

AGENDA
REGULAR MEETING
FINANCE COMMITTEE
GEORGETOWN DIVIDE PUBLIC UTILITY DISTRICT
6425 MAIN STREET, GEORGETOWN, CA 95634
WEDNESDAY, DECEMBER 18, 2019
2:00 P.M.

MISSION STATEMENT

It is the purpose of the Georgetown Divide Public Utility District to:

- Provide reliable water supplies
 - Ensure high quality drinking water
 - Promote stewardship to protect community resources, public health, and quality of life
 - Provide excellent and responsive customer services through dedicated and valued staff
 - Ensure fiscal responsibility and accountability are observed by balancing immediate and long-term needs.
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1. CALL TO ORDER, PLEDGE OF ALLEGIANCE

2. PUBLIC FORUM – Any member of the public may address the Finance Committee on any matter within the jurisdictional authority of the Finance Committee. Public members desiring to provide comments, must be recognized by the Committee Chairman, and speak from the podium. Comments must be directed only to the Finance Committee. The public should address the Finance Committee members during the public meetings as Chairman, Vice Chairman, Secretary, or Member, followed by the Committee member's individual last name. The Finance Committee will hear communications on matters not on the agenda, but no action will be taken. No disruptive conduct shall be permitted at any Finance Committee meeting. Persistence in disruptive conduct shall be grounds for summary termination, by the Chairman, of that person's privilege of address.

3. CONSENT CALENDAR

A. Approval of Minutes

1. Regular Meeting of October 16, 2019

4. NEW BUSINESS

A. Review Update to Capital Improvement Plan and Impact to Fiscal Year 2019/2020 Budget

Possible Committee Action: Staff presentation. Review and comment.

B. Review Draft Investment Policy

Possible Committee Action: Staff presentation. Review and comment.

C. Review Budget Timeline and Process

Possible Committee Action: Staff presentation. Review and comment.

D. Finance Committee Vacancies/Membership

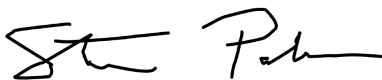
Possible Committee Action: Finance Committee discussion.

5. NEXT MEETING DATE

Possible Committee Action: Establish date and time for next meeting.

6. ADJOURNMENT

In compliance with the Americans with Disabilities Act, if you are a disabled person and you need a disability-related modification or accommodation to participate in this meeting, please contact Christina Cross by telephone at 530-333-4356 or by fax at 530-333-9442. Requests must be made as early as possible and at least one-full business day before the start of the meeting. In accordance with Government Code Section 54954.2(a), this agenda was posted on the District's bulletin board on December 13, 2019.



Steven Palmer, PE, General Manager

12/13/19

Date

Georgetown Divide Public Utility District Finance Committee

“Providing financial review and advisory services for the GDPUD Board of Directors in support of sound, prudent and business-like management of the water district.”

17 Oct 2019 Draft FINANCE COMMITTEE MEETING MINUTES

Meeting Date & Time: October 16, 2019, at 2:00 PM

Location: GDPUD Boardroom

Committee Members Present: Steve Miller (Chair), Thomas Crawford (Vice Chair), Mitch MacDonald, Ken Pauley, Don Waltz (Secretary)

Committee Member(s) Absent: Sierra Nyokka

Board Member Present: Michael Saunders (Treasurer, Finance Committee Liaison)

Staff Present: Steven Palmer (General Manager), Christina Cross

1. Call to Order, Pledge of Allegiance

Meeting called to order at 2:00 PM.

2. Public Forum

Question asked by member of the public: Can Finance Committee meeting packets be posted to the GDPUD Website prior to a meeting. Response from Steven Palmer (GM): Information packets are posted to the Website.

3. Consent Calendar - Approval of Minutes August 21, 2019, and September 15, 2019.

Motion was made and seconded to approve the minutes for FC meetings of August 21, 2019, and September 15, 2019, pursuant to the following deletion involving page 3 of the draft August 21st minutes:

“Mr. Palmer expressed strong concerns for ~~the~~ having significant legal oversight of GDPUD activities.”

Motion was unanimously approved.

4. New Business

A. Cash Balances Report

A report regarding the beginning and ending cash balances for fiscal years covering 2014-2019 was presented by Thomas Crawford. A request was made by a Committee member to instead investigate and report the beginning and ending fiscal year information for excess revenues or deficits. It was suggested that the District’s audit reports would be the likely source of such information. FC member Waltz volunteered to explore the audits and report accordingly.

B. Investment Report:

FC member MacDonald provided detailed information regarding the District’s current investment policy and the amounts of money invested in various financial instruments and accounts. After discussion, the Committee came to the conclusion that the FC was of the opinion that there may be more beneficial investment opportunities available to the District.

As a result, it was moved and seconded that the FC recommends that the Board of Directors direct its Treasurer to examine investment opportunities with respect to (1) approximately \$7,000,000 currently invested with the State of California Local Agency Investment Fund, and (2) approximately \$2,000,000

Georgetown Divide Public Utility District Finance Committee

“Providing financial review and advisory services for the GDPUD Board of Directors in support of sound, prudent and business-like management of the water district.”

invested in a savings account with El Dorado Savings Bank. The motion was approved on a unanimous vote.

C. Review Draft Leakage Consideration Policy

Mr. Palmer and Ms. Cross led a discussion of alternative solutions to the issue revolving about the percentage of water rate charges that can be offset by the District when a customer incurs extraordinary water charges resulting from a leak in a customer’s water delivery system. As a result of discussions regarding the subjectivity of the percentages that were examined, the Committee entertained two motions:

- 1. It was moved and seconded that the offset that a customer could receive after a leak is reported cannot not be greater than \$1000 and 90% of the amount that is equal to or less than \$1000. This motion failed on the following votes:*

Yes: Mr. Crawford and Mr. Waltz

No: Mr. Pauley and Mr. Miller

Abstain: Mr. MacDonald

- 2. It was moved and seconded that the offset that a customer could receive after a leak is reported could not be greater than \$1000 and 70% of the amount that is equal to or less than \$1000. This motion was approved on the following votes:*

Yes. Mr. Crawford, Mr. Miller, Mr. Pauley and Mr. Waltz

No: None

Abstain: Mr. MacDonald

Thus, the Committee recommends that the Board take into consideration the above approved motion when contemplating changes to the District’s Leakage Consideration Policy.

D. Discussion of District’s Investment Policy

The Committee agreed that discussion of this item had been covered during the conversations that ensued following Mr. MacDonald’s presentation under item “B” of the agenda.

E. Review Update to Capital Improvement Plan and Impact to Fiscal Year 2019/2020 Budget

Mr. Palmer indicated that the update was not ready for discussion. The matter was tabled.

5. Next meeting & adjourn

It was decided that the next Committee meeting would be held November 20, 2019, at 2pm, at the Georgetown Divide Public Utility District office, 6425 Main St., Georgetown, CA 95634. The meeting was then adjourned at 4:20 PM.

Minutes prepared by Don Waltz, Finance Committee Secretary.

GEORGETOWN DIVIDE PUBLIC UTILITY DISTRICT
Administrative Directive 2019-XX
Budget Change Request Form
 Fiscal Year 2019-20

Date: 12/18/2019

To: Steven Palmer, PE, General Manager

From: Steven Palmer, PE, General Manager

Source of Funds or Transfer from:

<u>Account Description</u>	<u>Account Number</u>	<u>Amount</u>		
		<u>Current Budget</u>	<u>Budget Change</u>	<u>Amended Budget</u>
_____	_____	-	-	-
_____	_____	-	-	-
_____	_____	-	-	-
_____	_____	-	-	-
_____	_____	-	-	-
<i>Total:</i>		\$	-	

New Appropriation or Transfer to:

<u>Account Description</u>	<u>Account Number</u>	<u>Amount</u>		
		<u>Current Budget</u>	<u>Budget Change</u>	<u>Amended Budget</u>
Capital Reserve	43-5100-7023	\$ 905,185	242,017	1,147,202
Capital Facility Charge	39-5100-7023	862,500	542,053	1,404,553
_____	_____			-
_____	_____			-
_____	_____			-
<i>Total:</i>		\$	<u>784,070</u>	

Reason for change:

1. Board directed increase to project budget for 2018 Main Canal Reliability Project (\$692,468)
2. Board directed increase to project budget for ALT Water Treatment Plant Project (\$120,000)
3. Decrease due to 2018 Water Line Replacement Project completion under budget (-\$36,398)
4. Proposed increase to project budget to procure and install backup generator at District office (\$8,000)

Requested by: _____ Date: _____
Steven Palmer, PE, General Manager

General Manager: _____ Date: _____
Steven Palmer, PE, General Manager

Recommended: Yes: No:

Approved: Yes: No:

Project Name: 2018 Main Canal Reliability
 Project Number: 924
 Project Description: Prioritized repair and lining of Main Canal
 Funding Sources:

Sources	Prior Years	FY19/20	FY20/21	FY21/22	FY22/23	FY23/24	Future Years	Total
CABY Grant (9)								0
Capital Reserve (43)								0
Prior Reimbursements Received (35)								0
Capital Facility Charge (39)		345,000						345,000
ALT WTP Capital Reserve (24)								0
ALT Zone Fund (40)								0
ALT Tank Replacement Loans & Repair (41)								0
ALT CDS Reserve Connection (42)								0
Grants (EPA)								0
SRF Loan								0
General Fund (10)								0
Other (EDCWA Cost Share)		0						0
Unfunded								0
Total	0	345,000	0	0	0	0	0	345,000

Project Cost Estimate:

Elements	Prior Years	FY19/20	FY20/21	FY21/22	FY22/23	FY23/24	Future Years	Total
Preliminary Engineering (7020)		54,000						54,000
Environmental (7021)								0
Land/ROW Acquisition (7022)								0
Construction Engineering (7024)		30,000						30,000
Construction Contract (7023)		216,000						216,000
Other CIP Costs (7025)		45,000						45,000
Other - TBD								0
Total	0	345,000	0	0	0	0	0	345,000

DRAFT

Project Name: 2018 Main Canal Reliability
Project Number: 924
Project Description: Prioritized repair and lining of Main Canal
Funding Sources:

Sources	Prior Years	FY19/20	FY20/21	FY21/22	FY22/23	FY23/24	Future Years	Total
CABY Grant (9)								0
Capital Reserve (43)		114,017						114,017
Prior Reimbursements Received (35)								0
Capital Facility Charge (39)		923,451						923,451
ALT WTP Capital Reserve (24)								0
ALT Zone Fund (40)								0
ALT Tank Replacement Loans & Repair (41)								0
ALT CDS Reserve Connection (42)								0
Grants (EPA)								0
SRF Loan								0
General Fund (10)								0
Other (EDCWA Cost Share)		0						0
Unfunded								0
Total	0	1,037,468	345,000	0	0	0	0	1,037,468

Project Cost Estimate:

Elements	Prior Years	FY19/20	FY20/21	FY21/22	FY22/23	FY23/24	Future Years	Total
Preliminary Engineering (7020)		47,635						47,635
Environmental (7021)								0
Land/ROW Acquisition (7022)								0
Construction Engineering (7024)		35,000						35,000
Construction Contract (7023)		924,833						924,833
Other CIP Costs (7025)		30,000						30,000
Other - TBD								0
Total	0	1,037,468	0	0	0	0	0	1,037,468

Project Name: ALT Treatment Plant Replacement
Project Number: 907
Project Description: Construct new replacement water treatment plant
Funding Sources:

Sources	Prior Years	FY19/20	FY20/21	FY21/22	FY22/23	FY23/24	Future Years	Total
CABY Grant (9)								0
Capital Reserve (43)								0
Prior Reimbursements Received from EPA - 5								0
Capital Facility Charge (39) - 4								0
ALT WTP Capital Reserve (24) - 3	1,104,495	190,814						1,295,309
ALT Zone Fund (40)								0
ALT Tank Replacement Loans & Repair (41)								0
ALT CDS Reserve Connection (42)								0
EPA Grant (35) - 1	1,433,600							1,433,600
SRF Loan - (20)	8,932,876	1,067,124						10,000,000
General Fund (10)								0
Other								0
Unfunded								0
Total	11,470,971	1,257,938	0	0	0	0	0	12,728,909

Project Cost Estimate:

Elements	Prior Years	FY19/20	FY20/21	FY21/22	FY22/23	FY23/24	Future Years	Total
Preliminary Engineering (7020)	402,601							402,601
Environmental (7021)	49,382							49,382
Land/ROW Acquisition (7022)								0
Construction Engineering (7024)	866,849	20,977						887,826
Construction Contract (7023)	10,036,939	1,212,061						11,249,000
Other CIP Costs (7025)	115,200	24,900						140,100
Other - TBD								0
Total	11,470,971	1,257,938	0	0	0	0	0	12,728,909

Project Name: ALT Treatment Plant Replacement
Project Number: 907
Project Description: Construct new replacement water treatment plant
Funding Sources:

Sources	Prior Years	FY19/20	FY20/21	FY21/22	FY22/23	FY23/24	Future Years	Total
CABY Grant (9)								0
Capital Reserve (43)		120,000						120,000
Prior Reimbursements Received from EPA - 5								0
Capital Facility Charge (39) - 4								0
ALT WTP Capital Reserve (24) - 3	1,104,495	190,814						1,295,309
ALT Zone Fund (40)								0
ALT Tank Replacement Loans & Repair (41)								0
ALT CDS Reserve Connection (42)								0
EPA Grant (35) - 1	1,433,600							1,433,600
SRF Loan - (20)	8,932,876	1,067,124						10,000,000
General Fund (10)								0
Other								0
Unfunded								0
Total	11,470,971	1,377,938	0	0	0	0	0	12,848,909

Project Cost Estimate:

Elements	Prior Years	FY19/20	FY20/21	FY21/22	FY22/23	FY23/24	Future Years	Total
Preliminary Engineering (7020)	402,601							402,601
Environmental (7021)	49,382							49,382
Land/ROW Acquisition (7022)								0
Construction Engineering (7024)	866,849	20,977						887,826
Construction Contract (7023)	10,036,939	1,332,061						11,369,000
Other CIP Costs (7025)	115,200	24,900						140,100
Other - TBD								0
Total	11,470,971	1,377,938	0	0	0	0	0	12,848,909

Project Name: 2018 Treated Water Line Replacement/Rehab
Project Number: 922
Project Description: Prioritized replacement or rehabilitation of treated water lines
Funding Sources:

Sources	Prior Years	FY19/20	FY20/21	FY21/22	FY22/23	FY23/24	Future Years	Total
CABY Grant (9)								0
Capital Reserve (43)						412,850		412,850
Prior Reimbursements Received (35)								0
Capital Facility Charge (39)		379,500		396,750				776,250
ALT WTP Capital Reserve (24)								0
ALT Zone Fund (40)								0
ALT Tank Replacement Loans & Repair (41)								0
ALT CDS Reserve Connection (42)								0
Grants (EPA)								0
SRF Loan								0
General Fund (10)								0
Other (EDCWA Cost Share)								0
Unfunded								0
Total	0	379,500	0	396,750	0	412,850	0	1,189,100

Project Cost Estimate:

Elements	Prior Years	FY19/20	FY20/21	FY21/22	FY22/23	FY23/24	Future Years	Total
Preliminary Engineering (7020)		60,000		63,000		65,000		188,000
Environmental (7021)								0
Land/ROW Acquisition (7022)								0
Construction Engineering (7024)		30,000		32,000		34,000		96,000
Construction Contract (7023)		240,000		250,000		260,000		750,000
Other CIP Costs (7025)		49,500		51,750		53,850		155,100
Other - TBD								0
Total	0	379,500	0	396,750	0	412,850	0	1,189,100

Project Name: 2018 Treated Water Line Replacement/Rehab
Project Number: 922
Project Description: Prioritized replacement or rehabilitation of treated water lines
Funding Sources:

Sources	Prior Years	FY19/20	FY20/21	FY21/22	FY22/23	FY23/24	Future Years	Total
CABY Grant (9)								0
Capital Reserve (43)				360,352		412,850		773,202
Prior Reimbursements Received (35)								0
Capital Facility Charge (39)		343,102		36,398				379,500
ALT WTP Capital Reserve (24)								0
ALT Zone Fund (40)								0
ALT Tank Replacement Loans & Repair (41)								0
ALT CDS Reserve Connection (42)								0
Grants (EPA)								0
SRF Loan								0
General Fund (10)								0
Other (EDCWA Cost Share)								0
Unfunded								0
Total	0	343,102	0	396,750	0	412,850	0	1,152,702

Project Cost Estimate:

Elements	Prior Years	FY19/20	FY20/21	FY21/22	FY22/23	FY23/24	Future Years	Total
Preliminary Engineering (7020)		33,778		63,000		65,000		161,778
Environmental (7021)								0
Land/ROW Acquisition (7022)								0
Construction Engineering (7024)		12,985		32,000		34,000		78,985
Construction Contract (7023)		288,811		250,000		260,000		798,811
Other CIP Costs (7025)		7,528		51,750		53,850		113,128
Other - TBD								0
Total	0	343,102	0	396,750	0	412,850	0	1,152,702

Project Name: Install Backup Generator at the Office
Project Number: TBD
Project Description: Install backup generator at the District office for power outages
Funding Sources:

Sources	Prior Years	FY19/20	FY20/21	FY21/22	FY22/23	FY23/24	Future Years	Total
CABY Grant (9)								0
Capital Reserve (43)		22,000					0	22,000
Prior Reimbursements Received (35)								0
Capital Facility Charge (39)								0
ALT WTP Capital Reserve (24)								0
ALT Zone Fund (40)								0
ALT Tank Replacement Loans & Repair (41)								0
ALT CDS Reserve Connection (42)								0
Grants (EPA)								0
SRF Loan								0
General Fund (10)								0
Other								0
Unfunded								0
Total	0	22,000	0	0	0	0	0	22,000

Project Cost Estimate:

Elements	Prior Years	FY19/20	FY20/21	FY21/22	FY22/23	FY23/24	Future Years	Total
Preliminary Engineering (7020)								0
Environmental (7021)								0
Land/ROW Acquisition (7022)								0
Construction Engineering (7024)								0
Construction Contract (7023)		20,000						20,000
Other CIP Costs (7025)		2,000						2,000
Other - TBD								0
Total	0	22,000	0	0	0	0	0	22,000

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Project Name: Install Backup Generator at the Office
Project Number: TBD
Project Description: Install backup generator at the District office for power outages
Funding Sources:

Sources	Prior Years	FY19/20	FY20/21	FY21/22	FY22/23	FY23/24	Future Years	Total
CABY Grant (9)								0
Capital Reserve (43)		30,000					0	30,000
Prior Reimbursements Received (35)								0
Capital Facility Charge (39)								0
ALT WTP Capital Reserve (24)								0
ALT Zone Fund (40)								0
ALT Tank Replacement Loans & Repair (41)								0
ALT CDS Reserve Connection (42)								0
Grants (EPA)								0
SRF Loan								0
General Fund (10)								0
Other								0
Unfunded								0
Total	0	30,000	0	0	0	0	0	30,000

Project Cost Estimate:

Elements	Prior Years	FY19/20	FY20/21	FY21/22	FY22/23	FY23/24	Future Years	Total
Preliminary Engineering (7020)								0
Environmental (7021)								0
Land/ROW Acquisition (7022)								0
Construction Engineering (7024)								0
Construction Contract (7023)		28,000						28,000
Other CIP Costs (7025)		2,000						2,000
Other - TBD								0
Total	0	30,000	0	0	0	0	0	30,000

Project Name: Upcountry Ditch Reliability
Project Number:
Project Description: Prioritized repair of Upcountry Ditch
Funding Sources:

Sources	Prior Years	FY19/20	FY20/21	FY21/22	FY22/23	FY23/24	Future Years	Total
CABY Grant (9)								0
Capital Reserve (43)			197,287	526,500				723,787
Prior Reimbursements Received (35)								0
Capital Facility Charge (39)		138,000	329,213					467,213
ALT WTP Capital Reserve (24)								0
ALT Zone Fund (40)								0
ALT Tank Replacement Loans & Repair (41)								0
ALT CDS Reserve Connection (42)								0
Grants (EPA)								0
SRF Loan								0
General Fund (10)								0
Other (EDCWA Cost Share)								0
Unfunded								0
Total	0	138,000	526,500	526,500	0	0	0	1,191,000

Project Cost Estimate:

Elements	Prior Years	FY19/20	FY20/21	FY21/22	FY22/23	FY23/24	Future Years	Total
Preliminary Engineering (7020)		95,000						95,000
Environmental (7021)		43,000						43,000
Land/ROW Acquisition (7022)								0
Construction Engineering (7024)			25,000	25,000				50,000
Construction Contract (7023)			476,500	476,500				953,000
Other CIP Costs (7025)			25,000	25,000				50,000
Other - TBD								0
Total	0	138,000	526,500	526,500	0	0	0	1,191,000

