at a commercial bank, savings bank, savings and loan association, or credit union that uses a private sector entity that assists in the placement of deposits. The following conditions shall apply:

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

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

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

(j) The deposits placed pursuant to this section shall be subject to Section 53638 and shall not, in total, exceed 30 percent of the agency's funds that may be invested for this purpose.

(k) This section shall become operative on January 1, 2026.

(Repealed and added by Stats. 2019, Ch. 619, Sec. 3. (AB 945) Effective January 1, 2020. Section operative January 1, 2026, by its own provisions.)

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**GOVERNMENT CODE
SECTION
53638.**

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

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

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

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

(Amended by Stats. 2015, Ch. 190, Sec. 64. Effective January 1, 2016.)

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**GOVERNMENT CODE
SECTION
53646.**

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

(2) In the case of any other local agency, the treasurer or chief fiscal officer of the local agency may annually render to the legislative body of that local agency and any oversight committee of that local agency a statement of investment policy, which the legislative body of the local agency shall consider at a public

meeting. Any change in the policy shall also be considered by the legislative body of the local agency at a public meeting.

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

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

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

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

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

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

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

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

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

(Amended by Stats. 2009, Ch. 332, Sec. 68.5. Effective January 1, 2010.)

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GOVERNMENT CODE - GOV

TITLE 1. GENERAL [100 - 7914]

(Title 1 enacted by Stats. 1943, Ch. 134.)

DIVISION 7. MISCELLANEOUS [6000 - 7599.2]

(Division 7 enacted by Stats. 1943, Ch. 134.)

CHAPTER 5. Joint Exercise of Powers [6500 - 6599.3]

(Chapter 5 added by Stats. 1949, Ch. 84.)

ARTICLE 1. Joint Powers Agreements [6500 - 6539.6]

(Article 1 added by Stats. 1949, Ch. 84.)

GOVERNMENT CODE

SECTION

6509.7.

(a) Notwithstanding any other provision of law, two or more public agencies that have the authority to invest funds in their treasuries may, by agreement, jointly exercise that common power. Funds invested pursuant to an agreement entered into under this section may be invested in securities and obligations as described by subdivision (p) of Section 53601. A joint powers authority formed pursuant to this section may issue shares of beneficial interest to participating public agencies. Each share shall represent an equal proportionate 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 of beneficial interest 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 (o), inclusive, of Section 53601.

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

(b) As used in this section, "public agency" includes a nonprofit corporation whose membership is confined to public agencies or public officials, in addition to those agencies listed in Section 6500.

(c) A joint powers authority formed pursuant to this section is authorized to establish the terms and conditions pursuant to which agencies may participate and invest in pool shares. Consistent with its status as a public agency as provided under Section 6500, a federally recognized Indian tribe is eligible to participate in a joint powers authority formed under this section or otherwise invest in pool shares consistent with the terms and conditions established by the joint powers authority.

(Amended by Stats. 2020, Ch. 235, Sec. 1. (SB 998) Effective January 1, 2021.)

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GOVERNMENT CODE - GOV

TITLE 2. GOVERNMENT OF THE STATE OF CALIFORNIA [8000 - 22980]

(Title 2 enacted by Stats. 1943, Ch. 134.)

DIVISION 4. FISCAL AFFAIRS [16100 - 17700]

(Division 4 added by Stats. 1945, Ch. 119.)

PART 2. STATE FUNDS [16300 - 16649.95]

(Part 2 added by Stats. 1945, Ch. 120.)

CHAPTER 2. Special Funds [16346 - 16429.4]

(Chapter 2 added by Stats. 1945, Ch. 120.)

ARTICLE 11. Local Agency Investment Fund [16429.1 - 16429.4]

(Article 11 added by Stats. 1976, Ch. 730.)

GOVERNMENT CODE

SECTION

16429.1.

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

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

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

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

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

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

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

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

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

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

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

(l) Immediately at the conclusion of each calendar quarter, all interest earned and other increment derived from investments shall be distributed by the Controller to the contributing governmental units or trustees or fiscal agents, nonprofit corporations, and quasi-governmental agencies in amounts directly proportionate to the respective amounts deposited in the Local Agency Investment Fund and the length of time the amounts remained therein. An amount equal to the reasonable costs incurred in carrying out the provisions of this section, not to exceed a maximum of 5 percent of the earnings of this fund and not to exceed the amount appropriated in the annual Budget Act for this function, shall be deducted from the earnings prior to distribution. However, if the 13-week Daily Treasury Bill Rate, as published by the United States Department of the Treasury on the last day of the state's fiscal year is below 1 percent, then the above-noted reasonable costs shall not exceed a maximum of 8 percent of the earnings of this fund for the subsequent fiscal year, shall not exceed the amount appropriated in the annual Budget Act for this function, and shall be deducted from the earnings prior to distribution. The amount of the deduction shall be credited as reimbursements to the state agencies, including the Treasurer, the Controller, and the Department of Finance, having incurred costs in carrying out the provisions of this section.

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

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

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

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FIGURE 1

**ALLOWABLE INVESTMENT INSTRUMENTS PER STATE GOVERNMENT CODE
(AS OF JANUARY 1, 2023)^A APPLICABLE TO ALL LOCAL AGENCIES^B**

