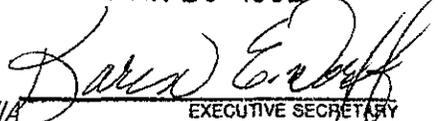
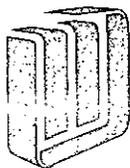


MAR 10 1992

  
EXECUTIVE SECRETARY

February 24, 1992



**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

To: Board of Directors (Finance and Insurance Committee--Action)  
From: General Manager  
Subject: Authorization of a Mechanism for Investment of  
Idle District Funds

Report

Balances in the District's demand accounts for outstanding checks which have not been presented for payment, and receipts received after investment cutoff time are invested by the Treasurer the next working day when the account balances are reported by Security Pacific National Bank. The magnitude of uninvested funds overnight or over a weekend ranges from \$200,000 to \$3.5 million. It is estimated the District would gain at least \$40,000 in annual investment income if a sweep account mechanism for investment of such funds were in place. This mechanism would also provide for investment of District funds during an emergency, such as loss of communications during a natural disaster.

It is proposed that the Treasurer be authorized to enter into an agreement with Security Pacific National Bank to authorize the bank to invest funds for which specific investment instructions have not been received by the end of normal business hours. The initial agreement will specify that the investments will be made into Security's Pacific Horizon Treasury Fund. This is a \$1.7 billion liquid asset fund that invests solely in direct obligations of the United States Treasury, and in repurchase agreements relating to such Treasury obligations. The fund's objective is to seek high current income and stability of principal. The fund is rated AAA by both Standard & Poor's Corporation and Moody's Investors Service. The District has authority to invest in mutual funds of this type under Government Code Sections 53601(k) and 53635(k).

Portfolio securities held by the fund have maturities of thirteen months or less from the date of purchase by the fund. Purchases and redemptions are made at net asset value per share. The fund attempts to maintain net asset value per

February 24, 1992

share of \$1.00, and distributes net income and realized gains to shareholders on a daily basis in the form of additional full and fractional shares. The fund is open-ended and the District's shares can be redeemed without charge or penalty at any time for reinvestment by the District's Treasurer.

Authorization to invest in mutual funds of this type can be delegated to the Treasurer by adding Section 5101(b)(2)(x) to the Administrative Code as shown in Exhibit A, attached. Exhibit B shows the proposed new language marked by underling.

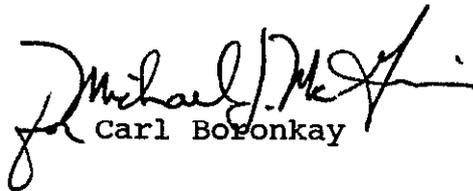
#### Board Committee Assignment

This letter was referred to the Finance and Insurance Committee pursuant to its authority regarding the disposition and investment of funds under Administrative Code Section 2441(c).

#### Recommendation

#### **FINANCE AND INSURANCE COMMITTEE FOR ACTION.**

It is recommended that Section 5101(b)(2)(x) be added to the MWD Administrative Code, to read as shown in Exhibit A.

  
Carl Bobonkay

GDL/CGP:lg  
046CGP

Attachment

## EXHIBIT A

## § 5101. Investment of Surplus Funds.

(a) Pursuant to Government Code Section 53607, this Board hereby does delegate to the Treasurer of the District the authority to invest or to reinvest funds of the District subject to the terms and conditions set forth in this Section 5101. The Treasurer shall report each month transactions made pursuant to this delegation.

(b) The terms and conditions of this delegation to the Treasurer are as follows:

(1) The Treasurer shall assume full responsibility for all transactions hereby delegated.

(2) The Treasurer may invest such portion of any money in any sinking fund of the District, or any surplus moneys in the District's treasury not required for the immediate necessities of the District, as the Treasurer deems wise or expedient, in the following securities, if they mature not later than 24 months from date of purchase, or such longer period upon Board approval for each such investment, unless at the time of purchase there is an agreement with the seller to repurchase such securities within 24 months; provided, however, that such 24-month restriction shall not apply to investments of moneys in the Waterworks Revenue Bond Reserve Fund, the Water Revenue Bonds, Issue of 1991 Reserve Fund, the Iron Mountain Landfill Closure/Postclosure Maintenance Fund, and the Employees' Deferred Compensation Funds:

(i) Bonds of the District.

