STAFF REPORT

MEETING DATE:	**October 22, 2024**
SUBJECT:	**Receive update on California Cooperative Liquid Assets Securities System (CLASS) Investment Pool and Provide Direction to Staff**
AGENDA ITEM:	**5**
STAFF CONTACT:	**Jessica Carlson, Chief Fiscal Officer**

SUMMARY:

Staff presented background and preliminary recommendations to the Fiscal & Policy Committee on September 5, 2024, regarding the California Cooperative Liquid Assets Securities System (CLASS) investment pool and potentially adding it to SRTA's investment portfolio. Discussion included questions and concerns around the risk and security of CLASS and its relatively young age. SRTA staff researched potential benefits and risks of CLASS participation based on the Committee's questions and concerns. Staff recommend reviewing the information gathered and discuss whether or not to seek board of directors approval to enroll in CLASS.

STAFF RECOMMENDATION:

It is recommended that the Fiscal & Policy Committee:

1. Receive an update on the potential benefits of CLASS participation and staff's review of questions presented at the last Committee meeting; and
2. Discuss and provide direction to staff regarding the preparation of a draft proposal report to the full board of directors, and any other documents necessary to facilitate the potential inclusion of CLASS in SRTA's investment portfolio.

DISCUSSION:

Background – SRTA's Chief Fiscal Officer (CFO) was approached during the summer of 2024 about the opportunity to invest agency funds in California CLASS. The Executive Director and CFO received a presentation and determined CLASS should be presented for consideration to add to SRTA's investment portfolio. Staff presented background and preliminary recommendations to the Fiscal & Policy Committee on September 5, 2024. Discussion included questions and concerns around the risk and security of CLASS and its relatively young age since California CLASS had arranged its Joint Powers Agreement (JPA) and governing board in July 2022. SRTA staff has researched potential benefits and risks of CLASS participation, focusing on the Committee's primary concerns including:

1. What is the difference between holding funds in a bank versus an investment pool?
2. What laws govern the maximum amount of interest a government agency can earn on investments, and what activities are eligible with the proceeds?
3. What do current clients of CLASS say about their experience with the pool?
4. What checks and balances does SRTA need to ensure adequate internal control?
5. What policies does SRTA need to implement for sub-recipient payments to maximize regional interest accruals?

To assist the Committee, each question is addressed below in order of the list above.

1. **Holding funds in banks versus investment securities** – Bank deposits are not credit rated but are insured by the Federal Deposit Insurance Corp. (FDIC) for amounts up to $250,000 per Tax ID Number; any deposits exceeding $250,000 must be collateralized. SRTA holds all of its cash assets in Umpqua and Five Star banks, except for Transportation Development Act (TDA) funds which are deposited and held with the Shasta County treasurer. Five Star Bank uses a Letter of Credit from the Federal Home Loan Bank of San Francisco. This type of collateral complies with regulation that letter of credit be issued by a federal agency or government sponsored enterprise and be irrevocable. SRTA's contract with Five Star (Attachment A), entitles SRTA to have a shareholder equity of up to $101,903,000 to cover money deposited in Five Star accounts. Deposits lost would be returned the next business day. Umpqua Bank collateralizes public funds deposited by SRTA up to $1,855,906,000 with qualified securities safekept at an outside holding company and evidenced by written agreement (Attachment B), also meeting legal requirements.

   Investments are credit rated because they are not FDIC insured or collateralized. That includes United States Treasuries, US Agency securities, municipal bonds, commercial paper, negotiable CDs, money market mutual funds, and Local Government Investment Pools, like CLASS, that are formed by JPAs. There is no FDIC insurance, no guarantees, and no collateral. There is a risk of loss to the principal. However, the California Government Code (CGC) regulates the credit rating required for certain security instruments to evaluate the safety of the investment of public funds (more details in the next section). CLASS is rated AAA by Standard & Poor's, which is the highest rating available and indicates it is a "safe" option to invest in.

2. **Laws on Investments and Developing a Safe Portfolio –** CLASS can only invest in what is permissible under CGC Section (§) 53601. Attachment C summaries the "Allowable Investment Instruments" from the *Local Agency Investment Guidelines*, last updated in January 2024. The CLASS Prime Fund investment portfolio is consistent with Section 53601 and uses a Stable Net Asset Value (NAV) which seeks to maintain the NAV of $1.00 at all times and thus protects the principal investment.

   Only twice in the history of the United States has a Stable NAV fund "broke the buck" and had its NAV go below $1.00. In response to the 2008 Lehman Brothers' bankruptcy, when the Reserve Fund's price fell below $1.00, the Federal Securities and Exchange Commission (SEC) introduced Rule 2a-7 in 2014, enhancing the safety of money market funds by restricting investments to those with conservative maturities and excellent credit ratings. While not a guarantee to protect against any loss, it does provide "guardrails" that weren't there previously.

   CGC § 53600 to § 53605 address the "Investment of Surplus." Staff prepared a supplemental reference document (Attachment D) with applicable excerpts from the law that apply to agency investments of public funds. In summary, if the money is not required immediately for disbursement toward eligible activities funds, it can be deposited in the allowable investment types until the funds are needed to be used for their intended purpose. There are no limits to the amount of interest that can be earned on investments, however, the law states that securities are to be sold "from time to time" to be used for their intended purpose. In most cases, interest earned is required to be used for the same purposes of the funds in which they are earned upon. There is little risk of those funds being requested back by federal or state agencies just because interest is earned; rather they require SRTA to track and use interest earned correctly. For certain funding programs the earned interest can be allocated back to local agencies by population formula, while other programs require a call for projects and approval for allocation of funds by the board of directors.

The CLASS investment portfolio, as of July 2024, is compliant with the type of investment instruments and the limits to the invested assets. Table 1 shows a list of investment instruments, their limits set by the CGC, and CLASS's published portfolio allocation.

