ATTACHMENT B

MENLO PARK FIRE PROTECTION DISTRICT
2016 INVESTMENT POLICY

MENLO PARK FIRE PROTECTION DISTRICT
INVESTMENT POLICY

1.0 POLICY

The purpose of this Investment Policy ("Policy") is to establish overall guidelines for the management and investment of the Menlo Park Fire Protection District's ("District") public funds.

It is the policy of the District to invest public funds in a manner that will meet the District objectives, in order of priority, safety of invested funds, maintenance of sufficient liquidity to meet cash flow needs; and attainment of a rate of return consistent with the first two objectives, while conforming to the provisions of California Government Code Sections 53600 et seq.[1], and this Policy. As a public entity, the District places particular importance on the preservation of capital and protection of District funds above other investment objectives.

2.0 SCOPE

This Policy applies to all financial assets of the District. These funds are accounted for in the District's Comprehensive Annual Financial Report and may include:

- General Fund
- Debt Service Funds
- Capital Improvement Project Funds

2.1 The District's Deferred Compensation Plan Funds are excluded because they belong to the individual plan participants who direct their own investments. Additionally, the District's Retirement Funds are excluded because they are managed by the California Public Employees' Retirement System (CalPERS).

2.2 Proceeds of debt issuances shall be invested in accordance with the investment objectives of the Policy and in accordance with the permitted investment provisions of their specific bond indentures.

3.0 PRUDENCE

Investments shall be made with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the District, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the District.

4.0 OBJECTIVES

The primary objectives in order of priority, of the District's investment activities shall be:

4.1 Safety

Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective is to seek to preserve principal by mitigating credit risk and market or interest rate risk summarized as follows:

4.1.1 Credit Risk:

Defined as the risk of loss due to the failure of the security issuer or backer. Credit risk may be mitigated by:

a. Limiting investments to high quality securities;
b. Pre-qualifying the financial institutions with which the District will do business;
c. Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

4.1.2 Market or interest rate risk:

Defined as the risk that the market value of securities will fall due to an increase in general interest rates. Market or interest rate risk may be mitigated by:

a. Generally structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.
b. Investing operating funds primarily in shorter-term securities and medium term securities with maturity dates not to exceed 5 years.

4.2 Liquidity:

The investment portfolio shall be structured in a manner which will provide that securities mature at the same time as cash is needed to meet anticipated demands (static liquidity). Additionally, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity).

4.3 Return on Investments (Yield):

The District's investments shall be designed with the objective of attaining a rate of return throughout the budgetary and economic cycles, taking into consideration the investment risk constraints and liquidity needs. Return on investment is of least importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning a reasonable return relative to the risk being assumed.

Securities shall not be sold before maturity with the following exceptions:

§ A declining credit security could be sold early to minimize loss of principal
§ A security swap would improve the quality, yield or target duration in the portfolio.
§ Liquidity needs of the portfolio require that the security be sold.
§ A capital gain would be realized that better positions the overall portfolio in achieving investment policy goals.

5.0 DELEGATION OF AUTHORITY

The District Treasurer, Resolution # 1146 on March 20, 2007, is appointed by the District Board. Pursuant to the Government Code, the District Board delegates the authority to invest or to reinvest funds, or to sell or exchange securities so purchased, to the District Treasurer. The District Treasurer is charged with the responsibility for carrying out the policies of the District Board and shall assume full responsibility for investment transactions until the delegation of authority is revoked.

The daily cash management, investment transactions and account reconciliation's are the primary responsibilities of the District Treasurer. These activities are also carried out by other members of the Finance Department under the direction of the District Treasurer. The District Treasurer shall establish procedures for the operation consistent with this investment policy.

The District Treasurer and authorized individuals acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

6.0 ETHICS AND CONFLICT OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activities that could conflict with proper execution of the investment program or which could impair their ability to make impartial decisions. Officers and employees involved in the investment process shall abide by the Conflict of Interest Code, (California Government Code Section 1090 et seq.) and the California Political Reform Act.

7.0 AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

7.1 Standards for Financial Institutions eligible to transact investment business with the District include (collectively, "Financial Institutions"):

a. Primary government dealers as designated by the Federal Reserve Bank of New York, or
b. National or state chartered banks, or
c. Regional broker/dealers, or
d. Direct issuers of securities eligible for purchase by the District
e. All must be licensed by the State of California
f. All must be members of Financial Industry Regulatory Authority (FINRA).

