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Karen E. Jeff
EXECUTIVE SECRETARY



MWD

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

February 24, 1992

To: Board of Directors (Finance and Insurance Committee--Action)
From: General Manager
Subject: Investment Authority for Repurchase Agreements

Report

The Board of Directors has delegated to the Treasurer the authority to invest in repurchase agreements subject to terms and conditions set forth in Section 5101(b)(2)(vi) of the MWD Administrative Code. A repurchase agreement is a financial transaction whereby one party agrees to sell securities to a second party and repurchase those securities at a later date at a fixed dollar price, plus accrued interest.

The Treasurer's investments in repurchase agreements provide a source of liquidity needed to handle outlays for the District's growing construction program. Repurchase agreements also provide investment flexibility in situations when large amounts of money are received in one day. This can occur upon sale of District bonds when it may be impractical to invest the full proceeds of the sale in other forms of securities the day proceeds are received.

Under current Board policy the Treasurer's authority to invest in repurchase agreements is limited to 10 percent of the total investment portfolio. Increasing demand for short term investment liquidity indicates a need to raise the 10 percent limitation to 30 percent.

Maximum safety and security of repurchase investments is accomplished under the Treasurer's current policy of purchasing only U.S. Treasury or Federal Agency securities for these transactions. Additionally, once the securities have been purchased, they are deposited for safekeeping in the District's name with the District's custodian bank. The normal investment maturity ranges from one to seven days. The longest maturity experienced to date has been 36 days.

The higher percentage constraint will allow the Treasurer to adjust to changing market conditions and provide the capacity to meet large changes in funds available for investment. The following is an estimate of the effect this change will have on the amount that could be held in repurchase agreements at any one time.

<u>Portfolio Size:</u>	<u>\$850,000,000</u>
10 percent	\$ 85,000,000
30 percent	\$255,000,000

The attached Exhibit A shows the new Administrative Code language needed for the proposed change in investment authority. Exhibit B shows new language marked by underlining and deleted language marked by strikeover.

The recommended action is exempt from the provisions of the California Environmental Quality Act because it can have no possible effect on the environment.

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)(vi) of the MWD Administrative Code be amended to read as shown in Exhibit A.


for Carl Boronkay

GDL/RDS/CGP:lg
045CGP

Attachments

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 30 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.

(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.

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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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