Table 1: Investment Limit Percentages by Investment Instrument

Investment Instrument	CA Govt Code Limits (%)	CLASS Allocation (%)
Certificates of Deposit	30	28.56
Commercial Paper	40	38.44
Commercial Paper (A-1)		*24.72*
Commercial Paper (A-1+)		*13.72*
Repurchase Agreements	20	14.84
U.S. Govt Agency Securities	N/A WAM of <5 years	13.46
Money Market Funds	10 (of any single user)	4.62
Collateralized Bank Deposits	50 (decreases to 30 in 2026)	0.08

California CLASS Investment Pool, Local Comparison, and SRTA Investment Pool Analysis – Weighted average maturity (WAM) is used to estimate the likelihood of an investment in a mortgage-backed security being profitable. Portfolios with a higher WAM are more sensitive to interest rate changes.

CLASS has a WAM of 60 days or less for their Prime Fund and 90-200 days for their Enhanced Cash Fund. The CLASS portfolio includes investment instruments such as:

- Commercial Paper (debt instruments issued by corporations for their short-term liabilities);
- Certificates of Deposit (CDs) with fixed interest rates; and
- Repurchase Agreements, where government securities are sold temporarily to be purchased at a later date for a higher price.

Transportation Development Act (TDA) funds are held by the Shasta County Treasury in a local investment pool. As of June 30, 2023, the Shasta County Treasury had a diversified investment pool (Attachment E) with approximately 63 percent of the portfolio in U.S. Treasuries ($220 Million). They also invest in LAIF ($20 million), mutual funds ($42.5 million), and commercial paper ($75 million). Approximately, $530 million of the Treasury investments are with federal credit banks, which have variable interest rates ranging from 0.19 percent to 6.05 percent, where the weighted average maturity (WAM) of the federal bonds or mortgages is approximately two years.

SRTA's Portfolio: SRTA holds assets at the following institutions, with approximate balances listed as of August 31, 2024:

- Umpqua Bank, 8 accounts, $8.5 million
- Five Star Bank, 8 accounts, $15.3 million
- Shasta County Treasury, 2 accounts (STA Reserve is a sub-account), $2.2 million

Umpqua Bank has a very low average monthly interest earned of 0.1 percent for both checking and money market accounts. SRTA holds funds in Umpqua accounts that disburse funds monthly or weekly. This includes SRTA's primary Operating account (weekly disbursements) and accounts such as the Low Carbon Transit Operating Program (LCTOP) and the Consolidated Transportation Services Agency (CTSA) fund, which have multiple monthly requests for reimbursements from vendors. SRTA maintains these separate accounts to comply with grant requirements and to make administration and accounting of funds easier and more transparent. In November 2023, Umpqua changed its fee schedule and began charging Automated Clearing House (ACH) and transaction activity fees to the money market accounts, in addition to the monthly Bill Pay and admin fees SRTA was paying for the checking account. Consequently, SRTA staff changed the vendor payment procedure to have all payments come from Operating account to reduce these occurrences. This eliminated the convenience of disbursing funds from multiple accounts.

Five Star Bank money market accounts currently match LAIF interest rates, which had an average monthly effective yield of 3.92% in FY 2023/24. The difference between Five Star and Umpqua in terms of interest earned is significant. As an investment option, Five Star matching the LAIF rate provides the liquidity and security of a bank, local representation, higher monthly interest accrual payments on money market accounts, and an established banking relationship. Five Star offers the products that SRTA needs for its operations, fully insured by the FDIC and collateralized with a Letter of Credit from the Federal Home Loan Bank, all at no cost.

Five Star requires a $25,000 average daily balance for each public money market account. Their practice of matching the LAIF rate is a business strategy rather than a guaranteed promise, and it may change in the future. In comparison to CLASS, Five Star does not accrue interest daily, only on the month-end balance, and the matched LAIF rate is regularly 80-90 basis points below the rate CLASS offers. CLASS has no account minimums, and the account will remain open without a fee, even with a $0.00 balance.

The Shasta County Treasury apportions earned interest quarterly to each cost center, or account, in direct proportion to the daily average cash balance an agency holds with them. Administrative and investment fees are also deducted quarterly as a function of the cost center's balance, similar to the interest allocation. SRTA has two cost centers: one for the Local Transportation Fund (LTF) and one for STA. In FY 2023/24, LTF earned $23,879.61 in interest with $868.63 paid in fees, and the STA earned $52,123.01 with $1,949.10 in fees. TDA regulations require the county to hold LTF and STA funds and distribute them according to payment instructions provided by SRTA after the TDA budget is approved. STA Regional Reserves, however, can be issued to SRTA and invested in the best interest of the region.

CLASS Interest Earnings Comparisons – Using FY 2023/24 data, Staff evaluated one account held with Shasta County and one with Five Star to compare what might have happened if those funds had been in CLASS:

- STA Regional Reserves, which are used for transit projects, earned $29,170.93, after fees, invested in the County Treasury. If those funds had been invested in CLASS, the region would have potentially earned over 132 percent more in interest, a total of $67,896.23, or $38,725.29 more than earnings at the County (Attachment F).
- The Regional Surface Transportation Program (RSTP) funds held at Five Star Bank, which are typically used for road maintenance and other transportation needs identified by local agencies, had an average balance of over $4 million in FY 2023/24, accruing $160,234.89 in interest. An analysis of the daily balances shows that the same funds invested in CLASS would have performed more than 44.11 percent better, with an earnings potential of over $230,906.69 in interest, or $70,671.81 more than Five Star (Attachment G).

3. **Agencies Currently Investing in CLASS –** A survey was sent out to seventeen high level management officials from California government agencies that are currently participating in CLASS (see Table 2). We received ten responses, and all of the respondents recommended CLASS as a sound investment option. Deposits ranged from 16 to 67 percent of cash assets invested, and one agency has over $18 million invested in CLASS. All respondents reported seeing increased returns in comparison to other investment pools (e.g., the California Asset Management Program (CAMP, or PFM), LAIF, and the agency's county investment pool, and some said the payments exceeded their expectations. Respondents also complimented CLASS on their representatives' good communication, training, and availability, and also the ease of use of the online portal to manage funds quickly and efficiently.

