# STAFF REPORT

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|---|---|
| **MEETING DATE:** | **December 19, 2024** |
| **SUBJECT:** | **Approve Adding Local Government Investment Pools (LGIPs) to SRTA's Investment Portfolio and Update to Financial Policies** |
| **AGENDA ITEM:** | **14** |
| **STAFF CONTACT:** | **Jessica Carlson, Chief Fiscal Officer** |

**SUMMARY:** On September 5, 2024 (Attachment A), October 22, 2024 (Attachment B), and December 9, 2024, the Fiscal and Policy Committee discussed SRTA's current investment portfolio and policies, considered the potential benefits and concerns of investing in Local Government Investment Pools (LGIPs), and provided feedback on a draft Statement of Investment to add to SRTA's investment policies. Staff analysis finds that investing in LGIPs complies with SRTA's investment strategy, aligns with SRTA's financial policies of security, liquidity, and a reasonable rate of return on invested funds, and recommends adding LGIPs as an investment option to the SRTA portfolio.

**STAFF RECOMMENDATION:**

It is recommended that the board of directors:

1. Receive a report on Local Government Investment Pools (LGIPs);
2. Approve the inclusion of the Statement of Investment to SRTA's Financial and Accounting Policies, allowing LGIPs as an investment option; and,
3. Authorize the executive director to submit documents to enroll in LGIPs and invest regional funds.

**DISCUSSION:**

**Background –** On September 5, 2024, and October 22, 2024, the Fiscal and Policy Committee discussed SRTA's current investment portfolio and considered the benefits and concerns of investing in Local Government Investment Pools (LGIPs). California Government Code (CGC) Section 6509.7 allows an LGIP to be formed under a Joint Powers Agreement (JPA) and to issue shares of beneficial interest to participating public agencies. To date, SRTA has only invested in the County Treasury pool for select transit funds and is using bank accounts to accrue interest on other program and reserve funds SRTA administers. Staff seeks board of directors' direction on adding LGIPs as an investment option in SRTA's portfolio.

**Local Government Investment Pools (LGIPs) –** There are strict regulations governing how LGIPs are managed and the type and proportion of investments that can be used (see discussion in Attachment B). Staff reviewed three LGIPs available for participation: California Cooperative Liquid Assets Securities System (California CLASS), California Asset Management Program (CAMP), and CalTRUST. Comparison between the LGIPS shows few differences with notable ones being investment advisors, inception date of the JPA, assets, and investment weighted average maturity (see highlighted items in Attachment C). LGIPs offer several benefits as an investment option, including: 1) the security of AAAm Standard and Poor's ratings; 2) stable Net Asset Value (NAV) of $1.00; and 3) weighted average maturities (WAM) averaging 60 days. Investment returns currently average five percent, which is generally 80-90 basis points higher than the Local Agency Investment Fund (LAIF) and are calculated daily rather than at month-end, allowing for greater interest earned. California CLASS has been the LGIP illustration in the last two reports to the Fiscal and Policy Committee.

LGIPs offer smaller government agencies, such as SRTA, the opportunity to pool resources with similarly sized agencies to realize investment returns on program funds typically reserved for larger agencies with greater investment capacity. Additionally, the specialty pool establishes its own policies in alignment with state laws and engages experienced investment advisors to manage the buying, selling, and trading of investment instruments on behalf of the pool's members. This allows agency personnel to avoid the need for specialized knowledge of market trading. In conclusion, staff analysis confirms that investing in LGIPs aligns with SRTA's investment strategy and adheres to the Agency's financial policies, which prioritize security, liquidity, and a reasonable rate of return on invested funds.

**Available Funds for Investment –** The Agency's assets are categorized into three (3) main fund categories: General Operating funds, Advanced Grant funds, and Agency Reserves. The current location and balance of funds as of October 31, 2024, are provided in Attachment E. A brief summary of each is below:

***General Operating funds*** are used for the agency's day-to-day operations and include various administrative funds. Account activity for these funds are weekly or monthly and include program funds (e.g., Local Transportation Fund (LTF), Planning, Programming and Monitoring funds (PPM), and State Transit Assistance (STA), etc.,). ***Staff recommends these funds remain in a local commercial bank or County treasury accounts and not be invested. Staff also recommends State of Good Repair (SGR) and Low Carbon Transit Operating Program (LCTOP) funds <u>not</u> be invested as these two programs have reimbursing activities at monthly or more frequent intervals.***

***Advanced Grant funds*** are held and administered by SRTA on behalf of the region to be used as reimbursement for eligible expenditures on approved projects. Programs that distribute funds to SRTA in advance include: Regional Early Action Plan (REAP 2.0), Regional Surface Transportation Program (RSTP), and Transit Operating, Planning, and Capital programs (TIRCP and ZETCP under SB125). ***Staff recommends Advanced Grant funds be invested in order to maximize interest earned on program assets, which can be used on similar eligible program projects.***

***Agency Reserves*** are accounts setup for specific funds with specific purposes as approved by the board of directors. For example, SRTA has reserves for the Consolidated Transportation Services Agency (CTSA) to maintain equipment and vehicles or fund operations, the Non-Motorized program for local match to competitive grants, and building expenses to maintain SRTA's property. ***Staff recommends that Agency Reserves be invested to optimize the long-term return of SRTA and regional assets with the intention of utilizing the interest to offset increasing and unexpected costs and future demands on the regional allocation of certain grant programs.***

**Proposed Investment Strategies –** The SRTA Board of Directors may choose to invest all of the available funds into a single LGIP or divide the funds across multiple pools. Splitting the Advance Grant and Agency Reserve funds into two groups and investing into separate LGIPs diversifies the Agency's investments, thereby reducing risk. It also allows for performance analysis of the two LGIPs against current Agency holdings in commercial banks and the Local Agency Investment Fund (LAIF). SRTA could alternatively invest a smaller portion of assets to monitor performance for a probationary period. Table 1 proposes two potential options to divide funds in the prospective LGIP accounts for board input.

*Table 1: Proposed Divisions of Investment Funds*

*Option One: Proposed Division of Investment Funds into Two LGIPs*

| Account Name | LGIP | Total |
|---|---|---|
| TIRCP General Fund (SB125) | CLASS | $9,501,628.34 |
| ZETCP GGRF Fund (SB125) | CLASS | $537,321.69 |
| TIRCP GGRF Fund (SB125) | CLASS | $25,466.08 |
| ZETCP PTA Fund (SB125) | CLASS | $464,207.38 |
| | **Total in CAMP** | **$10,528,623.50** |
| | | |
| Regional Surface Transportation Program (RSTP) | CAMP | $5,969,516 |
| Regional Early Action Plan (REAP 2.0) | CAMP | $417,733.99 |
| CTSA Reserve | CAMP | $91,314.70 |
| Non-Motorized | CAMP | $2,084,182.06 |
| Planning Reserve | CAMP | $94,213.37 |
| Building Reserve | CAMP | $162,207.06 |
| STA Reserve | CAMP | $1,259,629.35 |
| TDA Loan Fund for Regional Transportation | CAMP | $284,882.39 |
| | **Total in CLASS** | **$10,363,678.90** |

*Option Two: Proposed Division of Initial Investment Funds in One LGIP*

| Account Name | LGIP | Total |
|---|---|---|
| ZETCP PTA Fund (SB125) | CAMP | $464,207.38 |
| Regional Surface Transportation Program (RSTP) | CAMP | $5,969,516 |
| CTSA Reserve | CAMP | $91,314.70 |
| Non-Motorized | CAMP | $2,084,182.06 |
| Building Reserve | CAMP | $162,207.06 |
| | **Total in CAMP** | **$8,771,427.20** |

**Policy Updates and Reporting –** The Fiscal and Policy Committee directed staff to create a risk tolerance policy. Section 2.15.040 *Investments* in SRTA's Policies and Procedures Manual already describes certain types of risks and practical risk management strategies for each. Staff recommends the inclusion of the draft Statement of Investment (Attachment D), which further expands on SRTA's Standard of Care, Investment Objectives, Internal Controls, as well as other components of the Agency's investment portfolio. By implementing this policy, risk tolerance is more fortified through a prudent code of conduct by the agency and investing staff, as well as transparency and accountability with regular and frequent reporting to the executive director and the SRTA Board of Directors.

Monthly reports to the executive director and quarterly reports to the Fiscal and Policy Committee will evaluate performance of all investments. Consistent with existing policies, the Fiscal and Policy Committee will serve as an oversight body to ensure compliance with applicable laws and SRTA policy. The recommended Statement of Investment policy update also permits the board of directors to request an audit by a qualified independent consultant to review SRTA's investment portfolio and performance at its discretion. Staff recommends a report to the board of directors every six months for the first year, and annually thereafter.

**ALTERNATIVES:**
The board of directors may direct staff to invest all, some, or none of the Agency's assets in LGIPs. If no assets are invested, they will remain in corporate bank accounts and the Shasta County Treasury. The board of directors can suggest changes or edits to SRTA's current investment policy, request changes to the Statement of Investment, decline to update the investment policies at this time, or request more information and table this item to a future meeting.

**FISCAL & POLICY COMMITTEE REVIEW:**
The Fiscal & Policy Committee met on September 5, 2024, and October 22, 2024, to review and discuss the addition of LGIPs to SRTA's portfolio. */// The Committee met on December 9, 2024, to review and provide feedback on the investment policy changes and staff recommendations. ///*

**FISCAL IMPACT:**
SRTA's existing accounts provide minimal interest returned on the grant funds SRTA receives and administers on behalf of the region. By investing funds in LGIPs, the region (i.e., cities, county, and transit operators) benefits from increasing amounts of funds available to maintain and improve the region's transportation system and to use as match for competitive grants. Additionally, added interest gained on reserve accounts would help SRTA maintain agency-owned assets in good condition (e.g., SRTA's building, IT equipment, etc.) thereby potentially reducing SRTA's future Indirect Cost Allocation Plan (ICAP) rate and the need to borrow funds in the future for necessary maintenance costs.

There is no guarantee on the amount of interest earned on investments as rates vary and are subject to change by a variety of factors outside SRTA's control. However, SRTA's policies encourage investing idle funds as much as possible and LGIPs present an opportunity to potentially experience higher returns. Note that the Federal Deposit Insurance Corporation (FDIC) or any other government agency does not insure or guarantee an investment in LGIPs. Past fund performance does not guarantee future results. Any financial and/or investment decision may incur losses.

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**Sean Tiedgen, AICP, Executive Director**

**Attachments:**

**A:** Staff Report presented to the Fiscal and Policy Committee on September 5, 2024 (https://www.srta.ca.gov/DocumentCenter/View/9556/5_CLASS_Report).

**B**: Staff Report presented to the Fiscal and Policy Committee on October 22, 2024 (https://www.srta.ca.gov/DocumentCenter/View/9630/5_CLASS).

**C:** LGIP Comparative Table: CLASS, CAMP, and CalTRUST

**D:** Statement of Investment Policy (Draft)

**E:** Account Position and Balance as of October 31, 2024

# STAFF REPORT

| | |
|---|---|
| **MEETING DATE:** | **September 5, 2024** |
| **SUBJECT:** | **Receive Report on California Cooperative Liquid Assets Securities System (CLASS) and Provide Direction to Staff on Potential Inclusion in the Agency's Investment Portfolio** |
| **AGENDA ITEM:** | **5** |
| **STAFF CONTACT:** | **Jessica Carlson, Chief Fiscal Officer** |


**SUMMARY:**

Staff is seeking input from the Fiscal and Policy Committee as to whether the California Cooperative Liquid Assets Securities System (CLASS) should be considered for addition to the agency's investment pools to take advantage of increased rates of return and further diversify its portfolio, in alignment with SRTA's investment policy (section 2.15.040). With the Committee's approval, staff will prepare a complete proposal report for consideration at the October Fiscal & Policy Committee meeting.


**STAFF RECOMMENDATION:**

It is recommended that the Fiscal & Policy Committee:

1. Receive a report and presentation from California Cooperative Liquid Assets Securities System (CLASS) representatives to introduce a potential investment alternative for SRTA's restricted and reserve funds;
2. Receive report from staff on potential benefits of CLASS participation; and
3. Discuss and provide direction to staff regarding potential preparation of a draft proposal report and any other documents necessary to facilitate potential inclusion of CLASS to SRTA's investment portfolio.

**DISCUSSION:**

**Background –** SRTA administers and maintains reserve funds and various capital regional funds across various accounts with the County treasury, and Umpqua and Five Star Banks. This diversification strategy serves multiple purposes including enhancing safety, ensuring access to funds, and optimizing yield. Staff has researched investment alternatives that could yield better returns than where SRTA already invests, such as the Local Agency Investment Fund (LAIF) and the California Cooperative Liquid Assets Securities System (California CLASS). California CLASS stands out among these options, providing public agencies with an additional diversification avenue for both daily liquidity and strategic reserve investments. This program is jointly sponsored by the California Special Districts Association (CSDA) and the League of California Cities.

The California CLASS program is authorized under California Government Code Section 6509.7, where a Joint Powers Authority (JPA) can be formed to issue shares of beneficial interest to participating public agencies. The JPA must retain an investment advisor that meets the following requirements:

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 (o), inclusive, of Section 53601; and,
3. The adviser has assets under management in excess of five hundred million dollars ($500,000,000).

The CLASS investment adviser is Public Trust Advisors, who provide investment expertise for their portfolio with Local Government Investment Pools (LGIPs), like California CLASS, in 12 different states with over $81 billion in assets under management and the largest LGIP in the nation. California CLASS was created in July 2022, joining the other state CLASS pools, specifically designed to meet the growing investment needs of California public agencies. The program provides an opportunity for agencies to invest cooperatively in rated pools managed in accordance with state laws. Primary objectives of California CLASS include safety of investment principle, daily and next-day liquidity, and optimized returns for participants.

**Investment Options –** The fund operates with transparent governance guided by a Board of Trustees composed of public finance officials. Participation in California CLASS is open to all public agencies in California that have the authority to invest their treasury funds under California Government Code Section 6500. California CLASS offers two investment fund options:

1. **Prime Portfolio –** The Prime Portfolio aims to generate investment income for everyday funds. Prime strives to earn a competitive rate of return while maintaining liquidity, preserving capital, and a stable Net Asset Value (NAV) of $1.00, which preserves the principal from being lost. The highest principal stability fund rating (AAAm) is assigned by S&P Global Ratings to California CLASS Prime underscores its safety and stability.
2. **Enhanced Cash –** The Enhanced Cash Fund is a next-day liquidity investment option designed for participants who seek to generate a higher yield while complementing the daily liquidity offered by the California CLASS Prime Portfolio. This investment fund is designed for investors with slightly longer investment horizons and the ability to tolerate a higher risk profile. For example, this is best suited for non-operating dollars and strategic reserves that a public agency would not anticipate withdrawing for 12-18 months. The California Class Enhanced Cash portfolio has designated a $10.00 transactional share price to differentiate the portfolio from a traditional $1.00 stable NAV fund. This fund received the highest rated AAAf/S1 rating by Fitch Ratings.

The Prime Portfolio aligns strongest with SRTA's investment policy objectives: "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" (SRTA Policies Section 2.15.040(B)). Since the Enhanced Cash Fund could result in a negative principal balance during the 12-18 month course of investment, it would not be the best option for SRTA's restricted funds. These balances are assigned to board approved projects and need the liquidity to draw on those funds in their entirety at any time that the other eligibility requirements are met by the sub-recipient. However, the Enhanced Cash Fund could be a possible future alternative when SRTA has funds in reserve that remain in SRTA's possession for more than one year, are solely under the ownership of SRTA, are unassigned, and not promised to another entity (e.g., Non-Motorized, Building and Planning Reserves, STIP repayments to SRTA).

The Prime Portfolio provides daily liquidity, no minimum or maximum investment limits, unlimited withdrawals and accounts, and interest accruals calculated daily and paid once a month. The daily interest accruals are an attractive feature for SRTA, as the reimbursement requests from sub-recipients are infrequent, mostly unpredictable, and are typically very large amounts. Further, California CLASS currently has a historical average yield that is 80-90 points higher than the LAIF rate, which is what SRTA receives, per agreement, on Five Star Bank Public Money Market accounts that SRTA holds with Five Star.

