

INVESTMENT POLICY STATEMENT

FOR THE

CITY AND COUNTY OF SAN FRANCISCO HEALTH SERVICE SYSTEM TRUST FUND

Effective January 2017

1.0 Background and Purposes

The City and County of San Francisco Health Service System ("HSS") was established through a City Charter amendment in 1937. City and County of San Francisco Charter ("City Charter") Section A8.420. The City Charter Section 12.203 (*see also* City Charter Sections A8.423 and A8.428) established the Health Service System Fund ("Fund"). It provides:

The Health Service System fund shall be a trust fund administered by the Health Service Board in accordance with the provisions of this Charter solely for the benefit of the active and retired members of the Health Service System and their covered dependents. The City and County, School District and Community College District shall each contribute to the Health Service System Fund amounts sufficient to efficiently administer the Health Service System.

The Fund was established to facilitate the contributions and disbursements of the System, while also providing a funding source to ensure payments could be made if disbursements exceeded contributions for a period of time. *See also* City Charter A8.429, which provides as follows:

The health service board shall determine and certify to the controller the amount to be paid monthly by the members of the system to the health service system fund for the purposes of the system hereby created. The controller shall deduct said sums from the compensation of the members and shall deposit the same with the treasurer of the City and County to the credit of the health service system fund.

Such deductions shall not be deemed to be a reduction of compensation under any provision of this Charter.

The health service board shall have control of the administration and investment of the health service system fund, provided that all investments shall be of the character legal for insurance companies in California. Disbursements from the fund shall be made only upon audit by the controller and the controller shall have and exercise the accounting and auditing powers over the health service system fund which are vested in him by this Charter with respect to all other municipal boards, officers, and commissions

The purpose of this Investment Policy Statement is to set forth the objectives and constraints on the Fund, and to establish appropriate guidelines and options for investing Fund assets.

This statement is intended to incorporate sufficient flexibility to accommodate current and future economic and market conditions, as well as any changes in applicable statutory and regulatory requirements.

2.0 Definitions

- **Recordkeeper:** The term "Recordkeeper" shall mean the individual, entity, or organization responsible for maintaining and updating the information regarding the Fund balance, reserves, and other duties necessary to maintain the proper accounting of the Fund.
- **Custodian:** The term "Custodian" shall mean the custodian bank which holds the assets of the Fund.
- **Investment Advisor:** The term "Investment Advisor" shall mean a registered investment advisor who the Board may, but is not required to, retain to provide advice or other assistance to the Board with respect to the Fund investments and administration.

3.0 Statement of Investment Goals and Objectives

The purchase and administration of health and other benefits necessitates significant cash inflows and outflows in the Fund. Therefore, the primary objective of the Fund is to act as a temporary repository of assets before such assets are disbursed. The Fund's investment objectives include the following:

- **Safety:** To maintain safety of the principal and ensure that investment of the Fund assets are undertaken in a manner that seeks to preserve capital, while complying with relevant statutory requirements;
- **Liquidity:** To maintain sufficient liquidity to enable the HSS to meet all obligations when due;
- **Cost Control:** To control costs of administering the Fund and managing Fund Assets while assuring sufficient flexibility to meet future needs; and
- **Return on Investment:** To enable the Fund to maximize return within reasonable and prudent levels of risk consistent with investment objectives with low risk assets.

4.0 Fiduciary Standards

The San Francisco Health Service Board ("Board") is the fiduciary for the Fund and is charged with governing the Fund. As Trustees of the Fund, Board members are fiduciaries. As fiduciaries, the Board members must comply with applicable fiduciary standards including, but not limited to, the prudent person standard set forth in: California Constitution Article 16, Section 17(c); the California Uniform Prudent Investor Act ("UPIA"); and California Government Code Section 53600.3.

In addition, the HSS Board Governance Manual requires that the Board shall be responsible for approval and subsequent review of a written policy statement, ensuring responsible management thereof, compliance with the policy, and ongoing review of investment performance.

