

POOLED MONEY INVESTMENT BOARD
POOLED MONEY INVESTMENT ACCOUNT LOAN POLICY

October 20, 2010

1.0 POLICY

Government Code Section 16312 authorizes the Pooled Money Investment Board (“Board”) to make loans from the Pooled Money Investment Account (“PMIA”) to special funds with repayment to come from the later sale of notes or bonds (“Section 16312 loans”). Government Code Section 16313 authorizes the Board to make loans from the PMIA to any state agency in order to prepay or replace existing financing when the Board determines it is in the best interest of the State to do so (“Section 16313 loans,” and collectively with Section 16312 loans, “PMIA Loans”). This PMIA Loan Policy (“Policy”) provides guidelines for the prudent investment of PMIA funds in PMIA Loans and shall replace any previously adopted policies relating to PMIA Loans.

2.0 POLICY REVIEW AND CHANGE

The Policy shall be reviewed annually by the Board each October. Any change in the Policy shall be reviewed and approved by the Board at a meeting noticed in accordance with the requirements of the Bagley-Keene open meeting law.

3.0 PMIA LOAN APPLICATIONS ELIGIBLE FOR BOARD CONSIDERATION

Applications for projects that do not have an outstanding PMIA loan as of October 20, 2010 (“New Loans”) or applications for the renewal of an existing PMIA loan (“Renewal Loans”) that meet the following requirements can be placed on the agenda and considered by the Board at a public meeting:

- A. Completed Application. Board staff must receive a copy of a completed and signed application from the requesting state agency with all required attachments at least fifteen business days prior to the date the agenda must be posted.
- B. Bond Resolution. A resolution authorizing the issuance of bonds for the project and authorizing actions to provide for interim financing from the Board must be adopted.

- C. Valid Appropriation. The costs to be financed must have a valid appropriation at the time of application and the applicant must certify that it will seek a re-appropriation for any expiring appropriations during the life of the requested loan.
- D. No Pending Litigation. The applicant must certify that it is not aware of any pending litigation relating to the project that is to be financed by the loan, or must disclose such litigation for evaluation of whether the litigation would impact the ability of bond counsel or the Attorney General's Office to provide a customary bond opinion for the bonds that are to be issued to repay the loan. If the bond counsel or the Attorney General's Office determines that the pending litigation would preclude the issuance of their customary opinion, the loan shall not be eligible for consideration by the Board. The Board may consider an exception to this requirement on a case by case basis for Renewal Loans only.

The following additional requirements shall apply to applications from the State Public Works Board ("SPWB") for New Loans:

- E. Project Costs Eligible for Interim Financing. With the exception of the types of projects described in 4) – 6) below, loan funds shall only be approved for the following project costs:
 - 1) Preliminary plans, working drawings, performance criteria and concept drawings, acquisition, environmental work, engineering, and other preliminary costs necessary to get a project to the point where it is ready to bid ("Preliminary Costs");
 - 2) Eligible administrative costs associated with the loan; and
 - 3) Interest or principal due on the loan at the time of renewal or when being paid off.

The following types of projects are not subject to the limitations in section E(1) above:

- 4) Projects with total bond-funded costs under \$5,000,000;
- 5) Projects the Director of Finance has determined are not appropriate for upfront bond funding or the Director of Finance has determined interim financing is needed for a portion of the construction phase to allow the bid to be awarded prior to the bond sale; and
- 6) Projects required to be completed by court order where failure to comply with specific timelines may result in unfavorable actions to the state.

The application shall contain a description of the basis for the Director of Finance's determination on section E(5) or (6) above.

- F. Due Diligence Memo. The SPWB must provide a completed real estate "due diligence" memo if any loan funds are to be used for construction.

- G. State Budget. In order for New Loans to be eligible for unconditional approval by the Board, a State Budget with Budget Control Section 4.80¹ must be in place for the fiscal year in which the loan is considered for approval. If there is a late State Budget, the Board may conditionally approve the loan subject to enactment of a Budget.
- H. Alternative Repayment Plan. If a project is cancelled or if the SPWB determines that bonds cannot or will not be issued for the project while a loan is outstanding, the SPWB must provide an alternative repayment plan to Board staff. Specifically, the SPWB must certify that it will provide a written plan within 60 days of project cancellation or determination that bonds will not be issued that describes the SPWB's plan to pay off the loan utilizing a current or future appropriation or another funding source.

4.0 PMIA LOAN APPLICATIONS INELIGIBLE FOR BOARD CONSIDERATION

In order to preserve PMIA Loan funding for SPWB projects described in Section 3.0 E, the Board will not consider applications for New Loans for projects to be funded by General Obligation ("GO") bonds or revenue bonds issued by a State agency other than the SPWB. This is based upon the availability of alternative sources of interim financing for other bond-funded projects, including commercial paper notes for GO bond programs, and the ability of the State to issue upfront GO bonds for preliminary costs, which cannot be done for SPWB lease revenue bond projects. Additionally, at this time, the Board shall not consider applications for New Loans pursuant to Section 16313.

5.0 LOAN TERMS AND INTEREST RATE

- A. Loan Term. The term of any Section 16312 Loan shall not exceed 364 days. Loans that have not been paid off in full prior to the maturity, may be renewed by the Board.
- B. Interest Rate. In accordance with Government Code Section 16314, the interest rate on all Section 16312 Loans shall be the last available daily rate of return earned by the PMIA on the actual date of withdrawal or transfer of the loan funds, and shall be reset with any renewal.

¹ Budget Control Section 4.80 has historically provided that in the event bonds authorized by the SPWB are not sold and interim financing costs have been incurred, departments that have incurred those costs shall commit a sufficient portion of their support appropriations to repay the interim financing costs.

6.0 AGGREGATE LOAN LIMITS AND FUNDING

The maximum aggregate amount of all approved PMIA Loan amounts shall not exceed \$500,000,000 at any time. In accordance with Government Code Section 16429.3, PMIA Loans shall not be funded by monies in the Local Agency Investment Fund. Additionally, PMIA Loans shall not be funded by monies that are designated as Bond Funds in the Manual of State Funds maintained by the Department of Finance.

7.0 REPORTING

The Board staff shall submit a monthly report to the Board that lists the amount of outstanding PMIA Loans.