Project Name: Upcountry Ditch Reliability
Project Number:
Project Description: Prioritized repair of Upcountry Ditch
Funding Sources:

Sources	Prior Years	FY19/20	FY20/21	FY21/22	FY22/23	FY23/24	Future Years	Total
CABY Grant (9)								0
Capital Reserve (43)			526,500	526,500				1,053,000
Prior Reimbursements Received (35)								0
Capital Facility Charge (39)		138,000	0					138,000
ALT WTP Capital Reserve (24)								0
ALT Zone Fund (40)								0
ALT Tank Replacement Loans & Repair (41)								0
ALT CDS Reserve Connection (42)								0
Grants (EPA)								0
SRF Loan								0
General Fund (10)								0
Other (EDCWA Cost Share)								0
Unfunded								0
Total	0	138,000	526,500	526,500	0	0	0	1,191,000

Project Cost Estimate:

Elements	Prior Years	FY19/20	FY20/21	FY21/22	FY22/23	FY23/24	Future Years	Total
Preliminary Engineering (7020)		95,000						95,000
Environmental (7021)		43,000						43,000
Land/ROW Acquisition (7022)								0
Construction Engineering (7024)			25,000	25,000				50,000
Construction Contract (7023)			476,500	476,500				953,000
Other CIP Costs (7025)			25,000	25,000				50,000
Other - TBD								0
Total	0	138,000	526,500	526,500	0	0	0	1,191,000

GEORGETOWN DIVIDE PUBLIC UTILITY DISTRICT
Proposed Budget
Summary of Restricted Funds
 Fiscal Year 2019-2020

Fund	Beginning Fund Balance	Revenues	Expenses	Ending Fund Balance
RESTRICTED FUNDS (3) (4) (5)				
09 CABY Grant	\$ (518,601)	518,601	-	\$ (0)
14 Stewart Mine	\$ (8,232)	-	-	\$ (8,232)
17 Water Development	\$ 412,296	4,960	-	\$ 417,256
20 ALT Fund (6)	\$ 1,585,624	1,716,047	1,067,124	\$ 2,234,547
29 State Revolving Fund	\$ 21,702	-	-	\$ 21,702
37 Garden Valley Water Improvement District	\$ 108,814	-	-	\$ 108,814
39 Capital Facility Charges	\$ 1,694,217	-	862,500	\$ 831,717
41 ALT Tank Replacement and Loan	\$ 44,902	-	-	\$ 44,902
42 ALT Community Disposal Service Reserve	\$ 153,088	-	58,500	\$ 94,588
51 Kelsey North Assessment District	\$ 21,385	-	-	\$ 21,385

Notes:

- (3) Restricted funds are those whose usage are legally restricted for specific purposes
- (4) Retiree fund (12) is not shown to avoid duplicate budget
- (5) State Revolving Fund Fund 29 expenses include \$2,296 per month for existing SRF Loan for Walton WTP
- (6) ALT Fund includes supplemental charge revenue, a portion of ALT WTP construction expenses, and SRF loan draws for ALT WTP

GEORGETOWN DIVIDE PUBLIC UTILITY DISTRICT

Proposed Budget

Summary of Restricted Funds

Fiscal Year 2019-2020

12/18/2019

Fund	Beginning Fund Balance	Revenues	Expenses	Ending Fund Balance
RESTRICTED FUNDS (3) (4) (5)				
09 CABY Grant	\$ (518,601)	518,601	-	\$ (0)
14 Stewart Mine	\$ (8,232)	-	-	\$ (8,232)
17 Water Development	\$ 412,296	4,960	-	\$ 417,256
20 ALT Fund (6)	\$ 1,585,624	1,716,047	1,067,124	\$ 2,234,547
29 State Revolving Fund	\$ 21,702	-	-	\$ 21,702
37 Garden Valley Water Improvement District	\$ 108,814	-	-	\$ 108,814
39 Capital Facility Charges	\$ 1,694,217	-	1,404,553	\$ 289,664
41 ALT Tank Replacement and Loan	\$ 44,902	-	-	\$ 44,902
42 ALT Community Disposal Service Reserve	\$ 153,088	-	58,500	\$ 94,588
51 Kelsey North Assessment District	\$ 21,385	-	-	\$ 21,385

Notes:

- (3) Restricted funds are those whose usage are legally restricted for specific purposes
- (4) Retiree fund (12) is not shown to avoid duplicate budget
- (5) State Revolving Fund Fund 29 expenses include \$2,296 per month for existing SRF Loan for Walton WTP
- (6) ALT Fund includes supplemental charge revenue, a portion of ALT WTP construction expenses, and SRF loan draws for ALT WTP

GEORGETOWN DIVIDE PUBLIC UTILITY DISTRICT

Proposed Budget

Fund Summary

Fiscal Year 2019-2020

June 4, 2019

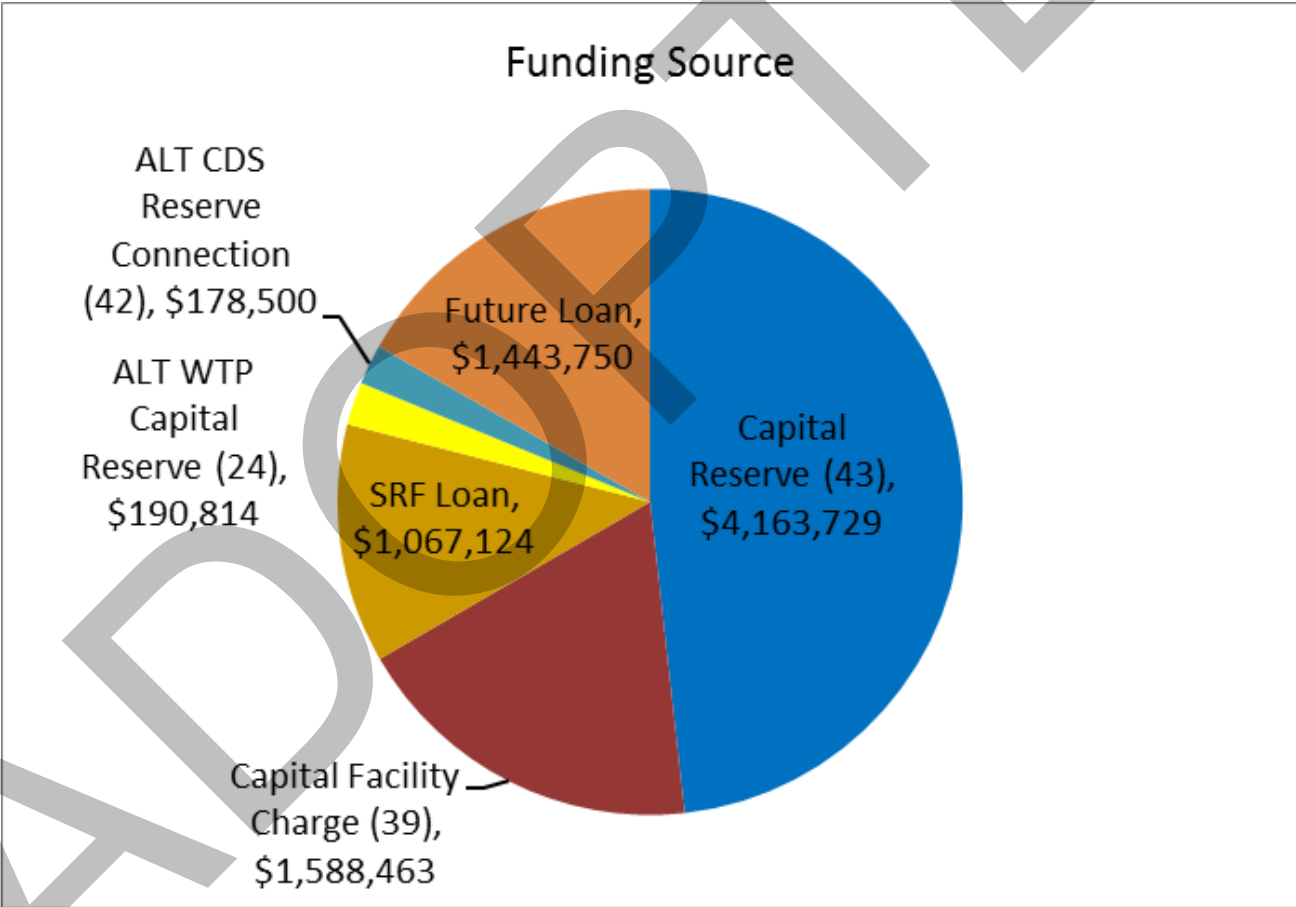
Description	Beginning Balance	Revenues	Expenses	Ending Balance
<u>10 - GENERAL FUND</u>				
<i>Revenue</i>				
Water operating revenue	\$ -	\$ 3,401,832	\$ -	\$ -
Non-operating revenue		1,861,651		
Supplemental charge		648,923		
<i>Total revenue</i>	<u>\$ -</u>	<u>\$ 5,912,406</u>	<u>\$ -</u>	<u>\$ -</u>
<i>Expenses</i>				
5100 - Source of Supply	\$ -	\$ -	\$ 395,376	\$ -
5200 - Raw Water			803,628	
5300 - Water Treatment			721,543	
5400 - Treated Water			702,582	
5500 - Customer Service			346,184	
5600 - Admin			1,641,863	
Low Income Rate Assistance Program (Property Tax)			35,000	
<i>Total expenses</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,646,176</u>	<u>\$ -</u>
<i>Transfers</i>				
Transfer supplemental charge to SRF Loan Fund			\$ 648,923	
Transfer from Operating to Capital Reserve (Fund 43)			1,492,825	
<i>Total Transfers</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,141,748</u>	<u>\$ -</u>
TOTAL GENERAL FUND	<u>\$ 2,450,742</u>	<u>\$ 5,912,406</u>	<u>\$ 6,787,923</u>	<u>\$ 1,575,225</u>
<u>40 - ALT ZONE FUND</u>				
<i>Revenue</i>				
Wastewater operating revenue	\$ -	\$ 190,500	\$ -	\$ -
<i>Total revenue</i>	<u>\$ -</u>	<u>\$ 190,500</u>	<u>\$ -</u>	<u>\$ -</u>
<i>Expenses</i>				
6700 - Zone	\$ -	\$ -	\$ 294,505	\$ -
<i>Total expenses</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 294,505</u>	<u>\$ -</u>
TOTAL ALT ZONE FUND	<u>\$ 1,032,472</u>	<u>\$ 190,500</u>	<u>\$ 294,505</u>	<u>\$ 928,468</u>
GRAND TOTAL REVENUES AND EXPENSES	<u>\$ 3,483,215</u>	<u>\$ 6,102,906</u>	<u>\$ 7,082,429</u>	<u>\$ 2,503,693</u>
<u>UNRESTRICTED RESERVE FUNDS</u>				
08 - SMUD	\$ 307,710	\$ 110,900	\$ -	\$ 418,610
19 - Stumpy Meadows	1,064,692	13,454	-	1,078,146
24 - ALT Capital Reserve	190,814	-	190,814	(0)
30 - Small Hydro	691,887	60,000	-	751,887
43 - Capital Reserve	1,094,935	1,492,825	905,185	1,682,575
TOTAL UNRESTRICTED RESERVE FUNDS	<u>\$ 3,350,037</u>	<u>\$ 1,677,179</u>	<u>\$ 1,095,999</u>	<u>\$ 3,931,217</u>

GEORGETOWN DIVIDE PUBLIC UTILITY DISTRICT
Proposed Budget
Fund Summary
Fiscal Year 2019-2020
DRAFT 12/18/2019

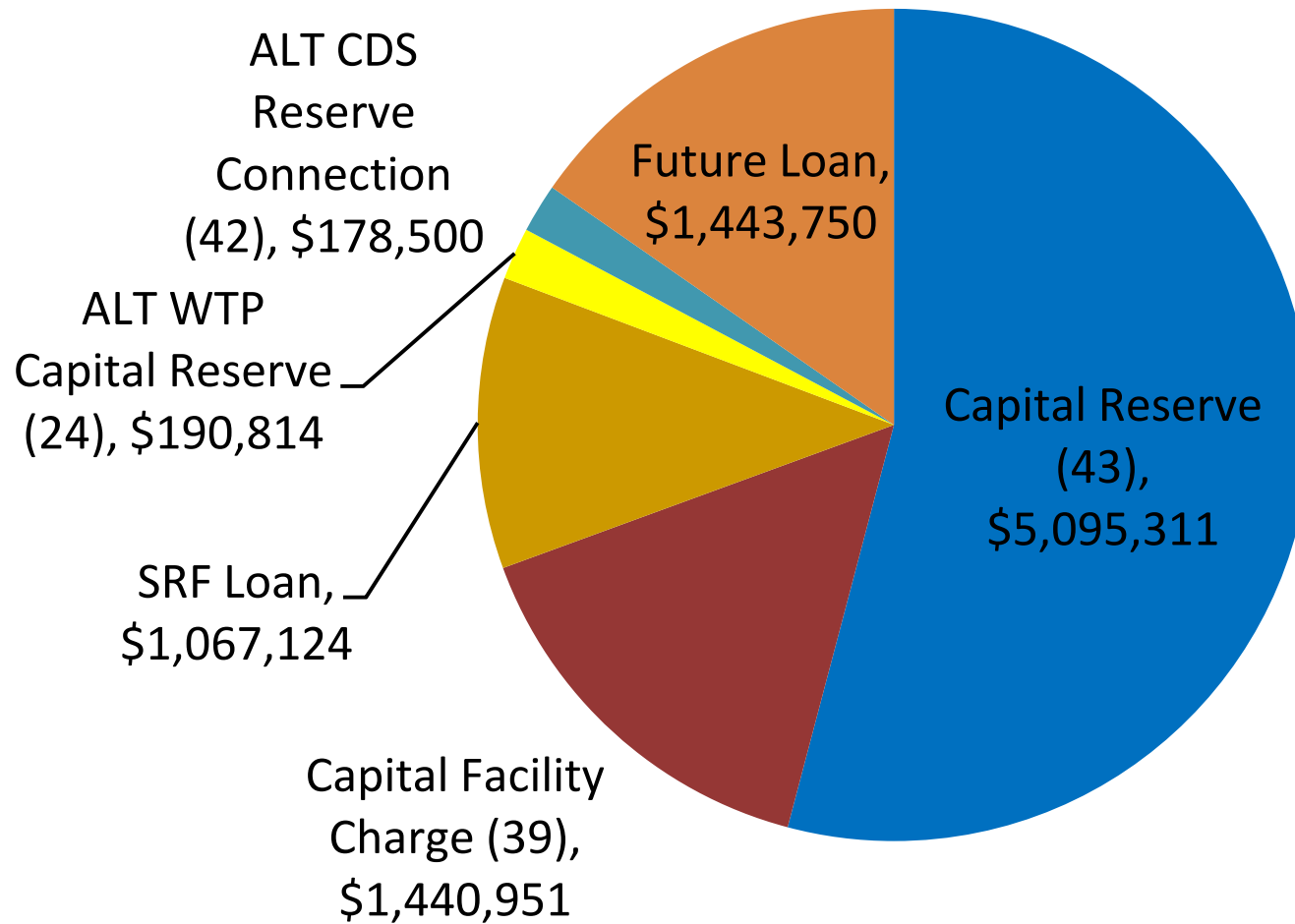
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30 - Small Hydro	691,887	60,000	-	751,887
43 - Capital Reserve	1,094,935	1,492,825	1,147,202	1,440,558
TOTAL UNRESTRICTED RESERVE FUNDS	<u>\$ 3,350,037</u>	<u>\$ 1,677,179</u>	<u>\$ 1,338,016</u>	<u>\$ 3,689,200</u>

Fund	FY19/20	FY20/21	FY21/22	FY22/23	FY23/24	TOTAL 2019-2024
Capital Reserve	\$ 905,185	\$1,039,587	\$1,021,685	\$372,550	\$824,722	\$4,163,729
Capital Facility Charge	\$ 862,500	\$329,213	\$396,750	\$0	\$0	\$1,588,463
ALT WTP Capital Reserve	\$ 190,814	\$0	\$0	\$0	\$0	\$ 190,814
SRF Loan	\$1,067,124	\$0	\$0	\$0	\$0	\$1,067,124
Future Loan	\$0	\$1,443,750	\$0	\$0	\$0	\$1,443,750
ALT CDS Reserve	\$ 58,500	\$ 120,000	\$0	\$0	\$0	\$ 175,000
Total	\$3,084,123	\$2,932,550	\$1,418,435	\$372,550	\$824,722	\$8,632,380

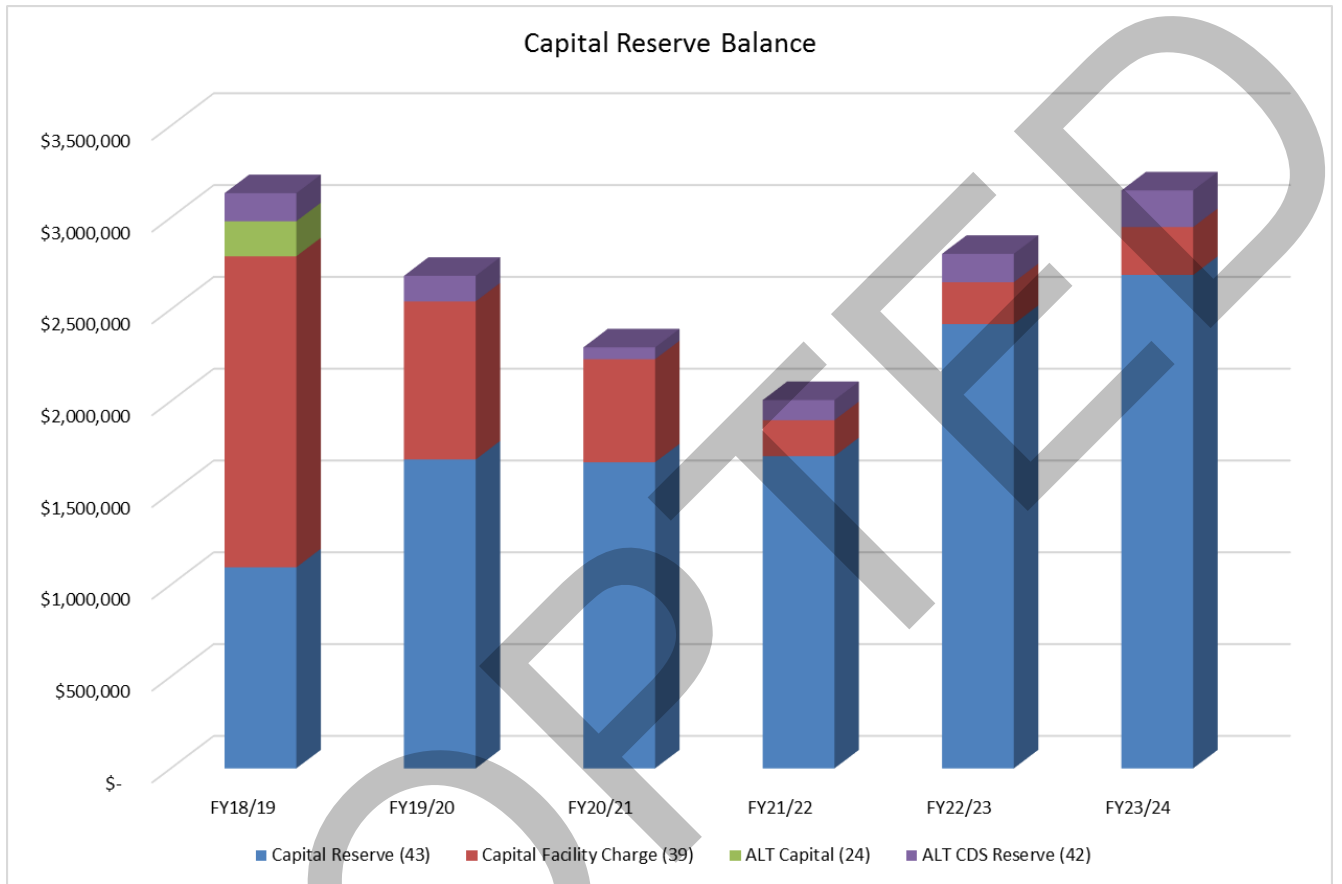
The following chart illustrates funding sources for all five fiscal years in the CIP.



