
**THE
LOCAL AGENCY INVESTMENT FUND
INFORMATION DIGEST**



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

JOHN CHIANG

June 30, 2017



Table of Contents

Overview of the Investment Division	4
Mission, Purpose and History	4
Investment Division Goals.....	4
Division Programs	5
Pooled Money Investment Account (PMIA)	5
Time Deposit Program (TDP).....	5
The Local Agency Investment Fund	7
Board Members	9
Local Investment Advisory Board	9
Pooled Money Investment Board	9
Safety, Liquidity and Yield	10
Statement of Portfolio Management Goals, Objectives and Policies	12
Statement of Portfolio Management Guidelines	14
Description of Authorized Securities	21
U.S. Treasury Bills.....	21
U.S. Treasury Strips	21
Treasury Securities.....	21
Securities of Government-Sponsored Enterprises, Federal and Other Agencies, and International Institutions	21
Certificates of Deposit.....	22
Banker’s Acceptances	23
Repurchase Agreements.....	23
Agency Discount Notes	24
Time Deposits.....	24
Mortgages	24
Corporate Bonds	25
Commercial Paper.....	25
Reverse Repurchases	25
Security Loans	26

Bank Notes	26
Negotiable Order of Withdrawal	26
Reverse Repurchase.....	27
AB 55 Loans.....	27
General Fund Loans	27
Frequently Asked Questions	29
Appendix A	35
Local Agency Investment Fund Statutes	35
Appendix B.....	38
Pooled Money Investment Account Statutes	38
Appendix C.....	41
Bank Deposits.....	41
Article 1. General	41
Article 2. Security for Deposits.....	43
Article 3. Custody of Securities	46
Savings and Loan Association Deposits	47
Article 1. General	47
Article 2. Security for Deposits.....	49
Article 3. Custody of Securities	51

Overview of the Investment Division

Mission, Purpose and History

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

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

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

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

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

Investment Division Goals

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

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

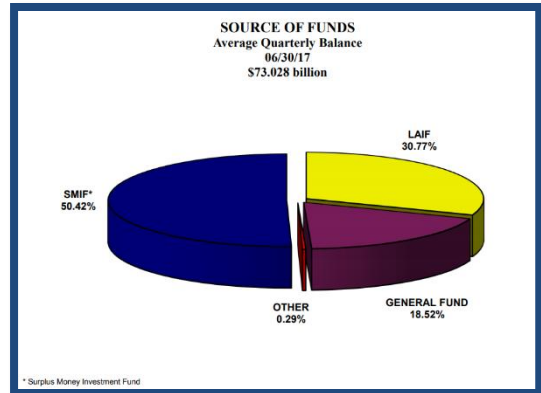
Goal 3: Utilize technological innovations to enable staff to more efficiently manage their workload and to provide new and useful services to our local government partners.

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

Division Programs

Pooled Money Investment Account (PMIA)

The Investment Division is responsible for managing the PMIA Portfolio. The State Treasurer, through the Investment Division, invests state and local agency money deposited in the PMIA consistent with prudent management, while it minimizes service costs and maximizes investment returns. The PMIA consists of the Surplus Money Investment Fund (SMIF), LAIF, and the General Fund. The Investment Division is responsible for the administration of the PMIA investment program on a day-to-day basis. The Centralized Treasury and Securities Management



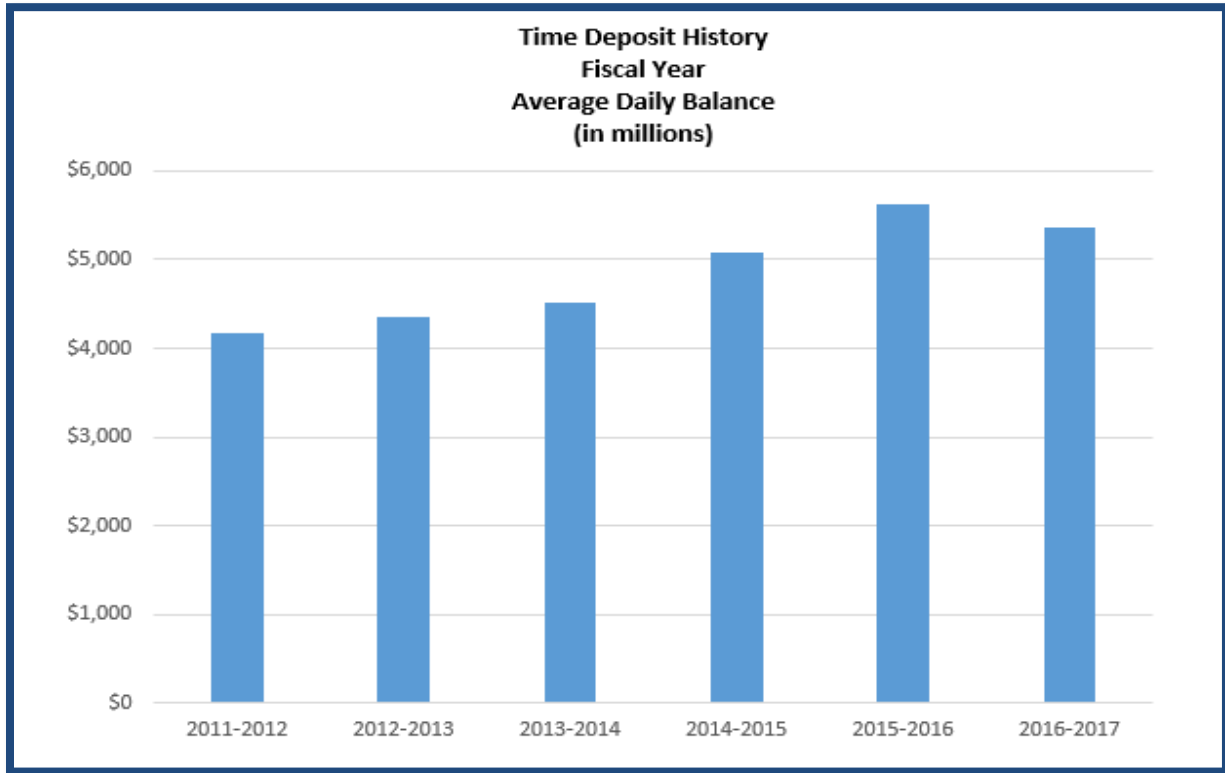
Division (CTSMD) determine the amounts available for investment while maintaining the approved compensating balance position. Therefore, there is continual adjustment of the estimates for receipts and disbursements to reflect current and available information. Subsequently, the Investment Division purchases authorized securities in accordance with the market conditions to ensure the State's daily cash needs are met. The Investment Division also acts as the agent for purchase or sale of securities on behalf of various state agencies and programs and provides support to the State Treasurer for his investment-related Board responsibilities on the California Public Employee's Retirement System (CalPERS) and the California State Teachers' Retirement System (CalSTRS).

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

Time Deposit Program (TDP)

The TDP was created in 1945 under Government Code Section 16500 et seq. (see Appendix C). The program allows the State Treasurer to place deposits with eligible California financial institutions. The program assures a yield to the PMIA above the Treasury Bill yield and makes money available to community banks at generally better rates than they can get from other sources. All time deposits are collateralized by at least 110% of the funds on deposit. Eligible institutions include federally-insured commercial banks, savings banks and credit unions licensed to accept deposits in the State of California. Participants also must have a Community Reinvestment Act rating of not less than satisfactory. This rating is based on the institution's lending and investment practices and the services it offers to the community. The lending evaluation examines the institution's activities with respect to home mortgage loans, as well as loans for small businesses, small farms, and community development, including affordable housing and not-for-profit organizations that meet low-to-moderate-income housing needs.