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

| INVESTMENT TYPE | MAXIMUM MATURITY ^C | MAXIMUM SPECIFIED % OF PORTFOLIO ^D | MINIMUM QUALITY REQUIREMENTS | GOV'T CODE SECTIONS |
|--|-------------------------------|---|---|------------------------------------|
| Local Agency Bonds | 5 years | None | None | 53601(a) |
| U.S. Treasury Obligations | 5 years | None | None | 53601(b) |
| State Obligations— CA And Others | 5 years | None | None | 53601(c) 53601(d) |
| CA Local Agency Obligations | 5 years | None | None | 53601(e) |
| U.S Agency Obligations | 5 years | None | None | 53601(f) |
| Bankers’ Acceptances | 180 days | 40% ^E | None | 53601(g) |
| Commercial Paper— Non-Pooled Funds ^F (under \$100,000,000 of investments) | 270 days or less | 25% of the agency’s money ^G | Highest letter and number rating by an NRSRO ^H | 53601(h)(2)(c) |
| Commercial Paper— Non-Pooled Funds (min. \$100,000,000 of investments) | 270 days or less | 40% of the agency’s money ^G | Highest letter and number rating by an NRSRO ^H | 53601(h)(2)(c) |
| Commercial Paper – Pooled Funds ^I | 270 days or less | 40% of the agency’s money ^G | Highest letter and number rating by an NRSRO ^H | 53635(a)(1) |
| Negotiable Certificates of Deposit | 5 years | 30% ^J | None | 53601(i) |
| Non-negotiable Certificates of Deposit | 5 years | None | None | 53630 et seq. |
| Placement Service Deposits | 5 years | 50% ^K | None | 53601.8 and 53635.8 |
| Placement Service Certificates of Deposit | 5 years | 50% ^K | None | 53601.8 and 53635.8 |
| Repurchase Agreements | 1 year | None | None | 53601(j) |
| Reverse Repurchase Agreements and Securities Lending Agreements | 92 days ^L | 20% of the base value of the portfolio | None ^M | 53601(j) |
| Medium-Term Notes ^N | 5 years or less | 30% | “A” rating category or its equivalent or better | 53601(k) |
| Mutual Funds And Money Market Mutual Funds | N/A | 20% | Multiple ^{P,Q} | 53601(l) and 53601.6(b) |
| Collateralized Bank Deposits ^R | 5 years | None | None | 53630 et seq. and 53601(n) |
| Mortgage Pass–Through and Asset–Backed Securities | 5 years or less | 20% | “AA” rating category or its equivalent or better | 53601(o) |
| County Pooled Investment Funds | N/A | None | None | 27133 |
| Joint Powers Authority Pool | N/A | None | Multiple ^S | 53601(p) |
| Local Agency Investment Fund (LAIF) | N/A | None | None | 16429.1 |
| Voluntary Investment Program Fund ^T | N/A | None | None | 16340 |
| Supranational Obligations ^U | 5 years or less | 30% | “AA” rating category or its equivalent or better | 53601(q) |
| Public Bank Obligations | 5 years | None | None | 53601(r), 53635(c) and 57603 |

TABLE OF NOTES FOR FIGURE 1

- ^A Sources: Sections 16340, 16429.1, 27133, 53601, 53601.6, 53601.8, 53630 et seq., 53635, 53635.8, and 57603.
- ^B Municipal Utilities Districts have the authority under the Public Utilities Code Section 12871 to invest in certain securities not addressed here.
- ^C Section 53601 provides that the maximum term of any investment authorized under this section, unless otherwise stated, is five years. However, the legislative body may grant express authority to make investments either specifically or as a part of an investment program approved by the legislative body that exceeds this five year remaining maturity limit. Such approval must be issued no less than three months prior to the purchase of any security exceeding the five-year maturity limit.
- ^D Percentages apply to all portfolio investments regardless of source of funds. For instance, cash from a reverse repurchase agreement would be subject to the restrictions.
- ^E No more than 30 percent of the agency's money may be in bankers' acceptances of any one commercial bank.
- ^F Includes agencies defined as a city, a district, or other local agency that do not pool money in deposits or investment with other local agencies, other than local agencies that have the same governing body.
- ^G Local agencies, other than counties or a city and county, may purchase no more than 10 percent of the outstanding commercial paper and medium-term notes of any single issuer.
- ^H Issuing corporation must be organized and operating within the U.S., have assets in excess of \$500 million, and debt other than commercial paper must be in a rating category of "A" or its equivalent or higher by a nationally recognized statistical rating organization, or the issuing corporation must be organized within the U.S. as a special purpose corporation, trust, or LLC, have program wide credit enhancements, and have commercial paper that is rated "A-1" or higher, or the equivalent, by a nationally recognized statistical rating agency.
- ^I Includes agencies defined as a county, a city and county, or other local agency that pools money in deposits or investments with other local agencies, including local agencies that have the same governing body. Local agencies that pool exclusively with other local agencies that have the same governing body must adhere to the limits set forth in Section 53601(h)(2)(C).
- ^J No more than 30 percent of the agency's money may be in negotiable certificates of deposit that are authorized under Section 53601(i).
- ^K Effective January 1, 2020, no more than 50 percent of the agency's money may be invested in deposits, including certificates of deposit, through a placement service as authorized under 53601.8 (excludes negotiable certificates of deposit authorized under Section 53601(i)). On January 1, 2026, the maximum percentage of the portfolio reverts back to 30 percent. Investments made pursuant to 53635.8 remain subject to a maximum of 30 percent of the portfolio.
- ^L Reverse repurchase agreements or securities lending agreements may exceed the 92-day term if the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement or securities lending agreement and the final maturity dates of the same security.
- ^M Reverse repurchase agreements must be made with primary dealers of the Federal Reserve Bank of New York or with a nationally or state chartered bank that has a significant relationship with the local agency. The local agency must have held the securities used for the agreements for at least 30 days.
- ^N "Medium-term notes" are defined in Section 53601 as "all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States."
- ^O No more than 10 percent invested in any one mutual fund. This limitation does not apply to money market mutual funds.
- ^P A mutual fund must receive the highest ranking by not less than two nationally recognized rating agencies or the fund must retain an investment advisor who is registered with the SEC (or exempt from registration), has assets under management in excess of \$500 million, and has at least five years' experience investing in instruments authorized by Sections 53601 and 53635.
- ^Q A money market mutual fund must receive the highest ranking by not less than two nationally recognized statistical rating organizations or retain an investment advisor registered with the SEC or exempt from registration and who has not less than five years' experience investing in money market instruments with assets under management in excess of \$500 million.
- ^R Investments in notes, bonds, or other obligations under Section 53601(n) require that collateral be placed into the custody of a trust company or the trust department of a bank that is not affiliated with the issuer of the secured obligation, among other specific collateral requirements.
- ^S A joint powers authority pool must retain an investment advisor who is registered with the SEC (or exempt from registration), has assets under management in excess of \$500 million, and has at least five years' experience investing in instruments authorized by Section 53601, subdivisions (a) to (o).
- ^T Local entities can deposit between \$200 million and \$10 billion into the Voluntary Investment Program Fund, upon approval by their governing bodies. Deposits in the fund will be invested in the Pooled Money Investment Account.
- ^U Only those obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), and Inter-American Development Bank (IADB), with a maximum remaining maturity of five years or less.