Funding Source



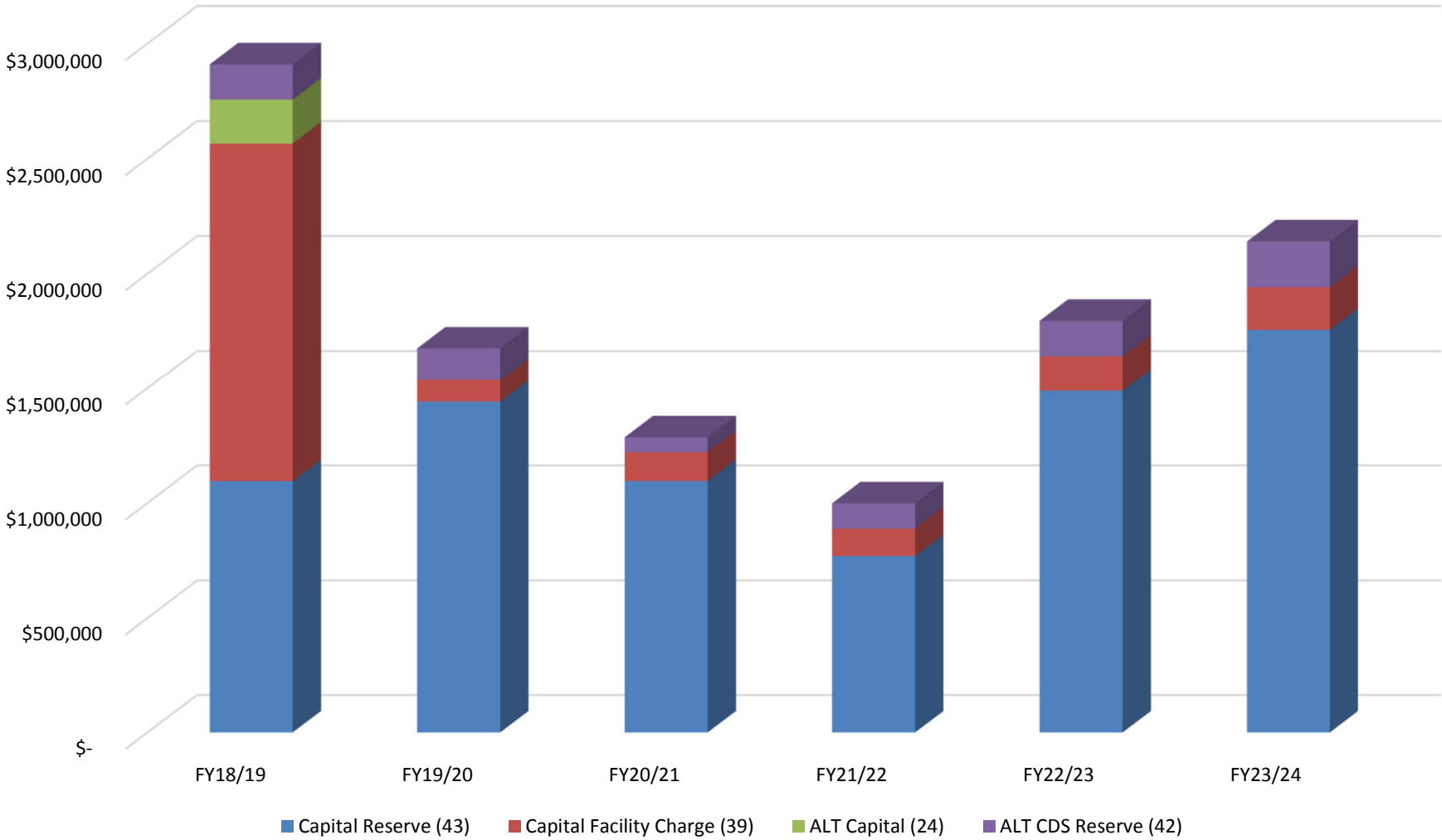
The last chart depicts end of year fund balance projections for capital reserve funds. These are based on Fiscal Year 2018/2019 end of year projected fund balances, and the spending plan as outlined in this CIP.



IV. Project Summary

Capital improvement projects programmed in the 2019/2020 to 2023/2024 Capital Improvement Plan are listed below. A project is only listed if there is funding programmed during Fiscal Year 2019/20 through Fiscal Year 2023/24. Detailed project costs estimates with expenditure plans for each project listed below are included in Appendix A.

Capital Reserve Balance



CURRENT POLICY

Memo

To: Board of Directors

From: Victoria Knoll, Office Manager

Date: January 6, 2016

Re: INVESTMENT POLICY REPORT AND REVIEW

Board Meeting of January 12, 2016; Agenda Item #11

BACKGROUND / DISCUSSION

In the past it has been the practice of the GDPUD Board to review and make changes, if necessary, to its Investment Policy. The last time the Policy was reviewed and ratified by the Board was on February 4, 2013. At that time Henry White, General Manager, made the following comments regarding the policy:

Annually, the Board of Directors reviews and ratifies the District's Investment Policy. The attached document is a copy of the District's existing Investment Policy. The Investment Policy continues to be conservative. As a result, investment earnings may not be high, but market risk losses are nil. In addition, the policy is efficient and easy to administer.

The February 4, 2013, ratified Investment Policy is included as **Attachment 1** to this staff report.

Staff proposes the following language changes to the existing Investment Policy:

1. Staff proposes that Items 4 and 5 be deleted. These items refer to the CalTrust and CAMP investments, which are no longer a part of GDPUD's portfolio.
2. Staff proposes Item 6 be updated to reflect the current Federal Deposit Insurance Corporation (FDIC) FDIC coverage of \$250,000 aggregate per institution where the District elects not to waive the coverage. The current coverage is \$250,000 aggregate per institution and not \$100,000 per institution as stated in the document.

In addition to the proposed language changes, staff notes that the current Investment philosophy is "to insure the safety of principal and to provide funds when needed." Staff believes this philosophy could be further studied and possibly revised as it pertains to GDPUD's long term and short term capital goals.

RECOMMENDATION

Staff recommends the Board approve deleting items 4 and 5 and updating item 6 to reflect FDIC aggregate coverage of \$250,000.

GEORGETOWN DIVIDE PUBLIC UTILITY DISTRICT

This policy was originally adopted by the Board of Directors on December 12, 1995 and has been ratified by the Board of Directors annually. In January of 2007, the policy was amended to allow maturities of five years or less, utilize investment institutions located in the United States and include two additional investment pools. An investment policy is valuable in providing investment earnings and money when needed for District activities. In January of 2009, the policy was amended to include of U.S. Treasury Obligation Money Market Funds to be utilized for the California State Revolving Fund Fiscal Agent Accounts.

POLICY TITLE: INVESTMENT POLICY AND GUIDELINES

INTRODUCTION

The following is the annual statement of investment policy of the Board of Directors of the Georgetown Divide Public Utility District, presented in accordance with Section 53600 et seq. of the Government Code.

This statement is intended to provide a guideline for the prudent investment of District money not immediately required to meet the financial obligations of the District. District money, as discussed herein, includes General Fund money, and money that is set aside in the various reserve funds that have been established by the Board of Directors.

Basic Policy and Statement of Objectives

In order of importance, three fundamental criteria shall be followed in the investment program:

A. Safety of Principal - investments shall be undertaken in a manner which first seeks to ensure the preservation of principal in the portfolio. The Clerk of the Board shall evaluate or cause to have evaluated each potential investment, seeking both quality in issuer and in underlying security or collateral.

B. Liquidity - investments shall be made whose maturity date is compatible with cash flow requirements and which will permit easy and rapid conversion into cash without a substantial loss of value.

C. Return on Investment - investments shall be undertaken to produce an acceptable rate of return after first considering safety of principal and liquidity.

Management will put forth its best efforts to forecast accurately the revenues and cash needs of the District, in order to provide for the investment of moneys to the fullest extent possible.

The District's pool of investments will be operated under the Prudent Person Standard, which is that any investment shall be made as if it is one which would be purchased by a prudent person using the same discretion and intelligence that a person would use in managing his own affairs and certainly not for speculation.

Specifically, investments will be made only in securities and with financial institutions in which the District is legally empowered to invest such funds, in accordance with the terms and conditions of Sections 53600 through 53693 of the Government Code of California. Investments of general fund and miscellaneous reserve fund moneys shall normally be limited to maturities of five years or less, in order to provide for a high degree of liquidity.

Acceptable Investment Instruments

The District's portfolio may include investments only in the following instruments:

1. Passbook Savings Accounts and Money Market Checking Accounts. These savings accounts may be maintained in local branches of commercial banks and/or savings and loan associations. Amounts maintained in such accounts shall be fully insured by the United States Government or collateralized in accordance with California Government Code Section 53600 et seq.
2. Money Market Funds. The accounts may be maintained with investment institutions. Amounts maintained in such accounts shall be invested in U.S. Treasury obligations.
3. State Local Agency Investment Fund. Investments with the Local Agency Investment Fund (LAIF) may be made up to the maximum amount permitted by state Treasury policy.
4. CalTrust Investment Trust of California. Investments with the CalTrust are governed by CalTrust policy.
5. California Asset Management Program. Investments with California Asset Management Program (CAMP) are governed by CAMP policy.
6. Certificates of Deposits. Cash may be invested only in Federally insured or fully collateralized certificates of deposit. Collateral for a given investment, when applicable, must be in accordance with California Government Code Section 53600 et seq. The District elects not to waive the Federal Deposit Insurance Corporation (FDIC) coverage up to \$100,000 in the aggregate per institution.

The investment institution must be located in the United States and at least five years old.

SUMMARY

The District will strive to maintain the level of investment of funds not immediately active as near to 100 percent as possible. However, the basic premise underlying the District' investment philosophy is to insure the safety of principal and to provide funds when needed.

In order that the Board of Directors may monitor management's handling of invested funds, a full report detailing all investments shall be given to the Board each month, in accordance with Section 53646 (b) of the Government Code.

The Board of Directors will review the investment policy at least once a year, and may modify the policy as appropriate to District needs and current law.

DRAFT REVISED POLICY

Georgetown Divide Public Utility District

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POLICY TITLE: Investment Policy

POLICY NUMBER: 2130(?)

2130.1 Premise:

- a) The State Legislature has declared the deposit and investment of public funds by local officials and local agencies is an issue of statewide concern (Government Code (GC) § 53600.6 and § 53630.1); and,
- b) Government Code Sections 53601, et seq., allow the legislative body of a local agency to invest surplus monies not required for the immediate necessities of the local agency; and,
- c) The fiscal officer of a local agency is required to annually prepare and submit a statement of investment policy and such policy, and any changes thereto, is to be considered by the local agency's legislative body at a public meeting (GC § 53646(a)).
- d) For these reasons, and to ensure prudent and responsible management of the public's funds, it is the policy of the District to invest funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the District and conforming to all statutes governing the investment of District funds.

2130.2 Scope:

This investment policy applies to all financial assets of the District. These funds are accounted for in the monthly financial reports and the annual audited financial statements of the District.

2130.2.1 Exceptions:

Three exceptions exist regarding investment of: bond reserve funds, grant funds. Bond reserve and grant funds will be invested in accordance with the statutory provisions governing the issuance of the bond(s) or grant(s), or the actual bond or grant documents, as applicable. Investment of District pension trust funds is governed by California Government Code 53125 – 53224. Investment of post-employment health benefit trust funds are governed by California Government code 53620 – 53622.

2130.2.2 Pooling of Funds:

With the exception of cash in restricted and special funds, the District will consolidate cash balances from all funds to the extent practicable in order to maximize investment earnings and minimize fees.

2130.3 Prudence:

The Board and persons authorized to make investment decisions subject to these policies are trustees and therefore fiduciaries subject to the prudent investor standard (GC § 53600.3). 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

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a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the District.

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in the next issued quarterly treasury report and appropriate action are taken to control adverse developments. When a deviation poses a significant risk to the District's financial position, the Board shall be notified immediately.

2130.4 Objectives:

As specified in GC §53600.5, when investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds, the primary objectives of the investment activities, in priority order, shall be:

- a) Safety. Safety of principal is the foremost objective of the investment program. Investments of the District shall be undertaken in a manner that seeks to ensure the preservation of capital in the whole portfolio. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.
- b) Liquidity. An adequate percentage of the portfolio should be maintained in liquid short-term securities, which can be readily converted to cash as necessary to meet cash requirements.
- c) Yield. Yield shall be considered only after the basic requirements of safety and liquidity have been met.
- d) Diversification. The investment portfolio will be diversified to avoid incurring unreasonable and avoidable risks regarding specific security types.
- e) Public Trust. All participants in the investment process shall act as do custodians of the public trust.

2130.5 Delegation of Authority

Authority to manage the District's investment program is derived from the California Government Code, commencing with Section 53600. Management responsibility for the investment program is hereby delegated, pursuant to Section 53607 of the Government Code, to the District General Manager, who shall establish written procedures for the operation of the investment program consistent with this investment policy. This responsibility includes authority to select Brokers, establish safekeeping accounts, enter into wire transfer agreements, banking service contracts, and collateral/depository agreements that are consistent with and subject to this Policy. The General Manager shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials. This delegation shall be subject to annual renewal in accordance with Section 53607.

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2130.6 Investment Procedures

The General Manager will establish written investment procedures for the operation of the investment program consistent with this policy. The procedures should include reference to: safekeeping, wire transfer agreements, banking service contracts and collateral/depository agreements. No person may engage in an investment transaction except as provided under the terms of this policy and the established procedures.

2130.7 Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that conflicts with proper execution of the investment program or impairs their ability to make impartial investment decisions. The General Manager must file applicable annual financial disclosures as required by the Fair Political Practices Commission (FPPC) and/or the District's Conflict of Interest Code.

2130.8 Authorized Financial Dealers and Institutions

The District shall transact business only with banks, associations, and with broker/dealers licensed by the State of California. The broker/dealers should be primary government dealers regularly reporting to the New York Federal Reserve Bank. Exceptions will be made only upon written authorization by the General Manager. Investment staff shall investigate dealers who wish to do business with the District to determine if they are adequately capitalized, have pending legal action against the firm or the individual broker and make markets in the securities appropriate to the District's needs. The General Manager, in his/her discretion, may require that any broker/dealer complete and file an annual financial disclosure form consistent with the District's conflict of interest policy.

The General Manager shall annually send a copy of the current investment policy to all broker/dealers approved to do business with the District. Confirmation of receipt of this policy shall be considered evidence that the dealer understands the District's investment policies and intends to sell the District only appropriate investments authorized by this investment policy.

2130.9 Authorized and Suitable Investments

Investment of District funds is governed by the California Government Code Sections commencing with 53600 in which the following investments are authorized:

Investment Type	Percentage or Amount	Maximum Maturity
U.S. Treasury Bonds/Notes/Bills	0 to 100%	5 Years
U.S. Government Agency Securities and Instrumentality's of Government-Sponsored Corporations	0 to 100%	5 Years
Bankers' Acceptances	0 to 40%	180 Days
Commercial Paper must be rated P-1 (Moody's, A-1 (Standard & Poor's)	0 to 25%	270 Days
Negotiable Certificates of Deposit	0 to 30%	5 Years
Local Agency Investment Fund (LAIF)	\$0 to \$50,000,000	Upon Demand
Public Funds Checking or Savings Account	0 to 100%	Upon Demand

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Investment Type	Percentage or Amount	Maximum Maturity
State of California Bonds/Notes	0 to 30%	5 Years
California Local Agency Bonds/Notes	0 to 30%	5 Years
Outside California Local Agency Bonds/Notes	0 to 30%	5 Years
Medium Term Corporate Notes	0 to 30%	5 Years
Mutual Funds/Money Market Funds	0 to 15%	Upon Demand
Mortgage/Pass-Through Security	0 to 20%	5 Years

2130.10 Prohibited Investments

In accordance with the provisions of California Government Code Sections 53601.6 and 53631.5, the District shall not invest in inverse floaters, range notes, mortgage-derived interest only strips, or any security that could result in zero interest accrual.

Any State of California legislative action that further restricts allowable maturities, investment types or percentage allocations will be effective upon enactment and deemed incorporated into the District's Investment Policy and supersedes any and all previous applicable language. If the District is holding an investment that is subsequently prohibited by a legislative change, and provided such action is allowable under the applicable legislation, the District may hold that investment if it is deemed prudent by the General Manager until the maturity date to avoid an unnecessary loss.

2130.11 Diversification and Maximum Maturities

The District will diversify its investments by security type and institution. With the exception of U. S. Treasury securities, U. S. Agency Obligations and authorized pools (e.g. LAIF), no more than 50% of the District's total investment portfolio will be invested in a single security type or with a single financial institution. The diversification of the portfolio will be dependent upon current and future cash flow requirements. To the extent possible, the District will strive to match its investment maturities with anticipated cash flow requirements. The District will not directly invest in securities with a maturity greater than 5 years unless pursuant to 2130.2.1 Exceptions.

2130.12 Investment Pools/Mutual Funds

The General Manager shall have a thorough understanding of the operational areas listed below for each pool and/or fund prior to investing and on a regular basis:

- Authorized investments
- Fee schedule, when/how assessed
- Safeguarding of investments
- Investment Policy and objectives
- Eligibility for holding bond proceeds
- Settlement process
- Interest calculations/distribution
- Frequency of statements
- Deposit/withdrawal limitations
- Investment limitations
- Treatment of gains and losses
- Utilization of reserves by fund

2130.13 Collateralization

Collateral is required for investments in certificates of deposit, repurchase agreements and reverse repurchase agreements. In order to reduce market risk, the collateral level will be at least 102% of market value of principal and accrued interest.

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The only securities acceptable as collateral shall be direct obligations which are fully guaranteed as to principal and interest by the United States Government or any agency or government sponsored enterprise of the United States.

2130.14 Safekeeping and Custody

To protect against fraud or embezzlement or losses caused by collapse of an individual securities dealer, all securities owned by the District shall be held in safekeeping by a third party custodian, acting as agent for the District under the terms of a trust or custody agreement executed by the General Manager. All security transactions will settle delivery vs. payment (DVP) through the District's safekeeping agent. Securities purchased from brokers/dealers shall be held in third party safekeeping by the trust department of the District's main bank, or by another third party trustee designated by the General Manager. Securities held in custody for the District shall be independently audited annually to verify investment holdings.

2130.15 Investment Earnings Allocation and Marking to Market

Investment earnings that are collected from investments authorized in this policy will be allocated monthly to the various program areas based upon their respective participation and in accordance with generally accepted accounting principles. The market value of the portfolio will be calculated at least quarterly, with a statement of market value issued. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed consistent with the GFOA Recommended Practice on "Mark-To-Market Practices for State and Local Government Investment Portfolios and Investment Pools."

2130.16 Reporting and Internal Control

In accordance with California Government Code Section 53646(b), the General Manager will issue a quarterly report within 30 days following the end of the quarter to the Board of Directors showing the type of investment, issuer and/or institution, date of maturity, amount of investment, current market value for all securities, rate of interest, and other relevant data that may be required. The quarterly report shall list any contract authorized by the General Manager under the authority delegated under Section 2130.5 of the Investment Policy.

The quarterly report shall certify compliance of the investment portfolio with the Investment Policy and shall include a statement denoting the ability of the District to meet its pool expenditure requirements for the next six months. The quarterly report shall further report any instance where the General Manager determined any investment of the investment portfolio might have deviated from the District's Investment Policy and the actions taken by the General Manager as a result of such determination. The General Manager shall also, in accordance with Government Code 53607, issue a monthly report of transactions to invest or to reinvest funds of the District, and to sell or exchange securities so purchased. The annual audit will include an independent review by the external auditor to confirm proper internal controls exist. The District's CAFR will report, on an annual basis, those components that demonstrate compliance with the Investment Policy.

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2130.17 Performance Standards

Investment performance is continually monitored and evaluated by the General Manager. The performance of the investment portfolio shall be measured against a market-average rate of return of the U.S. Constant Maturity Treasury (CMT) which is the closest to the weighted average maturity of the District's portfolio and to the earnings on the LAIF Pooled Investment Fund.

2130.18 Investment Policy Adoption, Revision and Legislative Changes

The Investment Policy will be adopted by resolution of the District's Board of Directors. The policy will be reviewed and updated as needed for Board approval when economic conditions warrant or legislative changes necessitate.

2130.19 Glossary of Cash Management Terms

Accrued Interest: Interest earned but not yet received.

Agencies: Federal agency securities and/or Government-sponsored enterprises.

Asked: The price at which securities are offered.

Banker's Acceptance (BA): A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

Bid: The price offered by a buyer of securities.

Bond: A financial obligation for which the issuer promises to pay the bondholder a specified stream of future cash flows, including periodic interest payments and a principal repayment.

Broker: A person assisting in the buying and selling of investments for a commission.

Corporate Notes- Medium Term Notes: Debt instrument issued by a private corporation, as distinct from one issued by a government agency or a municipality.