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



The Local Agency Investment Fund

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

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

The LAIF is approximately 31% of the PMIA. The PMIA began in 1953 and oversight is provided by the Pooled Money Investment Board (PMIB) and an in-house Investment Committee. The PMIB members are the State Treasurer, Director of Finance, and State Controller.

The Local Investment Advisory Board (LIAB) provides oversight for LAIF. The Board consists of five members. The chairman is the State Treasurer or his/her designated representative. Two members who are qualified by training and experience in the field of investment or finance, and two members who are treasurers, finance or fiscal officers or business managers employed by any county, city or local district or municipal corporation of this state, are appointed by the State Treasurer. The term of each appointment is two years or at the pleasure of the appointing authority.

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

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

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

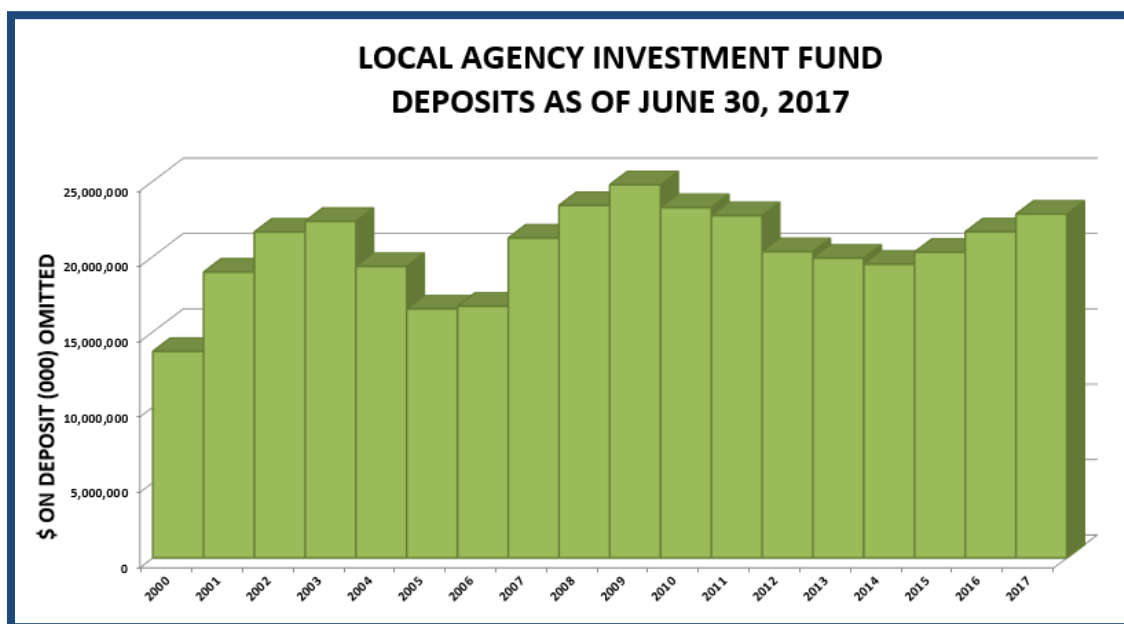
Interest is calculated on a dollar-day basis to guarantee equitable distribution among all member funds and is paid quarterly.

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

Moneys deposited in LAIF are afforded certain statutory protection. Government Code Section 16429.3 states that "moneys placed with the Treasurer for deposit in the Local Agency Investment Fund by cities, counties, special districts, nonprofit corporations, or qualified quasi-governmental agencies shall not be subject to either of the following: (a) transfer or loan pursuant to Sections 16310, 16312, or 16313, or (b) impoundment or seizure by any state official or state agency."

During the 2002 legislative session, Government Code Section 16429.4 was added to provide further protection. This section states that "the right of a city, county, city and county, special district, nonprofit corporation, or qualified quasi-governmental agency to withdraw its deposited moneys from the Local Agency Investment Fund, upon demand, may not be altered, impaired, or denied, in any way, by any state official or state agency based upon the state's failure to adopt a State Budget by July 1 of each new fiscal year."

The LAIF has grown from 293 participants and \$468 million in 1977 to 2,439 participants and \$22.8 billion as of June 30, 2017.



Board Members

Local Investment Advisory Board

Chairman:

JOHN CHIANG, State Treasurer

Members:

MARTIN KRIEGER
Finance Director
Desert Water Agency

BETH RENGE
President
Frontline Financial Group, LLC

DOUGLAS C. ROBINSON
Principal
RCM Robinson Capital Management, LLC

LAURA PARISI
City Treasurer
City of Laguna Beach

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

Pooled Money Investment Board

Chairman:

JOHN CHIANG, State Treasurer

Members:

BETTY T. YEE
State Controller

MICHAEL COHEN
Director of Finance

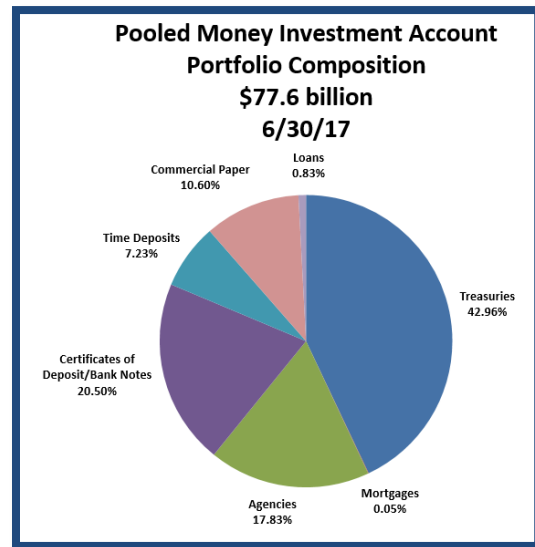
Safety, Liquidity and Yield

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

Safety

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

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



Liquidity

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



PAR VALUES MATURING BY DATE AND TYPE

Maturities in Millions of Dollars

ITEM	1 day to 30 days	31 days to 60 days	61 days to 90 days	91 days to 120 days	121 days to 150 days	151 days to 180 days	181 days to 210 days	211 days to 270 days	271 days to 1 year	1 year to 2 years	2 years to 3 years	3 years to 4 years	4 years to 5 year/out
TREASURY	\$ 1,500	\$ 1,300	\$ 1,900	\$ 2,600	\$ 1,300	\$ 800	\$ 1,100	\$ 7,500	\$ 5,600	\$ 8,450	\$ 1,400		
REPO													
TDs	\$ 2,084	\$ 805	\$ 993	\$ 308	\$ 604	\$ 812							
AGENCY	\$ 2,083	\$ 1,000	\$ 3,000	\$ 3,400	\$ 850	\$ 800	\$ 250	\$ 150	\$ 1,205	\$ 1,027	\$ 1,066	\$ 150	
CP	\$ 3,800	\$ 1,700	\$ 1,150	\$ 1,050	\$ 250	\$ 200	\$ 100						
CDs + BNs	\$ 4,350	\$ 1,550	\$ 3,600	\$ 2,950	\$ 500	\$ 1,450	\$ 400	\$ 100	\$ 675	\$ 325			
CORP BND													
TOTAL													
\$ 78,186	\$ 13,816	\$ 6,355	\$ 10,643	\$ 10,308	\$ 3,504	\$ 4,062	\$ 1,850	\$ 7,750	\$ 7,480	\$ 9,802	\$ 2,466	\$ 150	\$ -
PERCENT	17.7%	8.1%	13.6%	13.2%	4.5%	5.2%	2.4%	9.9%	9.6%	12.5%	3.2%	0.2%	0.0%