Some investments, such as straight floaters or floating rate notes that are not otherwise prohibited, have the potential to result in zero interest accrual. Before purchasing these types of investments, the local agency should evaluate all possible outcomes, and, as a safeguard, should consider including in its investment policy a statement establishing an acceptable positive spread or floor for all securities, which pay interest based on a spread to an index. Also, while not expressly prohibited by state law, unregistered securities, such as [Rule 144A](#) securities, may not be purchased by local agencies because local agencies do not meet the threshold of \$5 million investments and \$100 million in securities. On August 26, 2020 the Securities and Exchange Commission expanded the definition of Qualified Institutional Buyers (QIB) ² to include any institution that qualifies as an accredited investor under Rule 501(a) under the Securities Act that are not otherwise stated in the definition of “qualified institutional buyer” provided they satisfy the \$100 million threshold.³

²CDIAC's *Issue Brief: Rule 144A Securities*, provides a summary of securities in this class.

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

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

MINIMUM LEGAL REQUIREMENT:

To be eligible to receive local agency money, a financial institution must receive an overall rating of not less than “satisfactory” from the appropriate federal supervisory agency for meeting the criteria specified in Section 2906 of Title 12 of the U.S. Code (Community Reinvestment Act of 1977). The Community Reinvestment Act of 1977 (Act) requires financial institutions to demonstrate their commitment to meeting the credit needs of local communities in which they are chartered to do business. For the purpose of the Act, the appropriate federal supervisory agency includes:

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

APPENDIX III.

GLOSSARY OF CITY OF SANTA ANA INVESTMENT POLICY & RELATED CALIFORNIA CODE TERMS

AGENCIES: Federal agency securities and/or Government Sponsored Enterprises (GSE). [Referenced pages: 9, 10, 11, 16, 18, 31]

ASSET- BACKED SECURITIES (ABS): securities supported by pools of installment loans or leases or by pools of revolving lines of credit. [Referenced page: 14]

ASSOCIATION OF PUBLIC TREASURERS OF THE UNITED STATES AND CANADA: The Association of Public Treasurers of the United States and Canada (APTUS&C), formerly called the Municipal Treasurers Association of the United States and Canada (MTA US & C) was founded in 1965 and represents public treasury and finance officials in local, county, and state/provincial governments throughout North America. The Association provides educational seminars and conferences, publications, policy and legislative information, and technical assistance to members. [Referenced pages: 6, 21]

BENEFICIAL SHARES/MONEY MARKET SHARES: In US securities law, a beneficial owner (as distinct from a "nominee owner," "registered owner," or "record holder") of a security includes any person who, directly or indirectly, has or shares voting or investment power also known as money market shares. [Referenced pages: 12, 18]

BENCHMARK: A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments. [Referenced pages: 5, 19]

BILLS OF EXCHANGE/BANKERS ACCEPTANCE (BA): A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer. These instruments are accepted as payment by banks engaged in financing trade. For example, a U.S. corporation planning to purchase goods from a foreign vendor will ask its bank to issue a letter of credit on behalf of the corporation. The letter of credit will allow the foreign vendor to draw a draft on the U.S. corporation's bank to pay for the merchandise. Upon receipt of the letter and the draft, the foreign vendor will ship the merchandise and present the draft at its bank, which allows the vendor to receive payment for the merchandise sold. The vendor's foreign bank forwards the draft to the U.S. bank, at which point the draft is "accepted" as an obligation that the purchaser's U.S. bank must pay at a specified maturity date. The U.S. bank may keep the acceptance or may sell it to a third party investor. Bankers' acceptances are sold at a discount and are considered fairly safe investment instruments because both the purchaser's bank and the initiating corporation are obligated to pay the holder at maturity. [Referenced pages: 10, 18, 31]

BOOK VALUE: The value at which a debt security is shown on the holder's balance sheet. Book value is acquisition cost less amortization of premium or plus accretion of discount. [Referenced pages: 4, 13, 20]

BOOK ENTRY: An electronic system of accountability, custody, transfer, and settlement of securities. Book-entry systems allow rapid and accurate transfers of securities with simultaneous cash settlement. [Referenced pages: 31, 33, 35]

BROKER: A broker brings buyers and sellers together for a commission. [Referenced page: 11]

BROKER-DEALER: Broker-dealer is used in securities regulation parlance to describe stock and securities brokerages, because most act as both agents and principals. A brokerage acts as a broker (or agent) when it executes orders on behalf of clients and acts as a dealer, or principal, when it trades for its own account. A broker-dealer is a natural person, company or other organization that engages in the business of trading securities for its own account or on behalf of its customers. [Referenced pages: 3, 8, 9, 24, 25]

CALIFORNIA MUNICIPAL TREASURERS ASSOCIATION (CMTA): Is the professional society of active public treasurers of California counties, cities and special districts. It sets ethical standards for the treasury profession in state and local governments in California. The Association provides educational seminars and conferences, publications, policy and legislative information, and technical assistance to members. [Referenced pages: 6, 21]

CERTIFICATE OF DEPOSIT/NEGOTIABLE CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a certificate. Time certificates of deposit are collateralized in accordance with the State code. Large-denomination CD's are typically negotiable and non-collateralized. These instruments are issued by depository institutions such as commercial banks, savings institutions and credit unions against funds invested for a specified time period (typically between 0 to 5 years). The term "CD" by itself generally refers to negotiable certificates of deposit that can be resold to other parties. CDs, however, also may be nonnegotiable. Nonnegotiable CDs cannot be actively traded on the secondary markets and generally are held to maturity by the party that purchased them. Yields on CDs vary depending on liquidity, credit quality; and, for nonnegotiable CDs, whether they are collateralized. [Referenced pages: 11, 17, 18, 32]