4. **SRTA's Investment Policy and Internal Controls –** SRTA's Policies and Procedures section 2.15.040 addresses the Agency's investment policy (Attachment H) for the federal and state funds SRTA administers on behalf of the region, for the maintenance and improvement of our regional transportation system. The following statements are referenced in summary, as applicable to this report:
    - SRTA will invest all idle funds as much as possible.
    - SRTA will only invest as permissible under CGC Sections 53600, et seq.
    - The intent of the board of directors is to earn interest on advanced government funds, if appropriate, and use the interest generated to increase the work implemented within each respective government grant.

SRTA staff recommends retaining current internal controls and policies regarding the board of directors' oversight on investments including: annual reporting and review of investment results and portfolio composition; periodic Fiscal & Policy Committee review of investments to ensure adherence with agency policies; only authorized signers may move funds between accounts; and, require Fiscal & Policy Committee and board of directors' approval of all new investments (see Attachment H for details).

Table 2: California Agencies Surveyed Regarding CLASS

Responded	Agency
X	City of Moreno Valley
	City of Williams
	City of Lancaster
X	City of Brentwood
	City of Morgan Hill
X	City of Santa Ana
	Town of Paradise
	Gold Coast Transit District
X	Humboldt Community Services District
	Igo Ono Community Services District
	Chico Area Recreation and Park District
X	Western Shasta Resource Conservation District
X	Big Bear Airport District
X	Santa Maria Public Airport District
	Truckee Tahoe Airport District
X	Oxnard Harbor District
X	Santa Cruz Port District

Applying SRTA's Policies to CLASS and Staff Recommendations – The California CLASS portfolio presents an opportunity to enhance SRTA's investment strategy. It has the potential to see greater interest earned on managed funds, which would allow for more transportation projects to be completed long-term. The board of directors can mitigate concerns about unknowns with introducing a new investment pool and potential risks by establishing clear parameters around these investments. The board can maintain control and minimize exposure by exercising the following options:

1. Specifying certain types of funds for investment,
2. Setting a cap on the dollar amount allocated, and/or
3. Determining a percentage of SRTA's idle funds to invest

A phased in approach may be best where a select set of funds can be moved to CLASS, monitored, and reported back to the board of directors on performance and staff seeks Committee input on this approach.

Updates to SRTA's policies are not required to participate in the California CLASS investment pool. If directed to move forward, staff would present an item at the December board meeting for board of directors' consideration and approval. If changes to SRTA's Financial Policies & Procedures are needed to ensure compliance with any changes in federal and state requirements, staff would present those items for review and approval at a future meeting.

ALTERNATIVES:

The Fiscal & Policy Committee has the following alternatives:

- Request additional information and direct staff to report back to the Fiscal & Policy Committee before reporting to the full board of directors;
- Recommend other investment opportunities for staff to research;
- Recommend a preliminary investment limit and/or a specific period of time to invest in CLASS and monitor returns; and/or
- Direct staff not to invest in California CLASS.

FISCAL IMPACT:

There is no direct fiscal impact to SRTA for the Fiscal & Policy Committee's receipt of this report, nor recommendations made as a result of the information provided herein. SRTA's policies encourage investing idle funds as much as possible and CLASS presents an opportunity to potentially experience higher returns. However, there is no guarantee on the amount of returns to be experienced by CLASS or any other investment.

____
Sean Tiedgen, AICP, Executive Director

Attachments:

A: Five Star Bank Contract of Deposits
B: Umpqua Bank Contract of Deposits
C: CDIAC Allowable Investment Instruments
D: California Government Code Investment of Surplus
E: Shasta County Investment Pool
F: Interest Comparison – FY 2023/24 STA Regional Reserves
G: Interest Comparison – FY 2023/24 Regional Surface Transportation Program (RSTP)
H: SRTA's Investment Policy, Section 2.15.040

FIVE STAR BANK

Contract for Deposit of Monies

THIS CONTRACT, relating to the deposit of monies, as of March 20, 2019, between Dan Little, (hereafter designated "Treasurer" acting in his or her official capacity as Executive Director (Treasurer, Finance Director, etc.) of Shasta Regional Transportation Agency (hereinafter designated "Depositor"), and Five Star Bank (hereinafter designated "Depository"), having a shareholder's equity of One Hundred and One Million, Nine Hundred Three Thousand Dollars ($101,903,000) as of December 31, 2018.

WITNESSETH

WHEREAS, the Treasurer proposes to deposit in the Depository from time to time, commencing on March 20, 2019, monies in his/her custody in an aggregate amount on deposit at any one time not to exceed the total shareholder's equity of the Depository, and said monies will be deposited subject to Title 5, Division 2, Part 1, Chapter 4, Article 2 (commencing with Section 53630) of the Government Code of the State of California; and
WHEREAS, said provisions of the Government Code requires the Treasurer to enter into a contract with the Depository, setting forth the conditions upon which said monies are deposited; and

WHEREAS, in the judgment of the Treasurer, this contract is to the public advantage;

NOW, THEREFORE, it is agreed between the parties hereto as follows:

1. This contract cancels and supersedes any previous contracts between the Treasurer and the Depository relating to the method of handling and collateralization of deposits of monies.
2. This contract, but not the deposits then held hereunder, shall be subject to termination by the Treasurer or the Depository at any time upon 30 days written notice. Deposits may be withdrawn in accordance with the agreement of the parties and applicable federal and state statutes, rules and regulations. This contract is subject to modification or termination upon enactment of any statute, rule or regulation, state or federal, which, in the opinion of the Administrator of the Local Agency Security, is inconsistent herewith, including any changes relative to the payment of interest upon monies so deposited by the Treasurer. Upon notification from the Administrator, the Treasurer may withdraw deposits in the event the Depository fails to pay assessments, fines, or penalties assessed by the Administrator.
3. Interest shall accrue on any monies so deposited as permitted by any act of the Congress of the United States or by any rule or regulation of any department or agency of the Federal Government adopted pursuant thereto. If interest may be legally paid, all monies deposited in accordance with this contract shall bear interest at a rate agreed upon by the Treasurer and the Depository.
4. The Depository shall issue to the Treasurer at the time of each inactive deposit, a receipt on a form agreed to by the Depository and the Treasurer, stating the interest to be paid, if any, the duration of the deposit, the frequency of the interest payments, and the terms of withdrawal. Each such deposit receipt is by reference made a part of this contract.
5. As security for said deposit, the Depository shall at all times maintain with the Agent of Depository named herein, commencing forthwith, eligible securities having a market value in excess of the actual total amount of local agency monies on deposit with the depository as per Government Code 53652. If the eligible security is determined by the Administrator of the Local Agency Security of the State of California in accordance with Government Code Section 53661 to be not qualified to secure public deposits, additional security shall be substituted immediately by the depository, as necessary, to comply with the requirements of this Paragraph.

6. Eligible securities are those listed in Government Code Section 53651, which may include the use of letters of credit issued by the Federal Home Loan Bank of San Francisco pursuant to Government Code 53651(p).
7. The Agent of Depository, authorized by the Treasurer and the Depository to hold the eligible securities posted as collateral under this contract is MUFG Union Bank, N.A. (See Section 8 below). Said Agent of Depository has filed with the Administrator of Local Agency Security of the State of California an agreement to comply in all respects with the provisions of Title 5, Division 2, Part 1, Chapter 4, Article 2 (commencing with Section 53630) of the Government Code.
8. Authority for placement of securities for safekeeping in accordance with Government Code Section 53659 is hereby granted to the Agent of Depository, including placement with any Federal Reserve Banks or branch thereof, pursuant to Government Code Section 53657, or the Federal Home Loan Bank of San Francisco.
9. If the Depository fails to pay all or part of any deposits of the Treasurer which are subject to this contract when ordered to do so in accordance with the terms of withdrawal set forth on the deposit receipt (which is by reference made a part hereof), the Treasurer will immediately notify, in writing, the Administrator of the Local Agency Security. Action of the Administrator in converting the collateral required by Paragraph 5 above for the benefit of the Treasurer is governed by Government Code Section 53665.
10. The Depository may add, substitute, or withdrawal eligible securities being used as security for deposits made hereunder in accordance with Government Code Section 53654, provided the requirements of Paragraph 5 above are met.
11. The Depository shall have and hereby reserves the right to collect the interest on the securities, except in cases where the securities are liable to sale or are sold or converted in accordance with the provisions of Government Code Section 53665.
12. The Depository shall bear and pay the expense of transportation of eligible securities to and from the designated Agent of Depository.
13. This contract, the parties hereto, and all deposits governed by this contract shall be subject in all respects to Title 5, Division 2, Part 1, Chapter 4, Article 2 (commencing with Section 53630) of the Government Code, and of all other state and federal laws, statutes, rules and regulations applicable to such deposits, whether now in force or hereafter enacted or promulgated, all of which are by this reference made a part hereof.
14. The Treasurer named herein waives the right to collateral based on insurance provided by the Federal Deposit Insurance Corporation not to exceed the maximum amount insured pursuant to federal law, in accordance with Government Code Section 53653.

IN WITNESS WHEREOF, the Treasurer, in his/her official capacity has signed this contract in duplicate and the Depository has caused this contract to be executed in like number by its duly authorized officers.

PUBLIC ENTITY NAME

Shasta Regional Transportation Agency

NAME OF AUTHORIZED PERSON

Dan Little

SIGNATURE OF AUTHORIZED PERSON

FIVE STAR BANK

NAME OF AUTHORIZED PERSON

James Beckwith – President & CEO

SIGNATURE OF AUTHORIZED PERSON

CONTRACT FOR THE DEPOSIT OF MONEYS: Local Agencies

Class of Deposit (as defined by California Government
Code Section 53632) (Check one)

☐ Inactive
☐ Active - Non interest bearing
☒ Interest Bearing

THIS CONTRACT, relating to the deposit of moneys of a Local Agency is entered into as of 4/13/2015 between Shasta Regional Transportation Agency ("Depositor") by Daniel Little, its Executive Director, (herein called "Treasurer"), acting on behalf of Depositor and Umpqua Bank ("Depository"), pursuant to California Government Code Section 53649. Depository has a Shareholders' Equity (as determined in accordance with Section 118 of the Financial Code), including capital notes and debentures, of $1,855,906,000 (as of March 31, 2014) ("Shareholders' Equity").

WHEREAS, Treasurer proposes to deposit in Depository from time to time beginning on or about 4/13/2015, in the Class of Deposit indicated above, moneys in his or her custody in an aggregate amount on deposit at any one time not to exceed the Net Worth of $1,855,906,000 or Shareholders' Equity, whichever is less, and said moneys will be deposited subject to Title 5, Division 2, Part 1, Chapter 4, Article 2 (commencing with Section 53630) of the California Government Code (unless otherwise indicated herein, all code references are to the California Government Code); and

WHEREAS, California Government Code requires Treasurer to enter into a contract with Depository setting forth the terms and conditions upon which said moneys are deposited; and

WHEREAS, in the judgment of Treasurer, the deposit and this contract are to the public advantage.

NOW, THEREFORE, it is agreed between the parties hereto as follows:

Unless the parties shall otherwise agree, this contract is in addition to, and does not supersede or modify, any previous contract or contracts between the parties relating to the deposits of moneys or the method of handling and collateralization thereof.

This contract, but not the deposits then held hereunder, shall be subject to termination by Treasurer or Depository at any time upon 30 days written notice. Deposits may be withdrawn in accordance with this contract, any agreement of the parties and applicable federal and state statutes, rules and regulations. This contract is subject to modification or termination upon enactment of any federal or state statute, rule or regulation which is inconsistent therewith, including any change relative to the payment of interest upon the moneys deposited hereunder.