Notes:

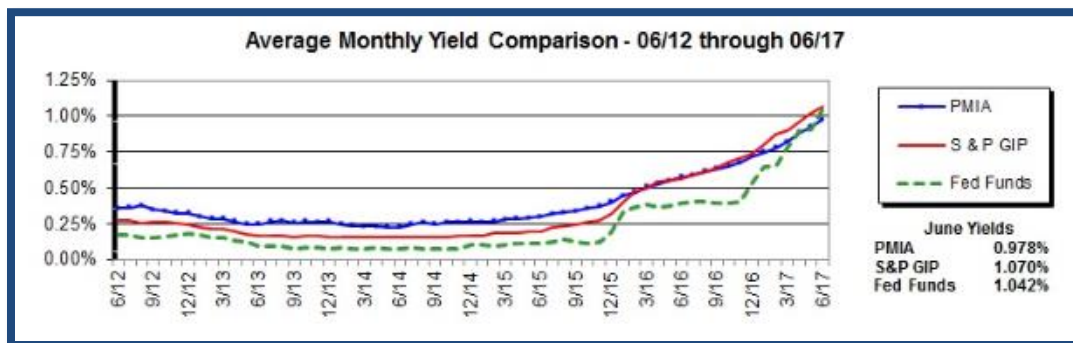
1. SBA Floating Rate Securities are represented at coupon change date.
2. Mortgages are represented at current book value.
3. Figures are rounded to the nearest million.
4. Does not include AB55 and General Fund loans.

Yield

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

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

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



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

State Treasurer's Office

Pooled Money Investment Account (PMIA)

Statement of Portfolio Management Goals, Objectives and Policies

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

Goal I. Portfolio Safety/Diversification

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

Objective: In addition to the safety provided by investing in high quality securities, the safety of the portfolio is enhanced three ways by maintaining a prudent mix (i.e., diversity) of investments: 1) Spreading investments over different investment types minimizes the impact any one industry/investment class can have on the portfolio; 2) Spreading investments over multiple credits/issuers within an investment type minimizes the credit exposure of the portfolio to any single firm/institution; and 3) Spreading investments over various maturities minimizes the risk of portfolio depreciation due to a rise in interest rates. An unforeseen liquidity need allows no options if “all your eggs are in one basket.”

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

Goal II. Liquidity

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

Objective: The pool will maintain a “cash flow generated” portfolio balance sufficient to cover specifically the one-month prepared cash forecast, as well as generally the six month

prepared cash forecast. Further, sufficient marketable treasuries will be maintained to cover unforeseen withdrawals or delayed deposits.

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

Goal III. Rate of Return

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

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

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

Conformance

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

State Treasurer's Office

Pooled Money Investment Account (PMIA)

Statement of Portfolio Management Guidelines

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

I. Guidelines for Maintaining Safety/Diversification

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

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

A. U.S. Treasury Securities

- | | | | |
|----|-------------------------------------|------------|--|
| 1) | Maximum maturity: | Statutory: | 30 years. |
| | | Policy: | 5 years. |
| 2) | Maximum par value, total portfolio: | | None. |
| 3) | Maximum par value per name: | | None. |
| 4) | Maximum par value per maturity: | | None. |
| 5) | Credit: | | Full faith and credit of the Federal Government. |

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

D. Certificates of Deposits

- | | | | |
|----|-------------------------------------|---|----------|
| 1) | Maximum maturity: | Statutory: | None. |
| | | Policy: | 5 years. |
| 2) | Maximum par value, total portfolio: | | None. |
| 3) | Maximum par value per name: | | None. |
| 4) | Maximum par value per maturity: | | None. |
| 5) | Credit: | | |
| | a) | Criteria concerning loan make-up, geographic location, market perceptions, and financial condition all serve to eliminate lesser names. | |
| | b) | Liquidity as far as both credit risk and marketability in the secondary level are addressed. There must be a market for the name in which at least three major dealers will bid or offer at a given moment. | |

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

E. Collateralized Time Deposits

- | | | | |
|----|-------------------------------------|--|--|
| 1) | Maximum maturity: | Statutory: | None. |
| | | Policy: | 5 years. |
| 2) | Maximum par value, total portfolio: | | None. |
| 3) | Maximum par value per name: | Statutory: | Shall not exceed the net worth of the institution. |
| | | Policy: | Same. |
| 4) | Maximum par value per maturity: | | None. |
| 5) | Credit: | Institutions must be rated average or better, or above a “D”, by a recognized rating service utilized by the State Treasurer’s Office (STO) Investment Division and must pass a credit evaluation by the STO Staff. This evaluation may include a review of such criteria as geographic location, market perception, loan diversity, management factors, overall fiscal soundness and the Community Reinvestment Act Rating of the institution. If, while holding a pool deposit, an institution is downgraded below acceptable levels by the rating agencies, the following steps shall be taken: | |

- a) Notify the Deposits Section to monitor collateral closely.
 - b) Review financials and update credit report.
 - c) Determine the appropriate plan of action which may include early termination of the time deposit, or allow the time deposit to mature.
- 6) Collateral must comply with Government Code, Sections 16500 et seq. (bank deposits) and 16600 et seq. (savings and loan association and credit union deposits).

F. Commercial Paper

- 1) Maximum maturity:

Statutory:	270 days.
Policy:	270 days.
- 2) Maximum par value, total portfolio:

Statutory:	30% of the current portfolio.
Policy:	Same.
- 3) Maximum par value per name:

Statutory:	10% of outstanding.
Policy:	Same.
- 4) Maximum par value per maturity:

	None.
--	-------
- 5) Credit: Commercial paper eligible for investment under this subdivision must be rated "**Prime**" quality as defined by a nationally recognized organization which rates such securities and must be issued by a federally or state-chartered bank or a state-licensed branch of a foreign bank, corporation, trust, special purpose corporation, or limited liability company approved by the Pooled Money Investment Board. Furthermore, these entities must be either (1) organized and operating within the United States and have total assets in excess of five hundred million dollars (\$500,000,000) or (2) must be organized within the United States and have programwide credit enhancements including, but not limited to, overcollateralization, letters of credit or surety bonds.