**Example Financial Analysis –** Interest on SRTA's current investment pools only accrue on month-end balances. Withdrawals made during the month significantly impact the amount of interest SRTA may accrue. As an illustration, in June 2024, the California CLASS Prime Portfolio had a prime rate of 5.59%. Assume one of the accounts at Five Star was invested in the Prime Portfolio instead and had a balance of $4.5 million on June 1. Then a sub-recipient requested a $2 million reimbursement on June 25. SRTA would have accrued $16,540.27 in interest on the $4.5 million balance during the first 24 days of the month, and $2,297.26 in interest on the remaining $2.5 million in the final five days of the month, for a total of $18,837.53. Comparing that to SRTA's current investments, the LAIF had a maximum interest of only 4.48% for June 2024, which Five Star matches each month. SRTA would have accrued less than half of that ($9,333.33) in interest on the month-end balance of $2.5M. The graphic below illustrates this concept.

| | **CLASS** | | **LAIF (Five Star)** | |
|---|---|---|---|---|
| **P= Principal** | $ 4,500,000<br>$ 2,500,000 | (for 24 days)<br>(for 6 days) | $ 2,500,000 | ending balance June 30 |
| **R=Interest Rate** | **5.59%** | | **4.48%** | |
| **N=No. of compounds per year**<br>**A= No. of compounds in accrual period** | 24<br>6 | days @ $4.5M<br>days @ $2.5M | 1 | end of month accrual |
| **Interest Accrued = (P*(R/N))*A** | $ 16,540.27<br>$ 2,297.26<br>**$ 18,837.53** | =($4.5M*(.0559/365)*24)<br>=($2.5M*(.0559/365)*6) | **$ 9,333.33** | =($2.5M*(.0448/12)) |

**Potential Next Steps –** The California Class program presents an opportunity to maximize interest earned on taxpayer dollars received for transportation projects while guaranteeing original federal and state disbursements are retained. This could increase funds that can be used toward streets and roads projects, transit operations and capital, and active transportation projects. Staff seeks input from the Fiscal & Policy Committee on whether to pursue a more in-depth study of adding California CLASS to SRTA's investment portfolio, which may include a draft investment proposal with recommendations on initial funds available to transfer, resolutions, recommended policy revisions (where applicable), and supporting documentation by the October 2024, board of directors meeting.

**ALTERNATIVES:** The Fiscal and Policy Committee can seek clarification on the information presented, can request more information to be presented at a future meeting, or decline to seek participation in California CLASS.

**FISCAL IMPACT:** There is no guarantee on the amount of interest earned on investments as rates vary and are subject to change by a variety of factors outside the agency's control. California CLASS has the potential to increase interest rates of return on funds SRTA holds and administers on behalf of the region compared to other public money market accounts, which could result in additional funds that can be used toward streets and roads, transit, and active transportation projects.

Note that the FDIC or any other government agency does not insure or guarantee an investment in California CLASS. Past fund performance is not a guarantee of future results. Any financial and/or investment decision may incur losses.

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**Sean Tiedgen, AICP, Executive Director**

**Attachments:**
**A:** California CLASS Highlights
**B:** California CLASS Pool Fact Sheet
**C:** California CLASS Features and Benefits
**D:** California CLASS Participant List
**E:** California CLASS PRIME Pool Rate Sheet
**F:** California CLASS Prime Fund Information
**G:** California CLASS Enhanced Cash Fund Information
**H:** SRTA's Investment Policy Section 2.15.040

California CLASS

# HIGHLIGHTS

*A California Joint Powers Authority Investment Pool Designed with You in Mind*

## TWO PORTFOLIOS

*Prime-style and Enhanced Cash*

## WHO WE ARE

California CLASS was created as a joint powers authority investment pool with a focus on safety, liquidity, convenience, and a competitive yield. The program provides daily liquidity, and our Participants can view/access their account information 24/7 online. Both portfolios offered by California CLASS are 'AAA' rated by nationally recognized statistical ratings organizations.

## CLIENT FOCUSED

California CLASS provides exceptional, personalized service, and we consider ourselves to be an extension of your team; our dedicated Investment Services Directors and Client Service Department are with you every step of the way. The fund's cut-off time is 11:00 a.m. PT for seamless transacting.

**2022**

### A PUBLIC FUNDS INVESTMENT SOLUTION

Established in 2022, California CLASS serves California public agencies and can be a great tool for enhancing your agency's portfolios' diversification.

**179**

### SERVING YOUR PEERS

California CLASS currently serves over 170 public agencies throughout the state just like yours.

**$1.7b**

### ASSETS UNDER MANAGEMENT

California CLASS currently manages approximately $2 billion in the California CLASS Prime Fund portfolio.

**$30m**

### INVESTMENT INCOME EARNED

The California CLASS Prime Fund earned over $30 million in investment income for the calendar year of 2023.

Data unaudited. Source: Public Trust Advisors, LLC. The information referenced above is as of 06/30/2024 and specific to California CLASS. Charts and/or values presented may not add up precisely to absolute figures due to rounding.

## CONTACT US

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# INVESTING MADE EASY

An investment solution designed for your public agency.

| Investment Option | California CLASS Prime | California CLASS Enhanced Cash |
|---|---|---|
| PortfolioType | Prime-Style | Enhanced Cash |
| Purpose | Operating Funds | Strategic Reserves |
| Rating | 'AAAm' | 'AAAf/S1' |
| Liquidity Offered | Daily | Next-Day |
| Min/Max Investment | None | None |
| Withdrawals | Unlimited | Unlimited |
| Accounts | Unlimited | Unlimited |
| Investment Horizon | Day-to-Day | 12-18 Months |
| WAM | ≤60 days | 90-200 days |
| Net Asset Value (NAV) | Stable $1.00 per share | Fluctuating |

# A PROFESSIONALLY MANAGED INVESTMENT OPTION

Our service providers have been carefully selected with the goal of creating an excellent investment experience. Public Trust Advisors, LLC (Public Trust) provides the investment advisory and administration for California CLASS and has provided these services nationwide for more than a decade.

| CLIENTS LIKE CALIFORNIA CLASS | SERVICES PROVIDED |
|---|---|
| COLOTRUST | Administration & Investment Advisory |
| FLCLASS | Administration & Investment Advisory |
| LAMP | Administration |
| Michigan CLASS | Administration & Investment Advisory |
| Nebraska CLASS | Administration & Investment Advisory |
| North Carolina CLASS | Administration & Investment Advisory |
| NYCLASS | Administration & Investment Advisory |
| STAR Ohio | Consulting Services |
| Texas CLASS | Administration & Investment Advisory |
| TrustINdiana | Administration & Investment Advisory |
| VIP | Co-Administration & Investment Advisory |
| Wyoming CLASS | Administration & Investment Advisory |

## AT A GLANCE

| Firmwide | Serving Approx. | SEC Registered |
|---|---|---|
| **$91b** | **7,579** | **2011** |
| in Assets Under Management | Local Governments Nationwide | Over 12 years of Operation |

## OTHER SERVICE PROVIDERS

**Orrick**
Special Legal Counsel

**U.S. Bank**
Custodian

**Jarvis Fay**
General Legal Counsel

**Cohen & Co.**
Auditor

Public Trust Advisors, LLC began providing services to COLOTRUST in 2012; NYCLASS and Texas CLASS in 2013; Michigan CLASS in 2014; TrustINdiana, FLCLASS, and LAMP in 2015; VIP in 2016; Wyoming CLASS in 2020; Star Ohio in 2021; California CLASS in 2022; and Nebraska CLASS and North Carolina CLASS in 2023.

Data unaudited. Source: Public Trust Advisors, LLC. Data as of 06/30/2024. Charts and/or values presented may not add up precisely to absolute figures due to rounding. The information presented should not be used in making any investment decisions. This material is not a recommendation to buy, sell, implement, or change any securities or investment strategy, function, or process. Many factors affect performance including changes in market conditions and interest rates and in response to other economic, political, or financial developments. Investment involves risk including the possible loss of principal. No assurance can be given that the performance objectives of a given strategy will be achieved. California CLASS is not a bank. An investment in California CLASS is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the California CLASS stable NAV fund(s) seek to preserve the value of your investment at $1.00 per share, California CLASS cannot guarantee they will do so. A 'AAAm' rating by S&P Global Ratings is obtained after S&P evaluates a number of factors including credit quality, market price exposure, and management. For a full description on rating methodology, please visit www.spglobal.com. The 'AAAf' rating is Fitch's opinion on the overall credit profile within a fixed-income fund/portfolio and indicates the highest underlying credit quality of the pool's investments. The 'S1' volatility rating is Fitch's opinion on the relative sensitivity of a portfolio's total return and/or net asset value to assumed changes in credit spreads and interest rates. The 'S1' volatility rating indicates that the fund possesses a low sensitivity to market risks. For a full description on rating methodology, please visit www.fitchratings.com. Ratings are subject to change and do not remove credit risk. Please review the applicable Information Statement(s) before investing. **Past performance is no guarantee of future results. Any financial and/or investment decision may incur losses.**

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California CLASS

**California Cooperative Liquid Assets Securities System**

# Get to Know California CLASS

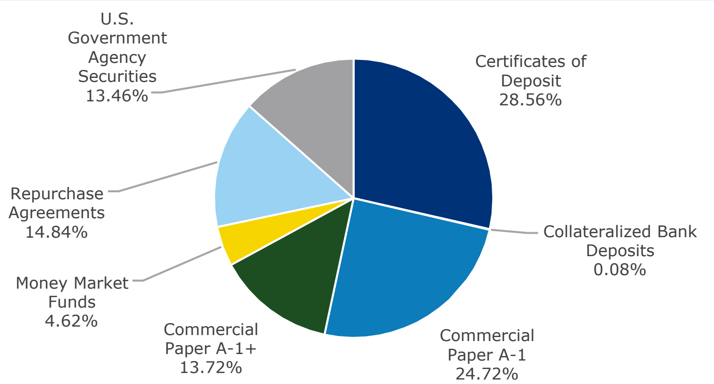
## Holistic cash management designed with you in mind

California CLASS is a local government investment pool that was created under the Joint Powers Act. It allows eligible public agencies to invest their funds in a professionally managed Joint Powers Authority.

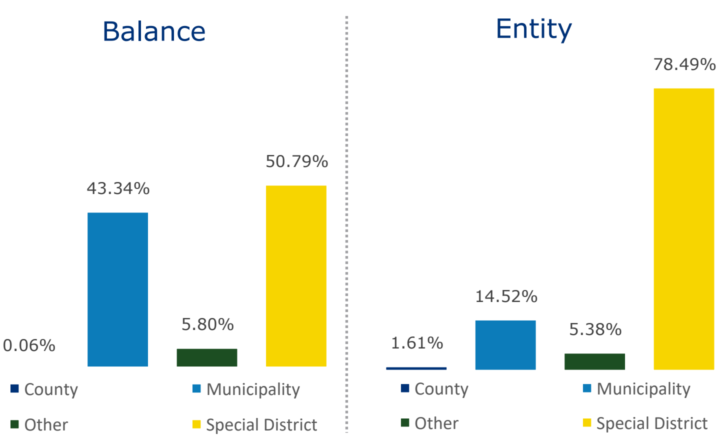
Participation is available to any California public agency under California Government Code 6500 and 6509.7. Investments are made in accordance with California Government Code Section 53601 and the California CLASS Investment Policies.

The California CLASS portfolio investment strategy prioritizes minimizing market risk and enhancing safety via diversified investments. Funds of the Participants are invested in prime or high grade, short-term fixed income instruments as illustrated to the left. We aim to provide competitive yields while adhering to all objectives of safety and liquidity. The California CLASS Prime Fund carries a 'AAAm' rating from S&P Global Ratings.

## Portfolio Allocation




## Participant Breakdown by Type




California CLASS welcomes all public agencies without favor to one type. The Board membership represents the diversity of such agencies and works to maintain a product that services the needs of all California public agencies.

## California CLASS Board of Trustees



**Contact us to get started!**
www.californiaclass.com

Source: Public Trust Advisors, LLC. Data as of 07/31/2024. Data unaudited. Charts and/or values presented may not add up precisely to absolute figures due to rounding. Many factors affect performance including changes in market conditions and interest rates and in response to other economic, political, or financial developments. Investment involves risk including the possible loss of principal. No assurance can be given that the performance objectives of a given strategy will be achieved. California CLASS is not a bank. An investment in California CLASS is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the California CLASS stable NAV fund(s) seek to preserve the value of your investment at $1.00 per share, California CLASS cannot guarantee they will do so. A 'AAAm' rating by S&P Global Ratings is obtained after S&P evaluates a number of factors including credit quality, market price exposure, and management. For a full description on rating methodology, please visit www.spglobal.com. Ratings are subject to change and do not remove credit risk. Please review the applicable Information Statement(s) before investing. **Past performance is no guarantee of future results. Any financial and/or investment decision may incur losses.**

California CLASS

California Cooperative Liquid Assets Securities System

## What is California CLASS?

California Cooperative Liquid Assets Securities System (California CLASS) is a joint exercise of powers entity authorized under Section 6509.7, California Government Code. California CLASS is a pooled investment option that was created via a joint exercise of powers agreement by and among California public agencies. California CLASS offers public agencies a convenient method for investing in highly liquid, investment-grade securities carefully selected with the goal of optimizing yields while prioritizing safety and liquidity. The California CLASS Prime and Enhanced Cash funds help assist public agencies in strengthening and diversifying their cash management programs in accordance with the safety, liquidity, and yield hierarchy that provides the framework for the investment of public funds.

## How is it governed and managed?

California CLASS is overseen and governed by a Board of Trustees. The Board is made up of public agency finance professionals who participate in California CLASS and are members of the Joint Powers Authority (JPA). The Board of Trustees has entered into an Investment Advisor and Administrator Agreement with Public Trust Advisors, LLC. Public Trust is responsible to the Board for all program investment and administrative activities as well as many of the services provided on behalf of the Participants.

## How can we participate?

Enrolling in California CLASS is simple. Public agencies may become Participants simply by filling out the Participant Registration Form that can be found in the document center on the California CLASS website. Public agencies may submit the completed registration packet to California CLASS Client Services for processing at clientservices@californiaclass.com. To obtain account forms and fund documents, visit www.californiaclass.com/document-center/.

## CALIFORNIA CLASS FEATURES

**As a California CLASS Participant, you have access to many convenient features:**

- Same-day availability of funds in Prime Fund (11:00 a.m. PT cut-off)
- Contributions by wire or ACH
- Ratings of 'AAAm' & 'AAAf/S1'
- Portfolio securities marked-to-market daily
- Secure online access for transactions and account statements
- No redemption notices for Prime Fund
- Participant-to-Participant transactions
- Dividends accrue daily and pay monthly
- No maximum or minimum transaction limits
- No maximum or minimum investment requirements
- No transaction fees*
- Annual audit conducted by independent auditing firm**
- Dedicated client service representatives available via phone or email on any business day

*You may incur fees associated with wires and/or ACH transactions by your bank, but there will be no transaction fees charged from California CLASS for such transactions. **External audits may not catch all instances of accounting errors and do not provide an absolute guarantee of accuracy.

## Sponsored By:

LEAGUE OF CALIFORNIA CITIES

www.calcities.org

CSDA California Special Districts Association *Districts Stronger Together*

www.csda.net


## What are the objectives of California CLASS?

### Safety

The primary investment objective of the California CLASS Prime Fund is preservation of principal. Both California CLASS portfolios are managed by a team of investment professionals who are solely focused on the management of public funds nationwide. The custodian for California CLASS is U.S. Bank, N.A.

### Liquidity

When you invest in the California CLASS Prime Fund, you have access to your funds on any business day. You must notify California CLASS of your funds transaction requests by 11:00 a.m. PT via the online transaction portal. There are no redemption notices for the daily-liquid California CLASS Prime Fund. The California CLASS Enhanced Cash Fund is a variable NAV fund that provides next-day liquidity and requires a one-day notification of redemption.

### Competitive Returns

California CLASS strives to provide competitive yields while adhering to the objectives of safety and liquidity. Participants can benefit from the investment expertise and institutional knowledge provided by the team of Public Trust professionals. The portfolio performance objective is strengthened by the knowledge of California public agency cash flows that the Public Trust team possesses.

### Ease of Use

To make cash management streamlined and efficient, California CLASS includes many features that make it easy to access account information and simplify record keeping. Participants can transact on any business day via the California CLASS Online Transaction Portal at www.californiaclass.com.

### Flexibility

You may establish multiple California CLASS subaccounts. You will receive comprehensive monthly statements that show all of your transaction activity, dividend accruals, and yield summaries. These statements have been specifically designed to facilitate public sector fund accounting and to establish a clear accounting and audit trail for your records.

### Legality

California CLASS only invests in securities permitted by California State Code Section 53601; permitted investments are further restricted to those approved by the Board of Trustees as set forth in the California CLASS Investment Policies.