Interest shall accrue on any moneys deposited as permitted by any act of Congress of the United States or by any rule or regulation of any department or agency of Federal Government adopted pursuant thereto. If interest may legally be paid, all moneys deposited in accordance with this contract shall bear interest at a rate agreed upon by Treasurer and Depository.

Depository shall issue to Treasurer at the time of each inactive deposit a receipt or certificate on a form agreed to by Depository and Treasurer, stating the interest to be paid, if any, the duration or maturity of the deposit, the frequency of interest payments, and the terms of withdrawal. Each such receipt is by reference made a part of this contract. Depository shall render statements of account on a quarterly basis (unless otherwise agreed) showing the daily balance of the deposit during the preceding period and the amount of accrued interest, if any, separately.

Except as provided in Section 53653 with respect to insured deposits, and pursuant to Sections 53656 and 53658, as security for the deposit, Depository shall at all times maintain with Agent of Depository ("Agent") named herein, commencing forthwith, eligible securities having a market value of at least 10% (or such other percentage as permitted by Section 53652) in excess of the actual total amount of Depositor's moneys on deposit with Depository. If any eligible security is determined by the Administrator of Local Agency Security Program ("Administrator") to be not qualified to secure public deposits in accordance with Section 53661, additional security shall be substituted immediately by Depository, as necessary, to comply with the requirements of this paragraph.

Eligible securities are those listed in Sections 53651, 53651.2, 53651.4, and 53651.6.

The Agent, authorized by Treasurer and Depository to hold the eligible securities posted as collateral under this contract, pursuant to Section 53657, is Union Bank of California. Agent has filed an agreement with Administrator that it will comply in all respects with the provisions of Title 5, Division 2, Part 1, Chapter 4, Article 2 (commencing with the Section 53630) of the Government Code.

Authority for placement of securities for safekeeping in accordance with Section 53659 is hereby granted to Agent, including placement with any Federal Reserve Banks or branches thereof, and the following banks, other than the Depository, located cities designated as reserve cities by the Board of Governors of the Federal Reserve System: N/A

If Depository fails to pay all or any part of the deposits subject to this contract when ordered to do so in accordance with the terms of withdrawal set forth in the deposit receipt or agreement, the Treasurer will immediately notify Administrator in writing. Action of Administrator in converting the collateral required as set forth above for the benefit of Treasurer is governed by Section 53665.

Upon written notice to Treasurer from Administrator, Treasurer may withdraw deposits in the event Depository fails to pay the assessments, fines, or penalties assessed by Administrator or may withdraw authorization for the placement of the pooled securities with Agent in the event that Agent fails to pay the fines or penalties assessed by Administrator.

Depository may add, substitute or withdraw eligible securities being used as security for deposits made hereunder in accordance with Section 53654 provided the requirements of this contract are met.

Depository shall have and hereby reserves the right to collect the interest on the eligible securities except in cases where the securities are liable to sale or are sold or converted in accordance with the provisions of Section 53665.

Depository shall bear and pay the expenses of transportation to and from Treasurer's office of moneys deposited and the expense of transportation of eligible securities maintained as collateral to and from the designated Agent. Depository shall also handle, collect and pay all checks, drafts and other exchange without cost to Treasurer unless otherwise agreed upon.

This contract, the parties hereto, and all deposits governed by this contract shall be subject in all respects to Title 5, Division 2, Part 1, Chapter 4, Article 2 (commencing with Section 53630) of the Government Code, and of all other state and federal laws, statutes, rules and regulations applicable to such deposits, whether now in force or hereafter enacted or promulgated, all of which by this reference are made a part hereof.

[Signature Page on Immediately Following Page]

IN WITNESS WHEREOF, Treasurer, in his or her official capacity, has signed this contract and Depository has caused this contract to be executed by its duly authorized officer.

DEPOSITOR:	DEPOSITORY:
Shasta Regional Transportation Agency	Umpqua Bank, an Oregon state-chartered bank
By: Daniel Little	By: Neal McLaughlin
Its: Executive Director	Its: EVP/Treasurer

WAIVER OF SECURITY

To whom it may concern:

Pursuant to Section 53653 of the Local Agency Deposit Security Law, a treasurer may, at his or her discretion, waive security for such portions as are insured pursuant to Federal law.

WHEREAS, the Federal Deposit Insurance Corporation as set to a certain amount, the maximum insurance for public accounts, and,

WHEREAS, it is to the advantage of Umpqua Bank to increase the amount of its available collateral to secure the deposits of public accounts, and in so doing, without increasing the risk of the deposits of such public accounts;

NOW, THEREFORE, the authorized agent of Shasta Regional Transportation Agency, a public institution, hereby agrees to waive the security required by Section 53652 of the Local Agency Deposit to federal insured amount of the deposits of the described public institution. As a condition of the granting of this Waiver of Security, it is understood that Umpqua Bank shall continue to maintain approved collateral security for all deposits in excess of federal insured amount per Section 53652 of the Local Agency Deposit Security Law.

This Waiver shall remain in force as long as the deposit is continuous and the waiver has not been withdrawn by the treasurer.

I am authorized to waive security of the federal insured portion for deposits held by Umpqua Bank.

Local Agency: Shasta Regional Transportation Agency

By: ______________________________
(Signature of Officer of Public Agency/ Account Holder)

Title: Executive Director

Date: 4-15-15

FIGURE 1

ALLOWABLE INVESTMENT INSTRUMENTS PER STATE GOVERNMENT CODE (AS OF JANUARY 1, 2024)[A] APPLICABLE TO ALL LOCAL AGENCIES[B]

See "Table of Notes for Figure 1" on the next page for footnotes related to this figure.