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 monies. [Referenced pages: 10, 11, 14, 16, 17, 32, 33, 35]

COLLATERIALIZED MORTGAGE OBLIGATION (CMO): Mortgage backed bond that separates mortgage pools into different maturity classes called tranches. CMO's are issued by Federal National Mortgage Corp. and Federal National Mortgage Association and are usually backed with a government guarantee and have an AAA bond rating. Planned Amortization Class CMOs (PAC) have stable prepayment schedules that do not react unfavorably in wide market swings. [Referenced page: 35]

COMMERCIAL PAPER (CP): An unsecured obligation issued by a corporation or bank to finance its short-term credit needs, such as accounts receivable, payroll, and inventory. Commercial paper is usually issued by companies with high credit ratings, meaning that the investment is almost always relatively low risk. Maturities typically range from 2 to 270 days. [Referenced pages: 10, 18, 30, 32]

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR): The official annual report of the (*entity*). It includes five combined statements for each individual fund and account group prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed Statistical Section. [Referenced page: 1]

CONSTANT MATURITY TREASURY (CMT) RATE: CMT rate is an adjustment for equivalent maturity, used by the Federal Reserve Board to compute an index based on the average yield of various Treasury securities maturing at different periods. [Referenced pages: 5, 19]

CORPORATE BOND: A debt security issued by corporation and sold to investors. The backing for the bond is usually the payment ability of the company, which is typically money to be earned from future operations. [Referenced page: 6]

CREDIT QUALITY: The measurement of the financial strength of a bond issuer. This measurement helps an investor to understand an issuer's ability to make timely interest payments and repay the loan principal upon maturity. Generally, the higher the credit quality of a bond issuer, the lower the interest rate paid by the issuer because the risk of default is lower. Credit quality ratings are provided by nationally recognized rating agencies. [Referenced page: 4]

CREDIT RISK: The risk to an investor that an issuer will default in the payment of interest and/or principal on a security. [Referenced pages: 2, 3, 17]

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account. [Referenced pages: 3, 8, 9, 24, 25]

DELIVERY VERSUS PAYMENT: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities. See Safekeeping and Custody: [Referenced pages: 17, 19, 31]

DERIVATIVE: Financial instruments which have a principal and/or interest payment subject to uncertainty as to timing and/or amount including financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities). [Referenced page: 14]

DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent returns. [Referenced page: 17]

DURATION: Is a measure of time (term of investment) which also is a measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years. Rising interest rates mean falling bond prices, while declining interest rates mean rising bond prices. [Referenced pages: 4, 18]

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, currently up to \$250,000 per deposit. **FEDERAL FUNDS RATE:** The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations. [Referenced pages: 29, 36, 37, 39]

FEDERAL FARM CREDIT BANK (FFCB): Notes are high credit quality, short-term debt instruments, issued at a discount to their par amount, similar to U.S. Treasury bills. FFCB provides a steady and continuous stream of capital for the agricultural sector in all 50 states and Puerto Rico. Presently, the Farm Credit System funds approximately 35 percent of all U.S. farm business debt. [Referenced page: 9]

FEDERAL HOME LOAN BANKS (FHLB): Government sponsored wholesale banks (currently 12 regional banks) which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLB is to liquefy the housing related assets of its members who must purchase stock in their district Bank. [Referenced pages: 9, 16, 28, 29]

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted.

FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest. [Referenced page: 9]

FEDERAL RESERVE: The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., 12 regional banks and about 5,700 commercial banks that are members of the system. [Referenced pages: 8, 10, 28, 33, 34]

FIDUCIARY: Person, company, or association holding assets in trust of a beneficiary. [Referenced pages: 15, 25]

FINANCIAL INDUSTRY REGULATORY AUTHORITY, INC. (FINRA): FINRA is a private corporation that acts as a self-regulatory organization (SRO). FINRA is the successor to the National Association of Securities Dealers, Inc. (NASD) and the member regulation, enforcement and arbitration operations of the New York Stock Exchange. It is a non-governmental organization that regulates member brokerage firms and exchange markets. The government agency which acts as the ultimate regulator of the securities industry, including FINRA, is the Securities and Exchange Commission. [Referenced page: 8, 9]

FUTURES CONTRACT: Agreement to buy or sell a specific amount of a commodity or financial instrument at a particular price on a stipulated future date. [Referenced pages: 9, 35]

EX OFFICIO: Ex officio describe a position someone automatically gains because of another job or position he/she already holds. For example, the United States Vice President is the ex officio President of the Senate. In a like fashion, in accordance with the California Government Code the Chief Fiscal Officer of a city which does have a specified City Treasurer is "ex officio" City Treasurer. [Referenced page: 6]

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae): Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith & credit of the U.S. Government. Ginnie Mae securities are backed by FHA, VA or FHA mortgages. The term "pass-throughs" is used to describe Ginnie Maes. [Referenced page: 9]

GAAP (GENERALLY ACCEPTED ACCOUNTING PRINCIPLES): Is a collection of commonly-followed **accounting** rules and standards for financial reporting. The acronym is pronounced "gap." GAAP specifications include definitions of concepts and principles, as well as industry-specific rules. [Referenced page: 2]

GUARANTEED INVESTMENT AGREEMENTS OR CONTRACTS (GIC): An agreement or contract that guarantees repayment of principal and a fixed or floating interest rate for a predetermined period of time. [Referenced page: 14]

INTEREST: The amount earned while owning a debt security, generally calculated as a percentage of the principal amount. [Referenced pages: 3, 14, 16, 17, 18, 28, 31, 36]

INVERSE FLOATER: A bond or other type of debt whose coupon rate has an inverse relationship to a benchmark rate. An inverse floater adjusts its coupon payment as the interest rate changes. (Referenced pages: 14, 36]