**Have Questions?** Contact us or visit www.californiaclass.com for more information.

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# California CLASS Participant List July 2024

## Counties

El Dorado County
Lake County
Sonoma County Treasurer

## Municipalities

City of Artesia
City of Barstow
City of Beaumont
City of Bishop
City of Brentwood
City of Farmersville
City of Folsom
City of Fowler
City of Fullerton
City of Gilroy
City of Hanford
City of Hemet
City of Kingsburg
City of Lancaster
City of Martinez
City of Moreno Valley
City of Morgan Hill
City of Oroville
City of Porterville
City of Santa Ana
City of Shafter
City of Signal Hill
City of Solvang
City of Wasco
City of Williams
Town of Fort Jones
Town of Paradise

## Other

California CLASS Enhanced Cash
California Special Districts Association
CSDA Finance Corporation
League of California Cities
Public Agencies Self-Insurance System
Regional Government Services Authority
Sewer Authority Mid-Coastside
Special District Leadership Foundation
Special District Risk Management Authority
Tri-County Water Authority

## Special Districts

Alameda County Mosquito Abatement District
Alpine Fire Protection District
Altadena Library District
Anderson Springs Community Service District
Artesia Cemetery District
Atwell Island Water District
Avila Beach Community Services District
Banning Library District
Beaumont Library District
Bell Canyon Community Services District
Big Bear Airport District
Bighorn - Desert View Water Agency

## California CLASS Participant List July 2024

Bolinas Fire Protection District
Bonita Sunnyside Fire Protection District
Brooktrails Township Community Services District
Cabazon Water District
Camarillo Health Care District
Castroville Cemetery District
Central Fire District of Santa Cruz County
Channel Islands Beach Community Services Distict
Chester Public Utility District
Chico Area Recreation & Park District
Chino Basin Water Conservation District
Chino Basin Watermaster
City of Big Bear Lake, Department of Water and Power
Clearlake Oaks County Water District
Clovis Veterans Memorial District
Coachella Valley Resources Conversation District
Coalinga - Huron Recreation & Parks District
Coastside Fire Protection District
Contra Costa Mosquito & Vector Control District
Copper Valley Community Services District
Corcoran Irrigation District
Corning Healthcare District
Costa Mesa Sanitary District
Cosumnes Community Services District
Crescenta Valley Water District
Del Puerto Health Care District
Delano Mosquito Abatement District
Delhi County Water District
Desert Recreation District
Durham Irrigation District
East Orange County Water District
Emerald Bay Service District
Fallbrook Regional Health District
Feather River Resource Conservation District
Georgetown Divide P.U.D.
Glenn County Resource Conservation District
Gold Coast Transit District
Gold Mountain Community Services District
Goleta Sanitary District
Grossmont Healthcare District
Groveland Community Services District
Helendale Community Services District
Heritage Ranch Community Services District
Herlong Public Utility District
Hilmar County Water District
Humboldt Bay Municipal Water District
Humboldt Community Services District
Idyllwild Water District
Igo Ono Community Services District
Indian Valley Community Services District
Ironhouse Sanitary District
Kensington Police Protection and Community Services District
Kenwood Fire Protection District
Keyes Community Services District
La Puente Valley County Water District
Lake Oroville Area Public Utility District
Lakeside Fire Protection District
Las Gallinas Valley Sanitary District
Leucadia Wastewater District
Littlerock Creek Irrigation District
Livermore Area Recreation and Park District
Los Alamos Cemetery District
Madera Irrigation District
Mariana Ranchos County Water District
Marina Coast Water District
Mark Twain Health Care District
McKinleyville Community Services District
Mendocino Coast Recreation and Park District

## California CLASS Participant List July 2024

| | |
|---|---|
| Mendocino County Waterworks District II | Midway City Sanitary District |
| Mission Hills Community Services District | Mojave Water Agency |
| Murphy's Sanitary District | North County Fire Protection District, San Diego County |
| North Humboldt Recreation and Park District | North of River Sanitary District No. 1 |
| North Tahoe Public Utility District | Oceano Community Services District |
| Olympic Valley Public Service District | Orange County Cemetery District |
| Oxnard Harbor District | Palos Verdes Library District |
| Paradise Irrigation District | Paradise Recreation & Park District |
| Phelan Pinon Hills Community Services District | Pico Water District |
| Pine Grove Community Service District | Pleasant Valley County Water District |
| Pleasant Valley Recreation and Park District | Rainbow Municipal Water District |
| Rancho Murieta Community Services District | Rancho Santa Fe Fire Protection District |
| Reclamation District No. 1000 | Resource Conservation District of Greater San Diego County |
| Rim of the World Recreation and Park District | Rio Linda Elverta Recreation and Park District |
| Rossmoor Los Alamitos Area Sewer District | San Antonio Basin Water District |
| San Diego County Citrus Pest Control District | San Gabriel Valley Mosquito and Vector Control District |
| San Mateo County Mosquito and Vector Control District | San Miguel Consolidated Fire Protection District |
| San Simeon Community Services District | Santa Cruz Port District |
| Santa Maria Public Airport District | Santa Maria Valley Water Conservation District |
| Santa Ynez River Water Conservation District | Scotts Valley Water District |
| Shandon-San Juan Water District | Sierra Resource Conservation District |
| South Placer M.U.D. | Stockton East Water District |
| Tahoe - Truckee Sanitation Agency | Tahoe City Public Utility District |
| Tehachapi Valley Recreation and Park District | Temecula Public Cemetery District |
| Templeton Community Services District | Town of Discovery Bay - Community Services District |
| Trabuco Canyon Water District | Tracy Rural County Fire Protection District |
| Truckee Donner Recreation and Park District | Truckee Sanitary District |
| Truckee Tahoe Airport District | Turner Island Water District |
| Twentynine Palms Water District | Union Public Utility District |
| Vandenberg Village Community Services District | Ventura River Water District |
| Vista Fire Protection District | Wallace Community Services District |
| Weott Community Services District | West Basin Municipal Water District |
| West County Wastewater District | Western Shasta Resource Conservation District |
| Williams Fire Protection Authority | Yuima Municipal Water District |

# California CLASS Participant List July 2024

Total Participants: 188

***Disclaimer:*** *This participant list is being made public as a service to our participant base. The listed participants are active as of the end of the month.*

# Invest with California CLASS Prime

Investing with California CLASS Prime could mean more for your local community.
Use the California CLASS Prime investment calculator to see just how much you could have earned.

**Amount Invested**

$1,000,000

**Start Date**

July 1, 2024

**End Date**

July 31, 2024

You would have earned

**$4,591.32**

on your investment if you started on

**July 1, 2024**

**California CLASS Prime Investment Income Earned**

| As of Date | Time | $1M | $5M | $10M |
|---|---|---|---|---|
| Jul 01 - Jul 31 | 1 month | $4,591 | $22,957 | $45,913 |
| Feb 01 - Jul 31 | 6 months | $27,221 | $136,104 | $272,207 |
| Aug 01 - Jul 31 | 12 months | $56,039 | $280,195 | $560,389 |

Months listed are in the years 2023-2024

California CLASS Prime Daily Yields as of Month-End

| Month | Year | Month-End Yield |
|---|---|---|
| July | 2024 | 5.4348% |
| June | 2024 | 5.4111% |
| May | 2024 | 5.4134% |
| April | 2024 | 5.3199% |
| March | 2024 | 5.4330% |
| February | 2024 | 5.4375% |
| January | 2024 | 5.4710% |
| December | 2023 | 5.5508% |
| November | 2023 | 5.5691% |
| October | 2023 | 5.5540% |
| September | 2023 | 5.5193% |
| August | 2023 | 5.4663% |

For more information on both historical yields and annualized performance, visit www.californiaclass.com/rates or scan the below QR code:

Source: Public Trust Advisors, LLC. Data unaudited. Charts and/or values presented may not add up precisely to absolute figures due to rounding. Investment income earned values shown may reflect immaterial variance from exact statement balances due to rounding. Performance results are shown net of all fees and expenses and reflect the reinvestment of dividends and other earnings. Many factors affect performance including changes in market conditions and interest rates and in response to other economic, political, or financial developments. Investment involves risk including the possible loss of principal. No assurance can be given that the performance objectives of a given strategy will be achieved. California CLASS Prime is not a bank. An investment in California CLASS Prime is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the California CLASS Prime stable NAV fund(s) seek to preserve the value of your investment at $1.00 per share, California CLASS Prime cannot guarantee they will do so. Please review the applicable Information Statement(s) before investing. **Past performance is no guarantee of future results. Any financial and/or investment decision may incur losses.**

California CLASS

# Prime Fund Information Statement

July 2023

## Introduction

The purpose of this Information Statement for the California CLASS Prime Fund (Prime Fund) is to provide information to Participants (as defined herein) in connection with the purchase of Shares (as defined herein) in the Prime Fund. This Information Statement for the Prime Fund describes certain provisions of the JPA Agreement (as defined herein) for the California CLASS and the Investment Policy for the Prime Fund. Participants interested in the purchase of Shares in the Prime Fund should review the full terms of the JPA Agreement (located in the Document Center at [www.californiaclass.com](http://www.californiaclass.com)) and the Investment Policy for the Prime Fund described herein (located in the Document Center at [www.californiaclass.com](http://www.californiaclass.com)), each of which are incorporated herein by reference. Capitalized terms not otherwise defined herein shall have the meanings set forth in the JPA Agreement.

The contents of this Information Statement should not be considered to be legal, tax or investment advice, and Participants should consult with their own counsel and advisers as to all matters concerning investment in the Prime Fund.

## California CLASS Prime Fund Summary

The California Cooperative Liquid Assets Securities System, doing business as the California CLASS, is a California joint powers authority created pursuant to Title 1, Division 7, Chapter 5 of the California Government Code (commencing with Section 6500), known as the Joint Exercise of Powers Act (Act) and the JPA Agreement referenced below.

The Act provides that two or more public agencies (as defined herein, Public Agencies) that have the authority to invest funds in their treasuries may, by agreement, jointly exercise that common power and create a joint powers authority separate from such Public Agencies to exercise such common power and to act as administrator of the agreement. Under this authority, California CLASS was created pursuant to a Joint Exercise of Powers Agreement (JPA Agreement) dated as of June 6, 2022, between the Founding Participants (as defined in the JPA Agreement).

The Act authorizes a joint powers authority, such as California CLASS, to issue shares of beneficial interest in authorized investments to participating Public Agencies (collectively referred to herein, as Participants and individually, as a Participant). See "Eligible Shareholders." The JPA Agreement sets forth the terms of the investment program known as California CLASS Investment Program, including the establishment of Funds in which Participants purchase shares of beneficial interest issued by California CLASS in authorized investments that are owned by California CLASS. The Prime Fund is one of the initial Funds established by the California CLASS.

The purpose of the California CLASS is to consolidate investment activities of the Participants and thereby reduce duplication, take advantage of economies of scale and perform governmental functions more efficiently through the California CLASS Investment Program.

As a joint powers authority, California CLASS provides a professionally managed pooled investment program for Participants. See "Investment Advisor & Administrator." Pursuant to the JPA Agreement, California CLASS is governed by a Board of Trustees and is sponsored by the California Special Districts Association (CSDA) and the League of California Cities (Cal Cities and together with CSDA, the Sponsors). See "Board of Trustees."

The Shares in the California CLASS Prime Fund have not been, and are not required to be, registered under any federal or state securities law. The California CLASS has not been, and is not required to be, registered under the Investment Company Act of 1940, as amended. Accordingly, the California CLASS and its Prime Fund are not subject to the provisions of that Act, including the protective rules relating to registered money market funds and other types of mutual funds.

## Prime Fund Investment Objectives

California CLASS provides a professionally managed pooled investment program for Participants. The general objective of the Prime Fund is to generate additional investment income for the Participants while maintaining safety and liquidity. The Prime Fund is managed by the California CLASS to comply with the requirements of California law, specifically California Government Code Section 53601.

The Prime Fund is managed by the California CLASS and seeks to provide a safe, convenient, and daily liquid investment option for Participants. As described below, the investment objectives of the Prime Fund are to preserve principal, provide daily liquidity, earn a competitive rate of return, and maintain a stable Net Asset Value (NAV) of $1.00. The Prime Fund accrues net income daily and pays net income on a pro rata basis monthly.

The California CLASS has established that the Prime Fund will have a maximum dollar-weighted average maturity (WAM) of 60 days and a maximum weighted average life (WAL) of 120 days. The Investment Policy created by the California CLASS for the Prime Fund establishes the objectives, policies and restrictions that are designed to facilitate the achievement of these objectives.

The Investment Advisor for the Prime Fund will seek to maintain a 'AAAm' rating from S&P Global Ratings on the Prime Fund. According to S&P Global Ratings, a fund rated 'AAAm' demonstrates extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit risk. 'AAAm' is the highest principal stability fund rating assigned by S&P Global Ratings.

The investment objectives of the Prime Fund in order of priority are:

**Safety**: The Prime Fund is managed to emphasize the preservation of principal while maintaining a stable NAV of $1.00.

**Liquidity**: The Prime Fund is managed to provide daily liquidity to its Participants. See above for description of the maximum WAM and WAL for investments in the Prime Fund.

**Competitive Returns**: The Prime Fund is managed to generate competitive returns while providing daily liquidity and stability of principal.

No assurances can be given that the investment objectives of the Prime Fund will be achieved.

## Transparency

The California CLASS seeks to provide transparency to Participants in the Prime Fund by allowing Participants to readily obtain portfolio and account information. The California CLASS will offer dedicated Participant support with an easy-to-use technology platform. Historical and current performance data, Net Asset Value, WAM, and WAL are published and available to Participants on the California CLASS website. Portfolio holdings are published quarterly and are available to Participants through the California CLASS Client Services team on an as-needed basis. Participant breakdowns and expense ratios are also published and available to Participants on the California CLASS website on a quarterly basis.

## Eligible Shareholders

Any Public Agency that has the authority to invest funds in its treasury in statutorily permitted investments, including but not limited to Section 53601 of the California Government Code, and meets the requirements described in the next paragraph is eligible to become a Participant of the California CLASS Investment Program and is eligible to purchase shares in the Prime Fund.

Each Participant must be a “Public Agency”, as that term is defined in Section 6509.7 of the Act, which, as of the date of this Information Statement, is defined as "the federal government or any federal department or agency, this state, another state or any state department or agency, a county, county board of education, county superintendent of schools, city, public corporation, public district, or regional transportation commission of the State of California or another state, a federally recognized Indian tribe, or any joint powers authority formed pursuant to this article by any of these agencies," and includes "a nonprofit corporation whose membership is confined to public agencies or public officials." Each Participant must also be a political subdivision of a state, or an agency, authority, or instrumentality of the United States, a state of any political subdivision of a state.

## Prime Fund Eligible Investments

Funds in the Prime Fund are required to be invested by the Investment Advisor in investments permitted by California law, specifically California Government Code Section 53601, and will be made in accordance with the Investment Policy established by the California CLASS for the Prime Fund. As required by California law, funds in the Prime Fund will be invested by the Investment Advisor in accordance with the prudent investor standard of the California Government Code.

While the Investment Policy established by the California CLASS for the Prime Fund covers the eligible investments and their maximum maturity, maximum portfolio allocation, maximum per issuer allocation and minimum credit quality in greater detail, the following types of investments are eligible for inclusion in the Prime Fund:

- U.S. Government and agency obligations
- Repurchase agreements collateralized by U.S. Government and agency obligations
- Registered warrants or treasury notes of the state of California
- Bonds, notes, warrants, or other obligations of a local agency in the state of California
- Registered treasury notes or bonds of any of the other 49 states
- Bankers' acceptances
- Prime commercial paper and asset-backed commercial paper
- Negotiable certificates of deposit
- Corporate notes
- Asset-backed securities
- U.S. dollar denominated senior unsecured obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation or Inter-American Development Bank
- Money market mutual funds

The Investment Policy for the Prime Fund also contains certain investment restrictions on investments in the Prime Fund.

As set forth in Section 53601 of the California Government Code, 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 money that it deems wise or expedient in the investments described in Section 53601. However, the California Government Code limits the amount of surplus money of a local agency that may be invested in such investments. Each Participant is responsible for monitoring the aggregate amount of its investments in any of these types of investments to ensure its own compliance with the California Government Code. None of the California CLASS, the Administrator, the Investment Advisor, the Custodian or any other agents of the California CLASS shall be responsible for such monitoring or compliance.

Each Participant, by its investment in the Prime Fund, is certifying that it is legally authorized to make such investment. Participants should consult with their legal counsel and/or advisors regarding the legality of investment funds in the Prime Fund.

## Shares; Interests of Participants

The JPA Agreement provides that the beneficial interests of the Participants in the assets of the Prime Fund and the earnings thereon are divided into "Shares." "Shares" means the unit used to denominate and measure the respective pro rata beneficial interests of the Participants in a Fund within the California CLASS Investment Program, including the Prime Fund. As required by Section 6509.7 of the Act, each Share shall represent an equal proportionate interest in the Investment Property within a Fund, including the Prime Fund. The JPA Agreement provides that the number of Shares that may be used to measure and represent the proportionate allocation of beneficial interests among the Participants in a Fund, including the Prime Fund, is unlimited. All Shares in a Fund, including the Prime Fund, shall be of one class representing equal distribution, liquidation, and other rights. The beneficial interests measured by the Shares shall not entitle a Participant to preference, preemptive, appraisal, conversion, or exchange rights of any kind with respect to the California CLASS Investment Program or the Investment Property held in the applicable Fund, including the Prime Fund. Title to the Investment Property held in the applicable Fund, including the Prime Fund, of every description is vested in the California CLASS. The Participants shall have no interest in the Investment Property held in the applicable Fund, including the Prime Fund, other than the beneficial interests conferred hereby and measured by their Shares, and they shall have no right to call for any partition or division of any property, profits, rights, or interests of the California CLASS.