INVESTMENT TYPE	MAXIMUM MATURITY[C]	MAXIMUM SPECIFIED % OF PORTFOLIO[D]	MINIMUM QUALITY REQUIREMENTS	GOV'T CODE SECTIONS
Local Agency Bonds	5 years	None	None	53601(a)
U.S. Treasury Obligations	5 years	None	None	53601(b)
State Obligations— CA And Others	5 years	None	None	53601(c) 53601(d)
CA Local Agency Obligations	5 years	None	None	53601(e)
U.S Agency Obligations	5 years	None	None	53601(f)
Bankers' Acceptances	180 days	40%[E]	None	53601(g)
Commercial Paper—Non-Pooled Funds[F] (under $100,000,000 of investments)	270 days or less	25% of the agency's money[G]	Highest letter and number rating by an NRSRO[H]	53601(h)(2)(c)
Commercial Paper—Non-Pooled Funds[I] (min. $100,000,000 of investments)	270 days or less	40% of the agency's money[G]	Highest letter and number rating by an NRSRO[H]	53601(h)(2)(c)
Commercial Paper— Pooled Funds[J]	270 days or less	40% of the agency's money[G]	Highest letter and number rating by an NRSRO[H]	53635(a)(1)
Negotiable Certificates of Deposit	5 years	30%[K]	None	53601(i)
Non-negotiable Certificates of Deposit	5 years	None	None	53630 et seq.
Placement Service Deposits	5 years	50%[L]	None	53601.8 and 53635.8
Placement Service Certificates of Deposit	5 years	50%[L]	None	53601.8 and 53635.8
Repurchase Agreements	1 year	None	None	53601(j)
Reverse Repurchase Agreements and Securities Lending Agreements	92 days[M]	20% of the base value of the portfolio	None[N]	53601(j)
Medium-Term Notes[O]	5 years or less	30%	"A" rating category or its equivalent or better	53601(k)
Mutual Funds And Money Market Mutual Funds	N/A	20%[P]	Multiple[Q, R]	53601(l) and 53601.6(b)
Collateralized Bank Deposits[S]	5 years	None	None	53630 et seq. and 53601(n)
Mortgage Pass-Through and Asset-Backed Securities[T]	5 years or less[T]	20%	"AA" rating category or its equivalent or better[T]	53601(o)
County Pooled Investment Funds	N/A	None	None	27133
Joint Powers Authority Pool	N/A	None	Multiple[U]	53601(p)
Local Agency Investment Fund (LAIF)	N/A	None	None	16429.1
Voluntary Investment Program Fund[V]	N/A	None	None	16340
Supranational Obligations[W]	5 years or less	30%	"AA" rating category or its equivalent or better	53601(q)
Public Bank Obligations	5 years	None	None	53601(r), 53635(c) and 57603

TABLE OF NOTES FOR FIGURE 1

[A] *Sources: Sections 16340, 16429.1, 27133, 53601, 53601.6, 53601.8, 53630 et seq., 53635, 53635.8, and 57603.*

[B] *Municipal Utilities Districts have the authority under the Public Utilities Code Section 12871 to invest in certain securities not addressed here.*

[C] *Section 53601 provides that the maximum term of any investment authorized under this section, unless otherwise stated, is five years from the settlement date. However, the legislative body may grant express authority to make investments either specifically or as a part of an investment program approved by the legislative body that exceeds this five year remaining maturity limit. Such approval must be issued no less than three months prior to the purchase of any security exceeding the five-year maturity limit.*

[D] *Percentages apply to all portfolio investments regardless of source of funds. For instance, cash from a reverse repurchase agreement would be subject to the restrictions.*

[E] *No more than 30% of the agency's money may be in bankers' acceptances of any one commercial bank.*

[F] *Applies to local agencies, other than counties or a city and county, with less than $100 million of investment assets under management. Includes agencies defined as a city, a district, or other local agency that do not pool money in deposits or investment with other local agencies, other than local agencies that have the same governing body.*

[G] *Local agencies, other than counties or a city and county, may purchase no more than 10% of the outstanding commercial paper and medium-term notes of any single issuer.*

[H] *Issuing corporation must be organized and operating within the U.S., have assets in excess of $500 million, and debt other than commercial paper must be in a rating category of "A" or its equivalent or higher by a nationally recognized statistical rating organization, or the issuing corporation must be organized within the U.S. as a special purpose corporation, trust, or LLC, have program wide credit enhancements, and have commercial paper that is rated "A-1" or higher, or the equivalent, by a nationally recognized statistical rating organization.*

[I] *Applies to counties or a city and county, and the City of Los Angeles that have $100 million or more of investment assets under management.*

[J] *Includes agencies defined as a county, a city and county, or other local agency that pools money in deposits or investments with other local agencies, including local agencies that have the same governing body. Local agencies that pool exclusively with other local agencies that have the same governing body must adhere to the limits set forth in Section 53601(h)(2)(C).*

[K] *No more than 30% of the agency's money may be in negotiable certificates of deposit that are authorized under Section 53601(i).*

[L] *Effective January 1, 2020, no more than 50% of the agency's money may be invested in deposits, including certificates of deposit, through a placement service as authorized under 53601.8 (excludes negotiable certificates of deposit authorized under Section 53601(i)). On January 1, 2026, the maximum percentage of the portfolio reverts back to 30%. Investments made pursuant to 53635.8 remain subject to a maximum of 30% of the portfolio.*

[M] *Reverse repurchase agreements or securities lending agreements may exceed the 92-day term if 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 dates of the same security.*

[N] *Reverse repurchase agreements must be made with primary dealers of the Federal Reserve Bank of New York or with a nationally or state chartered bank that has a significant relationship with the local agency. The local agency must have held the securities used for the agreements for at least 30 days.*

[O] *"Medium-term notes" are defined in Section 53601 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."*

[P] *No more than 10% invested in any one mutual fund. This limitation does not apply to money market mutual funds.*

[Q] *A mutual fund must receive the highest ranking by not less than two nationally recognized rating agencies or the fund must retain an investment advisor who is registered with the SEC (or exempt from registration), has assets under management in excess of $500 million, and has at least five years' experience investing in instruments authorized by Sections 53601 and 53635.*