(ii) United States Treasury notes, bonds, bills or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest.

(iii) Registered State warrants or treasury notes or bonds of this State for which the faith and credit of this State are pledged for the payment of principal and interest.

(iv) Farm loan bonds, consolidated farm loan bonds, collateral trust debentures, or other obligations issued under the Farm Credit Act of 1971, or in obligations issued by banks for cooperatives, federal land banks, federal intermediate credit banks, federal home loan banks, the Federal Home Loan Bank Board, the Tennessee Valley Authority, or in obligations,

participations, or other instruments of or issued by, or fully guaranteed as to principal and interest by, the Federal National Mortgage Association; or in participation certificates evidencing beneficial interests in obligations, or in the right to receive interest and principal collections therefrom, which obligations have been subjected by one or more government agencies to a trust or trusts for which any executive department, agency, or instrumentality of the United States (or the head thereof) has been named to act as trustee; provided that investments in securities listed in this Section 5101(b)(2)(iv) shall not exceed one-third of all investments in effect immediately after any such investment is made.

(v) Any other securities in which investment is authorized pursuant to Government Code Section 53601, upon approval of this Board.

(vi) Repurchase agreements of any securities authorized in subsections 5101(b)(2)(ii), 5101(b)(2)(iv), or 5101(b)(2)(vii) (other than commercial paper) provided that such investments in purchased securities shall not exceed 10 percent of all investments in effect immediately after any such investment is made, shall not exceed one year in length, and shall be made only with primary dealers in government securities or financial institutions with a Keefe Bank Watch Service, or equivalent, rating of B/C or better; provided further that investments in repurchase agreements with maturities of less than six months, or six months to one year, shall provide for purchased securities with a market value at least 101 percent and 102 percent, respectively, of the amount of the invested funds; provided further that such investments shall provide for transfer of ownership and possession of the purchased securities, either to the District directly or to a custodian depository institution which shall take record title and shall establish and maintain a subaccount in its financial records for the securities in the District's name. Such custodian shall not be the dealer from which the securities were purchased. The repurchase agreement shall also provide a contractual right to liquidation of the purchased securities upon the bankruptcy, insolvency or other default of the counter party. Purchased securities shall include only securities maturing within 60 months of the inception of the investment.

(vii) Commercial paper, bankers' acceptances, and negotiable certificates of deposit; provided that investments in such securities shall not exceed 20 percent, 30 percent and 20 percent respectively of all investments in effect immediately after any such investment is made and subject to the provisions

of Government Code Sections 53601 and 53635 as they existed on January 1, 1987; provided further, that investments in negotiable certificates of deposit shall not exceed six months in length, and shall be made only in financial institutions with a Keefe Bank Watch Service, or equivalent, rating of B/C or better; provided further, that investments in institutions rated B/C shall not exceed 15 percent of all investments in effect immediately after any such investment is made.

(viii) Deposits for purposes of investment in the Local Agency Fund of the State Treasury to the maximum amount permitted by State Treasury policy.

(ix) One registered bond or note, in the minimum denomination available, of any series of bonds or notes issued for purposes related to the State Water Project.

(x) Shares of beneficial interest issued by eligible diversified management companies investing exclusively in (1) United States Treasury notes, bonds, bills or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest, or (2) repurchase agreements exclusively involving such treasury obligations. To be eligible, any such company shall attain the highest ranking or the highest letter and numerical rating provided by at least two of the three largest nationally recognized rating services. The purchase price of the shares of beneficial interest purchased shall not include any commission, and the total amount of the investment in such companies shall not exceed 15 percent of the funds of the District.