INVESTMENT POLICY: A concise and clear statement of the objectives and parameters formulated by an investor or investment manager for a portfolio of investment securities. [Referenced pages: 1, 2, 3, 5, 6, 8, 11, 12, 13, 16, 20, 21, 22, 24, 38]

ISSUER: A legal entity that has the power to issue and distribute securities. Issuers include corporations, municipalities, foreign and domestic governments and their agencies, and investment trusts. [Referenced pages: 3, 7, 12, 17, 20, 25, 30, 32, 33, 35, 38]

JOINT POWERS AUTHORITIES (JPAs): JPAs are legally created entities that allow two or more public agencies to jointly exercise common powers. Forming such entities permits public agencies with the means to provide services more efficiently and in a cost-effective manner such as JPA investment pools. The Joint Exercise of Powers Act, as codified in California Government Code Section 6500, governs JPAs. Under the Act, JPAs are restricted to use by public agencies only. However, the term public agency is defined very broadly. A public agency can include, but is not limited to, the federal government, the state or state departments, local agencies, mutual water companies, public districts and recognized Indian tribes. [Referenced pages: 15, 35]

LIQUIDITY: Liquidity describes the degree to which an asset or security can be quickly bought or sold in the market without affecting the asset's price. [Referenced pages: 2, 3, 4, 11, 13, 19, 21]

LOCAL AGENCY/PUBLIC LOCAL AGENCY: Means a county, city, city and county, including a chartered city or county, school district, community college district, public district, county board of education, county superintendent of schools, or any public or municipal corporation. [Referenced pages: 10, 11, 12, 15, 18, 20, 22, 24, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37, 38, 39]

LOCAL AGENCY INVESTMENT FUND (LAIF): A voluntary program created by statute in 1977 as an investment alternative for California's local governments and special districts. Local agencies may participate in the state's portfolio, which invests hundreds of millions of dollars, using the investment expertise of the Treasurer's Office investment staff at no additional cost to the taxpayer. LAIF is part of the Pooled Money Investment Account (PMIA). The PMIA began in 1955 and oversight is provided by the Pooled Money Investment Board (PMIB) and an in-house Investment Committee. The PMIB members are the State Treasurer, Director of Finance, and State Controller. The Local Investment Advisory Board (LIAB) provides oversight for LAIF. The Board consists of five members as designated by statute. The State Treasurer, as Chairman, or his designated representative appoints two members qualified by training and experience in the field of investment or finance, and two members who are treasurers, finance or fiscal officers or business managers employed by any county, city or local district or municipal corporation of this state. [Referenced pages: 11, 15, 18, 27, 28, 38, 39]

LOCAL GOVERNMENT INVESTMENT POOL (LGIP): The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment. [Referenced page: 15]

MARKET RISK: The risk that the value of a security will rise or decline as a result of changes in market conditions. [Referenced page: 13]

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold. [Referenced pages: 3, 4, 5, 10, 16, 20, 32, 35, 38]

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase or reverse repurchases a security that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower. [Referenced page: 10]

MATURITY: The date upon which the principal or stated value of an investment becomes due and payable. [Referenced pages: 3, 4, 5, 9, 10, 11, 12, 13, 14, 18, 19, 20, 21, 31, 32, 33, 34, 35, 36, 38]

MEDIUM TERM CORPORATE NOTES (MTN): Refers to 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. [Referenced pages: 12, 18]

MONEY MARKET: The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded. A money market mutual fund is a type of fixed income mutual fund that invests in debt securities characterized by their short maturities and minimal credit risk. Money market securities must be highly liquid and of the highest quality, thus money market mutual funds are among the lowest-volatility types of investments. [Referenced pages: 4, 12, 13, 15, 17, 18, 34]

MONEY MARKET FUNDS: Seek to limit exposure to losses due to credit, market, and liquidity risks. Money market funds in the United States are regulated by the Securities and Exchange Commission (SEC) under the Investment Company Act of 1940. Rule 2a-7 of the act restricts the quality, maturity and diversity of investments by money market funds. Under this act, a money fund mainly buys the highest rated debt, which matures in under 13 months. The portfolio must maintain a weighted average maturity (WAM) of 60 days or less and not invest more than 5% in any one issuer, except for government securities and repurchase agreements. Unlike most other financial instruments, money market funds seek to maintain a stable value of \$1 per share. Funds are able to pay dividends to investors. [Referenced pages: 12, 34]

MUTUAL FUND: An investment vehicle that is made up of a pool of funds collected from many investors for the purpose of investing in securities such as stocks, bonds, money market instruments and similar assets. Mutual funds are operated by money managers, who invest the fund's capital and attempt to produce capital gains and income for the fund's investors. A mutual fund's portfolio is structured and maintained to match the investment objectives stated in its prospectus. A money market mutual fund is a type of fixed income mutual fund that invests in debt securities characterized by their short maturities and minimal credit risk. [Referenced pages: 4, 13, 15, 17, 34]

MORTGAGE PASS-THROUGH SECURITY: These instruments are based on pooled home mortgages sold by federal agencies and instrumentalities such as Ginnie Mae and Freddie Mac. The amount of principal and interest paid to investors varies from month to month in part because homeowners may accelerate principal payments on a mortgage. The anticipated pay down schedule of the securities will vary from mortgage pool to mortgage pool. Mortgage pass-through securities are complex investment instruments that do not respond to market forces like other, more standard investment instruments. In a declining interest rate environment, mortgage pass-through investors face higher reinvestment risk and lower returns from their investment than investors in other instruments because homeowners tend to refinance in lower interest rate environments, accelerating the principal payments on their mortgages. Thus, the mortgage pass-through investor receives the accelerated principal payments at par and must reinvest these earnings in a lower interest rate environment. [Referenced page: 35]

NATIONAL ASSOCIATION OF STATE TREASURERS (NAST): Provides advocacy and support that enables member states to pursue and administer sound financial policies and programs benefiting the citizens of the nation. The Association provides educational seminars and conferences, publications, policy and legislative information, and technical assistance to members. [Referenced page: 6]

NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION (NRSRO): A NSRO is a credit rating agency (CRA) that issues credit ratings that the U.S. Securities and Exchange Commission (SEC) permits other financial firms to use for certain regulatory purposes. [Referenced pages: 10, 12, 32, 34, 35]

OPTION: Right to buy or sell property that is granted in exchange for an agreed upon sum. If the right is not exercised after a specified period, the option expires and the option buyer forfeits the money. [Referenced page: 35]

PAR AMOUNT: The face amount or value of a bond. [Referenced pages: 19, 20]

PASS-THROUGH SECURITY: A pool of fixed income securities backed by a package of assets (i.e. mortgages) where the holder receives the principal and interest payments. [Referenced page: 35]

PERFECTED INTEREST: Perfected interest refers to establishment of a superior ownership right in and legal control over securities assets held by a bank custodian on the purchaser's behalf and is intended to protect the purchaser from the custodial bank's own creditors in the event of a bank default and filing for bankruptcy. [Referenced page: 17]

PORTFOLIO: Collection of securities held by an investor. [Referenced pages: 1, 2, 3, 4, 5, 6, 7, 9, 10, 11, 12, 13, 14, 16, 17, 18, 19, 21, 27, 33, 38]

PRINCIPAL: The face value or par value of an investment. [Referenced pages: 3, 4, 9, 14, 21, 31, 37]

PRUDENT INVESTOR STANDARD: A standard defined under State Government Code Section 53600.3 that states 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 City, 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 local agency. [Referenced pages: 2, 9, 12]

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond the current income return. [Referenced pages: 4, 13, 19]

REPURCHASE AGREEMENT (RP or REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. (E.g. - A contract in which the seller of securities, such as Treasury Bills, agrees to buy them back at a specified time and price; also called buyback.) See also Master Repurchase Agreement. [Referenced pages: 10, 11, 14, 17, 18, 31, 32, 33, 34]

REVERSE REPURCHASE AGREEMENT (REVERSE RP or REPO): A reverse-repurchase agreement (reverse repo) involves an investor borrowing cash from a financial institution in exchange for securities. The investor agrees to repurchase the securities at a specified date for the same cash value plus an agreed upon interest rate. Although the transaction is similar to a repo, the purpose of entering into a reverse repo is quite different. While a repo is a straightforward investment of public funds, the reverse repo is a borrowing. [Referenced pages: 14, 31, 32, 33, 34]

SAFEKEEPING AND CUSTODY: In a third-party safekeeping agreement, the local government agency arranges for a firm other than the party that sold the investment to provide for the transfer and safekeeping of the securities. Financial firms should not serve as both government broker-dealer and custodian. Safekeeping represents a financial institution's obligation to act on behalf of the owner under the owner's control. Custody is a more clearly defined control position by the agent responding to the owner's requirements. Custody normally does not take place in the governmental entities depository bank. Investments should be settled in a delivery-versus-payment (DVP) basis. In this procedure, the buyer's payment for securities is due at the time of delivery. Security delivery and payment occur simultaneously. This practice ensures that no funds are at risk in an investment transaction as funds are not released until securities are delivered, ensuring the governmental entity has either money or securities at all times during the transaction. [Referenced page: 17]

SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution. [Referenced page: 4]

SECURITIES ACT OF 1933, SECTION 5, RULE 144A SECURITIES: Unregistered securities – purchases of private resales of unregistered securities to institutions, by Securities and Exchange Commission defined Qualified Institution Buyers (QIBs) who are judged sophisticated enough to understand the complexities and risks inherent in private placements. Local Agencies that qualify as an accredited investor under the Rule 501(a) of the Securities Act are deemed QIBs provided that they can meet a \$100 million in invested securities threshold. [Referenced page: 15]

SECURITIES AND EXCHANGE COMMISSION: Agency created by Congress to protect investors in securities transactions by administering securities legislation. [Referenced pages: 12, 13, 34, 35]

SPECULATION: Assumption of risk in anticipation of gain but recognizing a higher than average possibility of loss. [Referenced page: 15]

SWAP: Trading one asset for another. [Referenced page: 4]

SUPRANATIONAL OBLIGATIONS: United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, with a maximum remaining maturity of five years or less, and eligible for purchase or sale within the United States. [Referenced pages: 10, 18]

TREASURIES: Negotiable U.S. Government debt obligations, backed by its full faith and credit, comprising of short-term Treasury Bills (maturity less than one year), medium-term Treasury Notes (maturity one to ten years), and long-term Treasury bonds (maturity from 10 to 30 years). [Referenced pages: 3, 5, 17]

TREASURY BILLS (T-Bills): A non-interest bearing discount security issued by the US Treasury to finance the national debt. A T-Bill is a short-term debt obligation backed by the U.S. government with a maturity of less than one year, sold in denominations of \$1,000 up to a maximum purchase of \$5 million. T-bills are sold with maturities of four, thirteen, twenty-six and fifty-two weeks. They do not pay interest, but rather are sold at a discount to their face value. Effective interest is earned at maturity. [Referenced pages: 9, 11, 17, 18]

TREASURY BONDS (T-Bonds): Long-term coupon-bearing US Treasury securities issued as direct obligations of the US Government and having initial maturities of more than 10 to 30 years. Next to treasury bills (maturity less than one year), and treasury notes (maturity one to ten years) T-bonds are the safest form of marketable investment. [Referenced pages: 9, 11, 17, 18]

TREASURY NOTES: Medium-term coupon-bearing US Treasury securities issued as direct obligations of the US Government and having initial maturities from one to 10 years. Treasury notes are available from the government with either a competitive or noncompetitive bid. [Referenced pages: 9, 11, 17, 18, 31]

WEIGHTED AVERAGE MATURITY (WAM): The average maturity of all the securities that comprise a portfolio. According to SEC rule 2a-7, the WAM for SEC registered money market mutual funds may not exceed 90 days and no one security may have a maturity that exceeds 397 days. [Referenced page: 20]

YIELD: The rate of annual income return on an investment, expressed as a percentage: (a) Income Yield is obtained by dividing the current dollar income by the current market price for the security; (b) Net Yield or Yield to Maturity is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond. [Referenced pages: 3, 4, 5, 19, 21]

APPENDIX IV.