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

G. Corporate Bonds/Notes

- | | | | |
|----|--|------------|----------|
| 1) | Maximum maturity: | Statutory: | None. |
| | | Policy: | 5 years. |
| 2) | Maximum par value, total portfolio: | | None. |
| 3) | Maximum par value per name: | | None. |
| 4) | Maximum par value per maturity: | | None. |
| 5) | Credit: Securities eligible for investment under this subdivision must be issued by corporations (including banks) organized and operating within the United States and shall be within the top three ratings of a nationally recognized rating service. | | |

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

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

- | | | | |
|----|-------------------------------------|---|---|
| 1) | Maximum maturity: | Statutory: | None. |
| | | Policy: | 1 year. |
| 2) | Maximum par value, total portfolio: | Statutory: | None. |
| | | Policy: | RRP is limited to 10% of the current portfolio. |
| 3) | Maximum par value per name: | | None. |
| 4) | Maximum par value per maturity: | | None. |
| 5) | Credit: | | |
| | a) | Must have on file, a signed Security Loan Agreement and/or General Repurchase Agreement. Repurchase Agreement may be either STO General Agreement or Bond Market Association Standard Agreement | |
| | b) | Reverses and reverse repurchases are only done with long established and/or well capitalized broker-dealers. | |

The Reverse Repurchase Program is designed to augment the overall portfolio yield in a safe and prudent manner. It is not viewed as a tool with which to effect specific portfolio moves or plan major market strategy. The portfolio carries reversed securities at negative book and the re-investment at positive book. As a result, the reported size of the portfolio represents the true cash participation of its members. All reverses are cash matched either to the maturity of the

re-investment or an adequately positive cash flow date which is approximate to the maturity of the re-investment. For example, if cash flow is positive on January 27 and negative on January 31, then the reverse may mature on the 27th, and the re-investment may be taken to the 31st. Cash flow is evened out, and a positive spread is achieved. Only securities already held in the portfolio and unencumbered may be reversed. No item purchased against reverse will be used as a reversible security while the original reverse is outstanding (i.e., the STO does not leverage one liability with another). The against reverse re-investment will be limited to maturities under one year, effectively limiting the appropriate securities to generic money market issues. Because of the role played by the Reverse Program in this office, customized or structured products are not considered appropriate re-investment candidates. All costs, earnings, and spreads are fixed at the beginning of each transaction.

I. *Negotiable Order of Withdrawal (NOW)*

- | | | | |
|----|---|------------|--|
| 1) | Maximum maturity: | Statutory: | None. |
| | | Policy: | Open ended. |
| 2) | Maximum par value, total portfolio: | Statutory: | None. |
| | | Policy: | 5%. |
| 3) | Maximum par value per name: | Statutory: | Shall not exceed the net worth of the institution. |
| | | Policy: | Same. |
| 4) | Maximum par value per maturity: | Statutory: | None. |
| | | Policy: | None. |
| 5) | Credit: Institutions must be rated average or better, or above a “ D ”, by a recognized rating service utilized by the State Treasurer’s Office (STO) Investment Division, and must pass a credit evaluation by the STO staff. All other conditions, regulations, or requirements associated with demand and time deposits will also apply. | | |
| 6) | Purpose: The Negotiable Order of Withdrawal (NOW) will act as an intra-day cushion to accommodate unexpected cash flow irregularities. In lieu of late sales to cover unexpected increases in disbursements, or in lieu of late investment limitations to cover unexpected increases in revenues, the NOW account will provide pre-market and post-market liquidity and investment flexibility. | | |

II. Guidelines for Maintaining Liquidity

First priority will be the cash flow needs as reported on both the monthly and six-month cash forecasts. These forecasts will be updated daily using the current investment input, as

well as adjustment information provided by Centralized Treasury and Securities Management personnel.

Sufficient Treasury securities will be maintained for unscheduled cash needs. It has been determined that Treasury Bills having maximum maturity of 1 year will be used for this purpose. Because of their federal government guarantee, as well as the short maturity, the exposure to market risk is minimal.

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

III. Guidelines for Maintaining Rate of Return

Always keep in mind the need to provide a consistent rate of return not only to the quarterly participants of the pool, but the longer-term depositors as well. It is often the case that investments made with long-term deposits create the base rate to the portfolio. Since sales gains/losses impact the portfolio on a quarterly basis, large gains/losses are to be avoided. Failure to offset either gains or losses proportionately would result in a saw-toothed apportionment rate history. For this reason, extreme positions or styles of trading are prohibited.

An informal weekly meeting, with the Director of Investments, Assistant Director, and Investment Manager, will be held to discuss current investment philosophies and upcoming economic releases. Decisions of value and direction are made to accommodate the occurrence of all those events which might be considered reasonable and probable.

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

- 1) Prior to taking a position, apparent value and size will be discussed between the Director and Treasury Trader involved.
- 2) During a "when issued" (W.I.) period our long position shall never exceed the amount we are willing to purchase.
- 3) Short positions will not be taken at any time.
- 4) Trading positions are to be reported daily to the Director of Investments.

Description of Authorized Securities

U.S. Treasury Bills

Short term direct debt obligations issued by the United States Treasury and backed by the full faith and credit of the United States. Maturities are three-months and six-months auctioned weekly on Mondays, with payment due the following Thursday. 52-week Bills are auctioned every four weeks. Cash Management Bills are issued at irregular intervals with maturities ranging from a few days to about six months. Bills offer the Investment Division (referred herein as "Investor") extreme safety and liquidity. Because of this, the Treasury Bill market is often a haven for cash when national and international nervousness occurs. This may be anything from rumored strains in the banking industry to the political situation in the Middle East. Independence of action and constant economic monitoring and geopolitical evaluation are necessary to avoid market risks resulting in unwanted losing Bill positions.

U.S. Treasury Strips

Originally issued by the United States Treasury in complete form as principal and interest obligations. Strips, or Zero's as they are often referred, are the result of separating the interest obligation from the principal and trading the body of the bond and the individual coupon obligations as separate securities. It is the investor's responsibility to recognize the corpus or the coupon, the availability of book-entry or definitive form (physical), and the spreads that result from these characteristics. An uninformed investor may end up buying a physical corpus at a rate reflecting a book-entry coupon, since these securities appear to be generic in description. Not only is the investor buying a Volkswagen at Cadillac prices, but he will also create a failed transaction when and if he decides to trade the item in the open market.

Treasury Securities

Direct obligations of the United States Government issued by the Treasury by auction process. The issues include, but are not limited to, two-year notes, three-year notes, five-year notes, ten-year notes, and thirty-year bonds. These auctions occur monthly, mid-quarterly, and quarterly. It is the investor's responsibility to monitor auction announcements, size of the auction, new money, amount of paydowns, domestic interest, foreign interest, domestic retail interest, and potential trading range of the issue in the post-auction market. Lack of attention and improper evaluation can result in the loss of optimum investment return.

Securities of Government-Sponsored Enterprises, Federal and Other Agencies, and International Institutions

Like Treasury obligations, these securities generally are issued under the authority of an act of Congress. A few are backed by the full faith and credit of the United States, many are

guaranteed by the Treasury or supported by the issuing agency's right to borrow from the Treasury, but some lack any formal governmental backing. Some of the issuing entities are privately owned; others are wholly governmental. Following is a list of various obligations authorized by statute; Farm Credit System, including Banks for Coops, Federal Intermediate Credit Banks, Federal Land Banks, Farm Credit Consolidated Systemwide Discount Notes, Federal Farm Credit Banks Consolidated Systemwide Bonds, Federal Home Loan Banks, Federal Home Loan Mortgage Corporation, Discount Notes and Debentures, Federal National Mortgage Association, Student Loan Marketing Association, United States Postal Services, FHA Debenture obligations, Government National Mortgage Association, Export-Import Bank of the United States, Farmers Home Administration, Maritime Administration, Small Business Administration, Tennessee Valley Authority, Asian Development Bank, Commodity Credit Corporation (CCC), Inter-American Development Bank, and International Bank for Reconstruction and Development (World Bank). It is the investor's responsibility to monitor value for spreading these agencies one to the other, to evaluate the credit worthiness of those non-government guaranteed programs, and to be informed of the financing calendar of all agency issues. The extensive list of eligible agencies herein mentioned is testimony to the research and analysis necessary to maintain a risk-free agency portfolio reflecting the optimum return.