(3) The Treasurer may make any investment by direct purchase of any issue of the specified securities at their original sale or after they have been issued.

(4) The available cash amount and maximum period for any such investment by the Treasurer shall be determined by the General Manager. The Treasurer shall not liquidate any such investment except:

(i) To meet the District's cash requirements, which shall be determined by the General Manager; or

(ii) To generate cash for reinvestment whenever the General Manager determines that such reinvestment is in the District's interest.

The Treasurer shall not exchange any such investment unless the General Manager determines that such exchange is in the District's interest.

Subject to the above provisions of this subsection 5101(b)(4), the Treasurer may enter into a reverse repurchase agreement, so long as the proceeds of the reverse repurchase agreement are invested solely to supplement the income normally received from the securities involved in the agreement.

(5) The General Counsel shall review monthly and, if appropriate, approve as to eligibility the securities invested in by the Treasurer in the preceding month and report the determinations to the Board.

(6) Investment of Deferred Compensation Fund.

(i) The Treasurer may invest funds held by the District pursuant to the District's deferred compensation plan in accordance with this Section 5101, and may liquidate such investments to comply with the provisions of the plan in accordance with the determinations of the General Manager.

(ii) The Treasurer may also deposit for purposes of investment funds held by the District, pursuant to the District's deferred compensation plans, in the Metropolitan Water District Federal Credit Union to the limit insured by the National Credit Union Share Insurance Fund.

(c) The Treasurer is authorized to enter into safekeeping agreements, in form approved by the General Counsel, and thereafter may deposit for safekeeping the bonds, notes, bills, debentures, obligations, certificates of indebtedness, warrants or other evidences of indebtedness in which the money of the District is invested pursuant to the terms and conditions of this Section 5101 with any state or national bank in this state with which there is a safekeeping agreement and in which the District maintains an active deposit supported by sufficient security, as required by law, to secure the amount of any collections which may be made by the bank from time to time pursuant to said safekeeping agreement and which are credited to such active deposits. Such bank may arrange for safekeeping of such securities in correspondent bank in New York City, designated by such bank and approved by the Treasurer. The Treasurer shall take from such California bank a receipt for securities so deposited either in definitive form in such bank or held in book-entry form on the books of the Federal Reserve Bank. All securities purchased shall be held in safekeeping under such agreements and shall only be released from safekeeping pursuant to such agreements.

## EXHIBIT B

## § 5101. Investment of Surplus Funds.

(a) Pursuant to Government Code Section 53607, this Board hereby does delegate to the Treasurer of the District the authority to invest or to reinvest funds of the District subject to the terms and conditions set forth in this Section 5101. The Treasurer shall report each month transactions made pursuant to this delegation.

(b) The terms and conditions of this delegation to the Treasurer are as follows:

(1) The Treasurer shall assume full responsibility for all transactions hereby delegated.

(2) The Treasurer may invest such portion of any money in any sinking fund of the District, or any surplus moneys in the District's treasury not required for the immediate necessities of the District, as the Treasurer deems wise or expedient, in the following securities, if they mature not later than 24 months from date of purchase, or such longer period upon Board approval for each such investment, unless at the time of purchase there is an agreement with the seller to repurchase such securities within 24 months; provided, however, that such 24-month restriction shall not apply to investments of moneys in the Waterworks Revenue Bond Reserve Fund, the Water Revenue Bonds, Issue of 1991 Reserve Fund, the Iron Mountain Landfill Closure/Postclosure Maintenance Fund, and the Employees' Deferred Compensation Funds:

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participations, or other instruments of or issued by, or fully guaranteed as to principal and interest by, the Federal National Mortgage Association; or in participation certificates evidencing beneficial interests in obligations, or in the right to receive interest and principal collections therefrom, which obligations have been subjected by one or more government agencies to a trust or trusts for which any executive department, agency, or instrumentality of the United States (or the head thereof) has been named to act as trustee; provided that investments in securities listed in this Section 5101(b)(2)(iv) shall not exceed one-third of all investments in effect immediately after any such investment is made.

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