GLOSSARY OF ADDITIONAL COMMON PUBLIC LOCAL AGENCY INVESTMENT TERMS

ACCRUED INTEREST: The accumulated interest payable on a security since the last interest payment made by the issuer.

AMORTIZATION: The systematic reduction of the amount owed on a debt issue through periodic payments of principal.

ASKED PRICE (OR ASK): The price at which securities are offered.

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

BID PRICE: The price offered by a buyer of securities. (When you are selling securities, you ask for a bid.) See Offer Price.

CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION (CDIAC): This California state commission provides information, education and technical assistance on debt issuance and public fund investments to local public agencies and other public finance professionals. The Commission was created in 1981 as the California Debt Advisory Commission to function as the State's clearinghouse for public debt issuance information and is tasked to assist state and local agencies with the monitoring, issuance and management of public debt. The Commission's name was changed to the California Debt and Investment Advisory Commission with the passage of Chapter 833, Statutes of 1996 (AB 1197), and its mission was expanded to cover public investments.

CALIFORNIA SOCIETY OF MUNICIPAL FINANCE OFFICERS (CSMFO): Is a professional association of state, county, and local government finance officers in California. A statewide organization serving all California municipal finance professionals, an affiliate of the nationwide Government Finance Officers Association (GFOA), membership is open to anyone in the State of California actively engaged in government finance in any city, county, or special district. CSMFO has technical and professional committees that deal with financial issues facing government and the public.

CALLABLE SECURITIES: A security that can be redeemed by the issuer before the scheduled maturity.

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

CaITRUST (INVESTMENT TRUST OF CALIFORNIA): An investment pool partnership authorized under California state law created by the CSAC (California State Association of Counties) Finance Corporation and the League of California Cities to provide a convenient method for local agencies to pool their assets for investment. State statute authorizes local agencies to directly invest in joint investment pools, such as CaITRUST. There is no requirement that a local agency become a JPA member. Local agencies have four account options – Government Fund, Money Market Fund, Short-Term, or Medium-Term accounts. Local agencies can select an account option which matches their investment time horizon and cash flow needs and easily reallocate among accounts as those needs change.

CERTIFICATE OF DEPOSIT ACCOUNT REGISTRY SERVICE (CDARS): A program with an approved depository that removes the need for collateral by providing full FDIC insurance for certificates of deposit.

COLLATERALIZED BANK DEPOSITS: Collateralized bank deposits can be broadly defined as notes, bonds, and other obligations (such as nonnegotiable CDs) that are secured at all times by valid first party interest in collateral. For California local agencies, the collateral must meet specified Government Code requirements.

CONVEXITY: Is the measure of the curve in the relationship between a bond's price and its yield. Consider the price and yield of Bond A on a graph, where price is marked on the vertical axis, and yield on the horizontal. A bond's price and yield are inversely related, so as its price decreases, its yield increases.

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

CUSTODIAN BANK: A financial institution that holds customers' securities for safekeeping to minimize the risk of their theft or loss. A custodian holds securities and other assets in electronic or physical form.

CUSIP: CUSIP or CUSPIC number stands for Committee on Uniform Securities Identification Procedures. A CUSIP number identifies most financial instruments, including: stocks of all registered U.S. and Canadian companies, commercial paper, and U.S. government and municipal bonds. The CUSIP system (formally known as CUSIP Global Services)—owned by the American Bankers Association and managed by Standard & Poor's - facilitates the clearance and settlement process of securities. CUSIP numbers consist of nine characters (including letters and numbers) that uniquely identify a company or issuer and the type of financial instrument. A similar system is used to identify foreign securities (CUSIP International Numbering System or CINS). CINS employs the same nine character identifier as CUSIP, but also contains a letter in the first position to signify the issuer's country or geographic region.

DEBENTURE: A bond secured only by the general credit of the issuer.

DISCOUNT: The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

DISCOUNT SECURITIES: Non-interest bearing money market instruments that are issued a discount and redeemed at maturity for full face value (e.g. - *U.S. Treasury Bills*).

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

FEDERAL CREDIT AGENCIES: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., S&L's, small business firms, students, farmers, farm cooperatives, and exporters.

FEDERAL FUNDS RATE: The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

FEDERAL OPEN MARKET COMMITTEE (FOMC): Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

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

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

LADDERING: Is a bond investment strategy whereby an investor staggers the maturity of the bonds in his/her portfolio so that the bond proceeds can be reinvested at regular intervals. Laddering avoids the risk of reinvesting a large portion of assets in an unfavorable financial environment. Each "rung" of the ladder is a bond of a specific maturity date and the "height" of the ladder is the difference between the shortest maturity bond and the longest maturity bond. Benefits of utilizing a rolling inventory of bonds with "laddered" maturities are primarily three-fold:

(1) Interest rate risk is decreased by holding both short-term and long-term bonds thereby spreading risk along the interest rate curve. If rates are rising, as one bond matures the funds can be re-invested into higher yield bonds.

(2) - Decrease re-investment risk because as one bond in the ladder matures, the cash is re-invested, but it only represents a portion of the total portfolio. Even if prevailing rates at the time of re-investment are lower than the previous bond was returning, the smaller amount of reinvestment dollars mitigates the risk of investing a lot of cash at a low return.

(3) - Maintain steady cash flows to encourage regular saving to encourage an income-producing portfolio.

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

OFFER PRICE (OR OFFER): The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See Asked Price and Bid Price.

OPEN MARKET OPERATIONS: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

PASSBOOK SAVINGS ACCOUNT: A savings account in which deposits and withdrawals are recorded in the depositor's passbook.

QUALIFIED PUBLIC DEPOSITORIES: A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

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

SEC RULE 15(C)3-1 [Uniform Net Capital Rule]: Every broker or dealer must at all times have and maintain net capital no less than the greater of the highest minimum requirement applicable to its ratio requirement under paragraph (a)(1) of this section, or to any of its activities under paragraph (a)(2) of this section, and must otherwise not be "insolvent" as that term is defined in paragraph (c)(16) of this section.