7.2 The District Treasurer will maintain a list of Financial Institutions authorized to provide investment services and list of approved security broker dealers after a careful review of their qualifications and creditworthiness.

7.2.1 All Financial Institutions and broker/dealers who desire to do business with the District shall provide the necessary information (e.g. audited financial statements, proof of state registration, proof of FINRA certification, etc.) from which the District can determine their creditworthiness, the existence of any pending legal action against the firm or the individual brokers who work directly with the District, as well as an understanding of the security markets they serve.

7.2.2 The Treasurer will conduct an annual review of the financial condition and registrations of approved Financial Institutions and security broker/dealers. Audited financial statements, collected as part of the annual review will be on file (either paper or electronic) for each Financial Institution and broker/dealer with which the District invests. District finance staff will periodically review the approved list of Financial Institutions and security broker/dealers to determine the need to add or delete from the approved list.

8.0 AUTHORIZED INVESTMENTS

All investments shall conform to Sections 53600et seq. of the California Government Code and as described within the Policy ("Permitted Investments"). Within the investments permitted by the Code, the District seeks to further restrict eligible investments to the investments listed below. Percentage limitations, where indicated, apply at the time of the purchase. Rating requirements, where indicated, apply at the time of purchase. In the event a security held by the District is subject to a rating change that brings it below the minimum specified rating requirement, the District Treasurer shall notify the District Board of the change. The course of action to be followed will then be decided on a case-by-case basis, considering such factors as the reason for the rate drop, prognosis for recovery or further rate drops, and the market price of the security.

Investment maturities shall be based on review of cash flow forecasts. Maturities will be scheduled so as to permit the District to meet all projected obligations. No investment shall be made in any security, other than a security underlying a repurchase or reverse repurchase agreement, that at the time of the investment has a term remaining to maturity in excess of five years, unless the District Board of Directors has granted express authority to make that investment no less than three months prior to the investment.

Permitted Investments and applicable limitations shall include:

8.1 <u>United States Treasury Obligations, including Bonds, Notes and Bills</u>
United States obligations, backed by full faith and credit of the United States government.

a. There is no maximum portfolio limit.
b. Purchase in Treasury securities shall not exceed five years to maturity.

8.2 United States Government Agency Issues

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

a. The purchase of United States Federal Government Agency securities will be limited to issues of the Federal Agricultural Mortgage Corporation (Farmer Mac), the Federal Farm Credit Banks (FFCB), the Federal Home Loan Banks (FHLB), Federal Home Loan Mortgage Corporation (FHLMC), and the Federal National Mortgage Association (FNMA). This limitations shall not apply to money market mutual funds.
b. Purchase in eligible Agency securities shall not exceed five years to maturity.

8.3 Banker's Acceptances (BAs)

Banker's acceptances issued by domestic or foreign banks, which are eligible for purchase by the Federal Reserve System.

a. Must be rated "P1, A1, or F1" or better by two of three nationally recognized rating services, Moody's, S&P, or Fitch, respectively. No rating may be lower than any of the rating listed above.
b. Foreign BAs must be dollar-denominated.
c. No more than 5% of the portfolio shall be invested in any single institution. No more than 20% of the portfolio shall be invested in BAs.
d. Purchases of Banker's Acceptances may not exceed 180 days maturity.

8.4 State of California Local Agency Investment Fund ("LAIF")

a. The District may invest in LAIF.
b. A maximum of $50 million may be invested in this category.

8.5 California Asset Management Trust (CAMP)

a. The District may invest in the shares in the California Asset Management Trust, so long as the portfolio is rated among the top two rating categories by one of the nationally recognized rating agencies.
b. A maximum of $50 million may be invested in this category, net of bond proceeds.

8.6 Certificates of Deposit

a. FDIC insured or fully collateralized time certificates of deposit in financial institutions located in California. Eligible investments are restricted to those issuing institutions that have been in business at least five years.
b. The maximum term for deposits shall be five years.
c. Investments in certificates of deposit are further limited to 20% of the portfolio.
d. All time deposits must be collateralized in accordance with California Government Code section 53652. The District, at its discretion, may waive the collateralization requirements for any portion of the deposit that is covered by federal insurance.