5.0 Use of Investment Advisor and Other Professionals

The Board may retain a registered investment advisor ("Investment Advisor") to provide advice and other assistance to the Board to help it fulfill its obligations with respect to the Fund investments and administration. The Investment Advisor's services and the fees charged for those services must be set out in a written agreement with the Board under which the Investment Advisor acknowledges that it is a co-fiduciary with respect to the Fund.

6.0 Allocation of Responsibilities

6.1. Board's Responsibilities

As set forth in Charter Section A8.429, the Board "shall have control of the administration and investment of the health service system fund, provided that all investments shall be of the character legal for insurance companies in California." Charter Section A8.429; *see also* California Insurance Code sections 1170-1202 and Government Code sections 53600 et seq. In performing this function, the Board shall:

- Prepare and maintain a written investment policy statement (*e.g.*, this Statement), review the statement periodically, and make changes to such statement, as appropriate from time to time;
- Designate certain investments that may be made under the Fund;
- Establish and implement a disciplined process for selecting, monitoring, and retaining or terminating investments; and
- Take appropriate action if investment objectives are not met or investment policies or guidelines are not followed.

The Board shall also:

- Select and monitor the performance and fees of the Investment Advisor, if retained, a Recordkeeper, and other providers for the Fund as it deems appropriate; and
- Review all agreements between the Fund and service providers to ensure adherence to statutory requirements.

6.2. Controller Responsibilities

The Controller shall have the responsibilities set out by law, which shall include:

- Deducting the requisite amounts, as determined by the Board, from the members' compensation;
- Depositing such amounts with the Treasurer; and
- Exercising accounting and auditing powers over the Fund.

6.3. Custodian's Responsibilities

The Custodian is responsible for safekeeping the Fund's assets. The duties and responsibilities of the Custodian include:

- Maintaining possession of the Fund assets (directly or through a sub-custodian);
- Collecting all income and dividends owed to the Fund;
- Settling all transactions (buy-sell orders);
- Valuing the Fund's holdings; and
- Providing monthly reports that detail transactions, cash flows, securities held, their current value, and other portfolio statistics in accordance with the California Government Code.

6.4. Investment Advisor's Responsibilities

The Investment Advisor, if retained, shall provide investment advice to the Board concerning the investment of Fund assets consistent with the investment objectives, policies, and constraints included in this Investment Policy Statement, as amended from time to time. The Investment Advisor's responsibilities include:

- Assisting in the creation, review, and revision of a written investment policy statement (*e.g.* this Statement);
- Assisting in the establishment and implementation of a disciplined process for selecting, monitoring, and retaining or terminating investments;
- Providing independent and unbiased information;
- Assisting in investment option mapping where deemed appropriate;
- Assisting in the control of investment expenses, including helping to negotiate investment, Recordkeeper, and other service provider fees;

- Reporting annual investment performance results to enable the Board to evaluate investment performance in light of existing goals and objectives; and
- Performing such other services for the Fund as agreed to by the Board and the Investment Advisor from time to time.

6.5. Treasurer's Responsibilities

The Treasurer shall be responsible for those funds required for daily cash flow and for all additional funds delegated to the Treasurer for investment which exceed the amounts necessary for daily cash flows and reserves.

7.0 Investment Options

The Board, with the assistance of the Investment Advisor, if retained, shall consider several factors when determining the most prudent course of investing the Fund's assets in excess of the amount needed for daily cash flow and reserves, including:

- The goals and constraints of the Fund (see Section 3.0 Statement of Objectives above);
- The investment's track record;
- The performance as compared to an appropriate benchmark;
- The investment risk;
- The investment strategy, any changes in investment strategy, and adherence to stated strategy over time;
- The fees and expenses associated with the investment;
- Qualitative characteristics, including, but not limited to, management strategy, strategy of assets under management, turnover, and recent portfolio activity in view of the current market conditions; and
- Such other information as the Board and Investment Advisor deem appropriate.