[R] *A money market mutual fund must receive the highest ranking by not less than two nationally recognized statistical rating organizations or retain an investment advisor registered with the SEC or exempt from registration and who has not less than five years' experience investing in money market instruments with assets under management in excess of $500 million.*

[S] *Investments in notes, bonds, or other obligations under Section 53601(n) require that collateral be placed 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, among other specific collateral requirements.*

[T] *Security types authorized under Section 53601(o) that are issued or guaranteed by an issuer identified in subdivisions (b) or (f), are not subject to the limitations placed on privately issued securities authorized in Section 53601(o)(2)(A)(B).*

[U] *A joint powers authority pool must retain an investment advisor who is registered with the SEC (or exempt from registration), has assets under management in excess of $500 million, and has at least five years' experience investing in instruments authorized by Section 53601, subdivisions (a) to (o).*

[V] *Local entities can deposit between $200 million and $10 billion into the Voluntary Investment Program Fund, upon approval by their governing bodies. Deposits in the fund will be invested in the Pooled Money Investment Account.*

[W] *Only those obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), and Inter-American Development Bank (IADB), with a maximum remaining maturity of five years or less.*

California Code, Title 5, Division 2, Part 1:

Chapter 4 – Financial Affairs, Article 1 – Investment of Surplus:

- CA Govt Code § 53600.5 (2023) 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.
- CA Govt Code § 53601 (2023) 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.
- CA Govt Code § 53605 (2023) 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.

CLASS Portfolio Allocation - CA Govt Code § 53601 (2023)

- Purchases of negotiable **certificates of deposit shall not exceed 30 percent** of the agency's moneys that may be invested pursuant to this section.
- Eligible **commercial paper** shall have a maximum maturity of 270 days or less. Local agencies, other than counties or a city and county, that have one hundred million dollars ($100,000,000) or more of investment assets under management may invest **no more than 40 percent** of their moneys in eligible commercial paper.
- 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 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.
- (2) Shares of beneficial interest issued by diversified management companies that are **money market funds** registered with the United States Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1 et seq.). A local agency, other than a county or a city and a county, may invest **no more than 10 percent** of its total investment assets in the commercial paper and the **medium-term notes** of any single issuer.
- CA Govt Code § 53601.8 (2023) Notwithstanding 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: … (j) The deposits placed pursuant to this section shall be subject to Section 53638 and **shall not, in total, exceed 50 percent *[changes to 30 percent in 2026]*** of the agency's funds that may be invested for this purpose.

Total cash and investments at June 30, 2023 were presented on the County's financial statements as follows:

Primary Government	$ 368,730,569
Primary Government - Restricted Cash	261,445
Component Units	2,357,895
Investment Trust Fund	461,429,577
Private-Purpose Trust Funds	3,881,931
Custodial Funds	24,262,520
Total Cash and Investments	$ 860,923,937

Investments

At June 30, 2023, the County had the following investments:

	Interest Rates	Maturities	Par	Fair Value	WAM (Years)
Investments in Investment Pool					
Local Agency Investment Fund	3.36%	Various	$ 20,000,000	$ 19,696,570	0.71
LIR Treasury Fund - Mutual Fund	4.98%	7/3/2023	42,500,000	42,500,000	0.01
U.S. Treasury Note	0.13% - 4.13%	7/31/23-2/15/28	220,500,000	207,603,231	2.40
Medium Term Notes	4%	8/29/2025	10,000,000	9,541,100	2.17
Commercial Paper	4.86% - 5.57%	8/1/23-3/26/24	75,000,000	73,636,450	0.32
Federal Farm Credit	0.19% - 5.14%	8/10/23-1/18/28	150,000,000	142,764,800	1.93
Federal Home Loan Bank	0.38-% - 6.05%	1/22/24-3/23/28	165,000,000	155,025,150	2.29
Federal National Mortgage	0.25% - 4.13%	7/10/23-10/8/27	110,000,000	102,585,950	2.08
Federal Home Loan Mortgage Corporation	0.25% - 5.20%	8/24/23-7/21/26	105,000,000	101,517,500	1.74
			$ 898,000,000	$ 854,870,751	
Investments Outside Investment Pool					
Shasta Lake Local Agency Investment Fund	3.36%	6/30/2023	$ 278,557	$ 278,557	0.71
Investments with Fiscal Agent	0.00%	6/30/2023	171,136	171,136	N/A
			449,693	449,693	
Total Investments			$ 898,449,693	$ 855,320,444	

Interest Rate Risk

The County manages its exposure to declines in fair values by limiting the weighted average maturity Agency Investment Fund (LAIF) averages 200 days to maturity and approximately 63 percent of the portfolio is US Treasuries further limiting interest rate risk.

Credit Risk

State law and the County's Investment Policy limit investments in commercial paper to the rating of A1 by Standard & Poor's or P-1 by Moody's Investors Service. State law and the County's Investment Policy also limit investments in corporate bonds to the rating of A by Standard & Poor's and Moody's Investors Service. The County does not have credit limits on government agency securities.