8.7 Negotiable Certificates of Deposit (NCDs)

a. Negotiable certificates of deposit issued by a nationally or state chartered bank or a state or federal savings and loan association or by a state; licensed branch of a foreign bank; provided that the senior debt obligations of the issuing institution are rated "AA" or better by Moody's or Standard & Poor's.

b. Investments in negotiable certificates of deposit are limited to 30% of the portfolio.
c. The maximum term for deposits shall be five years.

8.8 Municipal Obligations

Bonds, notes, warrants, or other evidences of indebtedness of the State of California or of any local agency within the State of California, including bonds, RANS, and BANS.

a. No more than 10% of the total portfolio.
b. Rated A3, A-, A- or better by two of the three nationally recognized credit rating organizations.
c. The maximum term for deposits shall be five years.

8.9 Repurchase Agreements

a. Repurchase agreements are to be used solely as short-term investments not to exceed 30 days.
b. The District may enter into repurchase agreements with primary government securities dealers rated "A" or better by two nationally recognized rating services. Counterparties should have (i) a short-term credit rating of at least "A-1/P-1"; (ii) minimum assets and capital of $25 billion in assets and $350 million in capital; (iii) five years of acceptable audited financial results; and (iv) a strong reputation among market participants.
c. A maximum of 20% of the portfolio may be invested in this category.
d. No more than 10% of the portfolio shall be invested in a repo with any single institution.
e. The following collateral restrictions will be observed:

Only U.S. Treasury securities or Federal Agency securities will be acceptable collateral. All securities underlying repurchase agreements must be delivered to the District's custodian bank versus payment or be handled under a properly executed tri-party repurchase agreement. The total market value of all collateral for each repurchase agreement must equal or exceed 102 percent of the total dollar value of the money invested by the District for the term of the investment. For any repurchase agreement with a term of more than one day, the value of the underlying securities must be reviewed on an on-going basis according to market conditions. Market value must be calculated each time there is a substitution of collateral.

The District or its' Trustee shall have perfected first security interest under the Uniform Commercial Code in all securities subject to repurchase agreements. The District shall have properly executed a Professional Services Agreement with each counter party with which it enters into repurchase agreements.

8.10 Commercial Paper

Commercial paper of "prime" quality of the highest ranking or of the highest letter and number rating as provided by a nationally recognized statistical-rating organization (NRSRO).

a. Is organized and operating within the United States as a general corporation. Have total assets in excess of $500 million. Has debt other than commercial paper, if any, that is rated "A" or higher by a nationally recognized statistical-rating organization (NRSRO)

(and)

b. Investments in commercial paper are limited to a maximum of 25% of the portfolio.
c. Purchases shall not exceed 10 percent of the outstanding paper of the issuing corporation.
d. The maximum investment maturity is restricted to 270 days.

8.11 Mutual Funds

Shares of beneficial interest issued by diversified management companies that are mutual funds registered with the Securities and Exchange Commission (SEC) under the Investment Company Act of 1940 (15 U.S.C., Sec. 80a-1, et seq.). An investment objective of the fund must be the maintenance of a price per share of $1.00. The purchase price of shares of beneficial interest purchased pursuant to this subdivision shall not include any commission that the companies may charge. Investments in Mutual Funds are limited to 20% of the portfolio.

The District may invest in Mutual Funds that have met either of the following criteria:

8.11.1 Attained the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized rating services.

(or)

8.11.2 Retained an investment advisor registered or exempt from registration with the SEC with not less than five years' experience in managing mutual funds with assets under management in excess of five hundred million dollars ($500,000,000).

8.12 Local Agency Bonds.

Bonds, including Certificates of Participation, notes or evidences of indebtedness issued by any state, municipality or local agency, whether payable from any fund of such entity or from special revenues pledged for such payment. The maximum term for deposits shall be five years.