STRUCTURED NOTES: Notes issued by Government Sponsored Enterprises (FHLB, FNMA, SLMA, etc.) and Corporations, which have imbedded options (e.g., call features, step-up coupons, floating rate coupons, derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

TIME DEPOSITS: These instruments are issued by depository institutions against funds deposited for a specified length of time. For the purpose of this report, time deposits (which would include instruments such as deposit notes) are distinct from CDs. The primary difference between the two is the method of interest calculation. Interest payments on time deposits are calculated in a manner similar to that of corporate bonds whereas interest payments on CDs are calculated similarly to money market instruments.

TOTAL RETURN: All money earned on a bond or bond fund from annual interest and market gain or loss, if any, including the deduction of sales charges and/or commissions.

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

YIELD CURVE: A graphic representation that depicts the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity. A normal yield curve may be alternatively referred to as a positive yield curve.

YIELD TO CALL (YTC): The rate of return you receive if you hold the bond to its call date and the security is redeemed at its call price. YTC assumes interest payments are reinvested at the yield-to-call date.

YIELD TO MATURITY (YTM): The overall interest rate earned by an investor who buys a bond at the market price and holds it until maturity. Mathematically, it is the discount rate at which the sum of all future cash flows (from coupons and principal repayment) equals the price of the bond.

YIELD TO WORST (YTW): The lower yield of yield-to-call and yield-to-maturity. Investors of callable bonds should always do the comparison to determine a bond's most conservative potential return.

ZERO-COUPON SECURITIES (STRIPS): Security that is issued at a discount and makes no periodic interest payments. The rate of return consists of a gradual accretion of the principal of the security and is payable at par upon maturity. California state law does not allow local agencies to purchase these securities because of the greater interest rate risk and price volatility associated with them.



CITY OF SANTA ANA
FINANCE & MANAGEMENT SERVICES AGENCY
BROKER-DEALER QUESTIONNAIRE AND CERTIFICATION

1. Name of Firm: _____
2. Address: (Local) _____
(Headquarters) _____
3. Telephone No. (Toll Free) _____
(Direct #) _____
4.

| Primary Representative | Manager / Partner-in-Charge |
|--|--|
| Name _____ | Name _____ |
| Title _____ | Title _____ |
| Telephone No. _____ | Telephone No. _____ |
| Fax No. _____ | Fax No. _____ |
| Email _____ | Email _____ |
| No. of Years in Institutional Sales: _____ | No. of Years in Institutional Sales: _____ |
| SEC Licenses: _____ | SEC Licenses: _____ |
5. Are you a Primary Dealer in U.S. Government Securities?() Yes () No
6. Are you a Regional Dealer in U.S. Government Securities?() Yes () No
7. Are you a Broker - i.e., You **DO NOT** own positions of securities?.....() Yes () No
8. Are you NASD certified and licensed to sell to California municipalities?() Yes () No
9. What is the net capitalization of your firm? _____
10. What is the date of your firm's fiscal year end? _____
11. Is your firm owned by a holding company? If so, what is the name and net capitalization of the holding firm?

12. Please provide your normal custody and delivery process: _____

13. Which of the following securities are offered regularly by your trading desk?

- ☐ US Treasuries (Bills, CMB, Notes) ☐ Federal Agencies (Discount Notes, Bonds)
- ☐ Commercial Paper ☐ Bankers Acceptances ☐ Negotiable Cert of Deposit
- ☐ Medium Term Corporate Notes ☐ Repurchase Agreements ☐ Money Market Funds
- ☐ Asset Backed Securities/Mortgages ☐ Reverse Repurchase Agreements

14. Which of the above securities does your firm specialize in marketing? _____

15. Please identify your most directly comparable City/Local Agency clients in our geographical area:

| <u>Entity</u> | <u>Contact Person</u> | <u>Title</u> | <u>Phone No.</u> | <u>Client Since</u> |
|---------------|-----------------------|--------------|------------------|---------------------|
| _____ | _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ | _____ |

16. What reports, transactions, confirmations and paper trail do your local agency clients receive? (Please include samples.)

17. Please include samples of research reports, market information, or publications that your firm regularly provides to local agency clients.

18. What precautions are taken by your firm to protect the interest of the public when dealing with government agencies as investors?

19. Have you or your firm been censored or punished by a regulatory State or Federal Agency for improper or fraudulent activities, related to the sale of securities? () Yes () No

20. If answer to question # 19 is **YES**, please explain charge(s), date(s), action(s) taken:

21. Attach certification documentation of your capital adequacy and financial solvency. This needs to be an audited financial statement by an independent, recognized accounting firm. The audited financial statement must be provided annually to the City within 120 days of your firm's fiscal year-end.

22. Attach a complete schedule of your applicable fees and charges.

23. Does your firm offer investment training to your local agency clients? () Yes () No

CERTIFICATION

I hereby certify that I have personally read the City of Santa Ana's Investment Policy and the California Government Codes pertaining to investments and deposits of the City of Santa Ana, and have implemented reasonable procedures and a system of controls designed to preclude imprudent investment activities arising out of transactions conducted between our firm and the City of Santa Ana. ***I understand, however, that our firm is not obligated to monitor the percentage limits on the investments as described in the City of Santa Ana's Investment Policy.*** All sales personnel will be routinely informed of the City of Santa Ana's investment objectives, horizon, outlook, strategies and risk constraints whenever we are so advised. We pledge to exercise due diligence in informing the City of Santa Ana's Investment Officers of all foreseeable risks associated with financial transactions conducted with our firm. I attest to the accuracy of our responses to your questionnaire.

NOTE: Completion of this questionnaire is only part of the City of Santa Ana's certification process and DOES NOT guarantee that the applicant will be approved to do business with the City of Santa Ana.

SIGNED: _____ DATE: _____

COUNTERSIGNED: _____ DATE: _____
(Company president or person in charge of government securities operations)