In its discretion, the California CLASS may from time to time allocate Shares in addition to the then allocated Shares to such Participant for such amount and such type of consideration (including without limitation income from the investment of Investment Property held in the applicable Fund, including the Prime Fund) at such time(s) (including without limitation each Business Day in accordance with the maintenance of a constant net asset value per Shares as set forth in the JPA Agreement for constant net asset value Funds, such as the Prime Fund), and on such terms as the California CLASS may deem best. In connection with any allocation of Shares, the California CLASS may allocate fractional Shares. From time to time, the California CLASS may adjust the total number of Shares allocated without thereby changing the proportionate beneficial interests in the Investment Property held in the applicable Fund, including the Prime Fund. Reductions or increases in the number of allocated Shares may be made in order to maintain a constant net asset value per Share for constant net asset value Funds, such as the Prime Fund. Shares shall be allocated and redeemed as one hundredths (1/100ths) of a Share or any multiple thereof.

## Investment Risks

Participants should specifically consider the following risks before deciding to invest in the Prime Fund. The following summary does not purport to be comprehensive or definitive of all risk factors.

Investing involves risks including the possible loss of principal.

**Interest Rate Risks**

The prices of the fixed-income securities in Prime Fund will rise and fall in response to changes in the interest rates paid by similar securities. Generally, when interest rates rise, prices of fixed-income securities fall. However, market factors, such as demand for particular fixed-income securities, may cause the price of certain fixed-income securities to fall while the price of other securities rise or remain unchanged. Interest rate changes have a greater effect on the price of fixed-income securities with longer maturities. The Investment Advisor will seek to manage this risk by purchasing short-term securities.

**Credit Risks**

Credit risk is the possibility that an issuer of a fixed-income security held in Prime Fund will default on the security by failing to pay interest or principal when due. If an issuer defaults, Participants in Prime Fund may incur losses. The Investment Advisor will seek to manage this risk by purchasing high quality securities as determined by one or more Nationally Recognized Statistical Ratings Organizations and/or the Investment Advisor's credit research team. The Investment Policy for the Prime Fund contains a description of the minimum credit quality for each category of eligible investment in the Prime Fund.

**Stable Net Asset Value Risks**

Although the Prime Fund is managed to maintain a stable NAV of $1.00 per Share, there is no guarantee that it will be able to do so.

**Investment Not Insured or Guaranteed**

An investment in California CLASS is neither insured nor guaranteed by the Federal Deposit Insurance Corporation or any other government agency.

**Liquidity Risk**

Prime Fund is subject to certain liquidity risks in which the size of a bond's market, the frequency of trades, the ease of valuation, and/or issue size may impact the Investment Advisor's ability to sell investments in a timely fashion or at or near fair value in order to fulfill a Participant's redemption request.

**Market Risk**

Market risk is the risk that the value of securities owned goes up or down, sometimes rapidly and/or unpredictably, due to factors affecting securities markets generally or within particular industries.

**Issuer Risk**

The risk that the value of a security declines for a reason directly related to the issuer such as management performance, financial leverage, and reduced demand for the issuer's goods or services.

**Default Risk**

The risk that a bond issuer (or counterparty) will default by failing to repay principal and interest in a timely manner.

## Board of Trustees

Pursuant to the JPA Agreement, the management of California CLASS is governed by a Board of Trustees (Board). The Board supervises the California CLASS and its affairs and acts as the liaison between the Participants, the Custodian, the Administrator, the Investment Advisor and all service providers.

CSDA and Cal Cities are sponsors of the California CLASS. The governing bodies of CSDA and Cal Cities each appoint two (2) Trustees who are either elected, appointed, or staff from a California CLASS Participant which is also a CSDA or Cal Cities member; or, staff from CSDA and Cal Cities. One seat on the Board shall be a Participant that is appointed by a majority vote of the Board.

Initially, the number of Trustees shall be five (5) voting Trustees. The Board may expand the membership of the Board and set initial terms for each additional Trustee. The Board approved the Investment Policy for the Prime Fund and may approve amendments to such Investment Policy from time to time. Upon the Board's approval of any amendment to the Investment Policy for the Prime Fund, the amended Investment Policy will be posted to the website of California CLASS.

See www.californiaclass.com for a description of the current Trustees and officers of the California CLASS.

## Investment Advisor & Administrator

Pursuant to an agreement with the California CLASS, Public Trust Advisors, LLC (Public Trust) serves as the Investment Advisor and Administrator for California CLASS Investment Program.

As Investment Advisor, Public Trust provides investment services to the California CLASS, including the Prime Fund. Public Trust is an investment advisory firm headquartered in Denver, Colorado with offices in Los Angeles, California. Public Trust is registered with the Securities and Exchange Commission as an investment advisor under the Investment Advisers Act of 1940.

As Administrator, Public Trust services all Participant accounts in the California CLASS Investment Program, including all Participant accounts in the Prime Fund, determines and allocates income of the California CLASS Investment Program, provides certain written confirmation of the investment and withdrawal of funds by Participants, provides administrative personnel and facilities to the California CLASS, determines the NAV of the Prime Fund on a daily basis, and performs all related administrative services for California CLASS. At least quarterly, the Administrator provides the Board with a detailed evaluation of the performance of the California CLASS Investment Program, including the Prime Fund, based upon a number of factors. This evaluation includes a comparative analysis of the investment results of the California CLASS Investment Program, including the Prime Fund, in relation to industry standards such as the performance of comparable money market mutual funds and various indexes of money market securities.

## Custodian

Pursuant to an agreement with the California CLASS, U.S. Bank, N.A. serves as Custodian for California CLASS Investment Program.

As Custodian, U.S. Bank, N.A. acts as directed custodian for the California CLASS Investment Program, including the Prime Fund, and serves, in accordance with California law, as the depository in connection with the direct investment and withdrawal mechanisms of California CLASS Investment Program. U.S. Bank, N.A. does not participate in the investment decision making process of the California CLASS Investment Program.

The Custodian shall hold the Investment Property (excluding cash, which is not held by the Custodian), in its capacity as Custodian on behalf of California CLASS. Such Investment Property shall be custodial property of the Custodian and shall not be, or be deemed to be, an asset of the Custodian.

Within fifteen (15) days after the end of each month, the Custodian shall send statements providing the closing balance in the Account at the end of such month and the transactions performed in the Account during such month to the Administrator and the California CLASS.

## Independent Auditors

An independent certified public accounting firm, Cohen & Co. has been engaged to audit the annual financial statements of the California CLASS. The audit will contain statements of assets and liabilities, of operations, and of changes in net assets. The opinion of the independent certified public accountant on such financial statements is based on an examination of the books and records of California CLASS made in accordance with generally accepted accounting principles (GAAP). The fiscal year of the California CLASS ends each March 31.

## How to Become a Participant

See "Eligible Shareholder" to determine if you are eligible to be a Participant in the California CLASS Investment Program. Any prospective Participants seeking to purchase Shares in the Prime Fund should review the JPA Agreement, this Information Statement for the Prime Fund, and the Investment Policy for the Prime Fund and then simply complete the California CLASS Registration Packet found in the document center of the California CLASS website (located in the Document Center at www.californiaclass.com). Please email all completed forms to clientservices@californiaclass.com.

There is no limit on the number of subaccounts that can be opened by a Participant. The Administrator will notify the prospective Participant of its approval of the Registration Forms and the account number(s) assigned. The Administrator reserves the right to reject any Registration in its discretion. Investment in the Prime Fund may be effectuated through the California CLASS Participant Portal. Secure online access will be available to Participants with respect to their accounts. Information with respect to the Prime Fund, including daily yield, up-to-date account information, and a transaction history will be available online. Confirmations of each contribution (purchase of Shares) and withdrawal (redemption of Shares) of funds will be available online to a Participant within one business day of the transaction.

## Purchase of Shares; Investments

Payments by the Participant to the California CLASS, and the crediting of Shares resulting therefrom, are referred to herein as "contributions" for convenience. Participants may purchase Shares in the Prime Fund by Automated Clearing House (ACH) transfer or wire transfer from the Participant to the Custodian, as described in the Investment Procedures set forth below. The California CLASS does not charge a fee for receipt of wire contributions. However, a Participant's bank may charge a fee for wiring funds.

There is no maximum or minimum amount that must be invested in the Prime Fund nor is there any maximum or minimum limitations on the aggregate amount of the investment funds that any Participant may have invested at any one time with California CLASS.

**Investment Procedures**

1. The Participant shall provide notice via the Participant Transaction Portal to the Administrator indicating the amount to be invested in the Prime Fund and indicating which Account of the Prime Fund the investment is to be made. The Participant shall instruct its bank depository to wire or electronically transfer Investment Funds to the applicable Account at the Custodian for the purchase of investments to be held by the Custodian in such Account.

2. The Administrator shall receive the notice described in (1) from the Participant.

3. Investments received by the Custodian by 11:00 a.m. PT will be used to purchase Shares in the Prime Fund.

4. If Investment Funds for which notification of investment has been given are not received by the end of the business day on which such notification is given, the Administrator shall deduct the value of such Investment Funds (including any earning income) from the Participant's balance if previously credited.

5. The Participant is prohibited from requesting payments from amounts credited to its balance in the Prime Fund until such Investment Funds are received by the Custodian from the Participant.

These Investment Procedures may be amended from time-to-time pursuant to the JPA Agreement provided, however, the Administrator will only change the times set forth above after consulting with the Custodian.

## Redemptions of Shares; Withdrawals; Transfers

Payments by the California CLASS to Participants, and the reduction of Shares resulting therefrom, are referred to herein as "redemptions" for convenience. Redemptions of Shares from the Prime Fund may be made via ACH or wire transfer from the Custodian to the Participant, as described in the Payment Procedures set forth below. Shares in the Prime Fund will be redeemed in the amount of the withdrawal assuming a NAV of $1.00 per Share.

There is no maximum or minimum amount that must be invested in the Prime Fund nor is there any maximum or minimum limitations on the aggregate amount of the investment funds that any Participant may have invested at any one time with California CLASS.

Each Participant, by its investment in any Fund, including the Prime Fund, agrees that the California CLASS may temporarily suspend the right of redemption or postpone the date of payment for redeemed Shares for the whole or any part of any period: (i) during which trading in securities generally on the New York Stock Exchange or the American Stock Exchange or over-the-counter market shall have been suspended or minimum prices or maximum daily charges shall have been established on such exchange or market; (ii) if a general banking moratorium shall have been declared by Federal, state, or the State of New York or State of California authorities or during a suspension of payments by banks in the State of California; (iii) during which there shall have occurred any state of war or national emergency; (iv) during which any financial emergency or other crisis the effect of which on the financial markets of the United States is such as to make it impracticable (a) to dispose of the Investment Property because of the substantial losses that might be incurred or (b) to determine the Investment Property Value in accordance with the Valuation Procedures. The Administrator shall determine, on behalf of California CLASS, when an event occurs that would entitle the Custodian to temporarily suspend or postpone a Participant's right of redemption. Participants should refer to the JPA Agreement for additional detail.

Transfers among the Prime Fund and another Fund within the California CLASS Investment Program will be considered a withdrawal from one Fund and a contribution to another subject to the requirements described in this Information Statement.

**Payment Procedures**

1. The Participant shall provide instruction via the Participant Transaction Portal to the Administrator indicating the amount requested to be paid (redeemed) and shall specify from which Account of the Prime Fund the payment is to be made.

2. The instructions will include the payee of the amount requested, which may be the Participant, and include any wire, electronic transfer, or other payment instructions. Such payee must be listed on the

list of approved payees that has been provided by the Participant to the Administrator in advance of the payment.

3. The Administrator shall receive the notice described in (1) and the information required in (2) from the Participant. Requests for redemptions from Accounts of the Prime Fund with pre-established wire instructions will be honored on a same-day basis if received by the Administrator prior to 11:00 a.m. PT. Special wire transfer requests are available only with written documentation.

4. The Participant may only request payments of that portion of its balance that represents Investment Funds and its proportional share of the income from the Investment Property that, in all cases, is actually held by the Custodian in the applicable Account in the Prime Fund.

These Payment Procedures may be amended from time-to-time pursuant to the JPA Agreement provided, however, that the Administrator will only change the times set forth above after consulting with the Custodian.

## Portfolio Transactions

Subject to the general supervision of the California CLASS, the Investment Advisor is responsible for placing the orders for the purchase and sale of securities within the Prime Fund, referred to herein as "portfolio transactions" for convenience. The portfolio transactions within the California CLASS Investment Program, including the Prime Fund, occur only with broker dealers acting as principals except for commercial paper transactions that may be placed directly with the issuers. Although California CLASS does not ordinarily seek but nonetheless may make profits through short-term trading, the Investment Advisor may, on behalf of the California CLASS, dispose of any portfolio investment prior to its maturity if such disposition is advisable. The weighted average maturity and weighted average life limits applicable to the Prime Fund is expected to result in high portfolio turnover. However, since brokerage commissions are not typically paid on the types of investments in which the Prime Fund is likely to invest, any turnover resulting from such investments should not adversely affect the NAV of the Prime Fund.

The Investment Advisor seeks to obtain the best net price and the most favorable execution of portfolio transactions. Portfolio transactions will not occur between the Investment Advisor and Administrator, the Custodian, any Trustee, or any affiliate, officer, director, employee, or agent of any of them.

## Valuation of Prime Fund Shares

The Administrator determines the NAV of the Shares of the Prime Fund at least daily on a mark-to-market basis. The NAV per Share of the Prime Fund is computed by dividing the total value of the securities and other assets of the Prime Fund, less any liabilities, by the total outstanding Shares of the

Prime Fund. Expenses and fees of the California CLASS accrue daily and are included within liabilities for the NAV calculation.

The result of this calculation is a share value rounded to the nearest penny. Accordingly, the price at which Shares of the Prime Fund are sold and redeemed will not reflect unrealized gains or losses on securities within the Prime Fund that amount to less than $.005 per Share. The Administrator will endeavor to minimize the amount of such gains or losses. However, if unrealized gains or losses on securities within the Prime Fund should exceed $.005 per Share, the Prime Fund's NAV per Share will change from $1.00 or be maintained at $1.00 per Share by retention of earnings or the reduction on a pro rata basis of each Participant's Shares in the Prime Fund in the event of losses or by a pro rata distribution to each Participant in the event of gains.

While it is a fundamental objective of the Prime Fund to maintain a NAV of $1.00 per Share, there can be no guarantee that the NAV will not deviate from $1.00 per Share. The NAV per Share of the Prime Fund may be affected by general changes in interest rates resulting in increases or decreases in the value of the securities in the Prime Fund**.** The fair market value of the Prime Fund's securities will vary inversely to changes in prevailing interest rates. If a security is held to maturity, no loss or gain is normally realized as a result of these fluctuations.

**1. Portfolio Valuation**

At least daily, the Investment Property Value within the Prime Fund shall be determined on a mark-to-market basis as follows: (a) securities for which market quotations are readily available are valued at the most recent bid price or yield equivalent as obtained from one or more market makers for such securities or a third-party pricing source; (2) all other securities and assets are valued at fair market value in good faith.

**2. Amendment**

These Valuation Procedures may be amended from time-to-time pursuant to the JPA Agreement.

## Use of Fair Value Measurement

California CLASS follows Financial Accounting Standards Board (FASB) Accounting Standards Topic (ASC) 820 *Fair Value Measurement and Disclosure* for financial reporting purposes. ASC 820 defines fair value, establishes a single framework for measuring fair value, and requires disclosures about fair value measurement.

Local government investment pools (LGIP) may select different methods of determining the value of assets held within the portfolio for reporting purposes. The two most common methods used to report on the assets of the portfolio are mark-to-market—frequently referred to as "fair value" or "fair market value"—and amortized cost. California CLASS utilizes the mark-to-market methodology. This involves obtaining prices for securities in the portfolio every business day. The mark-to-market methodology provides Participants with a high degree of transparency with respect to the underlying market values of the Prime Fund's securities.

The mark-to-market methodology (FASB) can and should be contrasted with the amortized cost method that some LGIPs utilize. LGIPs that follow GASB 79 are following the amortized cost method, which entails adjusting the value of the portfolio's securities on a daily basis by a predetermined amount from the purchase date to the maturity date. While the amortized cost method produces very reliable and predictable asset valuations, that predetermined value may or may not accurately reflect the market value of the security.