In selecting investment options for the Fund, the Board shall comply with California Government Code, Section 53600, and may not invest in any investments not specifically authorized by California Government Code, Section 53600. In general, Section 53600 limits local agency investment funds to high quality, fixed income securities with maturities of less than five years. Securities with a maturity of greater than five years require approval by the Board of Supervisors. For example, permitted securities include:

- Obligations of the United States Government ("Treasuries"), federal agencies, municipalities, and negotiable Certificates of Deposits ("CD") are allowed with a maximum maturity of five years.
- Medium-term corporate bonds ("A" or better) and asset-backed securities with a maximum maturity of five years;
- Repurchase agreements with a maximum maturity of one year;
- Commercial paper with a maximum maturity of 270 days; and
- Bankers' acceptances notes with a maximum maturity of 180 days.

Prohibited securities include, but are not limited to, Commercial Mortgage Backed Securities, high yield bonds, convertibles, non-United States denominated investment grade bonds, emerging market debt, equities, commodities, real estate, hedge funds, and private equity. Additional guidelines on permissible and prohibited investments are set forth in Government Code sections 53600¹ to 53610 attached hereto.

The following options currently satisfy the above factors:

1. Investing assets in the City and County of San Francisco's Treasury Pool² (which complies with California Government Code 53600). Investment in the City and County of San Francisco's Treasury Pool also meets Section 16 of the Health Service Board's Governance Manual (referenced above). If adopted, the Board shall receive quarterly written updates on the performance of the Treasury Pool and an annual update from Treasurer and Tax Collector staff;
2. Investing assets with external investment managers to run a portfolio that will comply with the California Government Code; or
3. Making direct purchases of investment assets.

Investment options #2 and #3 above are limited to investing the fund balance less: (i) obligations (funds required for daily cash flow); and (ii) reserves.

8.0 Monitoring of Investments

The Board shall decide the most appropriate options for investment of the Fund, pursuant to Section 7.0 above, and shall monitor the investment options on an ongoing quarterly basis. No less than every three (3) years the Board shall review the Fund's performance in detail. Material changes in market conditions or changes to the investment team managing the Fund assets or the team's strategy would require a more timely review.

9.0 Investment Policy Review

The Board shall review this Investment Policy Statement periodically, but not less than every three (3) years, to determine whether the investment objectives are still relevant. It is not expected that this Statement will change frequently. In particular, short-term changes in the financial markets should not require adjustments to this Investment Policy Statement.

¹ This Investment Policy Statement acknowledges that Section 53600 of the Government Code is more restrictive than the California Insurance Code, however, both must be considered when investing Fund assets.

² The City and County of San Francisco's Treasury Pool's investment priorities of safety, liquidity, and return should align with the objectives of the HSS Fund. The Treasury Pool's Investment Policy is reviewed and monitored by the Treasury Oversight Committee pursuant to City and County Administrative Code Section 10.80-1.

10.0 Effective Date

The policy is effective immediately upon Board approval. This Investment Policy Statement shall guide the Board and the Investment Advisor, if retained, and shall remain in effect until amended by the Board. Nothing contained in this Statement shall provide to any participant or beneficiary the right to challenge the terms of this Investment Policy Statement. Subject to relevant statutory requirements, the Board shall have full discretion as to how it selects and monitors the investments and the application of this Investment Policy Statement to any specific situation.

Attachment: Gov't Sections 53600 to 53610.



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GOVERNMENT CODE - GOV

TITLE 5. LOCAL AGENCIES [50001 - 57550] (Title 5 added by Stats. 1949, Ch. 81.)

DIVISION 2. CITIES, COUNTIES, AND OTHER AGENCIES [53000 - 55821] (Division 2 added by Stats. 1949, Ch. 81.)

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

54999.7] (Part 1 added by Stats. 1949, Ch. 81.)