INVESTMENT TYPE	MAXIMUM MATURITY	MAXIMUM % OF PORT/ MAXIMUM PER ISSUER	MINUMUM QUALITY REQUIREMENTS
US Treasury Bills, Notes, Bonds	5 years	N/A	N/A
U.S. Government Agency Issues (Farmer Mac, FFCB, FHLB, FHLMC, FNMA	5 years	N/A	N/A
Banker's Acceptances	180 days	20% of portfolio/5% per issuer	A-1/P-1/F-1
Local Agency Investment Fund (LAIF)	N/A	$50 Million	N/A
California Asset Management Trust (CAMP)	N/A	$50 Million	Porfolio rated in the top two rating categories by S&P, Moodys, or Fitch
Certificates of Deposit (CD's)	5 years	20% of portfolio	A.FDIC insured or fully collateralized B. located in California, and C. in business at least 5 years
Negotiable Certificates of Deposit (NCDs)	5 years	30% of portfolio	A. Issued by a Nationally or State chartered bank or a State or Fed S&L, or licensed branch of a foreign bank. B. Senior debt rated "AA" or better by Moody's or S&P
Repurchase Agreements	30 days	20% portfolio/10% per institution	See Investment Policy 8.9
Commercial Paper	270 days	25% portfolio/10% of outstanding paper of issuer	"Prime" quality/highest ranking by NRSRO. Org and operating in US. Total assets excess of $500million, if other debt must be rated “A” or higher.
Mutual Funds	N/A	20% portfolio	A. Highest Ranking or B. Retained an invest advisor reg or exempt from reg with SEC, not less than 5 years exper in managing mutual funds, with assets in excess of $500 million
Local Agency Bonds- Bonds, COPs, indebtedness issued by any state, municipality, or local agency.	5 years	N/A	N/A

9.0 ELIGIBLE INVESTMENTS FOR BOND PROCEEDS

Bond proceeds shall be invested in securities permitted by the applicable bond documents. If the bond documents are silent as to the permitted investments, bond proceeds will be invested in securities permitted by this Policy.

The bond proceeds will be invested on instruments that meet the investment policy criteria and the permitted investment section of the bond indenture. The investments will be made in accordance with a defined disbursement schedule.

The reserve fund investments are governed by the bond indenture language and the offering circular. Investments should be made in accordance with the permitted investment criteria set forth in the offering statement.

10.0 INELIGIBLE INVESTMENTS

As provided in California Government Code section 53601.6, the District shall not invest any funds in inverse floaters, range notes, mortgage derived interest-only strips or in any security that could result in zero interest accrual if held to maturity.

The purchase of any security not listed above, but permitted by the California Government Code is prohibited unless the District Board approves the investment either specifically or as a part of an investment program approved by the District Board.

11.0 LOCAL INVESTMENT POOL POLICIES AND REPORTS

To the extent there are investments in the State or California Asset Management Program (CAMP) investment pools, the District Treasurer shall review and maintain current copies of the adopted investment policies of the State and CAMP. The policies shall be reviewed for concurrence with the investment policy of the District.

12.0 SAFEKEEPING AND CUSTODY

All security transactions entered into by the Menlo Park Fire Protection District, CA shall be conducted on a delivery-versus payment basis. A third party custodian designated by the District Treasurer and evidenced by safekeeping receipts will hold securities.

The only exceptions to the foregoing are Local Agency Investment Pools, Certificates of Deposit, and Money Market funds since the purchased securities are not deliverable. In all cases, purchased securities shall be held in the District's name.

13.0 Internal Control

The District Treasurer shall establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with policies and procedures.

14.0 PERFORMANCE STANDARDS

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs.

The District will measure the portfolio's performance against a market benchmark that is commensurate with the District's investment risk constraints and the cash flow characteristics of the portfolio.

15.0 REPORTING

The District Treasurer shall provide a monthly Treasurer's report to the District Board of Directors, which provides a clear picture of the status of the current investment portfolio, including transactions. This report will be formally submitted to the District Board of Directors each quarter at a public meeting.

Schedules in the quarterly Treasurer's Report will include the following:

§ A list of individual securities held at the end of the reporting period by authorized investment category
§ Average life and final maturity of all investments
§ Earnings rate on an annualized basis
§ Market value, par value and amortized book value
§ Percentage of the portfolio by investment category

The quarterly report shall state compliance of the portfolio to the investment policy, or manner in which the portfolio is not in compliance. The quarterly report shall also include a statement denoting the ability of the District to meet its expenditure requirements for the next six months, or provide an explanation as to why sufficient money shall, or may, not be available.