## Computation of Yields

A daily and seven-day average yield for the Prime Fund will be provided by the Administrator in published reports and information on www.californiaclass.com. To obtain the daily yield, a daily income distribution per share factor is first calculated. That factor is the net income for that day divided by the number of settled shares outstanding. The factor is then multiplied by 365 (366 in a leap year) to produce the daily yield. The seven-day average yield is obtained by averaging the daily yield for seven identified, consecutive days. From time-to-time, the Administrator may also quote the yield for the Prime Fund on other basis for the information of the Participants.

Participants should note that the yields quoted should not be considered a representation of the future yield of the Prime Fund since the yield is not fixed. Actual yields for the Prime Fund will depend not only on the type, quality, and maturities of the investments held by the Prime Fund and the changes in interest rates for such investments but also on changes in the Prime Fund's expenses during the period.

Yield information may be useful in reviewing the performance of the Prime Fund and for providing a basis for comparison with other investment alternatives.

## Income Allocations

All net income of the Prime Fund is determined as of the close of business each day (and at such other times as the Board may determine) and is credited pro rata to each Participant's Account within the Prime Fund at month-end. The Prime Fund accrues net income on a daily basis and pays interest income on a monthly basis.

Net income that has thus accrued to the Participants is converted as of the close of business at month-end into additional Shares that are thereafter held in each Participant's account. Reinvested net income is converted into full and fractional shares at the rate of one share for each one dollar credited. Net income for the Prime Fund consists of (1) all accrued interest income on assets of the Prime Fund plus (2) accretion of discount less (3) amortization of premium and less (4) accrued expenses.

## Retained Reserves

Pursuant to the JPA Agreement, the Investment Advisor may retain from earnings and profits in the California CLASS Investment Program, including the Prime Fund, amounts deemed necessary to pay the debts and expenses of the California CLASS, as well as to meet other obligations of the California CLASS. The Investment Advisor possesses the power to establish from earnings and profits such reasonable reserves as they believe may be necessary or desirable. Realized capital gains or losses shall be distributed in a timely and equitable manner as determined by the Investment Advisor. More information about retained reserves is available in the JPA Agreement, including the detailed accounting that the Investment Advisor provides to the Board on a quarterly basis on amounts deemed necessary or desirable by the Investment Advisor for retained reserves.

## California CLASS Expenses

Pursuant to the JPA Agreement, Public Trust Advisors, as Administrator, for the California CLASS Investment Program, including the Prime Fund, shall receive a fee as described below in "California CLASS Fees." The Administrator's fee shall be an Investment Property Liability. From its fee, the Administrator shall pay the following costs and expenses: the Investment Advisor's fee set forth in the Investment Advisor Agreement, the Custodian's fee set forth in the Custody Agreement, the costs of third parties retained by the Administrator to render investment advice pursuant to the Administrator Agreement, the fees to the Sponsors, marketing expenses, all custodial and securities clearance transaction charges, the cost of valuing the Investment Property, the cost of obtaining a rating or ratings, if any, the cost of other expenses agreed to by the Administrator and the California CLASS, all Investment Property record-keeping expenses, the cost of preparing monthly and annual reports, the expense of outside auditors required pursuant to the Administrator Agreement (but only if the Administrator selects such auditors), the fees of the counsel to the Administrator and/or the counsel to the California CLASS, the cost of Meetings of the Board, insurance costs and the costs of Participant surveys and mailings. Periodically, the Administrator shall provide a detailed accounting of such expenses to the Trustees.

## California CLASS Fees

For the performance of its obligations as Administrator in the Administrator Agreement, the Administrator will charge a fee from the Investment Property Value (the daily fee). This daily fee will accrue on a daily basis and be paid monthly in arrears and prorated for any portion of the month in which the Administrator Agreement is in effect. The daily fee shall be calculated as follows: the Investment Property Value is multiplied by the applicable fee rate and is divided by 365 or 366 days in the event of a leap year to equal the daily fee accrual. The Investment Property Value shall be based on the prior day's net assets. For weekend days and holidays, the net assets for the previous business day will be utilized for the calculation of fees. The applicable fee rate shall be determined by the Administrator monthly on the first business day of each month and shall be at an annual rate equal to up to fifteen (15) basis points. The Administrator is authorized to debit the applicable monthly fee amount within five (5) business days after the end of such month. All payment records and invoices will be presented at each subsequent meeting of the Board. Fees may be waived or abated at any time, or from time-to-time, at the sole discretion of the Administrator. Any such waived fees may be restored by the written agreement of the California CLASS.

## Reports to Participants

### Annually

Audited financial statements of the California CLASS will be provided annually. See "Independent Auditors" above.

### Monthly

Within 15 days after the end of each month, the Administrator shall prepare and submit, or make available, to each Participant a statement disclosing any activity and a closing balance, including the number of Shares, in each of its accounts for such month.

### Upon Request

The Administrator, upon the request of a Participant, shall furnish to the Participant a statement of such Participant's balance as of the date of such request subject only to account activity on such date.

Past performance is no guarantee of future results. Any financial and/or investment decision may incur losses. Many factors affect performance including changes in market conditions and interest rates and in response to other economic, political, or financial developments. Investment involves risk including the possible loss of principal. No assurance can be given that the performance objectives of a given strategy will be achieved. California CLASS is not a bank. An investment in California CLASS is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the Prime Fund seeks to preserve the value of your investment at $1.00 per Share, it cannot guarantee it will do so. A 'AAAm' rating by S&P Global Ratings is obtained after S&P evaluates a number of factors including credit quality, market price exposure, and management. Ratings are subject to change and do not remove market risk. Registration with the SEC does not imply a certain level of skill or training. External audits may not catch all instances of accounting errors and do not provide an absolute guarantee of accuracy.

07/23 Managed by Public Trust Advisors, LLC

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California CLASS

California CLASS

# Enhanced Cash Fund Information Statement

January 2024

## Introduction

The purpose of this Information Statement for the California CLASS Enhanced Cash Fund (Enhanced Cash Fund) is to provide information to Participants (as defined herein) in connection with the purchase of Shares (as defined herein) in the Enhanced Cash Fund. This Information Statement for the Enhanced Cash Fund describes certain provisions of the JPA Agreement (as defined herein) for the California CLASS and the Investment Policy for the Enhanced Cash Fund. Participants interested in the purchase of Shares in the Enhanced Cash Fund should review the full terms of the JPA Agreement (located in the Document Center at www.californiaclass.com) and the Investment Policy for the Enhanced Cash Fund described herein (located in the Document Center at www.californiaclass.com), each of which are incorporated herein by reference. Capitalized terms not otherwise defined herein shall have the meanings set forth in the JPA Agreement.

The contents of this Information Statement should not be considered to be legal, tax, or investment advice, and Participants should consult with their own counsel and advisers as to all matters concerning investment in the Enhanced Cash Fund.

## California CLASS Enhanced Cash Fund Summary

The California Cooperative Liquid Assets Securities System, doing business as the California CLASS, is a California joint powers authority created pursuant to Title 1, Division 7, Chapter 5 of the California Government Code (commencing with Section 6500), known as the Joint Exercise of Powers Act (Act) and the JPA Agreement referenced below.

The Act provides that two or more public agencies (as defined herein, Public Agencies) that have the authority to invest funds in their treasuries may, by agreement, jointly exercise that common power and create a joint powers authority separate from such Public Agencies to exercise such common power and to act as administrator of the agreement. Under this authority, California CLASS was created pursuant to a Joint Exercise of Powers Agreement (JPA Agreement) dated as of June 6, 2022, between the Founding Participants (as defined in the JPA Agreement).

The Act authorizes a joint powers authority, such as California CLASS, to issue shares of beneficial interest in authorized investments to participating Public Agencies (collectively referred to herein, as Participants and individually, as a Participant). See "Eligible Shareholders." The JPA Agreement sets forth the terms of the investment program known as California CLASS Investment Program, including the establishment of Funds in which Participants purchase shares of beneficial interest issued by California CLASS in authorized investments that are owned by California CLASS. The Enhanced Cash Fund is one of the initial Funds established by the California CLASS.

The purpose of the California CLASS is to consolidate investment activities of the Participants and thereby reduce duplication, take advantage of economies of scale and perform governmental functions more efficiently through the California CLASS Investment Program.

As a joint powers authority, California CLASS provides a professionally managed pooled investment program for Participants. See "Investment Advisor & Administrator." Pursuant to the JPA Agreement, California CLASS is governed by a Board of Trustees and is sponsored by the California Special Districts Association (CSDA) and the League of California Cities (Cal Cities and together with CSDA, the Sponsors). See "Board of Trustees."

The Shares in the California CLASS Enhanced Cash Fund have not been, and are not required to be, registered under any federal or state securities law. The California CLASS has not been, and is not required to be, registered under the Investment Company Act of 1940, as amended. Accordingly, the California CLASS and its Enhanced Cash Fund are not subject to the provisions of that Act, including the protective rules relating to registered money market funds and other types of mutual funds.

## Enhanced Cash Fund Investment Objectives

California CLASS provides a professionally managed pooled investment program for Participants. The general objective of the Enhanced Cash Fund is to generate additional investment income for the Participants while maintaining safety and liquidity. The Enhanced Cash Fund seeks to outperform the yields generated by the Prime Fund by taking modest interest rate and liquidity risk and maintaining similar credit risk while preserving capital by investing only in securities that comply with the requirements of California law, specifically California Government Code Section 53601. The Enhanced Cash Fund is a slightly longer-term investment option with a floating net asset value that will typically maintain a weighted average maturity between six (6) months to one and a quarter (1.25) years.

**The Enhanced Cash Fund does not seek to maintain a stable Net Asset Value (NAV) and is not suitable for daily liquidity needs**. It will establish a $10.00 transactional share price and will calculate and publish a fair value NAV daily. The principal value of an Enhanced Cash Fund investment may fluctuate and could be greater or less than $10.00 per share at time of purchase, prior to redemption, and at the time of redemption. The Enhanced Cash Fund is designed to complement the daily liquidity of the Prime Fund and is suitable for public agency funds that possess a longer time horizon, such as strategic and core reserves and non-operating dollars that a public agency would not anticipate needing to unexpectedly withdraw. Generally speaking, funds that can be invested for twelve (12) months and longer are most appropriate for the Enhanced Cash Fund.

The Investment Policy created by the California CLASS for the Enhanced Cash Fund establishes the objectives, policies and restrictions that are designed to facilitate the achievement of these objectives. The Investment Advisor for the Enhanced Cash Fund will seek to maintain a 'AAAf/S1' rating from FitchRatings. The 'AAAf' rating is Fitch's opinion on the overall credit profile within a fixed-income fund/portfolio and indicates the highest underlying credit quality of the investments. The ‘S1’ volatility rating is Fitch’s opinion on the relative sensitivity of a portfolio’s total return and/or net asset value to assumed changes in credit spreads and interest rates. The ‘S1’ volatility rating indicates that the fund possesses a low sensitivity to market risks. This rating is neither a market rating nor a specific recommendation to buy or sell a security. Ratings are subject to change and do not remove credit risk. According to FitchRatings, a fund rated ‘AAAf/S1’ demonstrates the highest underlying credit quality (or lowest vulnerability to default) and a very low sensitivity to market risk.

The investment objectives of the Enhanced Cash Fund in order of priority are:

**Safety**: The Enhanced Cash Fund is managed to emphasize the preservation of principal and approximate a $10.00 transactional share price. Changes in interest rates can and will interact with the Enhanced Cash Fund’s weighted average maturity and duration characteristics to effectuate an increase or decrease in the NAV. Similar to any fixed income security’s price being inversely related to yields, when interest rates increase the NAV can decrease, and when interest rates decrease the NAV can increase.

**Liquidity:** The Enhanced Cash Fund is managed to provide next-day liquidity to its Participants.

**Competitive Returns:** The next-day Enhanced Cash Fund is managed to generate higher interest income than the daily liquid Prime Fund.

No assurances can be given that the investment objectives of the Enhanced Cash Fund will be achieved. The Enhanced Cash Fund introduces the possibility of reporting a realized or unrealized gain or loss.

## Transparency

The California CLASS seeks to provide transparency to Participants in the Enhanced Cash Fund by allowing Participants to readily obtain portfolio and account information. The California CLASS will offer dedicated Participant support with an easy-to-use technology platform. Historical and current performance data, Net Asset Value, WAM, and WAL are published and available to Participants on the California CLASS website. Portfolio holdings are published quarterly and are available to Participants through the California CLASS Client Services team on an as-needed basis. Participant breakdowns and expense ratios are also published and available to Participants on the California CLASS website on a quarterly basis.

## Eligible Shareholders

Any Public Agency that has the authority to invest funds in its treasury in statutorily permitted investments, including but not limited to Section 53601 of the California Government Code, and meets the requirements described in the next paragraph is eligible to become a Participant of the California CLASS Investment Program and is eligible to purchase shares in the Enhanced Cash Fund.

Each Participant must be a “Public Agency”, as that term is defined in Section 6509.7 of the Act, which, as of the date of this Information Statement, is defined as "the federal government or any federal department or agency, this state, another state or any state department or agency, a county, county board of education, county superintendent of schools, city, public corporation, public district, or regional transportation commission of the State of California or another state, a federally recognized Indian tribe, or any joint powers authority formed pursuant to this article by any of these agencies," and includes "a nonprofit corporation whose membership is confined to public agencies or public officials." Each Participant must also be a political subdivision of a state, or an agency, authority, or instrumentality of the United States, a state of any political subdivision of a state.

## Enhanced Cash Fund Eligible Investments

Funds in the Enhanced Cash Fund are required to be invested by the Investment Advisor in investments permitted by California law, specifically California Government Code Section 53601, and will be made in accordance with the Investment Policy established by the California CLASS for the Enhanced Cash Fund. As required by California law, funds in the Enhanced Cash Fund will be invested by the Investment Advisor in accordance with the prudent investor standard of the California Government Code.

While the Investment Policy established by the California CLASS for the Enhanced Cash Fund covers the eligible investments and their maximum maturity, maximum portfolio allocation, maximum per issuer allocation and minimum credit quality in greater detail, the following types of investments are eligible for inclusion in the Enhanced Cash Fund:

- U.S. Government and agency obligations
- Repurchase agreements collateralized by U.S. Government and agency obligations
- Registered warrants or treasury notes of the state of California
- Bonds, notes, warrants, or other obligations of a local agency in the state of California
- Registered treasury notes or bonds of any of the other 49 states
- Bankers’ acceptances
- Prime commercial paper and asset-backed commercial paper
- Negotiable certificates of deposit
- Corporate notes
- Asset-backed securities
- U.S. dollar denominated senior unsecured obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation or Inter-American Development Bank
- Money market mutual funds

The Investment Policy for the Enhanced Cash Fund also contains certain investment restrictions on investments in the Enhanced Cash Fund.

As set forth in Section 53601 of the California Government Code, 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 money that it deems wise or expedient in the investments described in Section 53601. However, the California Government Code limits the amount of surplus money of a local agency that may be invested in such investments. Each Participant is responsible for monitoring the aggregate amount of its investments in any of these types of investments to ensure its own compliance with the California Government Code. None of the California CLASS, the Administrator, the Investment Advisor, the Custodian or any other agents of the California CLASS shall be responsible for such monitoring or compliance.

Each Participant, by its investment in the Enhanced Cash Fund, is certifying that it is legally authorized to make such investment. Participants should consult with their legal counsel and/or advisors regarding the legality of investment funds in the Enhanced Cash Fund.

## Shares; Interests of Participants

The JPA Agreement provides that the beneficial interests of the Participants in the assets of the Enhanced Cash Fund and the earnings thereon are divided into "Shares." "Shares" means the unit used to denominate and measure the respective pro rata beneficial interests of the Participants in a Fund within the California CLASS Investment Program, including the Enhanced Cash Fund. As required by Section 6509.7 of the Act, each Share shall represent an equal proportionate interest in the Investment Property within a Fund, including the Enhanced Cash Fund. The JPA Agreement provides that the number of Shares that may be used to measure and represent the proportionate allocation of beneficial interests among the Participants in a Fund, including the Enhanced Cash Fund, is unlimited. All Shares in a Fund, including the Enhanced Cash Fund, shall be of one class representing equal distribution, liquidation, and other rights. The beneficial interests measured by the Shares shall not entitle a Participant to preference, preemptive, appraisal, conversion, or exchange rights of any kind with respect to the California CLASS Investment Program or the Investment Property held in the applicable Fund, including the Enhanced Cash Fund. Title to the Investment Property held in the applicable Fund, including the Enhanced Cash Fund, of every description is vested in the California CLASS. The Participants shall have no interest in the Investment Property held in the applicable Fund, including the Enhanced Cash Fund, other than the beneficial interests conferred hereby and measured by their Shares, and they shall have no right to call for any partition or division of any property, profits, rights, or interests of the California CLASS.