CHAPTER 4. Financial Affairs [53600 - 53997] (Chapter 4 added by Stats. 1949, Ch. 81.)

ARTICLE 1. Investment of Surplus [53600 - 53610] (Article 1 added by Stats. 1949, Ch. 81.)

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

(Amended by Stats. 1987, Ch. 887, Sec. 2.)

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

(Amended by Stats. 1996, Ch. 749, Sec. 4. Effective January 1, 1997.)

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

(Amended by Stats. 1996, Ch. 749, Sec. 5. Effective January 1, 1997.)

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

(Added by Stats. 1995, Ch. 784, Sec. 13. Effective January 1, 1996.)

53601. This section shall apply to a local agency that is a city, a district, or other local agency that does not pool money in deposits or investments with other local agencies, other than local agencies that have the same governing body. However, Section 53635 shall apply to all local agencies that pool money in deposits or investments with other local agencies that have separate governing bodies. The legislative body of a local agency having moneys in a sinking fund or moneys in its treasury not required for the immediate needs of the local agency may invest any

portion of the moneys that it deems wise or expedient in those investments set forth below. A local agency purchasing or obtaining any securities prescribed in this section, in a negotiable, bearer, registered, or nonregistered format, shall require delivery of the securities to the local agency, including those purchased for the agency by financial advisers, consultants, or managers using the agency's funds, by book entry, physical delivery, or by third-party custodial agreement. The transfer of securities to the counterparty bank's customer book entry account may be used for book entry delivery.

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

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

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

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

(1) The entity meets the following criteria:

- (A) Is organized and operating in the United States as a general corporation.
- (B) Has total assets in excess of five hundred million dollars (\$500,000,000).
- (C) Has debt other than commercial paper, if any, that is rated in a rating category of "A" or its equivalent or higher by an NRSRO.

(2) The entity meets the following criteria:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- (i) Involvement in the creation, sale, purchase, or retirement of a local agency's bonds, warrants, notes, or other evidence of indebtedness.
- (ii) Financing of a local agency's activities.
- (iii) Acceptance of a local agency's securities or funds as deposits.
- (5) (A) "Repurchase agreement" means a purchase of securities by the local agency pursuant to an agreement by which the counterparty seller will repurchase the securities on or before a specified date and for a specified amount and the counterparty will deliver the underlying securities to the local agency by book entry, physical delivery, or by third-party custodial agreement. The transfer of underlying securities to the counterparty bank's customer book-entry account may be used for book-entry delivery.
- (B) "Securities," for purposes of repurchase under this subdivision, means securities of the same issuer, description, issue date, and maturity.
- (C) "Reverse repurchase agreement" means a sale of securities by the local agency pursuant to an agreement by which the local agency will repurchase the securities on or before a specified date and includes other comparable agreements.
- (D) "Securities lending agreement" means an agreement under which a local agency agrees to transfer securities to a borrower who, in turn, agrees to provide collateral to the local agency. During the term of the agreement, both the securities and the collateral are held by a third party. At the conclusion of the agreement, the securities are transferred back to the local agency in return for the collateral.
- (E) For purposes of this section, the base value of the local agency's pool portfolio shall be that dollar amount obtained by totaling all cash balances placed in the pool by all pool participants, excluding any amounts obtained through selling securities by way of reverse repurchase agreements, securities lending agreements, or other similar borrowing methods.
- (F) For purposes of this section, the spread is the difference between the cost of funds obtained using the reverse repurchase agreement and the earnings obtained on the reinvestment of the funds.
- (k) Medium-term notes, defined as all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Notes eligible for investment under this subdivision shall be rated in a rating category of "A" or its equivalent or better by an NRSRO. Purchases of medium-term notes shall not include other instruments authorized by this section and shall not exceed 30 percent of the agency's moneys that may be invested pursuant to this section.
- (l) (1) Shares of beneficial interest issued by diversified management companies that invest in the securities and obligations as authorized by subdivisions (a) to (k), inclusive, and subdivisions (m) to (q), inclusive, and that comply with the investment restrictions of this article and Article 2 (commencing with Section 53630). However, notwithstanding these restrictions, a counterparty to a reverse repurchase agreement or securities lending agreement is not required to be a primary dealer of the Federal Reserve Bank of New York if the company's board of directors finds that the counterparty presents a minimal risk of default, and the value of the securities underlying a repurchase agreement or securities lending agreement may be 100 percent of the sales price if the securities are marked to market daily.
- (2) Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1 et seq.).
- (3) If investment is in shares issued pursuant to paragraph (1), the company shall have met either of the following criteria:
- (A) Attained the highest ranking or the highest letter and numerical rating provided by not less than two NRSROs.
- (B) Retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience investing in the securities and obligations authorized by subdivisions (a) to (k), inclusive, and subdivisions (m) to (q), inclusive, and with assets under management in excess of five hundred million dollars (\$500,000,000).
- (4) If investment is in shares issued pursuant to paragraph (2), the company shall have met either of the following criteria:
- (A) Attained the highest ranking or the highest letter and numerical rating provided by not less than two NRSROs.