Certificate of Deposit (CD): A time deposit with a specific maturity evidenced by a certificate; large-denomination CD's are typically negotiable.

Commercial Paper: Short term obligations with maturities ranging from 2 to 270 days that are issued by banks, corporations and other borrowers to investors with temporarily idle cash.

Collateral: Securities, evidence of deposit or other property, which a borrower pledges to secure repayment of a loan. Also securities pledged by a bank to secure public money deposits.

Comprehensive Annual Financial Report (CAFR): The official annual report for the District which includes statements prepared in conformity with Generally Accepted Accounting Principles (GAAP). It also includes supporting schedules necessary to demonstrate

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compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed Statistical Section.

Coupon: The annual rate of interest on a debt security that a bond issuer promises to pay the bondholder on the bond's face (or par) value.

Dealer: A person or firm acting as a principal in a securities transaction, buying and selling for his own account.

Discount: The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

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

Federal Agency Securities: Securities issued by agencies of the Federal Government such as Federal Farm Credit Bank (FFCB) and the Tennessee Valley Authority (TVA), Federal National Mortgage Association (FNMA) that are not general obligations of the U.S. treasury but are sponsored by the government and therefore have high safety ratings.

Liquidity: The ability to buy or sell an asset quickly and in large volume without substantially affecting the asset's price.

Local Agency Investment Fund (LAIF): The California pool of local agency assets, which is managed by the State Treasurer. Limits apply to each agency's deposit of general fund reserves; however no limits on amount of deposit apply to bond proceeds. Funds in this pool are considered very liquid.

Market Value: Current market price of a security- as indicated by the latest trade recorded.

Mark to the Market: The adjustment of the valuation of a security or portfolio to reflect current market values.

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

Money Market: The market in which short term debt instruments (bills, commercial paper, bankers' acceptances) are issued and traded.

Mortgage Pass-Through Obligations: a government guaranteed security that represents pooled debt obligations repackaged as shares, that passes income from homeowners principal and interest payments through a government agency or bank to investors.

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Negotiable Certificates of Deposit: A large denomination time deposit with a specific maturity evidenced by a certificate. These are traded like other fixed income securities.

Portfolio: A collection of securities held by an investor.

Premium: The amount by which a bond sells above its face (par) value.

Repurchase Agreements: Agreement between a seller and a buyer, usually of government securities, whereby the seller agrees to repurchase the securities at an agreed upon price and at a stated time. The security buyer in effect lends cash money to the security seller for the period of the agreement and the terms of the agreement are structured to compensate the security buyer for this transaction. Similarly, reverse repurchase agreements are an agreement where a dealer agrees to buy the securities and the investor agrees to buy them back on a specific date.

Safekeeping: A service rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

Secondary Market: Exchanges and over-the-counter markets where securities are bought and sold subsequent to original issuance, which took place in the primary market. Proceeds of secondary market sales accrue to the selling dealers and investors, not to the companies that originally issued the securities.

Securities and Exchange Commission (SEC): The Federal Agency created by Congress to protect investors in security transactions by administering securities legislation.

Settlement Date: The date by which an executed order must be settled, either by a buyer paying for the securities with cash or by a seller delivering the securities and receiving the proceeds of the sale for them.

Treasury Bills: A non-interest bearing discount security issued by the U.S. Treasury to finance national debt. Most bills are issued to mature in three (3), six (6), or twelve (12) months.

Treasury Bonds: Medium-term interest bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two (2) to ten (10) years.

Yield: The rate of return on an investment expressed as a percentage that takes into account the total of annual interest payments, the purchase price, the redemption value and the amount of time remaining until maturity.

SAMPLE POLICIES



POLICY TITLE: Investment of District Funds
POLICY NUMBER: 2130

2130.1 Premise:

- a) The State Legislature has declared the deposit and investment of public funds by local officials and local agencies is an issue of statewide concern (Government Code (GC) § 53600.6 and § 53630.1); and,
- b) Government Code Sections 53601, et seq., allow the legislative body of a local agency to invest surplus monies not required for the immediate necessities of the local agency; and,
- c) The fiscal officer of a local agency is required to annually prepare and submit a statement of investment policy and such policy, and any changes thereto, is to be considered by the local agency's legislative body at a public meeting (GC § 53646(a)).
- d) For these reasons, and to ensure prudent and responsible management of the public's funds, it is the policy of the District to invest funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the District and conforming to all statutes governing the investment of District funds.

2130.2 Scope:

This investment policy applies to all financial assets of the District. These funds are accounted for in the annual audited financial statements of the District and include:

- a) Demand Accounts
- b) Investments
- c) General Fund
- d) Local Agency Investment Fund [others]
- e) Operation and Maintenance Fund
- f) Enterprise Funds [others]

2130.3 Prudence:

The Board and persons authorized to make investment decisions subject to these policies 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 District.

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.



Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in the next issued quarterly treasury report and appropriate action are taken to control adverse developments. When a deviation poses a significant risk to the District's financial position, the Board shall be notified immediately.

2130.4 Objectives:

As specified in GC §53600.5, when investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds, the primary objectives of the investment activities, in priority order, shall be:

- a) Safety: Safety of principal is the foremost objective of the investment program. Investments of the District shall be undertaken in a manner that seeks to ensure the preservation of capital in the whole portfolio. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

AR 3091 Investment

Approved: December 12, 2006

The ultimate goal is to enhance the economic status of the District while protecting its funds. Investments will be accomplished in a manner that provides the highest safety and security for the portfolio, matches maturities to future liabilities, and meets daily cash-flow demands while trying to achieve the highest available average market rate of return.

AR 3091.1 Scope

This policy and subsequent administrative regulations cover all funds and investment activities that are under the direct authority of the District. These funds are accounted for in the District's financial reports and include:

- water and wastewater funds
- capital improvement funds
- debt service funds
- recreation funds
- hydroelectric funds

Investment of bond proceeds shall be governed by these regulations unless otherwise specified by the provisions of related bond indentures. Interest earnings and expenses are allocated proportionately and equitably to each fund.

AR 3091.2 Prudence

The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and sale of securities are carried out in accordance with the terms of this policy.

"...investment shall be made with judgment [sic] and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation but for investment considering the probable safety of their capital as well as the probable income to be derived."

AR 3091.3 Objectives

Temporarily idle or surplus funds of the District shall be invested in accordance with principles of sound treasury management and in accordance with the provisions of California Government Code Sections 53600 et seq. and this Investment Policy. The primary objectives, in priority order, of investment activities shall be:

AR 3091.4 Safety of Principal

The preservation of principal is of primary importance. Each transaction shall seek to ensure that capital losses are avoided, whether they be from securities default or erosion of the market value. The portfolio is priced to market on a monthly basis.

The District shall seek to preserve principal by mitigating the following two types of associated risk:

Credit Risk, defined as the risk of loss due to failure of the issuer of a security, shall be mitigated by limiting investments to the safest types of investment grade securities and by diversifying the investment portfolio so that the failure of any one issuer would not unduly harm the District's cash flow.

AR 3091.5 Investment Committee

The District established an Investment Committee in 1993 as a sub-committee of the Asset and Liability Management Committee. The Investment Committee consists of the department head for Finance and Management Services/District Treasurer, the District's Deputy Treasurer, and the department head for Environmental Compliance and Water Policy. The purpose of the committee is to review all investment activity and investment strategies. This committee meets quarterly, or more frequently if the need arises, to review the investments of the previous quarter and develop future strategy.

The following table sets portfolio-wide exposure limits (the Investment Committee may set more specific limits). In addition, the limit on any single issuer is set at 10 percent for corporate and 30 percent for government agency.

Asset Classification	Minimum Exposure	Maximum Exposure
LAIF + California Asset Management Trust	Greater of 20% or 3 months of normalized operating and capital expenditures	75%
US Treasury Issues	0%	75%
Government Agency	0%	80%
All Other*	0%	40% or less

* See Authorized Investments for specific details.

Securities purchased under the Asset Classification of "All Other" require ratings by Moody's and Standard & Poor's. Minimum credit ratings are set in the table below.

Asset Classification	Moody's Rating	S & P Rating
Short-Term	P-1	A-1 or better
Long-Term	A2 or better	A or better
Issuer Disqualifier*	Below P-1 or A2	Below A-1 or A

* *Issuer Disqualifier* means that regardless of the ratings of a particular issue, if the issuer itself has other, senior debt that fall below any of these standards, none of the issues will qualify. For example, if a long-term issue under consideration is rated A2/A, which would normally qualify, but the issuer's commercial paper (short term) is rated A-1/P2, then the issue would still be disqualified.

If a security in the portfolio is downgraded to a level below the minimum credit rating the managers of the Pooled Investment funds will report the downgrading to the other members of the Investment Committee. Credit risk will also be mitigated by pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with whom the District does business.

Market Risk, defined as a market value fluctuation due to overall changes in the general level of interest rates, shall be mitigated by:

- a. structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations and matching future liabilities, thereby avoiding the need to sell securities on the open market prior to maturity, and
- b. by investing operating funds primarily in shorter-term securities.

It is recognized, however, that in a diversified investment portfolio, occasional measured losses are inevitable and must be considered within the context of the overall investment return and current economic circumstances

AR 3091.6 Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needed to meet anticipated demands. Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets. Emphasis should be on marketable securities with low sensitivity to market risk. Additional liquidity considerations include issue size, denomination, market of issuance and form of security.

AR 3091.7 Yield

The investment portfolio shall be designed with the objective of attaining a market average rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of least importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low-risk securities in anticipation of earning a fair return relative to the risk being assumed. The District's investment strategy is passive and securities shall not be sold prior to maturity with the following exceptions:

- a. a declining credit security could be sold early to minimize loss of principal or
- b. a security swap would improve the quality, yield, or target duration in the portfolio. Liquidity needs of the portfolio require that the security be sold.

Given this passive strategy, the benchmark used by the District's Treasurer to determine whether market average yields are being achieved shall be the one-year U.S. Treasury Note because the weighted average maturity of the portfolio typically averages one year or less.

AR 3091.8 Public Trust

All participants in the investment process shall act as custodians of the public trust. Investment officials shall recognize that the investment portfolio is subject to public review and evaluation. In managing the investment portfolio, the managers should avoid any transactions that might impair public confidence in the District. Investments should be made with precision and care, considering the probable safety of the capital as well as the probable income to be derived.

AR 3091.9 Authority

Authority to manage and responsibility for operation of the investment program is granted to the District Treasurer, derived from the adoption of this policy. The District Treasurer shall carry out and maintain established written procedures and internal controls for the operation of the investment program consistent with this investment policy.

Procedures should include references to safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, collateral/depository agreements, banking services contracts, and guidance of the specific use of various tools and electronic systems used. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the District Treasurer. The District Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

AR 3091.10 Ethics and conflicts of interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or that could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the General Manager any material financial interest in financial institutions that conduct business within this jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the District's portfolio. Employees and investment officials are prohibited from undertaking personal investment transactions with the same individual who conducts business on behalf of the District.

Investments in negotiable certificates of deposit issued by any financial institution, including credit unions, are prohibited if members of the District's Board or employees with investment decision-making authority serve on the board of directors or the specified committees of the financial institution issuing the negotiable certificate of deposit.

AR 3091.11 Local agency investment fund

Yearly, the District's Investment Committee evaluates the State of California Local Agency Investment Fund (LAIF) as a suitable investment for the District. The state fund may invest in a broader range of securities than the District invests in, and it is important to be aware and comfortable with the securities the state pool purchases. The committee also evaluates the fund's operations, how interest is calculated, and its investment policy and security.

AR 3091.12 California asset management trust

Yearly, the Investment Committee evaluates the California Asset Management Trust as a suitable investment for the District. The fund may invest in a broader range of securities than the District invests in, and it is important to be aware and comfortable with the securities the pool purchases. The committee will also evaluate the fund's operations, how interest is calculated, its investment policy and security.

AR 3091.13 Qualified dealers and institutions

The District Treasurer will maintain a list of financial institutions and broker/dealers with whom the District elects to do business, selected by credit worthiness and who are authorized to provide investment services in the State of California. These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-I (uniform net capital rule). No public deposit shall be made except in a qualified public depository as established by state laws.

The District Treasurer shall conduct a qualified dealer selection process every three years. All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must submit the following as appropriate:

- a. audited financial statements,
- b. proof of National Association of Securities Dealers (NASD) certification,
- c. proof of state registration,
- d. completed broker/dealer questionnaire, and
- e. certification of having read, understood, and agreeing to comply with the District's investment policy.

All financial institutions and broker/dealers with whom the District elects to transact investment activities will first be interviewed and approved by the Investment Committee and then submitted to the Board of Directors for final approval. An annual review of approved financial institutions and broker/dealers will be conducted by the Investment Committee to examine financial condition and ensure state registration and certification of having read the District's investment policy.

AR 3091.14 Safekeeping of securities

All trades where applicable will be executed by delivery vs. payment (DVP). This ensures that securities are deposited in eligible financial institution prior to the release of funds. Securities will be held by a third-party custodian as evidenced by safekeeping receipts.

AR 3091.15 Internal controls

The District Treasurer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management.

Accordingly, the District Treasurer shall establish a process for annual independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following points:

- a. **Control of collusion.** Collusion is a situation where two or more employees are working in conjunction to defraud their employer.
- b. **Separation of transaction authority from accounting and record keeping.** Separation of duties is achieved by separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction.

- c. **Custodial safekeeping.** Securities purchased from any bank or dealer including appropriate collateral (as defined by state law) shall be placed with independent third-party safekeeping.
- d. **Avoidance of physical delivery securities.** Book entry securities are much easier to transfer and account for because actual delivery of a document never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities.
- e. **Clear delegation of authority to subordinate staff members.** Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.
- f. **Investment and wire transfers.** All wire transfers and investment transactions that occur via the on-line banking system have pre-authorized templates, controls, and security provisions. All transfers require initiation and approval by two authorized persons. Written confirmation is required for all wire transfers. On certain occasions, telephone transactions may occur. Because of the potential for error and improprieties that arises from telephone transactions, all telephone transactions will be supported by written communications and approved by two authorized persons.
- g. **Wire transfer agreement with the lead bank or third-party custodian.** This agreement should outline the various controls and security provisions and delineate responsibilities of each party making and receiving wire transfers.
- h. **Purchase of investment securities.** The purchase of any security must first be approved by two members of the Investment Committee. Settlement information and instructions sent to safekeeping must first be approved by the District Treasurer. Written confirmation is required for all investment purchase transactions.

AR 3091.16 Authorized investments

The District is governed by the California Government Code Sections 53600 et seq. A copy of the applicable California Government Code provision is attached as Exhibit 1. Within the context of these limitations, the following investments are authorized and further limited:

- a. **Local Agency Investment Fund.** The District may invest in the Local Agency Investment Fund (LAIF) established by the State Treasurer for the benefit of local agencies up to the maximum permitted by State law (as established in California Government Code Section 16429.1). There is a 75-percent maximum on the total value of the portfolio which can be invested. The minimum limitation is calculated based on the sum of the balances of LAIF and CAMP. This minimum is the greater of 20% of the total portfolio or three months of normalized operating and capital expenditures.

- b. **California asset management trust.** The District may invest in the California Asset Management Trust established as a Joint Powers Authority to provide local California governments with investment management services in a professionally managed money market portfolio. There is a 75-percent maximum on the total value of the portfolio which can be invested. The minimum limitation is calculated based on the sum of the balances of LAIF and CAMP. This minimum is the greater of 20% of the total portfolio or three months of normalized operating and capital expenditures.

- c. **U.S. Treasury issues.** U.S. Treasury Bills, Bonds, and Notes are those for which the full faith and credit of the United States are pledged for payment of principal and interest. There is a 75-percent maximum limitation on the total market value of the portfolio that can be invested in this category, although the five-year maturity limitation is applicable.

- d. **Government agency.** Obligations are issued by the Government National Mortgage Association (GNMA), the Federal Farm Credit System (FFCB), the Federal Home Loan Bank Board (FHLB), the Federal National Mortgage Association (FNMA), the Student Loan Marketing Association (SLMA), and the Federal Home Loan Mortgage Association (FHLMC). There is a 80-percent maximum limitation on these issues, and a 30-percent limit for a single agency name because U.S. government backing is implied rather than guaranteed on some types of issues. The five-year limitation is applicable.

- e. **Other**
 - 1. *Bills of Exchange or Time Drafts* drawn on and accepted by a commercial bank, otherwise known as *Banker's Acceptances*, are eligible for purchase by the Federal Reserve System. Bankers' acceptances purchased may not exceed 180 days to maturity or 40 percent of the portfolio's market value. No more than 30 percent of the District's surplus funds may be invested in the bankers' acceptances of any one commercial bank.

2. *Commercial Paper* ranked "P1" by Moody's Investor Services or "A1" by Standard and Poor's and issued by a domestic corporation having assets in excess of \$500,000,000 and having an "A2" or better rating on its long-term debentures as provided by Moody's and a rating of "A" or better by Standard and Poor's. Purchases of eligible commercial paper may not exceed 180 days to maturity nor represent more than 15 percent of the market value of the portfolio. This percentage may be increased to 30 percent if the dollar weighted average maturity does not exceed 31 days. No more than 10 percent of the market value of the portfolio may be invested in commercial paper issued by any one corporation.

3. *Medium Term Corporate Notes*, with a maximum maturity of five years, may be purchased. Securities eligible for investment shall be rated "A2" or better by Moody's or "A" or better by Standard and Poor's rating services. The notes must be issued by corporations organized and operating in the United States or by depository institutions licensed by the United States or any state and operating in the United States. Purchase of medium term notes may not exceed 30 percent of the market value of the portfolio, and no more than 10 percent of the market value of the portfolio may be invested in notes issued by one corporation. Commercial paper holdings should also be included when calculating the 10- percent limitation.

4. *Negotiable Certificates of Deposit* issued by a nationally or state chartered bank or state or federal savings institution. Purchases of negotiable certificates of deposit may not exceed 25 percent of the market value of the portfolio. The maturity limitation of five years is applicable.

5. *Repurchase Agreements*. The District may invest in repurchase agreements with banks and dealers with which the District has entered into a master repurchase contract that specifies terms and conditions of repurchase agreements. The maturity of repurchase agreements shall not exceed 90 days. The market value of securities used as collateral for repurchase agreements shall be monitored daily by the District Treasurer's staff and will not be allowed to fall below 100 percent of the value of the repurchase agreement. To conform with provisions of the Federal Bankruptcy Code, which provides for the liquidation of securities held as collateral for repurchase agreements, the only securities acceptable as collateral shall be eligible negotiable certificates of deposit, eligible bankers' acceptances, or securities that are direct obligations of, or that are fully guaranteed as to principal and interest by, the United States or any agency of the United States.

6. *Collateralized Negotiable Investments.* The District may invest in notes, bonds, or obligations that are at all times secured by a valid first-priority security interest in securities of the types listed by Section 53651 as eligible securities for the purpose of securing local agency deposits and have a market value at least equal to that required by Section 53652 for the purpose of securing local agency deposits. The securities serving as collateral shall be placed by delivery or book entry 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, and the security interest shall be perfected in accordance with the requirements of the Uniform Commercial Code or federal regulations applicable to the types of securities in which the security interest is granted.

7. *Monies held by a trustee or fiscal agent and pledged to the payment or security of bonds or other indebtedness, or obligations under a lease, installment sale, or other agreement of a local agency, or certificates of participation in those bonds, indebtedness, or lease installment sale, or other agreements.* These may be invested in accordance with the statutory provisions governing the issuance of those bonds, indebtedness, or lease installment sale, or other agreement, or to the extent not consistent therewith or if there are no specific statutory provisions, in accordance with the ordinance, resolution, indenture, or agreement of the local agency providing for the issuance.

AR 3091.17 Ineligible investments

Investments not described in these regulations shall not be included in the District's portfolio. Derivative securities, for example, are ineligible investments. They are financial instruments whose value depends on (is derived from) the value of one or more underlying assets or indexes of asset values. The term "derivative products" refers to instruments or features such as collateralized mortgage obligations (CMOs), interest only strips (IOs and principal-only (POs), forwards, futures, currency and interest rate swaps, options, floaters/inverse floaters, and caps/floors/collars. Any security that could result in zero interest accrual if held to maturity is ineligible.

The District Treasurer may seek the Board's approval for any modifications to the list of eligible investments as state laws are revised or as market and risk conditions change.