Certificates Of Deposit

Negotiable certificates in denominations of \$100,000.00 or more. They are issued by commercial banks and thrift institutions against funds deposited for specified periods of seven days or longer and earn specific rates of interest. Major banks and thrifts also issue variable rate CD's with maturities of up to five years. The rate, which is adjusted every 30, 90, or 180 days, usually includes a fixed premium over the composite secondary market rate for major bank CD's, as compiled and published by the Federal Reserve Bank of New York. Also included in this authority is the Yankee CD. Yankee CD's are U.S. dollar-denominated CD's issued by foreign banks domiciled in the United States. Canadian, French, British, German, Japanese, Swiss, and Australian, Dutch banks are active participants. It is the investor's responsibility to maintain a credit watch on global, as well as a domestic level. Considerations such as political stability, governmental control of the industry (energy loans, agricultural loans, commercial real estate loans, etc.), loan exposure to troubled countries (LDC's), and net worth and capitalization. In addition to assessing the relative value of one bank to another, the relative value to CD's in general against the value of other investment items must be considered. When considering variable or floating rate CD's, the investor must determine the coupon reset duration as well as the original spread from the posted composite based on his expectation of future rate direction. If the investor assumes that interest rates will fall shortly, he would opt for a long rate reset period. If this assumption is incorrect, the Pool is invested at a present rate for an extended period of time, while other comparable rates rise. The security then is not earning an optimum return, and indeed could result in a loss, if the need to liquidate should arise. It should be noted that the domestic banks and thrift institutions are able to guarantee \$250,000.00 on each deposit through the Federal Depositor Insurance Corporation and the Savings Association Insurance Fund, and that there is no such guarantee on Yankee CD's. This is a minimal

guarantee, considering that many millions are invested in these instruments. Although banks and thrifts have either closed or been directed to merge for credit purposes in the past, the Pool has not experienced any lost revenues due to default or delayed payments of maturing items. This is directly attributed to the investor's research, analysis, evaluation, and forecasting abilities when reviewing the stability of the banking and thrift industries.

Banker's Acceptances

A unique credit instrument used to finance both domestic and international self-liquidating transactions. By definition, it is a draft or bill of exchange, whether payable in the United States or abroad and whether payable in dollars or some other currency, accepted by a bank or trust company, or corporation engaged generally in the business of granting bankers' acceptance credits. Consider a coffee processor in the United States who wishes to finance the importation of Colombian coffee on an acceptance basis. The American importer, after negotiating with the Colombian exporter, arranges for his American commercial bank to issue an irrevocable letter of credit in favor of the exporter. The letter of credit specifies the details of the shipment and states that the Colombian exporter may draw a time draft for a certain amount on the American bank. The Colombian exporter draws a draft on the American bank and negotiates the draft with his local bank, receiving immediate payment. The Colombian bank then forwards the draft to the United States for presentation to the bank that issued the letter of credit. This bank stamps the draft "Accepted", thus incurring an obligation to pay the draft at maturity. The importer is then able to process and sell the coffee. The importer is obligated to deposit the proceeds of the coffee sales at the accepting bank in time to honor the acceptance. At maturity, the acceptance is presented for payment by its owner, and the transaction is completed. The investor currently has legislated authority to deal in both domestic and foreign acceptances. In addition to domestic banks, Japanese, French, English, Mexican, German, Dutch, Swiss, Australian, and Canadian banks are now active, to varying degrees, in the foreign acceptance market. The investor's responsibilities concerning bankers' acceptances, both foreign and domestic, are parallel to those responsibilities involved with trading CD's. However, one major difference concerning default should be considered. The risk of CD default jeopardizes the principal invested. In the case of an acceptance default, not only is the principal at risk, but also the investor must be prepared to take possession, process, and sell the shipment involved in the import-export transaction.

Repurchase Agreements

A Repurchase Agreement consists of two simultaneous transactions. One is the purchase of securities by an investor from a bank or dealer. The other is the commitment by the bank or dealer to repurchase the securities at the same price at some mutually agreed future date. The investor's responsibilities are compounded in this type of transaction. Not only must the investor evaluate and analyze the collateral used for credit-worthiness and marketability, he must also evaluate and analyze the bank or dealer with whom the agreement was made. A default by the bank or dealer to complete the dual transaction will result in the forfeiture of the collateral. It is imperative to accept quality securities and to monitor their value to avoid under collateralization

in the event of default. Knowledge of the dealer community in general and the stability of the participating bank or dealer in particular are major responsibilities of the investor.

Agency Discount Notes

Unsecured general obligations of the issuing agency with maturities ranging from 1 day to 360 days. This portfolio serves as a tandem or alternative trading portfolio to the treasury bill portfolio. As with the agencies mentioned earlier, credit worthiness, amount outstanding, and new issues available are to be considered when evaluating a trade in Discount Notes, as well as understanding the relative value of one issue to the other. A determination also must be made based on market monitoring and spread analysis as to the optimum moment to swap between the Bill and Discount Note portfolios.

Time Deposits

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

Mortgages

FHLMC PC, FHLMC GMC, GNMA PC are mortgage participation certificates representing undivided interests in conventional or FHA/VA mortgages underwritten and previously purchased by FHLMC. FHLMC passes through to each certificate holder every month a pro rata share of the principal and interest payments collected on the mortgages in the underlying pool, including pre-payments. FHLMC GMCs represent undivided interest in conventional residential mortgages previously underwritten and purchased by FHLMC. GMCs pay principal annually in guaranteed minimum amounts and interest semi-annually. There are many considerations when dealing in the mortgage markets. Since paydowns may vary, resulting in maturities that are hard to determine, portfolio accountability must be analyzed. Fast-paying premium bonds would result in a lower return, since the principal would pay down at a rate faster than the amortization of premium. Fast-paying discount bonds, in contrast, would enhance the return. The rate of paydown has a direct relationship with the prevailing interest rate environment. It is the duty of the investor to evaluate the economy and form a sound and correct scenario to avoid detrimental returns. Apart from portfolio impact, there are a variety of concerns to address when dealing in the mortgage market. Geographic location of the Mortgages included in the pool also serves to determine the paydown rate. It has been established that certain areas of the country are more transitory, resulting in more frequent sales and resales of single family housing. This information, when used in tandem with coupon rate information will not only avoid a detrimental portfolio impact, but will enhance the performance of the mortgage holdings.

Corporate Bonds

Secured and unsecured medium term debt issued by privately or publicly held banks, holding companies, corporations, or institutions for the purpose of increasing capital, plant and equipment purchase, re-tooling, or other related expenditures. Currently, there are more than thirty authorized names available for investment consideration. It is the investor's responsibility to direct the research and analysis essential to corporate trading. Since most issues purchased are unsecured debt, expert credit analysis is of utmost importance. Also necessary is the ability to customize, or "create from scratch", a note or bond with unique characteristics whose sole purpose is portfolio yield enhancement. This custom debt instrument, generally a corporate issue, is known as a private placement, and often involves the Investor in negotiations with Chief Executive Officers, Chief Financial Officers, and General Counsel. Often these negotiations cover several weeks, and require a specific knowledge of legal requirements and securities regulations. Past trades have been announced nationally in the Wall Street Journal. Since most corporate issues are medium to long term, five years to fifteen years, the weighted impact on a portfolio with an average life of less than two years can be significant. It is essential for the investor to make a complete credit analysis, to conduct earnest negotiations, and to tie them all to a pre-formulated economic scenario compatible with current portfolio needs and cash availability.