In its discretion, the California CLASS may from time to time allocate Shares in addition to the then allocated Shares to such Participant for such amount and such type of consideration (including without limitation income from the investment of Investment Property held in the applicable Fund, including the Enhanced Cash Fund) at such time(s) and on such terms as the California CLASS may deem best. In connection with any allocation of Shares, the California CLASS may allocate fractional Shares. From time to time, the California CLASS may adjust the total number of Shares allocated without thereby changing the proportionate beneficial interests in the Investment Property held in the applicable Fund, including the Enhanced Cash Fund. Shares shall be allocated and redeemed as one hundredths (1/100ths) of a Share or any multiple thereof.

# Investment Risks

Participants should specifically consider the following risks before deciding to purchase Shares of the Enhanced Cash Fund. The following summary does not purport to be comprehensive or definitive of all risk factors.

The prices of the fixed-income securities in the fund will rise and fall in response to changes in the interest rates paid by similar securities. Generally, when interest rates rise, prices of fixed-income securities fall. However, market factors, such as demand for particular fixed-income securities, may cause the price of certain fixed-income securities to fall while the price of other securities rise or remain unchanged. Interest rate changes have a greater effect on the price of fixed-income securities with longer maturities. The Investment Advisor will seek to manage this risk by purchasing short-term securities.

## Interest Rate Risks

The prices of the fixed-income securities in the Enhanced Cash Fund will rise and fall in response to changes in the interest rates paid by similar securities. Generally, when interest rates rise, prices of fixed-income securities fall. However, market factors, such as demand for particular fixed-income securities, may cause the price of certain fixed-income securities to fall while the price of other securities rise or remain unchanged. Interest rate changes have a greater effect on the price of fixed-income securities with longer maturities.

## Credit Risks

Credit risk is the possibility that an issuer of a fixed-income security held in the Enhanced Cash Fund will default on the security by failing to pay interest or principal when due. If an issuer defaults, Participants in the Enhanced Cash Fund will lose money. The Investment Advisor will seek to manage this risk by purchasing high-quality securities as determined by one or more Nationally Recognized Statistical Ratings Organizations and/or the Investment Advisor's credit research team. The Investment Policy for the Enhanced Cash Fund contains a description of the minimum credit quality for each category of eligible investment in the Enhanced Cash Fund.

## Net Asset Value Risks

Although the Enhanced Cash Fund is managed to approximate a $10.00 transactional share price, there is no guarantee that it will be able to do so.

## Investment Not Insured or Guaranteed

An investment in the Enhanced Cash Fund is neither insured nor guaranteed by the Federal Deposit Insurance Corporation or any other government agency.

### Liquidity Risk

California CLASS is subject to certain liquidity risks in which the size of a bond's market, the frequency of trades, the ease of valuation, and/or issue size may impact the Investment Advisor's ability to sell investments in a timely fashion or at or near fair value in order to fulfill a Participant's redemption request.

### Market Risk

Market risk is the risk that the value of securities owned goes up or down, sometimes rapidly and/or unpredictably, due to factors affecting securities markets generally or within particular industries.

### Default Risk

The risk that a bond issuer (or counterparty) will default by failing to repay principal and interest in a timely manner.

### Issuer Risk

The risk that the value of a security declines for a reason directly related to the issuer such as management performance, financial leverage, and reduced demand for the issuer's goods or services.

### Fluctuating Net Asset Value (NAV) Risk

Because the share price of a variable net asset value fund will fluctuate, when you sell your shares, they may be worth more or less than what you originally paid for them.

## Board of Trustees

Pursuant to the JPA Agreement, the management of California CLASS is governed by a Board of Trustees (Board). The Board supervises the California CLASS and its affairs and acts as the liaison between the Participants, the Custodian, the Administrator, the Investment Advisor and all service providers.

CSDA and Cal Cities are sponsors of the California CLASS. The governing bodies of CSDA and Cal Cities each appoint two (2) Trustees who are either elected, appointed, or staff from a California CLASS Participant which is also a CSDA or Cal Cities member; or, staff from CSDA and Cal Cities. One seat on the Board shall be a Participant that is appointed by a majority vote of the Board.

Initially, the number of Trustees shall be five (5) voting Trustees. The Board may expand the membership of the Board and set initial terms for each additional Trustee. The Board approved the Investment Policy for the Enhanced Cash Fund and may approve amendments to such Investment Policy from time to time. Upon the Board's approval of any amendment to the Investment Policy for the Enhanced Cash Fund, the amended Investment Policy will be posted to the website of California CLASS.

See www.californiaclass.com for a description of the current Trustees and officers of the California CLASS.

## Investment Advisor & Administrator

Pursuant to an agreement with the California CLASS, Public Trust Advisors, LLC (Public Trust) serves as the Investment Advisor and Administrator for California CLASS Investment Program.

As Investment Advisor, Public Trust provides investment services to the California CLASS, including the Enhanced Cash Fund. Public Trust is an investment advisory firm headquartered in Denver, Colorado with offices in Los Angeles, California. Public Trust is registered with the Securities and Exchange Commission as an investment advisor under the Investment Advisers Act of 1940.

As Administrator, Public Trust services all Participant accounts in the California CLASS Investment Program, including all Participant accounts in the Enhanced Cash Fund, determines and allocates income of the California CLASS Investment Program, provides certain written confirmation of the investment and withdrawal of funds by Participants, provides administrative personnel and facilities to the California CLASS, determines the NAV of the Enhanced Cash Fund on a daily basis, and performs all related administrative services for California CLASS. At least quarterly, the Administrator provides the Board with a detailed evaluation of the performance of the California CLASS Investment Program, including the Enhanced Cash Fund, based upon a number of factors. This evaluation includes a comparative analysis of the investment results of the California CLASS Investment Program, including the Enhanced Cash Fund, in relation to industry standards such as the performance of comparable money market mutual funds and various indexes of money market securities.

## Custodian

Pursuant to an agreement with the California CLASS, U.S. Bank, N.A. serves as Custodian for California CLASS Investment Program.

As Custodian, U.S. Bank, N.A. acts as directed custodian for the California CLASS Investment Program, including the Enhanced Cash Fund, and serves, in accordance with California law, as the depository in connection with the direct investment and withdrawal mechanisms of California CLASS Investment Program. U.S. Bank, N.A. does not participate in the investment decision making process of the California CLASS Investment Program.

The Custodian shall hold the Investment Property (excluding cash, which is not held by the Custodian), in its capacity as Custodian on behalf of California CLASS. Such Investment Property shall be custodial property of the Custodian and shall not be, or be deemed to be, an asset of the Custodian.

Within fifteen (15) days after the end of each month, the Custodian shall send statements providing the closing balance in the Account at the end of such month and the transactions performed in the Account during such month to the Administrator and the California CLASS.

## Independent Auditors

An independent certified public accounting firm, Cohen & Co., has been engaged to audit the annual financial statements of the California CLASS. The audit will contain statements of assets and liabilities, of operations, and of changes in net assets. The opinion of the independent certified public accountant on such financial statements is based on an examination of the books and records of California CLASS made in accordance with generally accepted accounting principles (GAAP). The fiscal year of the California CLASS ends each March 31.

## How to Become a Participant

See "Eligible Shareholder" to determine if you are eligible to be a Participant in the California CLASS Investment Program. Any prospective Participants seeking to purchase Shares in the Enhanced Cash Fund should review the JPA Agreement, this Information Statement for the Enhanced Cash Fund, and the Investment Policy for the Enhanced Cash Fund and then simply complete the California CLASS Registration Packet found in the document center of the California CLASS website (located in the Document Center at www.californiaclass.com). Please email all completed forms to clientservices@californiaclass.com.

There is no limit on the number of subaccounts that can be opened by a Participant. The Administrator will notify the prospective Participant of its approval of the Registration Forms and the account number(s) assigned. The Administrator reserves the right to reject any Registration in its discretion. Investment in the Enhanced Cash Fund may be effectuated through the California CLASS Participant Portal. Secure online access will be available to Participants with respect to their accounts. Information with respect to the Enhanced Cash Fund, including daily yield, up-to-date account information, and a transaction history will be available online. Confirmations of each contribution (purchase of Shares) and withdrawal (redemption of Shares) of funds will be available online to a Participant within one business day of the transaction.

## Purchase of Shares; Investments

Payments by the Participant to the California CLASS, and the crediting of Shares resulting therefrom, are referred to herein as "contributions" for convenience. Participants may purchase Shares in the Enhanced Cash Fund by Automated Clearing House (ACH) transfer or wire transfer from the Participant to the Custodian, as described in the Investment Procedures set forth below. The California CLASS does not charge a fee for receipt of wire contributions. However, a Participant's bank may charge a fee for wiring funds.

There is no maximum or minimum amount that must be invested in the Enhanced Cash Fund nor is there any maximum or minimum limitations on the aggregate amount of the investment funds that any Participant may have invested at any one time with California CLASS.

**Investment Procedures**

1. The Participant shall provide a recorded call or send a written notice to the Administrator indicating the amount to be invested in the Enhanced Cash Fund and indicating which Account of the Enhanced Cash Fund the investment is to be made. The Participant shall instruct its bank depository to wire or electronically transfer Investment Funds to the applicable Account at the Custodian for the purchase of investments to be held by the Custodian in such Account.

2. The Administrator shall receive the notice described in (1) from the Participant.

3. Investments received by the Custodian by 11:00 a.m. PT will be used to purchase Shares in the Enhanced Cash Fund.

4. If Investment Funds for which notification of investment has been given are not received by the end of the business day on which such notification is given, the Administrator shall deduct the value of such Investment Funds (including any earning income) from the Participant's balance if previously credited.

5. The Participant is prohibited from requesting payments from amounts credited to its balance in the Enhanced Cash Fund until such Investment Funds are received by the Custodian from the Participant.

These Investment Procedures may be amended from time-to-time pursuant to the JPA Agreement provided, however, the Administrator will only change the times set forth above after consulting with the Custodian.

## Redemptions of Shares; Withdrawals; Transfers

Payments by the California CLASS to Participants, and the reduction of Shares resulting therefrom, are referred to herein as “redemptions” for convenience. The Enhanced Cash Fund offers Participants next-day liquidity. Redemptions are unlimited and met on a transaction date plus one (1) business days’ basis. Funds are distributed from the Enhanced Cash Fund to the account designated by the Participant one business day after the requested transaction date. The cutoff time for redemptions is 11:00 a.m. PT.

Redemptions of Shares from the Enhanced Cash Fund may be made via wire transfer from the Custodian to the Participant, as described in the Payment Procedures set forth below. The NAV on the transaction date will be used to calculate the amount of the payment to the Participant in addition to the net income that has accrued on the redeemed shares.

There is no maximum or minimum amount that must be invested in the Enhanced Cash Fund nor is there any maximum or minimum limitations on the aggregate amount of the investment funds that any Participant may have invested at any one time with California CLASS.

Each Participant, by its investment in any Fund, including the Enhanced Cash Fund, agrees that the California CLASS may temporarily suspend the right of redemption or postpone the date of payment for redeemed Shares for the whole or any part of any period: (i) during which trading in securities generally on the New York Stock Exchange or the American Stock Exchange or over-the-counter market shall have been suspended or minimum prices or maximum daily charges shall have been established on such exchange or market; (ii) if a general banking moratorium shall have been declared by Federal, state, or the State of New York or State of California authorities or during a suspension of payments by banks in the State of California; (iii) during which there shall have occurred any state of war or national emergency; (iv) during which any financial emergency or other crisis the effect of which on the financial markets of the United States is such as to make it impracticable (a) to dispose of the Investment Property because of the substantial losses that might be incurred or (b) to determine the Investment Property Value in accordance with the Valuation Procedures. The Administrator shall determine, on behalf of California CLASS, when an event occurs that would entitle the Custodian to temporarily suspend or postpone a Participant’s right of redemption. Participants should refer to the JPA Agreement for additional detail.

Transfers among the Enhanced Cash Fund and another Fund within the California CLASS Investment Program will be considered a withdrawal from one Fund and a contribution to another subject to the requirements described in this Information Statement.

**Payment Procedures**

1. The Participant shall enter their redemption transaction in the California CLASS Participant Portal.

2. The Participant shall notify the Administrator in writing of the payee of the amount requested, which may be the Participant, and include any wire, electronic transfer, or other payment instructions. Such payee must be listed on the list of approved payees that has been provided by the Participant to the Administrator in advance of the payment.

3. The Administrator shall receive the notice described in (1) and the information required in (2) from the Participant. Requests for redemptions from an Accounts of the Enhanced Cash Fund with pre-established wire instructions will be honored on a next-day basis if received by the Administrator prior to 11:00 a.m. PT.

4. The Participant may only request payments of that portion of its balance that represents Investment Funds and its proportional share of the income from the Investment Property that, in all cases, is actually held by the Custodian in the applicable Account in the Enhanced Cash Fund.

These Payment Procedures may be amended from time-to-time pursuant to the JPA Agreement provided, however, that the Administrator will only change the times set forth above after consulting with the Custodian.

## Portfolio Transactions

Subject to the general supervision of the California CLASS, the Investment Advisor is responsible for placing the orders for the purchase and sale of securities within the Enhanced Cash Fund, referred to herein as "portfolio transactions" for convenience. The portfolio transactions within the California CLASS Investment Program, including the Enhanced Cash Fund, occur only with broker dealers acting as principals except for commercial paper transactions that may be placed directly with the issuers. Although California CLASS does not ordinarily seek but nonetheless may make profits through short-term trading, the Investment Advisor may, on behalf of the California CLASS, dispose of any portfolio investment prior to its maturity if such disposition is advisable. The weighted average maturity and weighted average life characteristics of the Enhanced Cash Fund are expected to result in additional interest income to the Participants.

The Investment Advisor seeks to obtain the best net price and the most favorable execution of portfolio transactions. Portfolio transactions will not occur between the Investment Advisor and Administrator, the Custodian, any Trustee, or any affiliate, officer, director, employee, or agent of any of them.

## Valuation of Enhanced Cash Fund Shares

The Administrator determines the NAV of the Shares of the Enhanced Cash Fund at least daily on a mark-to-market basis. The NAV per Share of the Enhanced Cash Fund is computed by dividing the total value of the securities and other assets of the Enhanced Cash Fund, less any liabilities, by the total outstanding Shares of the Enhanced Cash Fund. Expenses and fees of the California CLASS accrue daily and are included within liabilities for the NAV calculation.

The result of this calculation is a share value rounded to the nearest penny. Accordingly, the price at which Shares of the Enhanced Cash Fund are sold and redeemed will not reflect unrealized gains or losses on securities within the Enhanced Cash Fund that amount to less than $.005 per Share. The Administrator will endeavor to minimize the amount of such gains or losses. However, if unrealized gains or losses on securities within the Enhanced Cash Fund should exceed $.005 per Share, the Enhanced Cash Fund's NAV per Share can change or be maintained by retention of earnings or the reduction on a pro rata basis of each Participant's Shares in the Enhanced Cash Fund in the event of losses or by a pro rata distribution to each Participant in the event of gains.

While it is a fundamental objective of the Enhanced Cash Fund to approximate a transactional share price of $10.00 per Share, there can be no guarantee that the NAV will not deviate from $10.00 per Share. In a volatile interest rate environment the NAV is likely to deviate from $10.00 per share. The NAV per Share of the Enhanced Cash Fund may be affected by general changes in interest rates resulting in increases or decreases in the value of the securities in the Enhanced Cash Fund**.** The fair market value of the Enhanced Cash Fund's securities will vary inversely to changes in prevailing interest rates. If a security is held to maturity, no loss or gain is normally realized as a result of these fluctuations.

### 1. Portfolio Valuation

At least daily, the Investment Property Value within the Enhanced Cash Fund shall be determined on a mark-to-market basis as follows: (a) securities for which market quotations are readily available are valued at the most recent bid price or yield equivalent as obtained from one or more market makers for such securities or a third-party pricing source; (2) all other securities and assets are valued at fair market value in good faith.

### 2. Amendment

These Valuation Procedures may be amended from time-to-time pursuant to the JPA Agreement.

## Use of Fair Value Measurement

California CLASS follows Financial Accounting Standards Board (FASB) Accounting Standards Topic (ASC) 820 *Fair Value Measurement and Disclosure* for financial reporting purposes. ASC 820 defines fair value, establishes a single framework for measuring fair value, and requires disclosures about fair value measurement.