AR 3091.18 Reporting

The District Treasurer will provide to the Board, General Manager, Internal Auditor, and the Investment Committee quarterly investment reports that provide a clear picture of the status of the current investment portfolio. The reports should include comments on fixed income markets and economic conditions, discussion regarding restrictions on the percentage of investment by categories, possible changes in the portfolio structure going forward, and thoughts on investment strategies. Required elements of the quarterly report include:

- a.** A list of individual securities held at the end of the reporting period by authorized investment category.
- b.** Average life and final maturity of all investments listed.
- c.** Coupon, discount, or earnings rates.
- d.** Par value, amortized book value, market value, source of market value, and unrealized gains/losses.
- e.** Percentage of the portfolio represented by each investment category.
- f.** Summary of quarterly transactions.
- g.** Certification of compliance with the District's investment policy.
- h.** Year-to-date summary of interest earnings (forecast vs. actual).
- i.** Year-to-date estimate of arbitrage rebate.
- j.** Six-month cash-flow forecast.

The quarterly report will graphically illustrate portfolio benchmark performance to the market average rate of return.

BP 3095 Delegation of Investment Function

Adopted: September 11, 2006

Supersedes: Policy #46

Delegation of the investment function by any local governing body is limited to a one-year period. The Board will delegate the investment function to the District Treasurer in conjunction with its annual investment review and adoption. The District Treasurer may delegate investment and cash management operational duties to others as approved by Board resolution.

BP 3096 Investment Policy Certification

Adopted: September 11, 2006

Supersedes: Policy #46

It is the responsibility of the District's Treasurer to submit the District's investment policy and administrative regulations for re-certification by the Municipal Treasurer's Association of the United States and Canada every three years. The intent is to ensure compliance with all current legislative requirements and professional standards and practices of prudent investment management.

Exhibit 1: Summary of Authorized Investments

INVESTMENT TYPE	CONDITIONS	TERM
LAIF + California Asset Management Trust	Minimum Limit: Greater of 20% or 3 months of normalized operating and capital expenditures Limit: 75% maximum	n/a
U.S. Treasury Bills, Bonds and Notes	Limit: 75% maximum	5 years
Agencies of the U.S. Govt.	Limit: 80% maximum – Prudent investor rule applies, no more than 30% of max. for a single agency	5 years
Other		
1. Bankers acceptances	Limit: 40% , no more than 30% in any one commercial bank	180 days
2. Commercial paper	Domestic corp – assets \$500,000,000 – A1 P1 rating. Limit: 15% of portfolio market value, 30% if average maturity does not exceed 31 days. No more than 10% of max. in any single corporation.	180 days
3. Medium term notes	Limit: 30% of total market value-no more than 10% in one corporation, rated A or better, corporations operating, organized & licensed in U.S.	5 years
4. Negotiable Certificates of Deposit	Limit: 25%	5 years
5. Repurchase agreements	Master repurchase agreements. Securities collateral. See Investment Policy	90 days
6. Collateralized negotiable investments	Secured by a valid 1 st priority security interest of types listed in Section 53651 as eligible securities – market value equal to that required by Section 53652. See Investment Policy.	5 years

ITEM 4B - INVESTMENT POLICY

7. Monies held by a trustee or fiscal agent	Pledged for payment of bonds, other indebtedness, lease obligations, installment sale, or other agreement of a local agency. COP's in investments mentioned above. See Investment Policy.	5 years
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**GARDNERVILLE WATER COMPANY
STATEMENT OF INVESTMENT POLICY**

ADOPTED NOVEMBER 12, 2013

This document cancels and supersedes all prior rules addressing this matter.

I. PURPOSE:

This statement is intended to provide guidelines for the prudent investment of the Gardnerville Water Company's ("GWC") cash reserves and outline the policies for maximizing the efficiency of the GWC's cash management system. The ultimate goal is to enhance the economic status of the GWC while protecting its assets.

II. OBJECTIVES:

- A. Safety. Safety of principal is the foremost objective of the GWC. Each investment transaction shall seek to first ensure that capital losses are avoided, whether they are from securities defaults or erosion of market value.
- B. Liquidity. An adequate percentage of the portfolio should be maintained in liquid short-term securities, which can be readily converted to cash as necessary to meet cash requirements.
- C. Yield. Yield shall be considered only after the basic requirements of safety and liquidity have been met.
- D. Diversification. The investment portfolio will be diversified to avoid incurring unreasonable and avoidable risks regarding specific security types.
- E. Public Trust. All participants in the investment process shall act as do custodians of the public trust.

III. AUTHORITY AND DUTIES:

- A. Treasurer. The Treasurer of the Board of Directors shall: be responsible for overseeing GWC investments; review on a monthly basis all investments, purchases, redemptions and investment changes; approve all sales of investments; select Investment Advisors or depositories; and report all findings to the Board of Directors.
- B. Financial Officer. The Financial Officer shall make purchases, sales and changes of investment opportunities. The Financial Officer shall report monthly all investments, purchases, redemptions and investment changes to the Treasurer. The Financial Officer must seek the Treasurer's pre-approval of any sales of investments.
- C. Investment Advisor. The Investment Advisor shall suggest purchases, sales and changes of investment opportunities. The Investment Advisor shall report on a monthly basis all investments, purchases, redemptions, changes to the Treasurer. The Investment Advisor must obtain the Treasurer's approval of any action regarding GWC assets.

IV. INTERNAL CONTROLS:

The Board of Directors shall review the investment practices used by the Treasurer for compliance with the investment policy and written procedures. The controls shall be designed to minimize losses of GWC funds arising from fraud, errors, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent action by Board of Directors and employees of the GWC.

As a part of the annual audit, the auditor shall review GWC investment procedures, including investment statements. Any irregularities shall be reported promptly to the Treasurer and the Board of Directors. The Board of Directors shall adopt the auditor's recommendations for internal controls, absent reasonable cause not to do so.

V. REPORTING

The Financial Officer or Investment Advisor shall submit quarterly to the Board of Directors an investment report that summarizes all securities. Reporting will include: the type of investment, institution, date of maturity, investment amount, market value, yield, and any other information that may be of interest to the Board.

VI. ELIGIBLE INVESTMENTS:

The following are the GWC's investment guidelines:

- A. Direct Treasury obligations of the US Government, and US Government Agency obligations for which full faith and credit of the US Government is pledged or guaranteed
- B. Direct obligations of US Government Sponsored Enterprises
- C. Institutional money market funds
- D. FDIC insured Certificates of Deposit within the current FDIC insurance limit
- E. Highly rated Corporate Obligations including but not limited to: Commercial paper, Corporate Bonds, and Medium Term Notes
- F. Highly rated Municipal Bonds, or pre-refunded issues
- G. Repurchase agreements collateralized by US Treasuries or Agencies

VII. INVESTMENT ALLOCATION

	Investment Type	Quality Criteria	Duration	Portfolio Amount	Issuer Limits
Class A	US Treasuries	Full Faith and Credit of United States	Up to 36 months	100% of portfolio	Unlimited
	US Agencies	Limited to AA rated or higher	Up to 36 months	100% of portfolio	Up to 50% of portfolio
	Money Market	Institutional Class	Unlimited	100% of portfolio	Up to 10% of portfolio
	FDIC Insured Bank CD's	Within the current FDIC insurance limits	Up to 60 months	100% of portfolio	Within the current FDIC insurance limits
	Repurchase Agreements	Collateralized by US Treasuries or Agencies	Up to 30 days	50% of portfolio	Up to 25% of portfolio
Class B	Commercial Paper	A1/P1 A2/P2	Up to 90 days Up to 30 days	25% of portfolio 10% of portfolio	\$250,000
	Corporate Bonds	A or higher	Up to 60 months	25% of portfolio	\$250,000
	Municipal Bonds	A or higher	Up to 120 months	25% of portfolio	\$250,000

Total investments within Class B shall not exceed 30% of portfolio.

VIII. INVESTMENT ADVISOR AND DEPOSITORIES:

Subject to Board approval, the Treasurer will select one or more Investment Advisors or depositories to advise the Board. The Treasurer will provide the Board with the proposed Advisor's resume or list of qualifications for approval before delivering any funds thereto. In order to be approved by the Board of Directors, the institution to receive GWC funds must provide collateralization of funds or deposit insurance to safeguard against loss should the institution fail. The Investment Advisor must be experienced in institutional trading practices and must satisfy other criteria as the Board of Directors may establish.

IX. RISK TOLERANCE:

The GWC recognizes that investment risks can result from issuer defaults, market price changes or various technical complications leading to temporary illiquidity. The Treasurer, with the advice and guidance of the Financial Officer and the Investment Advisor, is expected to display prudence in the selection of securities as a way to minimize risk. No individual investment transaction shall be undertaken which jeopardizes the total capital position of the overall portfolio. The Treasurer shall periodically review investment strategies to control risks of default, market price changes and illiquidity.

X. ETHICS AND CONFLICTS OF INTEREST:

The Treasurer, Board of Directors and its designee(s) involved in the investment process shall refrain from personal business activity that could conflict, or give the appearance of a conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

XI. UPDATE OF POLICY:

This investment policy shall be reviewed at least annually to ensure its consistency with the overall objectives of preservation of principal, liquidity, and return, and its relevance to current law and financial and economic trends.

**MONTEREY PENINSULA WATER MANAGEMENT DISTRICT
INVESTMENT POLICY**

| Approved by the MPWMD Board on January 24~~3~~³, 201~~8~~⁹



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MONTEREY PENINSULA WATER MANAGEMENT DISTRICT

INVESTMENT POLICY

1 Introduction

This policy governs the investment of District funds. The purpose of the policy is to provide guidance to the District Treasurer to invest funds in a manner that provides for the protection of principal (safety), meets the cash flow (liquidity) demands of the District and earns a reasonable yield. It shall be the policy of the District to invest all funds in strict conformance with all state statutes governing the investment of public monies. Moreover, it shall be the policy to manage investments under the prudent investor rule. This rule affords the District a broad spectrum of investment opportunities so long as the investment is deemed prudent and is allowable under State of California Government Code section 53600 et. seq., the investment policy of Monterey County and Section 118-507 (West's Annotated Government Code) of the District's enabling legislation.

2 Prudence

The District Treasurer is a trustee and therefore a fiduciary subject to the prudent investor standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds, the treasurer shall act with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of investments of a like character and with like aims to safeguard the principal and maintain the liquidity needs of the District. Within the limitation of this policy and considering individual investments as part of an overall investment strategy, a trustee is authorized to acquire investments as authorized by law.

3 Investment and Risk

The objectives of the District's investment program in order of priority are:

- 1) Safety of invested funds – The Treasurer shall ensure the safety of the District's invested funds by limiting, as much as possible, credit and interest rate risk. Credit risk is the risk of loss due to failure of the security issuer or backer. Interest rate risk is the risk that the market value of investments will fall due to an increase in the general level of interest rates.
- 2) Maintenance of sufficient liquidity to meet cash flow requirements – Attainment of a market average rate of return during budgetary and economic cycles, taking into account the District's investment risk constraints and cash requirements. The Treasurer, acting in accordance with District procedures and this policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price change, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

4 Types of Investments

District funds may be placed in any instrument or medium approved by the State of California as enumerated in Government Code Section 53651, and not otherwise limited by the Monterey County Investment Policy. A listing of currently eligible securities shall be maintained. The Treasurer shall submit any proposed changes to the list of eligible investments to the Administrative Committee and Board of Directors. The Administrative Committee shall approve investment in a class of securities included on the list, but in which the District has not previously invested. The Board of Directors shall approve changes to the list of eligible securities. The currently approved list of securities is incorporated as Attachment I.

5 Prohibited Investments

The District shall not be authorized to invest in any security that has the possibility of returning a zero or negative yield if held to maturity except that investment in U. S. Treasury Certificates of indebtedness ("SLUGS") issued by the U. S. Bureau of Public debt is authorized. Prohibited investments shall include inverse floaters, range notes and interests only strips derived from a pool of mortgages.

6 Access to Funds

The premise underlying the District's investment policy is to ensure that money is available when needed. To this end, the District will maintain funds on deposit in a local bank or other federal or state regulated depository sufficient to meet expenditure requirements for the following six months as represented in the most recent budget adopted by the Board of Directors.

7 Authority

The Treasurer of the Board of Directors of the Monterey Peninsula Water Management District is responsible for the custody and management of District investments. Management activity will adhere to applicable state law, provisions of the District's enabling legislation and this policy. The Treasurer may delegate ministerial duties related to the investment program to other District staff, but shall retain responsibility for all transactions undertaken and shall establish a system of internal control to regulate activity of subordinate personnel.

8 Reports

Pursuant to Government Code Section 53646 the Treasurer shall provide quarterly investment reports to the Board of Directors. Each report shall include a listing of all securities held in the portfolio. It shall list investments by type, issuer, maturity, par value, market value, and dollar amount invested. The report shall contain a citation of compliance with this policy, an explanation for any non-compliance and a statement as to the ability or inability to meet expenditure requirements for the following six months. District monies over which the Treasurer does not exercise control or safekeeping e.g., does not determine how the funds are to be invested or banked, need not be included in the report. Agency contributions to the Public Employees Retirement

System need not be included. Deferred compensation funds (Section 457) held by third-party administrators and invested at the direction of program participants need not be included pursuant to PL 104-188.

9 Audits

The District's portfolio, quarterly reports, policy, internal control procedures and investment practices shall be the subject of scrutiny in the course of annual audits performed by external independent auditors selected by the Board of Directors, ~~and approved by the Monterey County Auditor-Controller.~~

10 Policy Review

The Board of Directors shall review this policy at least annually.

~~U:\suresh\Investments\Investment Policy 2017.docx~~ U:\suresh\Investments\Investment Policy 2019.docx

11 Attachment I

ALLOWABLE INVESTMENT INSTRUMENTS PER STATE GOVERNMENT CODE
AS OF JANUARY 1, 2016

INVESTMENT TYPE	MAXIMUM SECURITY	MAXIMUM SPECIFIED % OF PORTFOLIO	MINIMUM QUALITY REQUIREMENTS
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
State Obligations – CA and Others	5 years	None	None
CA Local Agency Obligations	5 years	None	None
U.S. Agency Obligations	5 years	None	None
Bankers’ Acceptances	180 days	40%	None
Commercial Paper – Pooled Funds	270 days	40% of the agency’s money	Highest letter and number rating by an NRSRO
Commercial Paper – Non-Pooled Funds	270 days	25% of the agency’s money	Highest letter and number rating by an NRSRO
Negotiable Certificates of Deposits	5 years	30%	None
Non-negotiable Certificates of Deposits	5 years	None	None
Placement Service Deposits	5 years	30%	None
Placement Service Certificates of Deposits	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements and Securities Lending Agreements	92 days	20% of the base value of the portfolio	None
Medium-Term Notes	5 years	30%	“A” rating category or its equivalent or better
Mutual Funds And Money Market Mutual Funds	N/A	20%	Multiple
Collateralized Bank Deposits	5 years	None	None
Mortgage Pass-Through Securities	5 years	20%	“AA” rating category or its equivalent or better
County Pooled Investment Funds	N/A	None	None
Joint Powers Authority Pool	N/A	None	Multiple
Local Agency Investment Fund (LAIF)	N/A	None	None
Voluntary Investment Program Fund	N/A	None	None
Supranational Obligations	5 years	30%	“AA” rating category or its equivalent or better

Staff Report

for the Regular Meeting of the Board of Directors for November 13, 2019

TO: Board of Directors
FROM: Marvin Davis, MBA, CPA, Finance Manager/Treasurer
DATE: November 7, 2019
SUBJECT: Investment Policy 3035 (Consent)

FINANCE

RECOMMENDATION:

Adopt Resolution 2019-30 in accordance with Investment Policy 3035.18.

BACKGROUND:

The District's investment policy requires annual review and adoption by resolution. The Treasurer manages the District's portfolio consisting of short and long-term investments through cash forecasting, actual vs budget monthly reporting and appropriate budget amendments (Policy 3100) to ensure compliance with the policy.

Presently, the Treasurer recommends no changes to the policy.

BUDGETARY IMPACT:

N/A

MD

Attachment:

- Resolution 2019-30
- Exhibit A: Policy 3035



RESOLUTION NO. 2019-30

OF THE BOARD OF DIRECTORS OF THE NEVADA IRRIGATION DISTRICT

Adopting Investment Policy

BE IT RESOLVED by the Board of Directors of Nevada Irrigation District that the attached Exhibit A is the policy and guidelines for investment.

PURPOSE: This policy is intended to provide a guideline for the investment of District monies not required for immediate expenditure in compliance with governing provisions of law (Government Code Sections 53600 et. seq.) and this policy. The District will maintain adequate cash availability and maximum yield on invested funds while insuring that principal invested is protected from loss. Investments will be made in a range of instruments to insure diversification of the District's portfolio and liquidity of assets in an emergency situation. The prudent person policy of safety, liquidity, and yield will prevail at all times.

DEFINITION AND PROVISION OF THE GOVERNMENT CODE: In accordance with Government Code Sections, collateral established as security for District funds will be those securities specified by law as eligible for collateral for deposits for local public agencies. Investments of District monies not required for immediate expenditure will be made in securities or other certificates of indebtedness as provided by law for the investment of public funds. Investments will be made in accordance with this policy.

AMOUNT TO BE INVESTED: The District will maintain a cash flow analysis for projection of needed funds. All funds not required for immediate use will be invested.

BE IT FURTHER RESOLVED that authority to manage the investment program is granted to:

Marvin Davis, Treasurer
Remleh Scherzinger, Deputy Treasurer
Greg Jones, Deputy Treasurer

BE IT FURTHER RESOLVED that the Treasurer shall furnish the Board of Directors a detailed listing that is in compliance with Government Code Section 53646.

2019-30.
Adopting Investment Policy
Page 2

PASSED AND ADOPTED by the Board of Directors of the Nevada Irrigation District at a regular meeting held on the 13th day of November 2019, by the following vote:

AYES:	Directors:
NOES:	Directors:
ABSENT:	Directors:
ABSTAINS:	Directors:

President of the Board of Directors

Attest:

Secretary to the Board of Directors

Exhibit A

Nevada Irrigation District
Investment Policy
November 13, 2019

Nevada Irrigation District

POLICY MANUAL

POLICY TITLE: Investments
POLICY NUMBER: 3035

3035.1 It is the policy of the Nevada Irrigation District to invest public funds in a manner which will provide the highest investment return consistent with preserving the maximum security while meeting the daily cash flow demands of the District and conforming to state and local statutes governing investment of public funds.

3035.2 **Scope**

This investment policy applies to all moneys (surplus financial assets) of the District. These moneys are accounted in the monthly financial reports and the comprehensive annual financial report of District financial activities.

3035.2.1 **Exceptions**

Three exceptions exist regarding investment of: bond reserve funds, grant funds. Bond reserve and grant funds will be invested in accordance with the statutory provisions governing the issuance of the bond(s) or grant(s), or the actual bond or grant documents, as applicable. Investment of District pension trust funds is governed by California Government Code 53125 – 53224. Investment of post-employment health benefit trust funds are governed by California Government code 53620 – 53622.

3035.2.2 **Pooling of Funds**

With the exception of cash in restricted and special funds, the District will consolidate cash balances from all funds to the extent practicable in order to maximize investment earnings and minimize fees.

3035.3 **Prudence**

The standard of prudence to be used by the Board of Directors, Treasurer, and all those engaged in the management of District moneys shall be the Prudent Investor Standard (California Government Code 53600.3) which shall be applied in the context of managing all

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Exhibit A

**Nevada Irrigation District
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aspects of the overall portfolio. Investments shall be made with the care, skill, prudence and diligence, under circumstances then prevailing, including the general economic conditions and the anticipated needs of the District, which persons of prudence, discretion and intelligence acting in a like capacity and familiarity with those matters would use in the investment of moneys of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the District.

It is the District's intent, at the time of purchase, to hold all investments until maturity. However, investments may be sold prior to maturity for cash flow purposes or to take advantage of principal appreciation.

3035.4 Objectives

The primary objectives, listed in order of priority, of the investment activities are:

3035.4.1 Safety

Safety of principal is the foremost objective of the District's investment program. Investments will be executed in a manner that seeks to ensure preservation of capital in the overall portfolio. In attaining this objective, the District will strive to mitigate credit risk and interest rate risk.

3035.4.1.1 Credit Risk

The District will minimize credit risk, the risk of loss due to the failure of the security issuer/backer, by: (a) limiting investments to the safest types of securities; (b) pre-qualifying financial institutions, broker/dealers, intermediaries and advisors; and (c) diversifying the investment portfolio by a variety of securities offering independent returns and financial institutions.

3035.4.1.2 Interest Rate Risk

The District will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates, by: structuring the investment portfolio so that securities meet the cash flow requirements thereby avoiding, to the extent possible, the need to sell securities on the open market prior to maturity; and investing operating funds in shorter-term securities.

3035.4.2 Liquidity

The District's investment portfolio will remain sufficiently liquid to enable the District to meet all operating requirements which might be reasonably anticipated.

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3035.4.3 Return on Investment

The investment portfolio will be designed to attain an acceptable rate of return, taking into account the investment risk constraints and cash flow requirements.