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

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

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

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

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

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

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

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

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

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

(Amended by Stats. 2016, Ch. 366, Sec. 12. Effective January 1, 2017.)

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

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

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

(Added by Stats. 2004, Ch. 118, Sec. 18. Effective January 1, 2005.)

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

(Amended by Stats. 2001, Ch. 57, Sec. 2. Effective January 1, 2002.)

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

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

(Amended by Stats. 2009, Ch. 332, Sec. 68.1. Effective January 1, 2010.)

53601.8. Notwithstanding Section 53601 or any other provision of this code, a local agency that has the authority under law to invest funds, at its discretion, may invest a portion of its surplus funds in deposits at a commercial bank, savings bank, savings and loan association, or credit union that uses a private sector entity that assists in the placement of deposits. The following conditions shall apply:

(a) The local agency shall choose a nationally or state chartered commercial bank, savings bank, savings and loan association, or credit union in this state to invest the funds, which shall be known as the "selected" depository institution.

(b) The selected depository institution may use a private sector entity to help place local agency deposits with one or more commercial banks, savings banks, savings and loan associations, or credit unions that are located in the United States and are within the network used by the private sector entity for this purpose.

(c) Any private sector entity used by a selected depository institution to help place its local agency deposits shall maintain policies and procedures requiring both of the following:

(1) The full amount of each deposit placed pursuant to subdivision (b) and the interest that may accrue on each such deposit shall at all times be insured by the Federal Deposit Insurance Corporation or the National Credit Union Administration.

(2) Every depository institution where funds are placed shall be capitalized at a level that is sufficient, and be otherwise eligible, to receive such deposits pursuant to regulations of the Federal Deposit Insurance Corporation or the National Credit Union Administration, as applicable.

(d) The selected depository institution shall serve as a custodian for each such deposit.

(e) On the same date that the local agency's funds are placed pursuant to subdivision (b) by the private sector entity, the selected depository institution shall receive an amount of insured deposits from other financial institutions that, in total, are equal to, or greater than, the full amount of the principal that the local agency initially deposited through the selected depository institution pursuant to subdivision (b).

(f) Notwithstanding subdivisions (a) to (e), inclusive, a credit union shall not act as a selected depository institution under this section or Section 53635.8 unless both of the following conditions are satisfied:

(1) The credit union offers federal depository insurance through the National Credit Union Administration.

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

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

(h) The deposits placed pursuant to this section and Section 53635.8 shall not, in total, exceed 30 percent of the agency's funds that may be invested for this purpose.

(i) This section shall remain in effect only until January 1, 2021, and as of that date is repealed.