Shasta Regional Transportation Agency
Interest Comparison for FY 2023-24
State Transit Assistance (STA) Regional Reserve

	Month-End Balance	County Treasury	California CLASS
July	$1,152,607.35	$0.00	$5,402.38
August	$1,152,607.35	$0.00	$5,332.28
September	$1,229,493.35	$0.00	$5,234.71
October	$1,240,676.26	$11,182.91	$5,758.28
November	$1,287,027.35	$0.00	$5,682.39
December	$1,287,027.35	$0.00	$6,057.56
January	$1,347,769.28	$3,207.93	$6,018.51
February	$1,344,561.35	$0.00	$5,810.87
March	$1,344,561.35	$0.00	$6,190.62
April	$1,154,434.55	$9,873.20	$5,616.27
May	$1,202,095.35	$0.00	$5,456.46
June	$1,207,002.24	$4,906.89	$5,335.89
Total Interest Earned		$29,170.93	$67,896.23

Additional Interest Earned in CLASS vs. County	$38,725.29
Higher Interest Earned in CLASS	132.75%

Shasta Regional Transportation Agency
Interest Comparison for FY 2023-24
Regional Surface Transportation Program (RSTP) Fund

	Month-End Balance	Five Star Bank	California CLASS
July	$4,377,623.42	$11,522.87	$19,835.52
August	$4,389,909.79	$12,057.34	$20,253.14
September	$4,402,670.96	$12,563.03	$19,761.20
October	$4,415,403.17	$12,965.18	$20,618.64
November	$4,429,114.95	$13,504.41	$20,124.56
December	$4,443,033.79	$14,183.39	$20,844.95
January	$3,999,530.41	$13,052.39	$19,306.79
February	$4,013,585.13	$13,374.04	$17,287.95
March	$4,026,720.69	$13,784.44	$18,476.34
April	$4,041,137.72	$14,201.66	$17,882.41
May	$4,055,296.15	$14,385.64	$18,513.36
June	$4,070,182.55	$14,640.51	$18,001.83
Total Interest Earned		$160,234.89	$230,906.69

Additional Interest Earned in CLASS vs. Five Star Bank	$70,671.81
Higher Interest Earned in CLASS	44.11%

2.15.040 - INVESTMENTS

A. Background - Investing public funds is usually a core responsibility of local government finance professionals and can be one of the most complicated responsibilities.

B. The main objectives of effective cash management and investing public funds is, in this specific order, to ensure the safety of principal, provide for sufficient liquidity to pay obligations when due and earn a reasonable rate of return on invested funds.

C. Risk - There are different types of risks associated with cash management and investing that must be understood and managed to ensure the safety of principal:

1. Credit risk - The risk that an issuer or other counterparty to an investment will not fulfill its obligations. This risk can be managed by purchasing only high-rated securities and monitoring the credit worthiness of issuers.

2. Concentration of credit risk - The risk of loss attributed to the extent of investments held from a single issuer. This risk can be managed by limiting the amount of investments held from any single issuer (diversification).

3. Custodial credit risk - The risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. This risk can be managed by federal insurance and California government code requirements.

4. Interest rate risk - The risk that changes in interest rates will adversely affect the fair value of an investment. When rates rise, security values fall and vice versa. This risk can be managed by matching investment maturities with accepted disbursements, purchasing shorter-term securities, and staggering maturity dates throughout the year (laddering the portfolio).

5. Liquidity risk - The risk that securities must be sold before anticipated providing liquidity, which may result in a loss of principal. See interest rate risk discussion above.

D. Investment Reports - The agency shall prepare annual reporting of investment results and portfolio composition to the fiscal committee or board of directors containing the following:

1. Types of investments held.

2. Average rate of return for period reporting and year to date.

3. Average maturity of portfolio.

4. Compliance with investment policy provisions.

5. Changes in investment strategy.

6. Comparison of portfolio return with benchmarks.

7. Interest rate environment changes.

E. Brokers and dealers will be selected by an informal selection process. Criteria used may include; office proximity, services provided, references from other governments, and competitiveness of bids. If brokers or dealers become noncompetitive, other providers can be substituted relatively easily. Retaining three to five broker/dealers is usually sufficient to ensure adequate competition, depending on the portfolio size, frequency of purchases and services required.

F. Purchasing Investments - all securities should be purchased using the “payment vs. delivery” method, using an independent third party. This method ensures that securities purchased are delivered before payment is made.

G. Security Purchases - Where possible, obtain more than one quote on securities purchased to ensure the highest rate of return has been obtained. Competition will usually enhance the rate of return achieved. Similar securities can be substituted if maturity dates and credit risk is comparable. For example, federal instrumentalities (Freddie Mac, Fannie Mae, etc.) are usually comparable in credit risk. Requesting quotations on specific security types and specific maturity dates (or narrow date ranges) is a common practice to facilitate comparison of competitive offers.

H. The agency has a fiduciary responsibility to protect the assets of the agency and invest funds with reasonable care. The agency may invest in a broad array of investments and allowed under the California Government Code (CGC). The agency will invest as much as possible, all idle funds.

I. The accountant is responsible for cash management.

J. The fiscal committee and board shall approve all investments.

K. The fiscal committee shall review each investment to ensure that the investment follows the policies of the agency.

L. The fiscal committee of the agency shall meet periodically to review investments and to review the agency’s investment policies.

M. The agency will invest in only investments permitted under CGC Sections 53600 et seq.

N. The criteria for selecting investments will be:

1. Safety - The risk associated with the loss of principal or interest. This loss may be a result of the institution or market fluctuations. The agency will not invest in any securities which present a risk to principal.

2. Liquidity - The more liquid a security, the lower the yield. Care and consideration will be given when investing in securities that can be converted to cash prior to maturity.

3. Yield - Based on an annual rate of return, yield is the lowest criteria.

O. The investment restrictions are:

1. No securities below an A-1 Standard & Poor credit rating may be purchased; and

2. No leveraged, hedging or reverse repurchase investments are permitted.

P. Collateral requirements shall meet the requirements of CGC Section 53651, which describes eligible securities.

Q. The agency will diversify the investment portfolio as appropriate.

R. All securities will be held in the name of the agency.

S. Transfers of funds means:

1. Only authorized signers may move funds between the agency's checking, investments or line of credit accounts. Such transfers will be subject to the dollar limitations as found in Section 2.35.050; and

2. Advanced funds on government grants in the care, custody or control of the agency may be transferred into and out of the agency's investments. The investments shall have no minimum or maximum time limit in which funds must remain in the investment.

a. The intent of the board of directors is to earn interest on advanced government funds, if appropriate, and use the interest generated to increase the work implemented within each respective government grant.

b. Funds the agency receives from non-government sources may also be transferred to investments, if appropriate, to be used as specified by the board.