Commercial Paper

The market name for the short-term unsecured promissory notes issued by various economic entities in the open market to finance certain short-term credit needs. In addition to providing a source of seasonal working capital, commercial paper is increasingly being used as a means of interim financing of major construction projects such as bank buildings, ships, pipelines, nuclear fuel cores, and plant expansion. Presently, approximately 100 entities are eligible investments for the Pooled portfolio. These represent a variety of industrial companies, utilities, commercial bank holding companies, finance companies, insurance companies, and savings and loan associations.

The investor's responsibility is basically the same as that of corporate bonds, since commercial paper is essentially a short-term corporate bond with a maturity of 1 day to 270 days. However, commercial paper is the only authorized investment with restrictions pertaining to the amount eligible for investments. Since no more than 10% of any one issuer's outstanding may be held by the Pool, the investor must maintain a working knowledge of the issuing status of all eligible entities. He must also keep in mind the ratings of each issuer and how each issuer trades in relation to another, as well as the relative value spread to other investment vehicles.

Reverse Repurchases

Reverse Repurchase Agreements, technically called matched sales-purchase agreements, are essentially the mirror image of RPs. In this instance, the investor is the owner of the collateral, and the bank or dealer is the lender of money. All other aspects remain identical. Again, the

investor's responsibilities are two-fold, as the creditworthiness of the bank or dealer is still an essential consideration. Additionally, the investor now must arbitrage or re-invest the money received on the transaction into another security for a positive return. The new investment must be secure from default, yet of lesser quality to create a spread. Furthermore, the new investment must mature coincidentally with the Reverse Transaction, or a cash shortage may occur. If the maturity is staggered from the Reverse transaction, the investor must now address the mismatch as it applies to the now- altered cash forecast.

Security Loans

Portfolio issues are loaned to authorized banks or dealers for a pre-arranged fee. In turn, securities representing at least 102% of the market value of the issues loaned are received as collateral for the loan. As long as maintenance is continued on the collateral side, the risk is minimal. A similar program is put out on contract by the Retirement system, but this office organizes, negotiates, and maintains the loan program exclusively.

Bank Notes

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

Bank Notes should not be confused with Medium-Term Notes ("MTNs") or other securities issued by domestic bank holding companies ("BHCs"). Bank Notes are exempt from SEC registration under Section 3(a)(2) of the Securities Act of 1933. They are classified as "Other Borrowings" on the bank's balance sheet, while Deposit Notes and CDs are classified as "Deposits," Bank Notes are not deposits and are not insured by the Federal Deposit Insurance Corporation ("FDIC") or any other insurer.

Negotiable Order of Withdrawal

A Negotiable Order of Withdrawal account (NOW account) is a deposit account that pays interest on which checks may be written. NOW accounts are offered by commercial banks, mutual savings banks, and savings and loan associations. They may be owned only by individuals, some nonprofit organizations, and government agencies or bodies. NOW Accounts are structured to comply with Regulation Q, which prohibits interest on checking accounts: NOW accounts are interest-bearing and checks may be written on them, but legally they are not interest-bearing checking accounts. NOW accounts are considered checkable deposits, and are counted in the Fed's M1 definition of the money supply. As such, they are considered liabilities from the bank's perspective. For purposes of the PMIA, NOW Accounts are subject to the same requirements and restrictions followed by demand balances and time deposits.

Reverse Repurchase

The temporary sale of owned securities, with the simultaneous agreement to repurchase the same securities at a predetermined cost and rate on a specified future date.

The Pooled Money Investment Account from time to time enters into Reverse Repurchase Agreements with major pre-approved securities dealers. The intent is to earn incremental interest for pool participants. Because it is viewed as incremental, earnings derived from reverses are never projected or anticipated.

All reverses are in compliance with Government Code Section 16480.4, and are further discussed in the Treasurer's Statement of Investment Policies, Goals and Objectives.

AB 55 Loans

Named for Assembly Bill 55, these loans are made from the Pool to state agencies which have pre-approved authority to issue bonds for specific projects. The AB 55 loan program allows an agency to borrow money for up-front and progress expenses when funding a specific project. Toward the end of the project construction, the already approved bond issue is brought to market, the proceeds of which are used to pay off principal and interest due on the AB 55 loan. This method eliminates the need for an arbitrage tracking system, had the bonds been sold "up front." The maximum term for AB 55 loans is 364 days, with many retired earlier.

General Fund Loans

Loans made by the Pool to the General Fund in anticipation of evening out cash flow. The average life of these loans is well below 30 days. Unlike the on-going AB 55 loan program, General Fund loans are much more infrequently requested.

Both AB 55 and General Fund Loans have the following characteristics:

1. Amount available for loans is determined by the State Controller and EXCLUDES certain trust monies, such as LAIF balances;
2. LAIF participants do share in the interest income paid to the Pool on each loan balance;
3. The decision to approve these loans rests in the authority of the Pooled Money Investment Board;
4. A predetermined maximum total loan balance is capped as a specific percentage of identified borrowable resources as determined by the State Controller.
5. No surplus monies may be loaned if such a loan would inhibit carrying out the purpose for which the monies were originally designated.
6. Since the granting of these loans is not an investment function, the loans (AB 55, General Fund) are not included in records of daily investment activity.
7. Since interest is commingled with other investment revenue, both AB 55 and General Fund loans are included in Selected Data Reports and portfolio accountability.

8. The total monies in AB 55 and General Fund loans are figured into the Portfolio book value when reporting portfolio size and yield.

Frequently Asked Questions

LAIF Account

What entities are permitted to invest in LAIF?

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

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

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

What documents are required to open a LAIF account?

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

What are the LAIF procedures for depositing and withdrawing funds?

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

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

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

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

Yes. Regular LAIF account balances are capped at \$65 million. There is no minimum account balance requirement. Bond proceeds accounts have no minimum or maximum balance restrictions.

How many transactions are permitted each month?

Each regular LAIF account is permitted 15 transactions per month.

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

Yes. For regular LAIF accounts, the minimum transaction amount is \$5,000 and the maximum transaction amount is \$65 million. Bond proceeds accounts have a one-time deposit with no cap and are set-up with a monthly drawdown schedule.

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

No. However, for cash flow purposes, we request at least 24 hours advance notice for withdrawals of \$10 million or more.

Is there a cutoff time for deposits and withdrawals?

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

Can a LAIF account remain open with a zero balance?

Yes. LAIF accounts will remain open with a zero balance unless a request is made to close the account.

Are confirmation numbers provided for each transaction?

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

How do I request changes to my LAIF account?

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

How do I request a copy of a statement?

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

Are LAIF funds borrowable?