3035.5 Delegation of Authority

Authority to manage the District's investment program is derived from the California Government Code, commencing with Section 53600. Management responsibility for the investment program is hereby delegated, pursuant to Section 53607 of the Government Code, to the District Treasurer, who shall establish written procedures for the operation of the investment program consistent with this investment policy. This responsibility includes authority to select Brokers, establish safekeeping accounts, enter into wire transfer agreements, banking service contracts, and collateral/depository agreements that are consistent with and subject to this Policy. The Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials. This delegation shall be subject to annual renewal in accordance with Section 53607.

3035.6 Investment Procedures

The Treasurer will establish written investment procedures for the operation of the investment program consistent with this policy. The procedures should include reference to: safekeeping, wire transfer agreements, banking service contracts and collateral/depository agreements. No person may engage in an investment transaction except as provided under the terms of this policy and the established procedures.

3035.7 Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that conflicts with proper execution of the investment program or impairs their ability to make impartial investment decisions. The Treasurer and Deputy Treasurer(s) must file applicable annual financial disclosures as required by the Fair Political Practices Commission (FPPC) and/or the District's Conflict of Interest Code.

3035.8 Authorized Financial Dealers and Institutions

The District shall transact business only with banks, associations, and with broker/dealers licensed by the State of California. The broker/dealers should be primary government dealers regularly reporting to the New York Federal Reserve Bank. Exceptions will be made only upon written authorization by the Treasurer. Investment staff shall investigate dealers who wish to do business with the District to determine if they are adequately capitalized, have pending legal action against the firm or the individual broker and make markets in the securities appropriate to the District's needs. The District's Treasurer, in his/her discretion,

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may require that any broker/dealer complete and file an annual financial disclosure form consistent with the District's conflict of interest policy.

The District Treasurer shall annually send a copy of the current investment policy to all broker/dealers approved to do business with the District. Confirmation of receipt of this policy shall be considered evidence that the dealer understands the District's investment policies and intends to sell the District only appropriate investments authorized by this investment policy.

3035.9 Authorized and Suitable Investments

Investment of District funds is governed by the California Government Code Sections commencing with 53600 in which the following investments are authorized:

Investment Type	Percentage or Amount	Maximum Maturity
U.S. Treasury Bonds/Notes/Bills	0 to 100%	5 Years
U.S. Government Agency Securities and Instrumentality's of Government-Sponsored Corporations	0 to 100%	5 Years
Bankers' Acceptances	0 to 40%	180 Days
Commercial Paper must be rated P-1 (Moody's, A-1 (Standard & Poor's)	0 to 25%	270 Days
Negotiable Certificates of Deposit	0 to 30%	5 Years
Local Agency Investment Fund (LAIF)	\$0 to \$50,000,000	Upon Demand
Public Funds Checking or Savings Account	0 to 100%	Upon Demand
State of California Bonds/Notes	0 to 30%	5 Years
California Local Agency Bonds/Notes	0 to 30%	5 Years
Outside California Local Agency Bonds/Notes	0 to 30%	5 Years
Medium Term Corporate Notes	0 to 30%	5 Years
Mutual Funds/Money Market Funds	0 to 15%	Upon Demand
Mortgage/Pass-Through Security	0 to 20%	5 Years

3035.10 Prohibited Investments

In accordance with the provisions of California Government Code Sections 53601.6 and 53631.5, the District shall not invest in inverse floaters, range notes, mortgage-derived interest only strips, or any security that could result in zero interest accrual.

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Any State of California legislative action that further restricts allowable maturities, investment types or percentage allocations will be effective upon enactment and deemed incorporated into the District's Investment Policy and supersedes any and all previous applicable language. If the District is holding an investment that is subsequently prohibited by a legislative change, and provided such action is allowable under the applicable legislation, the District may hold that investment if it is deemed prudent by the Treasurer until the maturity date to avoid an unnecessary loss.

3035.11 Diversification and Maximum Maturities

The District will diversify its investments by security type and institution. With the exception of U. S. Treasury securities, U. S. Agency Obligations and authorized pools (e.g. LAIF), no more than 50% of the District's total investment portfolio will be invested in a single security type or with a single financial institution. The diversification of the portfolio will be dependent upon current and future cash flow requirements.

To the extent possible, the District will strive to match its investment maturities with anticipated cash flow requirements. The District will not directly invest in securities with a maturity greater than 5 years unless pursuant to 3077.2.1 Exceptions.

3035.12 Investment Pools/Mutual Funds

The Treasurer shall have a thorough understanding of the operational areas listed below for each pool and/or fund prior to investing and on a regular basis:

- Authorized investments
- Interest calculations/distribution
- Fee schedule, when/how assessed
- Frequency of statements
- Safeguarding of investments
- Deposit/withdrawal limitations
- Investment Policy and objectives
- Investment limitations
- Eligibility for holding bond proceeds
- Treatment of gains and losses
- Settlement process
- Utilization of reserves by fund

3035.13 Collateralization

Collateral is required for investments in certificates of deposit, repurchase agreements and reverse repurchase agreements. In order to reduce market risk, the collateral level will be at least 102% of market value of principal and accrued interest.

The only securities acceptable as collateral shall be direct obligations which are fully guaranteed as to principal and interest by the United States Government or any agency or government sponsored enterprise of the United States.

3035.14 Safekeeping and Custody

To protect against fraud or embezzlement or losses caused by collapse of an individual securities dealer, all securities owned by the District shall be held in safekeeping by a third

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party custodian, acting as agent for the District under the terms of a trust or custody agreement executed by the Treasurer. All security transactions will settle delivery vs. payment (DVP) through the District's safekeeping agent. Securities purchased from brokers/dealers shall be held in third party safekeeping by the trust department of the District's main bank, or by another third party trustee designated by the Treasurer. Securities held in custody for the District shall be independently audited annually to verify investment holdings.

3035.15 Investment Earnings Allocation and Marking to Market

Investment earnings that are collected from investments authorized in this policy will be allocated monthly to the various program areas based upon their respective participation and in accordance with generally accepted accounting principles.

The market value of the portfolio will be calculated at least quarterly, with a statement of market value issued. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed consistent with the GFOA Recommended Practice on "Mark-To-Market Practices for State and Local Government Investment Portfolios and Investment Pools."

3035.16 Reporting and Internal Control

In accordance with California Government Code Section 53646(b), the Treasurer will issue a quarterly report within 30 days following the end of the quarter to the General Manager and Board of Directors showing the type of investment, issuer and/or institution, date of maturity, amount of investment, current market value for all securities, rate of interest, and other relevant data that may be required. The quarterly report shall list any contract authorized by the Treasurer under the authority delegated under Section 3035.5 of the Investment Policy. The quarterly report shall certify compliance of the investment portfolio with the Investment Policy and shall include a statement denoting the ability of the District to meet its pool expenditure requirements for the next six months. The quarterly report shall further report any instance where the Treasurer determined any investment of the investment portfolio might have deviated from the District's Investment Policy and the actions taken by the Treasurer as a result of such determination.

The Treasurer shall also, in accordance with Government Code 53607, issue a monthly report of transactions to invest or to reinvest funds of the District, and to sell or exchange securities so purchased.

The annual audit will include an independent review by the external auditor to confirm proper internal controls exist. The District's CAFR will report, on an annual basis, those components that demonstrate compliance with the Investment Policy.

3035.17 Performance Standards

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Investment performance is continually monitored and evaluated by the Treasurer. The performance of the investment portfolio shall be measured against a market-average rate of return of the U.S. Constant Maturity Treasury (CMT) which is the closest to the weighted average maturity of the District's portfolio and to the earnings on the LAIF Pooled Investment Fund.

3035.18 Investment Policy Adoption, Revision and Legislative Changes

The Investment Policy will be adopted by resolution of the District's Board of Directors. The policy will be reviewed and updated as needed for BOD approval when economic conditions warrant or legislative changes necessitate.

3035.19 Glossary of Cash Management Terms

Accrued Interest: Interest earned but not yet received.

Agencies: Federal agency securities and/or Government-sponsored enterprises.

Asked: The price at which securities are offered.

Banker's Acceptance (BA): A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

Bid: The price offered by a buyer of securities.

Bond: A financial obligation for which the issuer promises to pay the bondholder a specified stream of future cash flows, including periodic interest payments and a principal repayment.

Broker: A person assisting in the buying and selling of investments for a commission.

Corporate Notes- Medium Term Notes: Debt instrument issued by a private corporation, as distinct from one issued by a government agency or a municipality.

Certificate of Deposit (CD): A time deposit with a specific maturity evidenced by a certificate; large-denomination CD's are typically negotiable.

Commercial Paper: Short term obligations with maturities ranging from 2 to 270 days that are issued by banks, corporations and other borrowers to investors with temporarily idle cash.

Collateral: Securities, evidence of deposit or other property, which a borrower pledges to secure repayment of a loan. Also securities pledged by a bank to secure public money deposits.

Comprehensive Annual Financial Report (CAFR): The official annual report for the District which includes statements prepared in conformity with Generally Accepted Accounting Principles (GAAP). It also includes supporting schedules necessary to demonstrate

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compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed Statistical Section.

Coupon: The annual rate of interest on a debt security that a bond issuer promises to pay the bondholder on the bond's face (or par) value.

Dealer: A person or firm acting as a principal in a securities transaction, buying and selling for his own account.

Discount: The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

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

Federal Agency Securities: Securities issued by agencies of the Federal Government such as Federal Farm Credit Bank (FFCB) and the Tennessee Valley Authority (TVA), Federal National Mortgage Association (FNMA) that are not general obligations of the U.S. treasury but are sponsored by the government and therefore have high safety ratings.

Liquidity: The ability to buy or sell an asset quickly and in large volume without substantially affecting the asset's price.

Local Agency Investment Fund (LAIF): The California pool of local agency assets, which is managed by the State Treasurer. Limits apply to each agency's deposit of general fund reserves; however no limits on amount of deposit apply to bond proceeds. Funds in this pool are considered very liquid.

Market Value: Current market price of a security- as indicated by the latest trade recorded.

Mark to the Market: The adjustment of the valuation of a security or portfolio to reflect current market values.

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

Money Market: The market in which short term debt instruments (bills, commercial paper, bankers' acceptances) are issued and traded.

Mortgage Pass-Through Obligations: a government guaranteed security that represents pooled debt obligations repackaged as shares, that passes income from homeowners principal and interest payments through a government agency or bank to investors.

Negotiable Certificates of Deposit: A large denomination time deposit with a specific maturity evidenced by a certificate. These are traded like other fixed income securities.

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Portfolio: A collection of securities held by an investor.

Premium: The amount by which a bond sells above its face (par) value.

Repurchase Agreements: Agreement between a seller and a buyer, usually of government securities, whereby the seller agrees to repurchase the securities at an agreed upon price and at a stated time. The security buyer in effect lends cash money to the security seller for the period of the agreement and the terms of the agreement are structured to compensate the security buyer for this transaction. Similarly, reverse repurchase agreements are an agreement where a dealer agrees to buy the securities and the investor agrees to buy them back on a specific date.

Safekeeping: A service rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

Secondary Market: Exchanges and over-the-counter markets where securities are bought and sold subsequent to original issuance, which took place in the primary market. Proceeds of secondary market sales accrue to the selling dealers and investors, not to the companies that originally issued the securities.

Securities and Exchange Commission (SEC): The Federal Agency created by Congress to protect investors in security transactions by administering securities legislation.

Settlement Date: The date by which an executed order must be settled, either by a buyer paying for the securities with cash or by a seller delivering the securities and receiving the proceeds of the sale for them.

Treasury Bills: A non-interest bearing discount security issued by the U.S. Treasury to finance national debt. Most bills are issued to mature in three (3), six (6), or twelve (12) months.

Treasury Bonds: Medium-term interest bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two (2) to ten (10) years.

Yield: The rate of return on an investment expressed as a percentage that takes into account the total of annual interest payments, the purchase price, the redemption value and the amount of time remaining until maturity.

Adopted: March 11, 2015 via Resolution No. 2015-06

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Section	FIN-5 Finance	Approval Date	10/23/03
Policy	FIN-5.6 Investment Policy	Latest Revision	2/28/18

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FIN-5.6 Investment Policy

5.6.1 Policy

The purpose of this document is to convey the Investment Policy of the San Juan Water District ("District"). Though no longer required by the California Government Code, this policy will be updated annually in order to maintain currency with legal and District requirements. It is the District's policy to invest all funds in such a way as to achieve the highest investment return possible consistent with maximum security of District funds while meeting the daily cash flow demands of the District. All investments must conform to pertinent state and local statutes governing the investment of public funds.

In 2006, the District submitted this Investment Policy for the first time to the Association of Public Treasurer's of the United States and Canada ("APT-US&C") Investment Policy Certification Committee. This certification program is comprised of a committee that reviews submitted investment policies to ensure that all components of a model investment policy are met. The District was awarded the APT-US&C Investment Policy Certificate of Excellence Award in August 2007.

The most significant benefit to receipt of this award is the trust and confidence of the Board of Directors and customers that the District is abiding by professional standards which have been established to ensure prudent management of public funds. In addition, certifications and awards such as these can enhance the District's underlying credit rating (an important consideration factor when issuing debt). It is recommended that the District have the Investment Policy certified every three years.

5.6.2 Scope

The District currently has one fund type, an enterprise fund, in which all transactions are accounted and reported in. Activities for both Wholesale and Retail include: Non-Operating, Operations, and Capital Improvements. This investment policy applies to all fund and activity types. In addition, this policy will apply to any new fund created, unless that fund is specifically exempted.

5.6.2.1 Exceptions

Two exceptions exist regarding the investment of bond reserve funds and grant funds. Acceptable investments for bond reserve funds are specified in the bond documents, and may not necessarily be the same as those listed later in this document (e.g. Guaranteed Investment Contract).

Bond funds will be invested in accordance with the statutory provisions governing the issuance of the bonds or the bond documents, as applicable.

Grant funds will be invested according to the statutory provisions applicable to the investment of the grant funds or the grant itself, as applicable.

5.6.2.2 Pooling of Funds

With the exception of cash in restricted and special funds, the District will consolidate cash balances from all funds to the extent practicable in order to maximize investment earnings and minimize fees.

5.6.3 Prudence

5.6.3.1 Standard of Prudence

The standard of prudence will be 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 District, 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 District’s Investment Officer and other individuals assigned to managing the investment portfolio acting in accordance with written procedures and the investment policy and exercising due diligence will be relieved of personal responsibility for an individual security’s credit risk or market price changes, provided that such deviations from expectations are reported in a timely manner and appropriate action is taken to control adverse developments.

5.6.4 Objectives

The primary objectives, listed in order of priority, of the District’s investment activities are:

5.6.4.1 Safety

Safety of principal is the foremost objective of the District’s investment program. Investments will be executed in a manner that seeks to ensure preservation of capital in the overall portfolio, whether from institutional default, broker/dealer default or erosion of market value of securities. In attaining this objective, the District will strive to mitigate credit risk and interest rate risk.

5.6.4.1.1 Credit Risk

The District will minimize credit risk, the risk of loss due to the failure of the security issuer/backer, by:

- Limiting investments to the safest types of securities;
- Pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business; and
- Diversifying the investment portfolio by sector and issuer.

5.6.4.1.2 Interest Rate Risk

The District will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates, by:

- Structuring the investment portfolio so that securities meet the cash flow requirements, thereby avoiding, to the extent possible, the need to sell securities on the open market prior to maturity; and
- Investing operating funds in shorter-term securities.

5.6.4.2 Liquidity

The District's investment portfolio will remain sufficiently liquid to meet all cash flow requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash flow requirements (static liquidity). Since all possible cash flow requirements cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). As mentioned earlier, a portion of the portfolio should also be invested in short-term securities, which offer same-day liquidity.

5.6.4.3 Return on Investment

The District's investment portfolio will be designed to attain an acceptable rate of return, taking into account the investment risk constraints and cash flow requirements.

5.6.5 Standards of Care**5.6.5.1 Delegation of Authority**

Authority to manage the District's investment program is derived from the District's Code of Ordinances 06-002, Ordinance No. 3000.05. Under that ordinance, management responsibility for the investment program is delegated to the General Manager. The Finance Director is hereby designated as the "Investment Officer" in charge of operational management. The Investment Officer may delegate the day-to-day placement of investments to a registered investment advisor. The investment advisor shall make all investment decisions and transactions in strict accordance with State law and this Policy. The Investment Officer shall establish a system of written internal controls to regulate the District's investment activities, including the activities of the investment advisor and any subordinate officials acting on behalf of the District.

5.6.5.2 Investment Procedures

The Investment Officer will establish written investment procedures for the operation of the investment program consistent with this policy. The procedures should include reference to: safekeeping, wire transfer agreements, banking service contracts and collateral/depository agreements. No person may engage in an investment transaction except as provided under the terms of this policy and the established procedures.

5.6.5.3 Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Investment officials and employees will disclose to the General Manager any material financial interests in financial institutions that conduct business within their jurisdiction, and they will further disclose any large personal financial/investment positions that could be related to the performance of the District.

5.6.6 Safekeeping and Custody**5.6.6.1 Authorized Financial Dealers and Institutions**

The District will conduct investment transactions with authorized financial dealers and institutions. All financial institutions and broker/dealers who desire to become

qualified bidders for investment transactions must supply the Investment Officer with the following: proof of National Association of Security Dealers certification, completed broker/dealer questionnaire, certification of having read the District's investment policy and depository contracts.

An annual review of the registrations of qualified bidders will be conducted by the Investment Officer. A current broker dealer questionnaire is required to be on file for each financial institution and broker/dealer in which the District invests. The Investment Officer will maintain a list of authorized financial dealers and institutions.

If the District utilizes an investment advisor to conduct investment transactions on the District's behalf, the investment advisor may use its own list of approved broker/dealers and financial institutions for investment purposes. The investment advisor's approved list must be made available to District upon request.

As an additional source for investing, the District may utilize services designed for government agencies seeking competitive investment rates (e.g. GFOA Yield Advantage).

5.6.6.2 Internal Control

The Investment Officer will facilitate an annual process of independent review by the District's external audit firm as part of the annual audit. This review will provide internal control by assuring compliance with policies and procedures.

5.6.6.3 Delivery vs. Payment

All investment transactions, including collateral for repurchase agreements, entered into by the District shall be conducted on a delivery-versus payment (DVP) basis. Investments will be held in safekeeping by a third party custodian and evidenced by safekeeping receipts. The custodian will be competitively selected by the Investment Officer and will act under the terms of a custody agreement.

5.6.7 Authorized and Suitable Investments

5.6.7.1 Investment Types

Investment of District funds is governed by the California Government Code Sections 53600, *et seq.* Within the context of these limitations, the following investments are authorized:

- 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.
- Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.
- U.S. Instrumentalities, United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, with a maximum remaining

maturity of five years or less, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated in a category of "AA," its equivalent, or better by a nationally recognized statistical rating organization (NRSRO) and shall not exceed 30 percent of the District's moneys that may be invested pursuant to this section.

- Registered state warrants or Treasury notes or bonds of this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of the state. Securities eligible for investment under this subdivision shall be rated in a category of "A," its equivalent, or better by a NRSRO.
- Registered treasury notes or bonds of any of the other 49 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 states, in addition to California. Securities eligible for investment under this subdivision shall be rated in a rating category of "A," its equivalent, or better by a NRSRO.
- Bonds, notes, warrants, or other evidences of indebtedness of a local agency within this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency. Securities eligible for investment under this subdivision shall be rated in a rating category of "A," its equivalent, or better by a NRSRO.
- Bankers' acceptances, otherwise known as bills of exchange or time drafts that are drawn on and accepted by a commercial bank.
 - The maximum maturity may not exceed 180 days;
 - No more than 40 percent of the District's portfolio may be invested in bankers' acceptances; and
 - Rated in a rating category of "A-1," its equivalent, or better by at NRSRO.
- Commercial paper of "prime" quality of the highest ranking or of the highest letter and number rating as provided by a NRSRO. The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (1) or (2):
 - (1) is organized and operating in the United States as a general corporation with total assets >\$500 million with other debt rated in a rating category of "A," its equivalent, or better by a NRSRO, or
 - (2) is organized within the U.S. as a special purpose corporation, trust or limited liability company with program-wide credit enhancements and its commercial paper is rated in a rating category of "A-1," its equivalent, or higher by a NRSRO.

The maximum maturity will be 270 days or less. No more than 25 percent of the District's funds will be invested in eligible commercial paper. The District may purchase no more than 10 percent of the outstanding commercial paper of any single corporate issue.