16.0 POLICY REVIEW

The investment policy shall be adopted by resolution of the District Board on an annual basis. The investment policy shall be reviewed annually to ensure its consistency with the overall objections of preservation of principal, liquidity and yield, and its relevance to current law and financial and economic trends. Any amendments to the policy shall be forwarded to the District Board for approval.

GLOSSARY OF TYPES OF INVESTMENTS AVAILABLE TO LOCAL GOVERNMENTS

STATE INVESTMENT POOL (LAIF)

The Local Agency Investment Fund (LAIF) is a voluntary program created by statute; began in 1977 as an investment alternative for California's local governments and special districts. The enabling legislation for the LAIF is 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 Treasurer's Office investment staff at no additional cost to the taxpayer. This in-house management team is comprised of civil servants who have each worked for the State Treasurer's Office for an average of 20 years.

The LAIF is part of the Pooled Money Investment Account (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 as designated by statute. The Chairman is the State Treasurer or his designated representative. Two members qualified by training and experience in the field of investment or finance, and the State Treasurer appoints two members who are treasurers, finance or fiscal officers or business managers employed by any county, District or local district or municipal corporation of this state. The term of each appointment is two years or at the pleasure of the appointing authority.

All securities are purchased under the authority of Government Code Section 16430 and 16480.4. 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.

The State Treasurer’s Office is audited by the Bureau of State Audits on an annual basis and the resulting opinion is posted to the STO website following its publication. The Bureau of State Audits also has a continuing audit process throughout the year. All investments and LAIF claims are audited on a daily basis by the State Controller’s Office as well as an in-house audit process involving three separate divisions.

Under Federal Law, the State of California cannot declare bankruptcy, thereby allowing the Government Code Section 16429.3 to stand. This Section states that "moneys placed with the Treasurer for deposit in the LAIF 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, California Government Code Section 16429.4 was added to the LAIF's enabling legislation. The Section states that "the right of a District, county, District and county, special district, nonprofit corporation, or qualified quasi-governmental agency to withdraw its deposited moneys from the LAIF, 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 2,529 accounts and $ 20.3 billion in2014.

There is a limitation of $50 million per legal entity within an agency as of July 2014. There is also a maximum of fifteen transactions, deposits or withdrawals per month.

California Asset Management Program (CAMP)

CAMP provides California public agencies, together with any bond trustee acting on behalf of such public agency, assistance with the investment of and accounting for bond proceeds and surplus funds. For bond proceeds, the objective of CAMP is to invest and account of such proceeds in compliance with arbitrage management and rebate requirements of the Internal Revenue Service. The program includes the California Asset Management Trust, a California common law trust organized in 1989. The Trust currently offers a professionally managed money market investment portfolio, the Cash Reserve Portfolio, to provide public agencies with a convenient method of pooling funds for temporary investment pending their expenditure. The Trust also provides record keeping, custodial and arbitrage rebate calculation services for bond proceeds. As part of the program, public agencies may also establish individual, professionally managed investment accounts.

The Pool seeks to attain as high a level of current income as is consistent with the preservation of principal. The Pool purchases only investments of the type in which public agencies are permitted by statute to invest surplus funds and proceeds of their own bonds.

Certificates of Deposits (CD)

Certificates of Deposits, sometimes known as "Jumbo Accounts" or "Fixed CD's" are savings accounts with Banks or Savings and Loans. These accounts are for a specific amount, have a set interest rate, and set maturity date. There is a substantial interest penalty if the CD is withdrawn prior to the maturity date.

The State law requires Public Fund CD's to be collateralized by the financial institution at 110% with US Government notes/bonds or at 150% with quality First Trust Deeds. This collateral can be waived if Federal Insurance (FDIC for banks or FSLIC for savings and loans) is available. These federal agencies will insure each account up to the maximum insured limit.

The District generally waives the collateralization requirements for the FDIC or FSLIC insurance. The waiver of collateral is a wide spread practice and will generally generate higher interest rates and provide the greatest security for the funds from the Federal Insurance Agencies. For deposits in excess of the maximum insured limit, the collateralization requirements are not waived.

NEGOTIABLE CERTIFICATE OF DEPOSIT (NCD)

This investment is similar to the Fixed CD's above. However, the NCD can be sold through a broker on a "secondary market" prior to the maturity date. Normally, NCD's are issued in $500,000 and $1,000,000 amounts. The State Code limits NCD's to not more than 30% of the local agency's portfolio and to a five-year maximum term. The security is the credit worthiness of the issuer. These deposits are uninsured and uncollateralized promissory notes.

