

# Session Four: California Government Code and Legal Investments

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Bill Blackwill, Managing Director, Stifel Investment Services

Laura Parisi, CPA, CCMT, CFIP, City Treasurer, Laguna Beach

# Government Code and Resources

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- California Code 53601 [http://leginfo.legislature.ca.gov/faces/codes\\_displaySection.xhtml?lawCode=GOV&sectionNum=53601](http://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=GOV&sectionNum=53601)
- Resources:
  - *California Debt and Investment Advisory Commission CDIAC* - <http://www.treasurer.ca.gov/cdiac/>
    - *Local Agency Investment Guidelines*
    - *California Public Funds Investment Primer*
  - *California Municipal Treasurers' Association CMTA* - <http://www.cmta.org/>
  - *Association of Public Treasurers of the United States and Canada APT US&C* - <http://www.aptusc.org/>
  - *Government Finance Officers' Association GFOA* - <http://www.gfoa.org/>
  - *Government Investment Officers' Association GIOA* - <http://www.gioa.us/>

# Types of Investments – Allowable

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1. US Treasury Securities
2. US Government Agency Securities
3. Medium-term Corporate Notes
4. Municipal Notes or Bonds
5. Local Agency Debt/Bonds
6. Supranational Securities
7. Certificates of Deposit
8. Bank Deposits
9. Investment Pools
10. Commercial Paper
11. Bankers' Acceptances
12. Other (Asset-backed securities, investment agreements, mortgage-backed securities, repurchase agreements, reverse-repurchase agreements, securities lending agreements, mutual funds)

# US Treasury Securities

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- Treasury Notes, Bonds, Bills or other certificates of indebtedness.
- Pledged for payment by the full faith and credit of the United States.
- No limit on the percentage that can be invested in this category.

# US Government Agencies

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- Obligations, participations or other instruments issued or fully guaranteed by a federal agency or a United States government-sponsored enterprise.
- Implied or expressed backing of the United States government.
- No limit on the percentage that can be invested in this category.
- Includes Federal Home Loan Banks, Federal Farm Credit Banks, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association and Tennessee Valley Authority.
- Includes Farmer Mac and Sallie Mae.

# Medium-term Corporate Notes

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- Defined as all corporate and depository institution debt securities with a maximum remaining maturity of not more than five years.
- Issued by corporations organized and operating within the United States or by a depository institution licensed within the US
- “A” category is the minimum rating by an NRSRO.
- Consider a 2% limitation by issuer and apply limitation to commercial paper plus medium-term corporate notes.
- This category is limited to 30% of the portfolio.

# Municipal Notes or Bonds

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- Obligations of a political subdivision of the United States with a maximum remaining maturity of not more than five years.
- Includes bonds, notes, warrants, or the certificates of indebtedness of California or any other state.
- “A” category is the minimum rating or A-1/P-1/F1 or better ratings for short-term securities by an NRSRO.
- Consider a 2% limitation by issuer.
- Consider a limitation on this category.

# Local Agency Debt/Bonds

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- You can buy debt issued by your agency.
- Consider potential conflicts of interest when doing so.
- Includes bonds issued by the agency including those payable solely out of revenues from a revenue producing property owned, controlled or operated by the agency.
- Remaining term must be 5 years or less, unless the legislative body has granted express authority to make that investment either specifically or as part of an investment program.

# Supranational Securities

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- Dollar denominated senior unsecured, unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC) or Inter-American Development Bank (IADB).
- Maturity must be 5 years or less.
- “AA” category is the minimum rating.
- This category is limited to 30% of the portfolio.
- Includes International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC) and Inter-American Development Bank (IADB).

# Certificates of Deposit

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- Formats include traditional, negotiable and CDARS.
- Issued by nationally or state chartered banks, savings association or a federal association, state or federal credit union, or by a federally licensed or state licensed branch of a foreign bank.
- Guaranteed by the Federal Deposit Insurance Corporation FDIC up to \$250,000.
- The importance of verifying FDIC numbers.
- This category is limited to 30% of the portfolio.

# Bank Deposits

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- May be in checking or investments in accounts that have a fixed term and negotiated rate if interest.
- If more than the FDIC limit, must be collateralized.
- This category is limited to 30% of the portfolio.

# Investment Pools

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- Organized and operated by a treasurer, investment officer or external investment advisory firm.
- Local Agency Investment Fund (LAIF). Investment limited to \$65 million.
- County Investment Pools.
- External investment advisory firm options.
- No limit on the percentage that can be invested in this category.

# Commercial Paper

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- Maximum maturity 270 days.
- Must be of “prime” quality of the highest ranking or of the highest letter and number rating as provided for by a NRSRO.
- The issuing entity must be organized and operating in the US as a general corporation, trust, or limited liability company with total assets in excess of \$500 million.
- Has debt other than CP, if any, that is rated A or higher by an NRSRO.
- Has program wide credit enhancements including but not limited to over-collateralization, letters of credit or surety bond.
- Has CP that is rated A-1 or higher or the equivalent by an NRSRO.
- Consider a 2% limitation by issuer and apply limitation to commercial paper plus medium-term corporate notes.
- For local agencies other than a county or city/county, 10% of the outstanding commercial paper of any single issuer limitation.
- For local agencies other than a county or city/county, this category is limited to 25% of the portfolio.
- County or City/County see Government Code section 53635.

# Bankers' Acceptances

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- Also known as time drafts (bills of exchange) and are drawn on and accepted by a commercial bank.
- May not exceed 180 days maturity.
- Must be issued by one of the 10 largest domestic banks or one of the 20 largest international banks.
- This category is limited to 30% of the portfolio.

# Other Allowable Investments

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- Asset-backed securities (ABS) can be of sufficient credit quality but can be difficult to analyze and account for. The complications cause the investment to not be an allowable investment in the Laguna Beach Investment Policy.
- Due to the difficulties in analyzing the risk and return as well as the challenges with accounting, the following investments which are allowed by government code are not allowed by the City of Laguna Beach Investment Policy;
  - Investment agreements.
  - Mortgage-backed securities.
  - Repurchase agreements.
  - Reverse-repurchase agreements.
  - Securities lending agreements.
  - Mutual funds.

# Types of Investments Specifically prohibited by Government Code

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- Certain investments are prohibited by Government Code 53601.6;
  - Inverse floaters.
  - Range notes.
  - Mortgage-derived interest-only STRIPS and securities that could result in zero interest accrual if held to maturity.

# The Importance of an Investment Policy

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- The treasurer *may* annually render to his/her legislative body and any oversight committee an investment policy, that the legislative body shall consider at a public meeting.
- Recommended by consensus in the *Local Agency Investment Guidelines*.
- The Investment Policy customizes government code to fit your agency's risk tolerances.
- Investment Policy certifications are available through CMTA and APT US&C.

# The Laguna Beach Investment Policy

## Other Allowable Investments Not Authorized

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- Due to the higher perceived risk, the following investment *categories* are not allowed through Laguna Beach's Investment Policy;
  - Options.
  - Derivatives.
  - Swaps.
  - Financial futures.
- Sample Investment Policies are available on the CMTA website and the Laguna Beach Investment Policy is available on the City website.

# Thank you!

## Disclosure and Contact Information

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- Bill Blackwill, Stifel Investment Services (949)234-2349 [wblackwill@bloomberg.net](mailto:wblackwill@bloomberg.net)
- Laura Parisi, City of Laguna Beach (949)497-0327 [lparisi@lagunabeachcity.net](mailto:lparisi@lagunabeachcity.net)