- Negotiable certificates of deposit issued by a nationally or state-chartered bank, a savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a state-licensed branch of a foreign bank. Negotiable certificates of deposit eligible for investment under this subdivision shall be rated in a rating category of “A,” its equivalent, or better for long term certificates, or rated in a rating category of “A-1,” its equivalent, or better for short term certificates by a NRSRO. Purchases of negotiable certificates of deposit may not exceed 30 percent of the District's portfolio, which may be invested pursuant to this section.
- Local Agency Investment Fund (LAIF), the State of California managed investment pool may be used up to the maximum permitted by California law.
- Time deposits, non-negotiable and collateralized in accordance with the California Government Code, may be purchased through banks or savings and loan associations. No more than 5% of the investment portfolio may be invested in this investment type. A maturity limitation of two years is applicable.
- Medium-term notes, defined 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. Notes eligible for investment under this subdivision shall be rated in a rating category of “A,” its equivalent, or better by a NRSRO. Purchases of medium-term notes shall not include other instruments authorized by this section and may not exceed 30 percent of the District's money that may be invested pursuant to this section.
- Money Market Funds invested in U.S. Government securities are permitted under this policy and under the California Government Code Section 53601. In order to be eligible for investment under this section, an investment objective of such a fund must be the maintenance of a price per share of \$1.00. The following criteria must also be met:
 - The fund shall have a minimum of \$500 million in total portfolio value.
 - The fund shall be registered with the Securities and Exchange Commission, and shall have achieved a rating of Aaa by Moody's and AAA by S&P.
 - The fund shall have retained an advisor which is registered with the SEC, or which is exempt from such registration.
 - Investment in such funds shall not exceed 20% of the District's total portfolio.
 - No more than 10% of the District's total portfolio may be invested in any one mutual fund.
- Moneys held by a trustee or fiscal agent and pledged to the payment or security of bonds or other indebtedness, or obligations under a lease, installment sale, or other agreement of a local agency, or certificates of participation in those bonds, indebtedness, or lease installment sale, or other agreements, may be invested in accordance with the statutory provisions governing the issuance of those bonds, indebtedness, or lease installment sale, or other agreement, or to

the extent not inconsistent therewith or if there are no specific statutory provisions, in accordance with the ordinance, resolution, indenture, or agreement of the local agency providing for the issuance.

- Any mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate, or consumer receivable-backed bond of a maximum of five years' maturity. Securities eligible for investment under this subdivision shall be issued by an issuer in a rating category of "A," its equivalent, or better for the issuer's debt as provided by a NRSRO and rated in a rating category of "AA," its equivalent, or better by a NRSRO. Purchase of securities authorized by this subdivision may not exceed 20 percent of the District's surplus money that may be invested pursuant to this section.
- Local Government Investment Pools (LGIPs), shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7 that invests in the securities and obligations authorized in Section 56301 subdivisions (a) to (q), inclusive. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible under this section, the joint powers authority issuing the shares shall have retained an investment adviser that meets all of the following criteria:
 - (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 (q), inclusive.
 - (3) The adviser has assets under management in excess of five hundred million dollars (\$500,000,000).

5.6.7.2 Ineligible Investments

Ineligible investments are those that are not described herein, including but not limited to, common stocks, reverse repurchase agreements, inverse floaters, range notes, mortgage derived interest only strips, derivatives securities, or any security that could result in zero interest accrual.

5.6.8 Investment Parameters

5.6.8.1 Diversification

The District will diversify its investments by security type and institution. With the exception of U. S. Treasury securities, U. S. Agency Obligations and authorized pools (e.g. LAIF), no more than 5% of the District's total investment portfolio will be invested in a single issuer. The diversification requirements of the portfolio apply at time of purchase.

5.6.8.2 Maximum Maturities

To the extent possible, the District will strive to match its investments with anticipated cash flow requirements. Where this Policy does not specify a limitation on the term or remaining maturity at the time of the investment, no investment shall be made in any security that—at the time of the investment—has a term remaining to maturity in excess of five years, unless the legislative body has granted express authority to make

that investment either specifically or as a part of an investment program approved by the legislative body no less than three months prior to the investment.

5.6.8.3 Investment Earnings

Investment earnings that are collected from investments authorized in this policy will be allocated monthly to the various program areas based upon their respective participation and in accordance with generally accepted accounting principles.

5.6.8.4 Investment Pools

A thorough investigation of the pool/fund is required prior to investing. At a minimum that review should consist of the following:

- a determination of the eligible investment securities;
- a determination of the allowable size of deposits and withdrawals;
- the frequency with which deposits and withdrawals can be made;
- the process and timeline for withdrawals;
- a review of the fee schedule.

The Finance Director shall monitor the pool to ensure he/she is aware of any changes made to the pool in the above categories.

5.6.8.5 Review of Investment Portfolio

The securities held by the District must be in compliance with Section 7.0 Authorized and Suitable Investments at the time of purchase. Because some securities may not comply with Section 7.0 Authorized and Suitable Investments subsequent to the date of purchase, the Investment Officer shall at least quarterly review the portfolio to identify those securities that do not comply. The Investment Officer shall establish procedures to report to the Board, should one exist, major and critical incidences of noncompliance identified through the review of the portfolio.

5.6.9 Policy Considerations

5.6.9.1 Legislative Changes

Further restrictions on allowable maturities, investment type or percentage allocations imposed by any State of California legislative action, will be incorporated into the District's Investment Policy and supersede any and all previous applicable language.

5.6.9.2 Investment Policy Adoption

The District's Investment Policy will be adopted by resolution of the District's Board of Directors. The policy will be reviewed and updated annually for approval by the Board.

5.6.10 Reporting

5.6.10.1 Methods

The Investment Officer will provide investment reports to the Board. Such reports will provide a status of the current portfolio, along with economic conditions, potential future changes and investment strategies. The reports will include:

- A listing of the securities held by category;
- Maturity date of all investments;

- Coupon, discount or earnings rate;
- Par Value, Amortized Book Value and Market Value; and
- Percentage of the portfolio by category.

5.6.10.2 Performance Standards

The investment portfolio will be developed with the objective of attaining a rate of return commensurate with the District's investment risk constraints, cash flow requirements and the economic environment. An appropriate benchmark will be established against which portfolio performance can be compared on a regular basis.

5.6.10.3 Marking to Market

The market value of the portfolio will be calculated monthly, with a statement of market value issued. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed consistent with the GFOA Recommended Practice on "Mark-To-Market Practices for State and Local Government Investment Portfolios and Investment Pools."

ITEM 4B - INVESTMENT POLICY

Glossary of Cash Management Terms

Accrued Interest: Interest earned but not yet received.

Agencies: Federal agency securities and/or Government-sponsored enterprises.

Amortization: An accounting practice of gradually decreasing (increasing) an asset's book value by spreading its depreciation (accretion) over a period of time.

Arbitrage: Transactions by which securities are bought and sold in different markets at the same time for the sake of the profit arising from a yield difference in the two markets.

Asked: The price at which securities are offered.

Banker's Acceptance (BA): A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

Basis Point: One basis point is one hundredth of one percent (.01).

Bid: The price offered by a buyer of securities.

Bond: A financial obligation for which the issuer promises to pay the bondholder a specified stream of future cash flows, including periodic interest payments and a principal repayment.

Book Value: The value at which a debt security is shown on the holder's balance sheet. Book value is acquisition cost less amortization of premium or accretion of discount.

Broker: A person who brings buyers and sellers together for a commission.

California Local Agency Obligations: Bonds that are issued by a California county, city, city and county, including a chartered city or county, school district, community college district, public district, county board of education, county superintendent of schools, or any public or municipal corporation.

Certificate of Deposit (CD): A time deposit with a specific maturity evidenced by a certificate. Large-denomination CDs are typically negotiable.

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

Commercial Paper: Short-term, negotiable unsecured promissory notes of corporations.

Comprehensive Annual Financial Report (CAFR): The official annual financial report for the San Juan Water District. It includes five combined statements and basic financial statements for each individual fund and account group prepared in conformity with Generally Accepted Accounting Principals (GAAP). It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed Statistical Section.

Coupon: The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value.

Glossary (con't)

Credit Analysis: A critical review and appraisal of the economic and financial conditions or of the ability to meet debt obligations.

Current Yield: The interest paid on an investment expressed as a percentage of the current price of the security.

Custodian: A bank or other financial institution that keeps custody of stock certificates and other assets.

Defeased Bond Issues: Issues that have sufficient money to retire outstanding debt when due so that the agency is released from the contracts and covenants in the bond document.

Delivery vs. Payment (DVP): Delivery of securities with a simultaneous exchange of money for the securities.

Derivative: Securities that are based on, or derived from, some underlying asset, reference date, or index.

Discount: The difference between the cost of a security and its value at maturity when quoted at lower than face value.

Diversification: Dividing investment funds among a variety of securities offering independent returns and risk profiles.

Duration: A measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security. This calculation is based on three variables: term to maturity, coupon rate, and yield to maturity. The duration of a security is a useful indicator of its price volatility for given changes in interest rates.

Fannie Mae: Trade name for the Federal National Mortgage Association (FNMA), a U.S. sponsored corporation.

Federal Reserve System: The central bank of the U.S. which consists of a seven member Board of Governors, 12 regional banks, and 5,700 commercial banks that are members.

Federal Deposit Insurance Corporation (FDIC): Insurance provided to customers of a subscribing bank, which guarantees deposits to a set limit (currently \$100,000) per account.

Fed Wire: A wire transmission service established by the Federal Reserve Bank to facilitate the transfer of funds through debits and credits of funds between participants within the Fed system.

Freddie Mac: Trade name for the Federal Home Loan Mortgage Corporation (FHLMC), a U.S. sponsored corporation.

Ginnie Mae: Trade name for the Government National Mortgage Association (GNMA), a direct obligation bearing the full faith and credit of the U.S. Government.

Government Accounting Standards Board (GASB): A standard-setting body, associated with the Financial Accounting Foundation, which prescribes standard accounting practices for governmental units.

Glossary (con't)

Government Finance Officers' Association (GFOA): GFOA is the professional association of state/provincial and local finance officers in the United States and Canada, and has served the public finance profession since 1906.

Guaranteed Investment Contracts (GICS): An agreement acknowledging receipt of funds, for deposit, specifying terms for withdrawal, and guaranteeing a rate of interest to be paid.

Inactive Deposits: Funds not immediately needed for disbursement.

Interest Rate: The annual yield earned on an investment, expressed as a percentage.

Investment Agreements: An agreement with a financial institution to borrow public funds subject to certain negotiated terms and conditions concerning collateral, liquidity and interest rates.

Liquidity: An asset that can easily and rapidly be converted into cash without significant loss of value.

Local Agency Bonds: These bonds are issued by a county, city, city and county, including a chartered city 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 pooled investment vehicle for local agencies in California sponsored by the State of California and administered by the State Treasurer.

Market Value: The price at which a security is trading and could presumably be purchased or sold.

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

Modified Duration: A measure of exposure to market risk of a security or a portfolio. It is the percent change in the price of a security (portfolio) or a 100 basis point change in the security's (portfolio's) yield.

Mutual Funds: An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments.

Negotiable Certificate of Deposit: A large denomination certificate of deposit, which can be sold in the open market prior to maturity.

New Issue: Term used when a security is originally "brought" to market.

Note: A written promise to pay a specified amount to a certain entity on demand or on a specified date.

Par Value: The amount of principal, which must be paid at maturity. Also referred to as the face amount of a bond, normally quoted in \$1,000 increments per bond.

Perfected Delivery: Refers to an investment where the actual security or collateral is held by an independent third party representing the purchasing entity.

Portfolio: Combined holding of more than one stock, bond, commodity, real estate investment, cash equivalent, or other asset. The purpose of a portfolio is to reduce risk by diversification.

Glossary (con't)

Primary Dealer: A group of government securities dealers that submit daily reports of market activity and security positions held to the Federal Reserve Bank of New York and are subject to its informal oversight.

Principal: The face value or par value of a debt instrument, or the amount of capital invested in a given security.

Prudent Investor Standard: A person empowered to invest for the District is a fiduciary. He or she will act as a trustee with the 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 district, 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.

Prospectus: A legal document that must be provided to any prospective purchaser of a new securities offering registered with the SEC that typically includes information on the issuer, the issuer's business, the proposed use of proceeds, the experience of the issuer's management, and certain certified financial statements (also known as an "official statement").

Prudent Investor Standard: A standard of conduct where a person acts with care, skill, prudence, and diligence when investing, reinvesting, purchasing, acquiring, exchanging, selling and managing funds. The test of whether the standard is being met is if a prudent person acting in a similar situation would engage in similar conduct to ensure that investments safeguard principal and maintain liquidity.

Purchase Date: The date in which a security is purchased for settlement on that or a later date.

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 or the current income return.

Repurchase Agreement (REPO): A transaction where the seller agrees to buy back from the buyer (District) the securities at an agreed upon price on demand or at a specified date.

Risk: Degree of uncertainty of return on an asset.

Rule G-37 of the Securities Rulemaking Board: Federal regulations to sever any connection between the making of political contributions and the awarding of municipal securities business.

Safekeeping Service: Offers storage and protection of assets provided by an institution serving as an agent.

Sallie Mae: Trade name for the Student Loan Marketing Association (SLMA), a U.S. sponsored corporation.

Secondary Market: A market made for the purchase and sale of outstanding issues following the initial distribution.

Securities and Exchange Commission (SEC): The federal agency responsible for supervising and regulating the securities industry.

Settlement Date: The date on which a trade is cleared by delivery of securities against funds.

Glossary (con't)

State Obligations: Registered Treasury notes or bonds of the 50 United States, 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 50 United States.

Tax and Revenue Anticipation Notes (TRANS): Notes issued in anticipation of receiving tax proceeds or other revenues at a future date.

Time Certificate of Deposit: A non-negotiable certificate of deposit, which cannot be sold prior to maturity.

Treasury Bills: U.S. Treasury Bills which are short-term, direct obligations of the U.S. Government issued with original maturities of 13 weeks, 26 weeks and 52 weeks; sold in minimum amounts of \$10,000 in multiples of \$5,000 above the minimum. Issued in book entry form only. T-bills are sold on a discount basis.

Trustee or trust company or trust department of a bank: A financial institution with trust powers, which acts in a fiduciary capacity for the benefit of the bondholders in enforcing the terms of the bond contract.

Underwriter: A dealer, which purchases a new issue of municipal securities for resale.

U.S. Government Agencies: Instruments issued by various US Government Agencies most of which are secured only by the credit worthiness of the particular agency.

U.S. Treasury Obligations: Debt obligations of the United States Government sold by the Treasury Department in the forms of Bills, Notes, and Bonds. Bills are short-term obligations that mature in 1 year or less and are sold on the basis of a rate of discount. Notes are obligations, which mature between 1 year and 10 years. Bonds are long-term obligations, which generally mature in 10 years or more.

U.S. Instrumentality: An organization that serves a public purpose and is closely tied to the U.S. government, but is not a government agency. Many instrumentalities are private companies, and some are chartered directly by state or federal government. Instrumentalities are subject to a unique set of laws that shape their activities.

Weighted Average Maturity (WAM): The average maturity of all the securities that comprise a portfolio that is typically expressed in days or years.

Yield: The rate of annual income return on an investment, expressed as a percentage. It is obtained by dividing the current dollar income by the current market price of the security.

Yield to Maturity: The rate of income return on an investment, minus any premium or plus any discount, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond, expressed as a percentage.

Yield Curve: A graphic representation that shows the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity.

Revision History:

Revision Date	Description of Changes	Requested By
1/13/16	Numerous changes – see Board staff report dated 1/13/16	Finance Committee
2/8/17	Numerous changes – see Board staff report dated 2/8/17	Finance Committee
2/28/18	Numerous changes – see Board staff report dated 2/8/18	Finance Committee

INVESTMENT POLICY

POLICY

This Investment Policy for the Santa Margarita Water District (“the District”) establishes procedures that are formulated in compliance with governing provisions of law (Government Code Sections 53600 et seq.) for a prudent and systemic investment program in support of the District’s overall mission. The District’s General Manager shall annually prepare or cause to be prepared a statement of investment policy and such policy, and any changes thereto, shall be considered by the Board at a public meeting; (CGC 53646(a)).

This Policy covers all funds and investment activities under the direct authority of the District with the exception of deferred compensation assets. The proceeds obtained from the issuance of bonds shall be invested in accordance with the applicable bond documents. If the bond documents are silent as to the investment of the proceeds, the bond proceeds will be invested in the securities permitted by this Policy. Notwithstanding the other provisions of this Policy, the percentage or dollar portfolio limitations listed elsewhere in this Policy do not apply to bond proceeds.

The District’s investment process and Policy is subject to annual review and evaluation at a public forum. The overall investment program shall be designed and managed with a degree of professionalism worthy of the public’s trust.

All persons authorized to make investment decisions on behalf of the District are trustees and therefore fiduciaries subject to the prudent investor standard. The prudent investor standard states that “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.” (CGC 53600.3).

OBJECTIVES

The primary objectives of the District’s investment activities shall be, in order of priority:

1. **Safety.** The safety of principal is the foremost objective of the District’s investment program. The District’s investments shall be undertaken in a manner that shall preserve the District’s capital and mitigate credit risk and interest rate risk. The District will diversify its investments by investing funds among a variety of security types, maturities and issuers.
2. **Liquidity.** The District’s secondary objective shall be to meet its liquidity needs. The investment portfolio shall maintain sufficient liquidity to enable the District to meet all operating requirements which might be reasonably anticipated.
3. **Yield.** Yield shall become a consideration only after the basic requirements of safety and liquidity have been met. The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk, constraints and the cash flow characteristics of the portfolio.

ETHICS AND CONFLICTS OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

DELEGATION OF AUTHORITY

Authority of the District's Board to delegate the management of the District's investment program is derived from California Government Code Sections 53607 which states: "The authority of the legislative body to invest or to reinvest funds of a local agency, or to sell or exchange securities so purchased, may be delegated for a one-year period by the legislative body to the treasurer of the local agency, who shall thereafter assume full responsibility for those transactions until the delegation of authority is revoked or expires, and shall make a monthly report of those transactions to the legislative body. Subject to review, the legislative body may renew the delegation of authority pursuant to this section each year."

Management responsibility for the investment program is hereby delegated by the Board to the General Manager, for a period of one-year, who shall thereafter assume full responsibility for those transactions until the delegation of authority is revoked. Subject to review, the Board may renew the delegation of authority each year. The General Manager may delegate the day-to-day operations of investing to his/her designee(s) but not the responsibility for the overall investment program. The General Manager and/or his/her designee(s) shall make all investment decisions and transactions in strict accordance with state law and with this Policy.

If authorized by the Board, the General Manager and/or his/her designee(s) may utilize an external investment advisor to assist with investment decision-making and trade execution authority. The investment advisor shall be under the supervision of the General Manager and/or his/her designee(s) and shall follow this Policy and such other written instructions as are provided.

The General Manager, his/her designee(s) and/or the designated investment officers, acting in accordance with written procedures and policies and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

INTERNAL CONTROLS

The General Manager and/or his/her designee(s) shall establish a system of written internal controls to regulate the District's investment activities, including the activities of any subordinate officials acting on behalf of the District. Procedures should include references to individuals authorized to execute transactions or transfers, safekeeping agreements, repurchase agreements, wire transfer agreements, collateral/depository agreements and banking services contracts, as appropriate. As part of the annual financial audit, the District's external auditor will perform a review of investment transactions to verify compliance with policies and procedures.

AUTHORIZED FINANCIAL INSTITUTIONS AND DEALERS

It shall be the District's policy to purchase securities only from authorized institutions and firms. The General Manager and/or his/her designee(s) shall maintain a list of authorized broker/dealers and financial institutions that are approved for investment purposes. The District shall use at least one authorized broker/dealer to advise the District on investments.

No deposit of public funds shall be made except in a qualified public depository as established by state laws. Full collateralization will be required on all demand deposit accounts. If an external investment advisor is authorized to conduct investment transactions on the District's behalf, the investment advisor may use its own list of approved broker/dealers and financial institutions for investment purposes consistent with the District's policies and existing laws.

For broker/dealers of government securities and other investments, the District shall select only broker/dealers who are licensed and in good standing with the California Department of Securities, the Securities and Exchange Commission, the Financial Industry Regulatory Authority or other applicable self-regulatory organizations.

Before engaging in investment transactions with a broker/dealer, the General Manager and/or his/her designee(s) shall have received from said firm a signed Certification Form. This form shall attest that the individual responsible for the District's account has reviewed the District's Investment Policy and that the firm understands the policy and intends to present investment recommendations and transactions to the District that are appropriate under the terms and conditions of this Investment Policy.