(Amended (as amended by Stats. 2013, Ch. 228, Sec. 1) by Stats. 2015, Ch. 181, Sec. 1. Effective January 1, 2016. Repealed as of January 1, 2021, by its own provisions. See later operative version, as amended by Sec. 2 of Stats. 2015, Ch. 181.)

53601.8. Notwithstanding Section 53601 or any other provision of this code, a local agency that has the authority under law to invest funds may, at its discretion, invest a portion of its surplus funds in certificates of deposit at a commercial bank, savings bank, savings and loan association, or credit union that uses a private sector entity that assists in the placement of certificates of deposit, provided that the purchases of certificates of deposit pursuant to this section, Section 53635.8, and subdivision (i) of Section 53601 do not, in total, exceed 30 percent of the agency's funds that may be invested for this purpose. The following conditions shall apply:

(a) The local agency shall choose a nationally or state-chartered commercial bank, savings bank, savings and loan association, or credit union in this state to invest the funds, which shall be known as the "selected" depository institution.

(b) The selected depository institution may submit the funds to a private sector entity that assists in the placement of certificates of deposit with one or more commercial banks, savings banks, savings and loan associations, or credit unions that are located in the United States for the local agency's account.

(c) The full amount of the principal and the interest that may be accrued during the maximum term of each certificate of deposit shall at all times be insured by the Federal Deposit Insurance Corporation or the National Credit Union Administration.

(d) The selected depository institution shall serve as a custodian for each certificate of deposit that is issued with the placement service for the local agency's account.

(e) At the same time the local agency's funds are deposited and the certificates of deposit are issued, the selected depository institution shall receive an amount of deposits from other commercial banks, savings banks, savings and loan associations, or credit unions that, in total, are equal to, or greater than, the full amount of the principal that the local agency initially deposited through the selected depository institution for investment.

(f) Notwithstanding subdivisions (a) to (e), inclusive, no credit union may act as a selected depository institution under this section or Section 53635.8 unless both of the following conditions are satisfied:

(1) The credit union offers federal depository insurance through the National Credit Union Administration.

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

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

(h) This section shall become operative on January 1, 2021.

(Amended (as added by Stats. 2013, Ch. 228, Sec. 2) by Stats. 2015, Ch. 181, Sec. 2. Effective January 1, 2016. Section operative January 1, 2021, by its own provisions.)

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

(Amended by Stats. 1954, 1st Ex. Sess., Ch. 10.)

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

(Amended by Stats. 1953, Ch. 537.)

53604.

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

(Amended by Stats. 1953, Ch. 537.)

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

(Amended by Stats. 1953, Ch. 537.)

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

(Added by Stats. 1949, Ch. 81.)

53607. The authority of the legislative body to invest or to reinvest funds of a local agency, or to sell or exchange securities so purchased, may be delegated for a one-year period by the legislative body to the treasurer of the local agency, who shall thereafter assume full responsibility for those transactions until the delegation of authority is revoked or expires, and shall make a monthly report of those transactions to the legislative body. Subject to review, the legislative body may renew the delegation of authority pursuant to this section each year.

(Amended by Stats. 1996, Ch. 749, Sec. 6. Effective January 1, 1997.)

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

(Amended by Stats. 1985, Ch. 983, Sec. 17. Effective September 26, 1985.)

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

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

(Amended by Stats. 1979, Ch. 373.)

53610. (a) For purposes of this section, "Proposition 1A receivable" means the right to payment of moneys due or to become due to a local agency, pursuant to clause (iii) of subparagraph (B) of paragraph (1) of subdivision (a) of Section 25.5 of Article XIII of the California Constitution and Section 100.06 of the Revenue and Taxation Code.

(b) Notwithstanding any other law, a local agency may purchase, with its revenue, Proposition 1A receivables sold pursuant to Section 53999.

(c) A purchaser of Proposition 1A receivables pursuant to this section shall not offer them for sale pursuant to Section 6588.

(Added by Stats. 2009, Ch. 634, Sec. 5. Effective October 19, 2009.)