BANKER'S ACCEPTANCES (BA)

A Banker's Acceptance is a time draft of invested funds, which has been drawn on and accepted for repayment by a bank. This financial instrument is generally used for short term (30 and 180 days) financing of export, import, or storage of goods. By accepting the draft (investment of District funds), the bank is liable for the payment at maturity. This bank liability makes the Banker's Acceptance a marketable investment. The State Code limits BA's to not more than 180 days to maturity and 40% of the local agency's portfolio. In addition, not more than 30% of the local agency’s portfolio may be placed in any one bank.

US TREASURY BILLS

Commonly referred to as T-Bills, these are short-term marketable securities sold as obligations of the US Government. They are offered in three month, six month, nine month and one-year maturities. T-Bills do not accrue interest but are sold at a discount, and pay the face value at maturity.

US TREASURY NOTES

These are marketable, interest-bearing securities sold as obligations of the US Government with original maturities of one to ten years. Interest is paid semi-annually.

US TREASURY BONDS

These are the same as US Treasury Notes except they have original maturities of ten years or longer.

Federal Agency Issues

Many Federal Government Agencies are authorized to issue short term and long term obligations that are used to finance various programs such as home loans, business loans, farm loans, etc. These Agencies were created by the Federal Government in the 1930's and have since become independent quasi-public agencies. The security for their issues is the guarantee of the Agency to pay. The Federal Government has only an implied liability to the extent that the Agency has an open credit line to borrow from the U.S. Treasury. It is widely accepted that Federal Agency issues are as secure as U.S. Government notes.

There is an active secondary market available to sell these issues prior to maturity. The issues are fairly liquid depending on the prevailing market interest rates at the time of sale.

Some of the more common agency notes are issued by the Federal National Mortgage Association (Fannie Mae), Federal Home Loan Banks, Federal Home Loan Mortgage Corporation (Freddie Mac), and the Federal Farm Credit Banks.

Municipal Obligations

Bonds, notes, warrants, or other evidences of indebtedness of the State of California or of any local agency within the State of California, including bonds owned, controlled, or operated by the state or local agency, or by a department, board, agency, or authority of the state or local agency. A maximum of 10 percent may be invested in municipal obligations. The maturity on these investments not exceed five years without the prior approval of the board.

In addition, the issuer agency must meet the minimum state investment guidelines and have a minimum credit rating of "A" or equivalent by two of the three major rating agencies (Moody's, Standard & Poor's, and Fitch).

Repurchase Agreements and Reverse Repurchase Agreements (Repos)

A Repurchase Agreement is a short-term investment agreement to loan District funds for a fixed period in return for a fixed interest rate and secured collateral, such as U.S. Treasuries or Agency Notes. This type of investment is usually done for overnight or very short term (7 days) investment of funds left in the general operating checking account. A Reverse Repurchase agreement is a short-term investment, which is used to take advantage of market interest rate changes and increase the size of the portfolio. State law was amended in 1996 to limit the use of both repurchase and reverse repurchase agreements. The District Board must approve each reverse repurchase agreement.

Commercial Paper (CP)

Commercial Paper consists of unsecured promissory notes of industrial corporations, utilities and bank holding companies. The notes are in bearer form in amounts starting at \$100,000. State law limits the District to investments in United States corporations having assets in excess of five hundred million dollars with an "A" or higher rating. Special Districts may not invest more than 25% of the portfolio in commercial paper and the CP’s may not exceed a term of 270 days.

MUTUAL FUNDS

An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments. Special Districts may invest in Mutual Funds or Money Market funds that receive the highest ranking or the highest letter and numerical rating by two of the three largest nationally recognized rating services. The Mutual Funds must abide by the same investment restrictions and regulations that apply to public agencies in California. Money Market Funds must follow regulations specified by the Security and Exchange Commission under the Investment Company Act of 1940. The District must verify that the Mutual Fund is in compliance with state laws for public agencies prior to purchasing shares.

GUARANTEED INVESTMENT CONTRACT (GIC)

This is an agreement acknowledging receipt of funds for deposit, specifying terms for withdrawal and guaranteeing a rate of interest to be paid. The investment follows all state laws for the investment of public funds.