No. "Moneys placed with the Treasurer for deposit in the Local Agency Investment Fund by cities, counties, special districts, nonprofit corporations, or qualified quasi-governmental agencies shall not be subject to either of the following:

- a) Transfer or loan pursuant to Sections 16310, 16312, or 16313.
- b) Impoundment or seizure by any state official or state agency."
(Government Code Section 16429.3)

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

Yes. The Court of Appeal issued a decision on the Jarvis Taxpayers Association v. Connell case on May 29, 2002 where the court held that the Controller may disburse funds during a budget impasse when the state and federal law properly authorizes or requires their payment, despite the absence of a budget act or emergency appropriation. "The right of a city, county, city and county, special district, nonprofit corporation, or quasi-governmental agency to withdraw its deposited moneys from the Local Agency Investment Fund, upon demand, may not be altered, impaired, or denied, in any way, by any state official or state agency based upon the state's failure to adopt a State Budget by July 1 of each new fiscal year." (Government Code section 16429.4)

Administration

How much are LAIF's administrative costs?

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

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

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

Are there additional fees for wiring funds?

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

Interest

What's the current interest rate on the Pool?

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

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

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

How frequently is interest paid?

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

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

Gains and/or losses are reported when realized.

Reporting

How often is the portfolio yield reported to participants?

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

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

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

Where can I find reporting documents for the Pool?

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

Is the Pool insured?

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

Securities

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

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

Is the Pool rated?

No. The Pool is not rated.

Security

What are the safekeeping practices of the Pool?

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

Is the Pool subject to audit by an independent auditor?

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

Who makes the portfolio decisions?

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

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

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

How is the Pool monitored?

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

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

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

What method is used to value the portfolio?

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

Does the pool distribute detailed reports of its holdings?

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

Appendix A

Local Agency Investment Fund Statutes

Government Code

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

- a. There is in trust in the custody of the Treasurer the Local Agency Investment Fund, which fund is hereby created. The Controller shall maintain a separate account for each governmental unit having deposits in this fund.
- b. Notwithstanding any other provisions of law, a local governmental official, with the consent of the governing body of that agency, having money in its treasury not required for immediate needs, may remit the money to the Treasurer for deposit in the Local Agency Investment Fund for the purpose of investment.
- c. Notwithstanding any other provisions of law, an officer of any nonprofit corporation whose membership is confined to public agencies or public officials, or an officer of a qualified quasi-governmental agency, with the consent of the governing body of that agency, having money in its treasury not required for immediate needs, may remit the money to the Treasurer for deposit in the Local Agency Investment Fund for the purpose of investment.
- d. Notwithstanding any other provision of law or of this section, a local agency, with the approval of its governing body, may deposit in the Local Agency Investment Fund proceeds of the issuance of bonds, notes, certificates of participation, or other evidences of indebtedness of the agency pending expenditure of the proceeds for the authorized purpose of their issuance. In connection with these deposits of proceeds, the Local Agency Investment Fund is authorized to receive and disburse moneys, and to provide information, directly with or to an authorized officer of a trustee or fiscal agent engaged by the local agency, the Local Agency Investment Fund is authorized to hold investments in the name and for the account of that trustee or fiscal agent, and the Controller shall maintain a separate account for each deposit of proceeds.
- e. The local governmental unit, the nonprofit corporation, or the quasi-governmental agency has the exclusive determination of the length of time its money will be on deposit with the Treasurer.
- f. The trustee or fiscal agent of the local governmental unit has the exclusive determination of the length of time proceeds from the issuance of bonds will be on deposit with the Treasurer.
- g. The Local Investment Advisory Board shall determine those quasi-governmental agencies which qualify to participate in the Local Agency Investment Fund.
- h. The Treasurer may refuse to accept deposits into the fund if, in the judgment of the Treasurer, the deposit would adversely affect the state's portfolio.

- i. The Treasurer may invest the money of the fund in securities prescribed in Section 16430. The Treasurer may elect to have the money of the fund invested through the Surplus Money Investment Fund as provided in Article 4 (commencing with Section 16470) of Chapter 3 of Part 2 of Division 4 of Title 2.
- j. Money in the fund shall be invested to achieve the objective of the fund which is to realize the maximum return consistent with safe and prudent treasury management.
- k. All instruments of title of all investments of the fund shall remain in the Treasurer's vault or be held in safekeeping under control of the Treasurer in any federal reserve bank, or any branch thereof, or the Federal Home Loan Bank of San Francisco, with any trust company, or the trust department of any state or national bank.
- l. Immediately at the conclusion of each calendar quarter, all interest earned and other increment derived from investments shall be distributed by the Controller to the contributing governmental units or trustees or fiscal agents, nonprofit corporations, and quasi-governmental agencies in amounts directly proportionate to the respective amounts deposited in the Local Agency Investment Fund and the length of time the amounts remained therein. An amount equal to the reasonable costs incurred in carrying out the provisions of this section, not to exceed a maximum of 5 percent of the earnings of this fund and not to exceed the amount appropriated in the annual Budget Act for this function, shall be deducted from the earnings prior to distribution. However, if the 13-week Daily Treasury Bill Rate, as published by the United States Department of the Treasury on the last day of the state's fiscal year is below 1 percent, then the above-noted reasonable costs shall not exceed a maximum of 8 percent of the earnings of this fund for the subsequent fiscal year, shall not exceed the amount appropriated in the annual Budget Act for this function, and shall be deducted from the earnings prior to distribution. The amount of the deduction shall be credited as reimbursements to the state agencies, including the Treasurer, the Controller, and the Department of Finance, having incurred costs in carrying out the provisions of this section.
- m. The Treasurer shall prepare for distribution a monthly report of investments made during the preceding month.
- n. As used in this section, "local agency," "local governmental unit," and "local governmental official" includes a campus or other unit and an official, respectively, of the California State University who deposits moneys in funds described in Sections 89721, 89722, and 89725 of the Education Code.

16429.2 Local Investment Advisory Board

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

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

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

Members of the board who are not state officers or employees shall not receive a salary, but shall be entitled to a per diem allowance of one hundred dollars (\$100) for each day's attendance at a meeting of the board, not to exceed three hundred dollars (\$300) in any month. All members shall be entitled to reimbursement for expenses incurred in the performance of their duties under this part, including travel and other necessary expenses.

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

16429.3 Deposits; Prohibited Transfers and Loans; Impoundment or Seizure

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

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

16429.4 Right of Withdrawal

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

Appendix B

Pooled Money Investment Account Statutes

Government Code

16430 Eligible Securities for Investment of Surplus Moneys

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

- a. Bonds or interest-bearing notes or obligations of the United States, or those for which the faith and credit of the United States are pledged for the payment of principal and interest.
- b. Bonds or interest-bearing notes on obligations that are guaranteed as to principal and interest by a federal agency of the United States.
- c. Bonds and notes of this state, or those for which the faith and credit of this state are pledged for the payment of principal and interest.
- d. Bonds or warrants, including, but not limited to, revenue warrants, of any county, city, metropolitan water district, California water district, California water storage district, irrigation district in the state, municipal utility district, or school district of this state.
- e. Bonds, consolidated bonds, collateral trust debentures, consolidated debentures, or other obligations issued by federal land banks or federal intermediate credit banks established under the Federal Farm Loan Act, as amended, in debentures and consolidated debentures issued by the Central Bank for Cooperatives and banks for cooperatives established under the Farm Credit Act of 1933, as amended, in bonds or debentures of the Federal Home Loan Bank Board established under the Federal Home Loan Bank Act, in stock, bonds, debentures and other obligations of the Federal National Mortgage Association established under the National Housing Act as amended, and in the bonds of any federal home loan bank established under that act, obligations of the Federal Home Loan Mortgage Corporation, in bonds, notes, and other obligations issued by the Tennessee Valley Authority under the Tennessee Valley Authority Act as amended, and other obligations guaranteed by the Commodity Credit Corporation for the export of California agricultural products under the Commodity Credit Corporation Charter Act as amended.
- f.
 1. Commercial paper of "prime" quality as defined by a nationally recognized organization that rates these securities, if the commercial paper is issued by a federally or state-chartered bank or a state-licensed branch of a foreign bank, corporation, trust, or limited liability company that is approved by the Pooled Money Investment Board as meeting the conditions specified in either subparagraph (A) or subparagraph (B):
 - A. Both of the following conditions:
 - i. Organized and operating within the United States.