Local government investment pools (LGIP) may select different methods of determining the value of assets held within the portfolio for reporting purposes. The two most common methods used to report on the assets of the portfolio are mark-to-market—frequently referred to as "fair value" or "fair market value"—and amortized cost. California CLASS utilizes the mark-to-market methodology. This involves obtaining prices for securities in the portfolio every business day. The mark-to-market methodology provides Participants with a high degree of transparency with respect to the underlying market values of the Enhanced Cash Fund's securities.

The mark-to-market methodology (FASB) can and should be contrasted with the amortized cost method that some LGIPs utilize. LGIPs that follow GASB 79 are following the amortized cost method, which entails adjusting the value of the portfolio's securities on a daily basis by a predetermined amount from the purchase date to the maturity date. While the amortized cost method produces very reliable and predictable asset valuations, that predetermined value may or may not accurately reflect the market value of the security.

## Computation of Yields

A daily and seven-day average yield for the Enhanced Cash Fund will be provided by the Administrator in published reports and information on www.californiaclass.com. To obtain the daily yield, a daily income distribution per share factor is first calculated. That factor is the net income for that day divided by the number of settled shares outstanding. The factor is then multiplied by 365 (366 in a leap year) to produce the daily yield. The seven-day average yield is obtained by averaging the daily yield for seven identified, consecutive days. From time-to-time, the Administrator may also quote the yield for the Enhanced Cash Fund on other basis for the information of the Participants.

Participants should note that the yields quoted should not be considered a representation of the future yield of the Enhanced Cash Fund since the yield is not fixed. Actual yields for the Enhanced Cash Fund will depend not only on the type, quality, and maturities of the investments held by the Enhanced Cash Fund and the changes in interest rates for such investments but also on changes in the Enhanced Cash Fund's expenses during the period.

Yield information may be useful in reviewing the performance of the Enhanced Cash Fund and for providing a basis for comparison with other investment alternatives.

## Income Allocations

All net income of the Enhanced Cash Fund is determined as of the close of business each day (and at such other times as the Board may determine) and accrues pro rata to each Participant's Account within the Enhanced Cash Fund. The Enhanced Cash Fund accrues net income on a daily basis and pays interest income on a monthly basis.

Net income that has thus accrued to the Participants is converted at month-end into additional Shares that are thereafter held in each Participant's account. Reinvested net income is converted into full and fractional shares at the rate of one share for each ten dollars credited. Net income for the Enhanced Cash Fund each day consists of (1) all accrued interest income on assets of the Enhanced Cash Fund plus (2) accretion of discount less (3) amortization of premium and less (4) accrued expenses.

## Retained Reserves

Pursuant to the JPA Agreement, the Investment Advisor may retain from earnings and profits in the California CLASS Investment Program, including the Enhanced Cash Fund, amounts deemed necessary to pay the debts and expenses of the California CLASS, as well as to meet other obligations of the California CLASS. The Investment Advisor possesses the power to establish from earnings and profits such reasonable reserves as they believe may be necessary or desirable.  Realized capital gains or losses shall be distributed in a timely and equitable manner as determined by the Investment Advisor. More information about retained reserves is available in the JPA Agreement, including the detailed accounting that the Investment Advisor provides to the Board on a quarterly basis on amounts deemed necessary or desirable by the Investment Advisor for retained reserves.

## California CLASS Expenses

Pursuant to the JPA Agreement, Public Trust Advisors, as Administrator, for the California CLASS Investment Program, including the Enhanced Cash Fund, shall receive a fee as described below in "California CLASS Fees." The Administrator's fee shall be an Investment Property Liability. From its fee, the Administrator shall pay the following costs and expenses: the Investment Advisor's fee set forth in the Investment Advisor Agreement, the Custodian's fee set forth in the Custody Agreement, the costs of third parties retained by the Administrator to render investment advice pursuant to the Administrator Agreement, the fees to the Sponsors, marketing expenses, all custodial and securities clearance transaction charges, the cost of valuing the Investment Property, the cost of obtaining a rating or ratings, if any, the cost of other expenses agreed to by the Administrator and the California CLASS, all Investment Property record-keeping expenses, the cost of preparing monthly and annual reports, the expense of outside auditors required pursuant to the Administrator Agreement (but only if the Administrator selects such auditors), the fees of the counsel to the Administrator and/or the counsel to the California CLASS, the cost of Meetings of the Board, insurance costs and the costs of Participant surveys and mailings. Periodically, the Administrator shall provide a detailed accounting of such expenses to the Trustees.

## California CLASS Fees

For the performance of its obligations as Administrator in the Administrator Agreement, the Administrator will charge a fee from the Investment Property Value (the daily fee). This daily fee will accrue on a daily basis and be paid monthly in arrears and prorated for any portion of the month in which the Administrator Agreement is in effect. The daily fee shall be calculated as follows: the Investment Property Value is multiplied by the applicable fee rate and is divided by 365 or 366 days in the event of a leap year to equal the daily fee accrual. The Investment Property Value shall be based on the prior day's net assets. For weekend days and holidays, the net assets for the previous business day will be utilized for the calculation of fees. The applicable fee rate shall be determined by the Administrator monthly on the first business day of each month and shall be at an annual rate equal to up to fifteen (15) basis points. The Administrator is authorized to debit the applicable monthly fee amount within five (5) business days after the end of such month. All payment records and invoices will be presented at each subsequent meeting of the Board. Fees may be waived or abated at any time, or from time-to-time, at the sole discretion of the Administrator. Any such waived fees may be restored by the written agreement of the California CLASS.

## Reports to Participants

### Annually

Audited financial statements of the California CLASS will be provided annually. See "Independent Auditors" above.

### Monthly

Within 15 days after the end of each month, the Administrator shall prepare and submit, or make available, to each Participant a statement disclosing any activity and a closing balance, including the number of Shares, in each of its accounts for such month.

#### Upon Request

The Administrator, upon the request of a Participant, shall furnish to the Participant a statement of such Participant's balance as of the date of such request subject only to account activity on such date.

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California CLASS is not a bank. An investment with California CLASS is not guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Many factors affect performance including changes in market conditions and interest rates and in response to other economic, political, or financial developments. Investment involves risk including the possible loss of principal. No assurance can be given that the performance objectives of a given strategy will be achieved. No assurance can be given that the California CLASS Enhanced Cash Fund will achieve its investment objective. **Past performance is no guarantee of future results. Any financial and/or investment decision may incur losses.**

The 'AAAf' rating is Fitch's opinion on the overall credit profile within a fixed-income fund/portfolio and indicates the highest underlying credit quality of the pool's investments. The 'S1' volatility rating is Fitch's opinion on the relative sensitivity of a portfolio's total return and/or net asset value to assumed changes in credit spreads and interest rates. The 'S1' volatility rating indicates that the fund possesses a low sensitivity to market risks. For a full description on rating methodology, please visit www.fitchratings.com. Ratings are subject to change and do not remove credit risk. External audits may not catch all instances of accounting errors and do not provide an absolute guarantee of accuracy.

This is not a Stable NAV fund. While it seeks to establish a transactional share price of $10.00 per share, the possibility of a higher amount of unrealized/realized losses than unrealized/realized gains implies that the NAV could decline below the $10.00 transactional share price and that shareholders will execute purchases and redemptions at that NAV.

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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.

# STAFF REPORT

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| **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.

**Attachment C**

**Local Agency Investment Pools (LGIPs) Comparison**

| | CLASS - Prime Fund | CAMP - Cash Reserve | CalTRUST - Liquidity |
|---|---|---|---|
| **Total Returns 2023** | 5.53% | 5.24% | 5.22% |
| **Inception** | 2022 | 1989 | 2003 |
| **Governing Code** | 53601 | 53601 | 53601 |
| **NAV** | $1.00 | $1.00 | $1.00 |
| **WAM** | <60 days | 60-120 days | 26-39 days |
| **Standard & Poors** | AAAm | AAAm | AAAm |
| **Investment Advisor** | Public Trust Advisors, LLC | PFM Asset Management | State Street Global Advisors |
| **Custodian** | US Bank | US Bank | US Bank |
| **Online Portal** | Yes | Yes | Yes |
| **Participants** | 120 (Jan 2023) | 188 (July 2024) | 150 (Nov 2024) |
| **Account Limit** | None | None | None |
| **Earnings calculated** | Daily | Daily | Daily |
| **Dividends Paid** | Month-end | Month-end | Month-end |
| **Withdrawals** | Any Business Day | Any Business Day | Any Business Day |
| **Assets** | $1.5 Billion | $1.7 Billion | $4.2 Billion |
| **Board (references)** | Christina Turner, Morgan Hill | Karen Adams, Merced County | John Colville, City of Sacramento |
| | George Harris, City of Lancaster | Steve Dial, SJCOG | Don Kent, Riverside County |
| | Kevin Phillips, Paradise Irrigation District | Andre Douzdjian, SANDAG | Dan Mierzwa, Contra Costa County |
| | Ryan Clausnitzer, Alameda County Mosquito | Jordan Kaufman, Kern County | Thomas Hays, Eastern Municipal Water District |
| | Margaret Moggia, Discovery Bay | David Persselin, City of Fremont | Chuck Lomeli, Solano County |
| | | Lauren Warren, San Diego County | Matt Paulin, City of Elk Grove |
| | | Duane Wolterstorff, Modesto City Schools | Mary Zeep, Monterey County |

**Shasta Regional Transportation Agency**

**STATEMENT OF INVESTMENT**

**Approved by the SRTA Board of Directors on:**

**December 19, 2024**



1255 East St.
Suite 202
Redding, CA 96001
(530) 262-6190

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## Statement of Investment Policy

## I. Policy Statement

The purpose of this Investment Policy (Policy) is to establish cash management and investment guidelines for the Shasta Regional Transportation Agency (SRTA) Board of Directors, the Executive Director, and the Chief Fiscal Officer, who are responsible for the stewardship of SRTA's Investment Program. Each transaction and the entire portfolio must comply with California Government Code Sections 53600 and 53635 et seq. and this Policy. All general pool portfolio activities will be judged by the standards of the Policy and ranking of investment objectives. Those activities that violate its spirit and intent will be deemed to be contrary to the Policy.

This Policy implements and is consistent with SRTA investment policies outlined in Section 2.15.040 – Investments, of SRTA's Financial & Accounting Policies & Procedures. This Policy conforms to customary standards of prudent investment management. Should the provisions of the Code change from those contained herein; such provisions will be considered incorporated in this Policy. This Policy shall remain in effect until the SRTA Board of Directors approve a subsequent revision.

## II. Scope

This Investment Policy applies to all financial assets and investment activities of SRTA with the following exceptions:

1. Investments in the Agency's Defined Contribution Plans (Deferred Compensation)
2. Investments of Debt Service, Construction, Acquisition, Project, and Bond Reserve Funds (Debt Issuance)
3. Investments in the Agency's Defined Benefit Plans (Pension)
4. Investments in "special investment pools", or local agencies that pool money in deposits or investments with other local agencies (e.g., SRTA with the Shasta County Treasury), including local agencies that have the same governing body (e.g., Local Government Investment Pools under a Joint Powers Agreement). These pools will be managed in accordance with the respective pool's policy. If none exists, the pool's policy will be deemed to be the California State Government Code Sections 53600 – 53635 et seq.

## III. Delegation

No persons may engage in an investment transaction except as provided under the terms of this Policy and the procedures established by the executive director.

## IV. Standard of Care

The authorized signers for investment accounts, as well as any individual assigned to manage Agency funds, shall use the “Prudent Investor” standard. These investment officers, acting in accordance with this Policy, written portfolio guidelines and procedures, and exercising due diligence, shall be relieved of personal responsibility for individual security’s credit risk and/or market price changes, provided deviations from expectations are reported in the monthly and quarterly investment reports to the board of directors, and appropriate action is taken to control adverse developments.

The Prudent Investor Rule as described in California Government Code Section 53600.3 states that “…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.”

The authorized signers and Agency employees involved in the investment process, shall refrain from all personal business activity that could conflict with the management of the investment program. All individuals involved with the investment of Agency funds, or review of investment transactions, will be required to report all gifts and income in accordance with Agency Policy and California state law.

When investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing public funds, the executive director, chief fiscal officer (CFO), or other authorized designees shall act with the care, skill, prudence, and diligence to meet the aims of the investment objectives listed in Section V., Investment Objectives.

## V. Investment Objectives

The Investment Program shall ensure that all proceeds are prudently invested in order to earn a market rate of return, while awaiting eligible use for each applicable program. In managing the Investment Program, the executive director, CFO, and authorized Department of Finance (Finance) personnel, should avoid all transactions that fall outside of the prudent investor standard as defined in Section IV. Investments should be made with precision and care considering the safety of the principal investment, as well as the income to be derived from the investment. The specific objectives for the Program are ranked in order of importance.

**A. Safety of Principal**

The Agency's first objective shall be to protect the portfolio's value by instituting prudent practices to manage portfolio risk and by instituting a system of controls that are adequate to protect against fraud or mismanagement. Prudent practices to manage portfolio risk might include establishing a target average duration to control exposure to market, or interest rate risk; Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Market risk may be mitigated by the diversification of maturities of fixed income securities. Another example would be establishing a minimum rating standard for corporate investments to control credit risk. Credit risk is measured by the probability that an issuer will not make timely payment of principal or interest. The risk can be measured by credit ratings from "nationally recognized statistical rating organizations" such as Moody's and Standard & Poor's (S&P). Other research techniques include but are not limited to probability of default analysis based on the Merton model, which measures the financial viability of a corporation.

The Agency's goal is to safeguard the principal of the funds invested; however, the Agency may elect to sell a security prior to its maturity and record a capital gain or loss in order to improve the quality, liquidity, or rate of return of the portfolio in response to market conditions and/or the Agency's risk preferences.

**B. Liquidity**

The second objective of the Investment Program shall be to have sufficient funds to ensure the Agency can meet all operating requirements that may be reasonably anticipated (e.g. daily cash flow requirements). Flexibility may be achieved in a number of ways including purchasing short-term maturity investments, including but not limited to, collected balance accounts, registered money market funds, repurchase agreements, State of California Local Agency Investment Fund (LAIF), Local Government Investment Pools (LGIPs), county pools, and other permissible investments that are readily marketable to a large number of securities dealers.

### C. Rate of Return

The third objective of the Investment Program shall be designed to attain a reasonable rate of return through budgetary and economic cycles consistent with the risk limitations, prudent investment principles, and cash flow characteristics identified herein. For comparative purposes, the Agency will compare its performance to the performance of market benchmarks of similar duration and sector allocation.

## VI. Implementation

In order to provide direction to those responsible for management of the Investment Program, the executive director has established this Policy and will present it to the Fiscal and Policy Committee for review in accordance with the Agency Investment Policy, Section 2.15.040, on an annual basis. The Committee may direct staff to present changes to the SRTA Board of Directors for approval when necessary.

## VII. Internal Controls

The executive director will establish internal control procedures for applicable investments to provide reasonable assurance that the investment objectives are met and to ensure that the assets are protected from theft or misuse. The executive director and CFO shall be responsible for ensuring that all investment transactions comply with the Agency's Investment Policy and the California Government Code.

The CFO shall establish a process for daily, monthly, quarterly, and annual review and monitoring of Investment Program activity.

Daily, the CFO or authorized finance personnel shall review the investment activity, as well as corresponding custodial and commercial bank balances and positions for compliance with the Investment Policy and Guidelines.

At the request of the board of directors, an independent audit of the Investment Program's activities may be conducted to determine compliance with the Agency's Investment Policy and the Government Code. The audit shall be conducted by an independent consultant with experience in auditing investment programs consistent with industry standards as promulgated by the Global Investment Performance Standards (GIPS) adopted by the CFA Institute Board of Governors.

## VIII. Investment Parameters

### A. Investment of Funds

The Cash Flow Horizon is the time period for which the pooled investment fund's cash flow can be reasonably forecasted. Consistent with the California Government Code requirements, this Policy establishes the Horizon to be six months.

The Agency's assets are comprised of three (3) main fund categories: General Operating funds, Advanced Grant funds, and the Agency Reserves. Each fund category has unique expected net expenditure requirements for the Cash Flow Horizon.

The General Operating funds, which include administrative funds such as those allocated to the Agency from the Local Transportation Fund (LTF), Planning, Programming and Monitoring funds (PPM), and the administration set aside applicable to each awarded grant program. The General Operating funds are used for day-to-day operations, as well as required local match funds for Consolidated Planning Grants (CPG) through the Overall Work Program (OWP). General Operating Funds will be managed to ensure the Agency's daily cash flow needs are met in accordance with SRTA Policy 2.15.030 *Cash Management and Forecasting.*

Advanced Grant Funds are held by the Agency awaiting reimbursement to eligible recipients for eligible expenditures on approved projects. Advanced Grant Funds may be invested in order to optimize the long-term return of program assets to be used in the same manner that the grant funds were awarded.