- ii. Having total assets in excess of five hundred million dollars (\$500,000,000).
 - B. Both of the following conditions:
 - i. Organized within the United States as a federally or state-chartered bank or a state-licensed branch of a foreign bank, special purpose corporation, trust, or limited liability company.
 - ii. Having programwide credit enhancements including, but not limited to, overcollateralization, letters of credit, or surety bond.
- 2. Purchases of eligible commercial paper may not do any of the following:
 - A. Exceed 270 days maturity.
 - B. Represent more than 10 percent of the outstanding paper of an issuing federally or state-chartered bank or a state-licensed branch of a foreign bank, corporation, trust, or limited liability company.
 - C. Exceed 30 percent of the resources of an investment program.
- 3. At the request of the Pooled Money Investment Board, an investment made pursuant to this subdivision shall be secured by the issuer by depositing with the Treasurer securities authorized by Section 53651 of a market value at least 10 percent in excess of the amount of the state's investment.
- g. Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers acceptances, that are eligible for purchase by the Federal Reserve System.
- h. Negotiable certificates of deposits issued by a federally or state-chartered bank or savings and loan association, a state-licensed branch of a foreign bank, or a federally or state-chartered credit union. For the purposes of this section, negotiable certificates of deposits are not subject to Chapter 4 (commencing with Section 16500) and Chapter 4.5 (commencing with Section 16600).
- i. The portion of bank loans and obligations guaranteed by the United States Small Business Administration, or the United States Farmers Home Administration.
- j. Bank loans and obligations guaranteed by the Export-Import Bank of the United States.
- k. Student loan notes insured under the Guaranteed Student Loan Program established pursuant to the Higher Education Act of 1965, as amended (20 U.S.C. Sec.1001 et seq.) and eligible for resale to the Student Loan Marketing Association established pursuant to Section 133 of the Education Amendments of 1972, as amended (20 U.S.C. Sec. 1087-2).
- l. Obligations issued, assumed, or guaranteed by the International Bank for Reconstruction and Development, the Inter-American Development Bank, the Asian Development Bank, the African Development Bank, the International Finance Corporation, or the Government Development Bank of Puerto Rico.
- m. Bonds, debentures, and notes issued by corporations organized and operating within the United States. Securities eligible for investment under this subdivision shall be within the top three ratings of a nationally recognized rating service.
- n. Negotiable Order of Withdrawal Accounts (NOW Accounts), invested in accordance with Chapter 4 (commencing with Section 16500).

16480.4 Securities Eligible for Investment; Sale, Exchange Or Repurchase

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

Appendix C

Government Code

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

Article 1. General

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

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

(b) In this chapter, for purposes of being an eligible bank for the safekeeping of moneys belonging to, or in the custody of, the state, the phrases "state or national bank located in this state," "state or national bank," "state or national bank in this state," and "state or national banks in the state" shall include, without limitation, any of the following:

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

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

(3) Any California branch office of a foreign (other nation) bank that the bank is licensed to maintain under Article 3 (commencing with Section 1750) of Chapter 13.5 of Division 1 of the Financial Code.

(4) Any California federal branch of a foreign (other nation) bank that the bank is authorized to maintain under federal law.

16501. Under the conditions as the Treasurer with the approval of the Director of Finance may establish, the Treasurer may deposit money in banks outside this state when the banks are fiscal agents of the state or custodians of securities owned by the state, if the banks have an overall rating of not less than "satisfactory" in their most recent evaluation by the appropriate federal financial supervisory agency of the banks' record of meeting the credit needs of the

communities in which the bank is located, including low- and moderate-income neighborhoods, pursuant to Section 2906 of Title 12 of the United States Code.

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

16503. Subject to the limitations of Article 4.5 (commencing with Section 16480) of Chapter 3, the Treasurer shall determine what amounts of money shall be deposited:

(a) As time deposits, and the rates of interest to be received.

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

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

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

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

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

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

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

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

Article 2. Security for Deposits

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

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

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

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

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

(c) Bonds of this state or of any county, city, town, metropolitan water district, municipal utility district, municipal water district, bridge and highway district, flood control district, school district, water district, water conservation district or irrigation district within this state, and, in addition, revenue or tax anticipation notes, and revenue bonds payable solely out of the revenues from a revenue-producing property owned, controlled or operated by this state, or such local agency or district, or by a department, board, agency, or authority thereof.

(d) Registered warrants of this state.

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

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

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

(1) Notwithstanding Section 16521, the promissory notes shall at all times be in an amount in value at least 50 percent in excess of the amount deposited with the bank;

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

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

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

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

(ii) Any promissory note secured by a mortgage or deed of trust as to which there is a lien prior to the mortgage or deed of trust, or

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

(h) Bonds issued by the State of Israel.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Article 3. Custody of Securities

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Article 1. General

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

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

(2) "Eligible credit union" means a state or federal credit union located in this state, insured by the National Credit Union Administration, and selected by the Treasurer for the safekeeping of money belonging to or in the custody of the state.

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

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

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

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

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

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

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

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

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

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

Article 2. Security for Deposits

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

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

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

(a) Bonds, notes, or other obligations of the United States, or those for which the faith and credit of the United States are pledged for the payment of principal and interest, including the guaranteed portions of small business administration loans, so long as such loans are obligations for which the faith and credit of the United States are pledged for the payment of principal and interest.

(b) Notes or bonds or any obligations of a local public agency (as defined in the United States Housing Act of 1949 (42 U.S.C. Sec. 1452 et seq.)) or any obligations of a public housing agency (as defined in the United States Housing Act of 1937) for which the faith and credit of the United States are pledged for the payment of principal and interest.

(c) Bonds of this state or of any county, city, town, metropolitan water district, municipal utility district, municipal water district, bridge and highway district, flood control district, school district, water district, water conservation district or irrigation district within this state, and, in addition, revenue on tax anticipation notes, and revenue bonds payable solely out of the revenues from a revenue-producing property owned, controlled or operated by this state, or such local agency or district, or by a department, board, agency, or authority thereof.

(d) Registered warrants of this state.

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

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

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

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

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

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

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

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

(ii) Any promissory note secured by a mortgage or deed of trust as to which there is a lien prior to the mortgage or deed of trust, or

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

(h) Bonds issued by the State of Israel.

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

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

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

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

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

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

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

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

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

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

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

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

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

Article 3. Custody of Securities

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

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

- (a) Authorize any qualified trust company or any federal reserve bank or any branch thereof or any state or national bank located in any city designated as a reserve or central reserve city by the Board of Governors of the Federal Reserve System or the

Federal Home Loan Bank of San Francisco to receive as his or her agent deposits of any securities approved under this chapter.

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

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

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

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

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

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

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

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

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

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