The Agency Reserves are held in reserve by the agency and are available to be spent at the discretion of the board of directors in the manner of which they so dictate. They include Reserves for activities like: Planning, Building, TDA funds for regional loans, approved STA reserve projects, Non-Motorized program, for the Consolidated Transportation Services Agency (CTSA), and other assigned projects or programs. Agency Reserves may be invested in order to optimize the long-term return of Agency's assets with the intention of utilizing the funds to offset increasing and unexpected costs, and future demands on the regional allocation of certain grant programs.

### B. Competitive Bidding

It is preferred that all investment purchases be made through competitive bidding. However, this policy recognizes that competitive bidding is not applicable for new issues of securities since these issues are quoted at the same price at or near par for a certain period of time. This policy also recognizes that for secondary market agencies, corporate bonds, and some money market securities, it is not always possible to locate three brokers who offer the same security. In the event that three quotes are not obtained, supporting documentation from an independent financial source must be included to demonstrate market pricing.

However, securities may be liquidated without soliciting competitive bids in order to reduce future losses on securities of companies with financial difficulties that are or are anticipated to experience rapidly declining market value.

**C. Authorized Investments**

Investment Types

Authorized investments shall conform to California Government Code Sections 53601 et seq. and 53635 et seq. Authorized investments shall also include, in accordance with California Government Code Section 16429.1 et seq., investments into the Local Agency Investment Fund (LAIF).

The authority to invest funds pursuant to California Government Code Section 53601 includes the authority to invest in financial futures or financial option contracts in any of the investment categories enumerated in that section.

Collateralization

Full collateralization of deposits is required on all demand deposits in accordance with California Government Code Section 53652.

**D. Credit Requirements, Maximum Maturities, and Maximum Concentrations**

All long-term issuers rated A or higher by two Nationally Recognized Statistical Rating Organization (NRSO) are approved for purchase.

No more than 10% of the portfolio, except Treasuries and Agencies, may be invested in securities of a single issuer including its related entities.

**E. Authorized Financial Institutions and Direct Issuers**

All transactions initiated on behalf of the Investment Program and SRTA shall be executed through either banks and securities, broker/dealers designated as “Primary Dealers” defined by the Federal Reserve Bank of New York as “banks and securities broker/dealers that trade in U.S. Government securities with the Federal Reserve Bank of New York” or direct issuers that directly issue their own securities.

Transactions may be executed through secondary dealers subject to all the following conditions:

1. The broker/dealer must qualify under the SEC Rule 15C3-1 (uniform net capital rule).
2. The broker/dealer and the individual must be properly registered with the appropriate state and federal regulatory bodies.
3. Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines.
4. Each broker/dealer will be evaluated on trade execution, accuracy and timeliness of information, and quality of service.

All broker/dealers will receive a copy of this Policy, a broker/dealer registration, and a list of those persons authorized to execute investment transactions.

**F. Safekeeping and Custody**

In accordance with California Government Code Section 53601, all security transactions, with the exception of collateralized and/or insured time deposits, State of California Local Agency Investment Fund (LAIF) and bank short-term investment funds (bank's overnight investment fund), shall be conducted on a Delivery-Versus-Payment (DVP) basis pursuant to an approved custodial safekeeping agreement. Securities will be held by an independent third party custodian designated by the executive director and evidenced by safekeeping receipts.

**G. Calculation of Earnings and Costs**

The CFO will track and report on earnings and costs associated with managing the investment portfolio along with the performance report. These costs include, but are not limited to, investment management, accounting for investment activity, custody of assets, managing and accounting for banking, receiving and remitting deposits, oversight controls, etc.

## IX. Reviewing, Monitoring and Reporting of the Portfolio

The Agency's Investment Advisor will prepare and present at least monthly a comprehensive review and evaluation of the transactions, positions, and performance of the Investment Program and compliance with the California Government Code, Agency Investment Policy and Investment Guidelines.

The CFO will provide a detailed report on the Investment Program monthly to the executive director and every fiscal quarter to the board of directors. The report will detail any funds under the management of contracting parties, security transactions, a statement of compliance to the policy, and a statement of the Investment Program's ability to meet the expected net expenditure requirements for the next six months.

## Appendix A GLOSSARY

**BANKER'S ACCEPTANCE:** A money market instrument created to facilitate international trade transactions. This instrument is highly liquid and safe because the risk of the trade transaction is transferred to the bank that "accepts" the obligation to pay the investor.

**BANK DEPOSITS:** Collateral in the form of currency that may be in the form of demand accounts (checking) or investments in accounts that have a fixed term and negotiated rate of interest.

**BENCHMARK:** A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

**BID:** The price at which a buyer offers to buy a security.

**BOND:** A bond is essentially a loan made by an investor to a division of the government, a government agency, or a corporation. The bond is a promissory note to repay the loan in full at the end of a fixed time period. The date on which the principal must be repaid is the called the maturity date, or maturity. In addition, the issuer of the bond, that is, the agency or corporation receiving the loan proceeds and issuing the promissory note, agrees to make regular payments of interest at a rate initially stated on the bond. Bonds are rated according to many factors, including cost, degree of risk, and rate of income.

**BROKER:** A broker brings buyers and sellers together for a transaction for which the broker receives a commission. Brokers generally do not hold inventory or make a market for securities.

**CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION (CDIAC):** CDIAC provides information, education and technical assistance on public debt and investments to local public agencies and other public finance professionals.

**CALLABLE SECURITIES:** An investment security that contains an option allowing the issuer to retire the security prior to its final maturity date.

**CALIFORNIA LOCAL AGENCY OBLIGATIONS:** See Local Agency Bonds.

**CAPITAL GAIN:** The amount by which an asset's selling price exceeds its initial purchase price.

**CAPITAL LOSS**: The decrease in the value of an investment or asset below its initial purchase price.

**CD (CERTIFICATE OF DEPOSIT):** A CD is a note issued by a bank for a savings deposit that an individual agrees to leave invested in the bank for a certain term. At the end of this term, on the maturity date, the principal may either be paid to the individual or rolled over into another CD. Interest rates on CDs between banks are competitive. Monies deposited into a CD are insured by the bank, thus they are a low-risk investment. Maturities may be as short as a few weeks or as long as several years. Most banks set heavy penalties for premature withdrawal of monies from a CD. Large- denomination CD's are typically negotiable.

**CFA INSTITUTE:** CFA Institute is the global, not-for- profit association of investment professionals that awards the CFA (Chartered Financial Analyst®) designation. The Institute promotes the highest ethical standards and offers a range of educational opportunities online and around the world.

**COLLATERAL:** Securities, evidence of deposit or other property that a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

**COLLATERALIZATION**: Process by which a borrower pledges securities, property, or other deposits for the purpose of securing the repayment of a loan and/or security.

**COMMERCIAL PAPER:** The short-term unsecured debt of corporations or companies**.**

**CONVEXITY:** Measures the rate of change in a bond's sensitivity to interest rate moves. It's the rate of change in a bond's duration (price volatility).

**COUNTY POOLS:** See County Pooled Investment Fund.

**COUNTY POOLED INVESTMENT FUNDS**: The aggregate of all funds from public agencies placed in the custody of the county treasurer or chief finance officer for investment and reinvestment.

**COUPON:** (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

**CREDIT RISK:** The likelihood that an issuer will be unable to make scheduled payments of interest and principal on an outstanding obligation.

**CUSTODIAN: A financial institution, typically a bank,** providing service to customers for a fee whereby securities and valuables of all types and descriptions are held by the bank in the customer's name. The custodian does not have fiduciary responsibilities as is the case with trust accounts.

**DEALER:** A dealer, as opposed to a broker, acts as a principal in security transactions, selling securities from, and buying securities for his/her own position.

**DEFAULT:** To default is to fail to repay principal or make timely interest payments on a bond or other debt investment security. Also, a default is a breach of or failure to fulfill the terms of a note or contract.

**DELIVERY VERSUS PAYMENT (DVP):** A securities industry procedure whereby payment for a security must be made at the time the security is delivered to the purchaser's agent.

**DIVERSIFICATION:** Dividing investment funds among a variety of securities offering independent returns.

**DURATION:** The weighted average time to maturity of a bond where the weights are the present values of future cash flows. Duration measures the price sensitivity of a bond to changes in interest rates.

**FIDUCIARY:** An individual who holds something in trust for another and bears liability for its safekeeping.

**FLOATING RATE INVESTMENTS:** Notes whose interest rate is adjusted according to the interest rates of other financial instruments. These instruments provide protection against rising interest rates, but pay lower yield than fixed rate notes.

**FUTURES:** Commodities, which are sold to be delivered at a future date.

**INVERSE FLOATING RATE INVESTMENTS:** Variable-rate notes (such as inverse floating rate notes) whose coupon and value increase as interest rates decrease.

**INTEREST ONLY STRIPs:** Securities with cash flow based entirely on the monthly interest payments received from a mortgage pool.

**INVESTMENT PROGRAM:** The process of modern portfolio management. The process includes establishing investment policy, analysis of the economic and capital markets environment, portfolio monitoring and rebalancing, and measuring performance.

**LOCAL AGENCY BONDS:** These bonds are issued by a county, Agency, Agency and county, including a chartered Agency or county, school district, community college district, public district, county board of education, county superintendent of schools, or any public or municipal corporation.

**LOCAL AGENCY INVESTMENT FUND (LAIF):** A voluntary investment fund open to government entities and certain non-profit organizations in California that is managed by the State Treasurer's Office.

**LIQUIDITY:** The ease with which investments can be converted to cash at their present market value. Liquidity is significantly affected by the number of buyers and sellers trading a given security and the number of units of the security available for trading.

**MARKET RISK:** Market risk is the risk that investments will change in value based on changes in general market prices.

**MARKET VALUE:** The price at which a security is trading and could presumably be purchased or sold.

**MASTER REPURCHASE AGREEMENT:** A written contract covering all future transactions between the parties to repurchase–reverse repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

**MATURITY:** The date upon which the principal or stated value of an investment becomes due and payable.

**MEDIUM TERM NOTES (MTN):** Unsecured, investment-grade senior debt securities of major corporations that are sold either on a continuous or an intermittent basis. MTNs are highly flexible debt instruments that can be structured to respond to market opportunities or to investor preferences.

**MODERN PORTFOLIO THEORY:** overall investment strategy that seeks to construct an optimal portfolio by considering the relationship between risk and return. This theory recommends that the risk of a particular investment should not be looked at on a standalone basis, but rather in relation to how that particular investment's price varies in relation to the variation in price of the market portfolio. The theory goes on to state that given an investor's preferred level of risk, a particular portfolio can be constructed that maximizes expected return for that level of risk.

**MONEY MARKET:** The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

**MORTGAGE BACKED SECURITIES**: A debt instrument with a pool of real estate loans as the underlying collateral. The mortgage payments of the real estate assets are used to pay interest and principal on the bonds.

**MORTGAGE PASS-THROUGH SECURITIES:** A securitized participation in the interest and principal cash flows from a specified pool of mortgages. Principal and interest payments made on the mortgages are passed through to the holder of the security.

**MUTUAL FUNDS:** An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments. **Money market mutual funds** invest exclusively in short term (one day to one year) debt obligations such as Treasury bills, certificates of deposit, and commercial paper. The principal objective is the preservation of capital and generation of current income.

**OFFER:** The price asked by a seller of securities. See Asked and Bid.

**OPTION:** A contract that provides the right, but not the obligation, to buy or to sell a specific amount of a specific security within a predetermined time period. A call option provides the right to buy the underlying security. A put option provides the right to sell the underlying security. The seller of the contracts is called the writer.

**PORTFOLIO:** Collection of securities held by an investor.

**PRIMARY DEALER:** A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker- dealers, banks, and a few unregulated firms.

**PRINCIPAL ONLY STRIPs:** Securities with cash flow based entirely on the monthly principal payments received from a mortgage pool.

**RANGE NOTES:** A range note is a bond that pays interest if a specified interest rate remains above or below a certain level and/or remains within a certain range.

**RATE OF RETURN:** The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond the current income return.

**REPURCHASE AGREEMENT (RP, Repo):** Short-term purchases of securities with a simultaneous agreement to sell the securities back at a higher price. From the seller's point of view, the same transaction is a **reverse repurchase agreement.**

**SAFEKEEPING:** A service to customers typically rendered by brokerage firms.

**SECURITIES AND EXCHANGE COMMISSION (SEC):** A federal government agency comprised of five commissioners appointed by the President and approved by the Senate. The SEC was established to protect the individual investor from fraud and malpractice in the marketplace. The Commission oversees and regulates the activities of registered investment advisers, stock and bond markets, broker/dealers, and mutual funds.

**SEC RULE 15C3-1:** See Uniform Net Capital Rule.

**STATE OBLIGATIONS:** Registered treasury notes or bonds of any of the other 49 United 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 United States, in addition to California.

**STRIPs:** Bonds, usually issued by the U.S. Treasury, whose two components, interest and repayment of principal, are separated and sold individually as zero-coupon bonds. Strips are an acronym for Separate Trading of Registered Interest and Principal of Securities.

**TRUSTEE:** An individual or organization, which holds or manages and invests assets for the benefit of another. The trustee is legally obliged to make all trust-related decisions with the trustee's interests in mind, and may be liable for damages in the event of not doing so.

**UNIFORM NET CAPITAL RULE:** Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

**U.S. AGENCY OBLIGATIONS:** Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments. The obligations are issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises. Issuers include, but may not be limited to, Fannie Mae, Farmer Mac, Federal Farm Credit Banks, Freddie Mac, Federal Home Loan Banks, Financing Corporation, Tennessee Valley Authority, Resolution Trust Funding Corporation.

**U.S. TREASURY OBLIGATIONS (TREASURIES):** Securities issued by the U.S. Treasury and backed by the full faith and credit of the United States. Treasuries are considered to have no credit risk and are the benchmark for interest rates on all other securities in the US and overseas. The Treasury issues both discounted securities and fixed coupon notes and bonds. **Treasury Bills:** All securities issued with initial maturities of one year or less are issued as discounted instruments, and are called Treasury Bills (T-bills). The Treasury currently issues three- month and six-month T-bills at regular weekly auctions. It also issues "cash management" bills as needed to smooth cash flows. **Treasury Notes:** All securities issued with initial maturities of two to ten years are called Treasury Notes (T-notes), and pay interest semi-annually. **Treasury Bonds:** All securities issued with initial maturities greater than ten years are called Treasury Bonds (T-bonds). Like Treasury Notes, they pay interest semi-annually.

**YIELD:** The rate of annual income return on an investment, expressed as a percentage. Yield does not include capital gains. (a) **INCOME YIELD** is obtained by dividing the current dollar income by the current market price for the security. (b) **NET YIELD** or **YIELD TO MATURITY** is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

**ZERO-COUPON BOND:** A bond on which interest is not payable until maturity (or earlier redemption), but compounds periodically to accumulate to a stated maturity amount. Zero-coupon bonds are typically issued at a discount and repaid at par upon maturity.

## Attachment E: Account Position and Balance as of October 31, 2024

**General Operating**

| Account Name | Currently Held | Balance as of October 31, 2024 |
|---|---|---|
| Local Transportation Fund (LTF) | County Treasury | $126,811.03 |
| State Transit Assistance (STA) | County Treasury | $1,525,491.83 |
| Operating Checking Account | Umpqua | $2,501,805.28 |
| *Includes funds from Planning, Programming, and Monitoring (PPM), LTF for SRTA Admin, reimbursements for Consolidated Planning Grants (CPG), etc.* | | |
| STA Project Set-Aside | Five Star | $98,998.10 |
| State of Good Repair (SGR) | Umpqua | $1,011,959 |
| Low Carbon Transit Operating Program (LCTOP) | Umpqua | $177,375.38 |
| | **Total** | **$5,442,440.62** |

**Advanced Grant**

| Account Name | Currently Held | Balance as of October 31, 2024 |
|---|---|---|
| Regional Early Action Plan (REAP 2.0) | Five Star | $417,733.99 |
| Regional Surface Transportation Program (RSTP) | Five Star | $5,969,516.00 |
| TIRCP General Fund | Five Star | $9,501,628.34 |
| TIRCP GGRF Fund | Five Star | $25,466.08 |
| ZETCP PTA Fund | Five Star | $464,207.38 |
| ZETCP GGRF Fund | Five Star | $537,321.69 |
| | **Total** | **$16,915,873.50** |

**Agency Reserves**

| Account Name | Currently Held | Balance as of October 31, 2024 |
|---|---|---|
| CTSA Reserve | Umpqua | $91,314.70 |
| Non-Motorized | Umpqua | $2,084,182.06 |
| Planning Reserve | Umpqua | $94,213.37 |
| Building Reserve | Umpqua | $162,207.06 |
| STA Reserve | County Treasury | $1,259,629.35 |
| TDA Loan Fund for Regional Transit | Five Star | $284,882.39 |
| | **Total** | **$3,976,428.93** |