AUTHORIZED AND SUITABLE INVESTMENTS

The type, quality and percent composition within the portfolio shall be in full compliance with Government Code Section 53601 et seq., as amended by periodic action of the State Legislature. All investment types and the limitations under this policy are listed below in comparison with the current code for both the internal and external investment managers. The percentage limitations listed on the amount of the portfolio that may be invested in each investment category or issuer shall apply at the time of purchase. In the event a security held by the District is subject to a rating change that brings it below the minimum credit ratings specified in this policy, the General Manager and/or his/her designee(s) shall notify the Board of the change.

As approved by the Board of Directors, the District may invest in capital projects and in the District's infrastructure projects.

ITEM 4B - INVESTMENT POLICY

Investment Type	INTERNAL MANAGER CG Code 53601 et seq.	District Policy
State & Local Agencies: District's Own Bonds	No Limits ("NL"), 5 yr. max	Not allowed
State Instruments	Warrants, Notes or Bonds (NL), 5 yr. max	20% of Portfolio, 5 years
Other Local Agencies	Within CA. Only. (NL), 5 yr. max	20% of Portfolio, 5 years
U.S. Treasuries	Notes, Bonds, Bills (NL) or certificates of indebtedness, 5 yr. max	80% of Portfolio
U.S. Agencies	No Limits, 5 yr. max	40% of Portfolio
Supranational	30% of Portfolio, AAA rated, 5 yr. max	Code
Banker's Acceptances	40% of Portfolio, 180-day max, no more than 30% of portfolio invested with any one commercial bank	Not allowed
Commercial Paper	25% of Portfolio, 270 Day Term U.S. Corporations with an "A" or <u>its equivalent or higher rating</u> by Nationally Recognized Statistical Ratings Organization (NRSRO) and entity has in excess of \$500 million in assets	Not allowed
<u>Certificate of Deposit (CD's)</u>		
Placement Service Deposits	30% of Portfolio, 5-year max	20% of Portfolio, 5-year max
Negotiable CDs	30% of Portfolio, 5-year max	20% of Portfolio, 5-year max
Repurchase Agreement	One Year or Less. Market value at 102% or greater	Code
Reverse Repurchase Agreement	Many restrictions, 92-day max	Not allowed
Medium Term Notes	30% of Portfolio, under 5 yrs., A <u>or its equivalent</u> rated	Not allowed
Mutual Funds	Invested solely in categories herein	Not allowed
Money Market Funds	20% of Portfolio, 2AAA or \$500 million Money Market Funds per Code.	20% of portfolio, no more than 10% in any one fund
LGIP JPA	Limited to investments in 53601, Advisor 5 yr. experience, \$500 million,	AAAm, Stable NAV, 20% of Portfolio
Secured Notes, etc.	Depends on Security	Not allowed
Asset- and Mortgage-Backed Securities	20% of Funds, under 5 yrs., AA <u>or its equivalent</u> rated	Backed by U.S. Govt Instruments Only to 20% of portfolio
Futures	Depends on contract	Not allowed
Local Agency Investment Fund (LAIF)	Code 16429.1	50% of portfolio to a maximum of \$50 million

See description of above in Appendix A

ITEM 4B - INVESTMENT POLICY

Investment Type	EXTERNAL MANAGER CG Code 53601 et seq.	District Policy
State & Local Agencies: District's Own Bonds	No Limits ("NL"), 5 yr. max.	10% of Portfolio
State Instruments	Warrants, Notes or Bonds (NL)	30% of Portfolio, no more than 10% with any single issuer
Other Local Agencies.	Within CA. Only. (NL)	30% of Portfolio, no more than 10% with any single issuer
U.S. Treasuries	Notes, Bonds, Bills (NL) or certificates of indebtedness, 5 yr. max.	80% of Portfolio, 10 yr. max.
U.S. Agencies	No Limits, 5 yr. max	80% of Portfolio, 10 yr. max.
Supranationals	30% of Portfolio, AAA rated, 5 yr. max	Code
Banker's Acceptances	40% of Portfolio, 180-day max No more than 30% of portfolio invested with any one commercial bank.	Code
Commercial Paper	25% of Portfolio, 270 Day Term U.S. Corporations with an "A" or <u>its equivalent</u> or higher rating by NRSRO and entity has in excess of \$500 million in assets	Code
<u>Certificate of Deposit (CD's)</u>		
Placement Service Deposits	30% of Portfolio, 5-year max	20% of Portfolio, 5-year max
Negotiable CDs	30% of Portfolio, 5-year max	20% of Portfolio, 5-year max
Repurchase Agreement	One Year or Less. Market value at 102% or greater	Not allowed
Reverse Repurchase Agreement	Many restrictions, 92-day max	Not allowed
Medium Term Notes	30% of Portfolio, under 5 yrs., A <u>or its equivalent</u> rated	Code
Mutual Funds	Invested solely in categories herein	Not allowed
Money Market Funds	20% of Portfolio, 2AAA or \$500 million Money Market Funds per Code.	Money Market Fund Allowed as Sweep Vehicle in District's Custody Account
LGIP JPA	Limited to investments in 53601, Advisor 5 yr. experience, \$500 million,	AAAm, Stable NAV, 20% of Portfolio
Secured Notes, etc.	Depends on Security	Not allowed
Asset- and Mortgage-Backed Securities	20% of Funds, under 5 yrs., AA rated	Code
Futures	Depends on contract	Not allowed
Local Agency Investment Fund (LAIF)	Code 16429.1	Not allowed

See description of above in Appendix A

SAFEKEEPING AND CUSTODY

All deliverable security transactions entered into by the District shall be conducted on a delivery-versus-payment (DVP) basis. To protect against potential losses by collapse of individual securities dealers, and to enhance access to securities, interest payments and maturity proceeds, all securities owned by the District shall be held in safekeeping by a third-party bank trust department, acting as agent for the District under the terms of a custody agreement executed by the bank and by the District. The only exception to the foregoing shall be depository accounts and securities purchases made with: (i) State of California Local Agency Investment Fund (LAIF) and government investment pools and, (ii) money market funds, since the purchased investments are not deliverable. Evidence of each these investments will be held by the District.

MAXIMUM MATURITIES

The General Manager and/or his/her designee(s) shall maintain a system to monitor and forecast revenues and expenditures to identify funds for investment. Maturities of investments will be selected to provide necessary liquidity, manage interest rate risk, and optimize earnings. Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds.

The maximum maturity of individual investments shall not exceed the limits set forth in the Authorized and Suitable Investments section. If the section does not specify a maturity limit, no investment shall have a remaining maturity in excess of five years from the date of purchase unless the District has granted its express authority to make that investment either specifically or as a part of an investment program no less than three months prior to the investment.

As of May 2014, the Board expressly authorized a maximum of 20% of the portfolio to be invested in securities (those without a Policy stated maturity limit) with maturities between five to ten years. The Board also authorizes investing bond reserve funds beyond five years if prudent in the opinion of the General Manager and/or his/her designee(s) and authorized by the applicable bond documents.

REPORTING AND REVIEW

The General Manager and/or his/her designee(s) shall maintain a complete record of all investments and transactions and shall submit a monthly list of investment transactions to the District as set by Government Code Section 53607. The General Manager and/or his/her designee(s) shall submit a quarterly investment report to the Finance and Administration Committee of the Board of Directors within 30 days following the end of the quarter covered by the report as stated by California Government Code Section 53646(b)(1). This report will include all elements as prescribed by Government Code Section 53646(b), including the type of investments, the issuers, maturity dates, and par values and dollar amounts invested on all securities. The report will also include investments and moneys held by the District and a description of any of the District's funds or investments that are under the management of contracted parties, such as an investment advisor. For all securities held by the District and under management of an outside party other than a local agency or the State of California Local Agency Investment Fund (LAIF), the report shall also include a current market value as of the date of the report and the source of the portfolio market valuation. The report shall also include a certification that: (1) all investment actions executed since the last report have been made in full compliance with this Investment Policy; and (2) the District can meet its anticipated expenditure obligations for the next six months.

This Policy shall be reviewed on an annual basis, and modifications must be approved by the District at a public meeting.

Appendix A Investment Type Descriptions

State and Local Agencies. Registered treasury notes or bonds of this or any of the other 49 United States, 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 this state or any of the other 49 United States.

Bonds, notes, warrants, or other evidences of indebtedness of any local agency within this state (including the District), including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency.

United States Treasury Issues. 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.

U.S. Agencies (Federal Agency Obligations). Federal Agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.

Supranational. Supranational organizations are international financial institutions that are generally established by agreements among nations, with member nations contributing capital and participating in management. Supranational bonds finance economic and infrastructure development and support environmental protection, poverty reduction, and renewable energy around the globe. The Government Code allows local agencies to purchase the United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank.

Bankers' Acceptances. Bankers' acceptances otherwise known as bills of exchange or time drafts that are drawn on and accepted by a commercial bank. Purchases of bankers' acceptances may not exceed 180 days maturity. Eligible bankers' acceptances are restricted to issuing financial institutions with short-term debt rating of at least "A-1," or its equivalent, by a NRSRO.

Commercial Paper. Commercial paper rated the highest ranking or of the highest letter and number rating as provided for by a NRSRO. The entity that issues the commercial paper shall meet all of the conditions in either paragraph (1) or paragraph (2):

- (1) The corporation shall be organized and operating within the United States, shall have total assets in excess of five hundred million dollars (\$500,000,000), and shall issue debt, other than commercial paper, if any, that is rated in a rating category of "A" or its equivalent, or higher by a NRSRO.
- (2) The corporation shall be organized within the United States as a special purpose corporation, trust, or limited liability company, have program wide credit enhancements, including, but not limited to, over collateralization, letters of credit, or surety bond; have commercial paper that is rated at least "A-1," or equivalent, by a NRSRO.

Placement Service Deposit. Deposits placed through a deposit placement service shall meet the requirements under Government Code Section 53601.8. A maximum of 20 percent of the portfolio may be invested in this category under the District's Policy. The full amount of the principal and the interest that may be accrued during the maximum term of each deposit shall at all times be insured by federal deposit insurance.

Appendix A (Continued)

Investment Type Descriptions

Negotiable Certificates of Deposit. Negotiable certificates of deposit (NCDs) issued by a nationally or state-chartered bank, a savings association or a federal association, a state or federal credit union, or by a federally licensed or state-licensed branch of a foreign bank. Purchases are limited to institutions which have long-term debt rated at least in the “A” category, or its equivalent, by a NRSRO; and/or have short-term debt rated at least “A-1,” or its equivalent, by a NRSRO. NCDs may not exceed 5 years in maturity. A maximum of 20 percent of the portfolio may be invested in this category under the District’s Policy. The amount invested in NCDs with any one financial institution in combination with any other securities from that financial institution shall not exceed 10 percent of the portfolio.

Repurchase Agreements. Repurchase agreements are to be used as short-term investments not to exceed one year. The following collateral restrictions will be observed: Only U.S. Treasury securities or Federal Agency securities will be acceptable collateral. All securities underlying repurchase agreements must be delivered to the District’s custodian bank or be handled under a properly executed tri-party repurchase agreement. The total market value of all collateral for each repurchase agreement must equal or exceed 102% of the total dollar value of the money invested by the District for the term of the investment.

Medium-Term Notes. Medium-term notes defined 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. Purchases are limited to securities rated in a rating category of “A” or its equivalent, or better by a NRSRO.

Money Market Funds. Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission that invests solely in U.S. Treasuries and Federal Agency obligations and repurchase agreements relating to such obligations.

The company shall have met either of the following criteria: (A) Attained the highest ranking or the highest letter and numerical rating provided by not less than two NRSROs. (B) Retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years of experience managing money market mutual funds with assets under management in excess of five hundred million dollars (\$500,000,000). A maximum of 20 percent of the portfolio may be invested in this category.

If the District has funds invested in a money market fund, a copy of the fund’s information statement shall be maintained on file. In addition, the Treasurer should review the fund’s summary holdings on a quarterly basis.

Mutual Funds. Shares of beneficial interest issued by diversified management companies that invest solely in securities and obligations authorized by this policy. The company shall have met either of the following criteria: (A) Attained the highest ranking or the highest letter and numerical rating provided by not less than two NRSROs. (B) Retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years of experience managing money market mutual funds with assets under management in excess of five hundred million dollars (\$500,000,000).

Appendix A (Continued)
Investment Type Descriptions

Local Government Investment Pools (LGIP JPA). Shares of beneficial interest issued by a joint powers authority organized pursuant to Government Code Section 6509.7. To be eligible for purchase, the pool must meet the requirements of California Government Code Section 53601(p), the pool must seek to maintain a stable Net Asset Value (“NAV”), and the pool must be rated at least “AAAm,” or its equivalent, by a NRSRO.

Mortgage- and Asset-Backed Securities. Any mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate, or consumer receivable-backed bond. Securities eligible for investment under this subdivision shall be rated in a rating category of “AA,” or its equivalent, or better by a NRSRO and have a maximum remaining maturity of five years or less. Purchase of securities authorized by this subdivision shall not exceed 20 percent of the District’s portfolio.

State of California Local Agency Investment Fund (LAIF). LAIF is a voluntary program created by California statute in 1977 as an investment alternative for California local governments and special districts. This program offers opportunity to participate in a major portfolio which invests using the investment expertise of the State Treasurer’s Office. The fund is highly liquid and safe. “Moneys placed with the Treasurer for deposit in the LAIF ...shall not be subject to either of the following: (a) transfer of loan pursuant to Sections 16310, 16312, or 16313, or (b) impoundment or seizure by any state official or state agency (CGC 16429.3). Also, “The right of a city, county ...special district ...to withdraw its deposited moneys from the LAIF, upon demand, may not be altered, impaired, denied in any way, by state official or state agency based upon the state’s failure to adopt a State Budget by July 1 of each new fiscal year” (CGC 16429.4).

Soquel Creek Water District
5180 Soquel Drive,
Soquel, CA 95073
ANNUAL STATEMENT OF INVESTMENT POLICY
Effective from July 1, 2016 to June 30, 2017

This statement is rendered to the Soquel Creek Water District Board to comply with Section 53646 of the Government Code of California. It is intended to provide a guideline for the prudent investment of surplus cash, reserves, trust funds and restricted monies and to outline a policy for maximizing the efficiency of the District's cash management system.

1.0 Policy

It is the policy of Soquel Creek Water District to invest public funds in a manner which will provide the maximum security with best investment return, while meeting the daily cash flow demands of the entity and conforming to all state and local statutes governing the investment of public funds, such as the Government Code of California Section 53601, et. seq. (Appendix B & C) and the Indenture of Trust dated February 1, 2004 for the Soquel Creek Water District's 2004 Water Revenue Bonds and Water Revenue Refunding Bonds, Series 2012 (Appendix A).

2.0 Scope

This investment policy applies to all financial assets of the Soquel Creek Water District as accounted for in the Annual Audited Financial Report with the exception of the proceeds from the District's 2011 Certificates of Participation and the 2013 Certificates of Participation. The proceeds from the 2011 Certificates of Participation may be invested in Authorized Investments as defined in the Trust Agreement dated May 1, 2011 (Appendix F). The proceeds from the 2013 Certificates of Participation may be invested in Authorized Investments as defined in the Trust Agreement dated July 1, 2013 (Appendix G). This policy applies to all funds under the Financial and Business Services Manager's span of control unless specifically exempted by statute or ordinance. The Soquel Creek Water District accounts for its operations as an Enterprise Fund.

2.1 Funds

Surplus Revenue Fund (Wells Fargo Bank)
Local Agency Investment Fund (LAIF: State of California)
Certificates of Deposit (Various Institutions)
2011 Reserve Fund (Bank of New York)
2012 Reserve Fund (First Republic Bank)

3.0 Prudence

As an investment standard, any investment shall be made with “judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence would exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.”¹ All transactions shall be undertaken in the best interest of Soquel Creek Water District, and certainly not in the interest of broker-dealers.

- 3.1 The standard of prudence to be used by investment officials shall be the “prudent person” and/or “prudent investor” standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security’s credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments. (Appendix D)

4.0 Objective

The primary objectives, in priority order, of Soquel Creek Water District’s investment activities shall be:

- 4.1 **Safety:** Safety of principal is the foremost objective of the investment policy. Investments of the Soquel Creek Water District shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio. Funds will be invested among a variety of securities offering independent returns and financial institutions. The District shall seek to preserve principal by mitigating both credit and market risk.
- 4.2 **Liquidity:** The Soquel Creek Water District’s investment portfolio will remain sufficiently liquid to enable the Soquel Creek Water District to meet all operating requirements which might be reasonably anticipated.
- 4.3 **Return on Investments:** The Soquel Creek Water District’s investment portfolio shall be designed with the objective of attaining a benchmark rate of return throughout budgetary and economic cycles, commensurate with the Soquel Creek Water District’s investment risk constraints and the cash flow characteristics of the portfolio.

¹ Prudent Person Rule set forth in the California Uniform Prudent Investor Act.

5.0 Delegation of Authority

Authority to manage the Soquel Creek Water District's investment program is derived from the Government Code of the State of California, Section 53600 et seq. The authority to invest public funds is expressly delegated to the Board of Directors for the subsequent redelegation to the General Manager. Under the general supervision of the General Manager, daily management responsibility has been delegated to the Financial and Business Services Manager who shall establish written procedures for the operation of the investment program consistent with this investment policy. Procedures should include reference to: safekeeping, wire transfer agreements, banking service contracts and collateral/depository agreements. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Financial and Business Services Manager. The Financial and Business Services Manager shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate employees, and their procedures in the absence of the Financial and Business Services Manager.

6.0 Ethics & Conflicts of Interest

Officers and employees involved in the investment process shall refuse honoraria, gifts, and gratuities from advisors, brokers, dealers, bankers, or other persons with whom investment activities are conducted and shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the General Manager any material financial interests in financial institutions that conduct business within this jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the Soquel Creek Water District, particularly with regard to the time of purchases and sales. Additionally the District's officers and employees shall annually file the applicable financial disclosures *as required* by the Fair Political Practices Commission.

7.0 Authorized Financial Dealers and Institutions

The Financial and Business Services Manager will maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained as needed of approved security brokers/dealers selected by credit worthiness who are authorized to provide investment services in the State of California. These may include "primary" dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule - Appendix E). No public deposit shall be made except in a qualified public depository as established by state laws.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Financial and Business Services Manager with the following: audited financial statements, proof of National Association of Security Dealers certification, trading resolution, proof of state/province registration, certification of having read Soquel Creek Water District's investment policy.

An annual review of the financial condition and registrations of qualified bidders will be conducted by the Financial and Business Services Manager.

An annual review of the financial condition of each financial institution and broker/dealer in which the Soquel Creek Water District invests will be conducted by the Financial and Business Services Manager.

The District shall not select brokers or dealers who individually, or as a firm, have made political contributions within the last four years, which exceed the amount, set forth in Municipal Securities Regulatory Board (MSRB) Rule G-37. For 2016, the limit is \$250 and applies to any member of the District's governing board or any candidate for that office.

All accounts shall be established and maintained in the Soquel Creek Water District's accounting records at all times in accordance with the State Controller's Uniform System of Accounts as authorized by Section 53892 of the Government Code.

8.0 Authorized & Suitable Investments

From the governing body perspective, special care must be taken to ensure that the list of instruments includes only those allowed by law and those that local investment managers are trained and competent to handle.

The Soquel Creek Water District is empowered by statute to invest in the following types of securities:

1. Government securities and debt obligations issued by the US Government or its agencies and are the highest quality investments available in terms of safety and liquidity. Among these are Treasury Bills and Notes; Government National Mortgage Association (Ginnie Mae); Federal National Mortgage Association (Fannie Mae); Federal Land Bank (FLB); and Federal Farm Credit Banks. These investments are, however, subject to the prohibition against inverse floaters, range notes, interest-only strips derived from a pool of mortgages, and securities that could result in zero-interest accrual in Section 53601.6. The District will require safe keeping documentation of the treasury instruments in an acceptable safekeeping account in the District's name. All interest will be deposited into the account or accounts that will best ensure the preservation of capital.

2. Certificates of Deposit (CD) must be fully insured by the Federal Deposit Insurance Corporation (FDIC), National Credit Union Administration (NCUA), Securities Investor Protection Corporation (SIPC), or fully collateralized to 110% of market value of principal and accrued interest for governmental securities and 150% of market value of principal and accrued interest for first mortgage collateral. Further to be considered by the District:
 - a. The bank or savings and loan must be located in California.
 - b. It must have been in existence at least five years.
 - c. Eligibility for deposits shall be limited to those financial institutions that maintain a rating equivalent to Moody's or Standard & Poor's rating of "A" or higher.

Funds invested through a CD Placement Service are not subject to (a), (b), or (c) above, however each individual CD will be limited to the amount that is fully insured by the FDIC, NCUA, SIPC, or fully collateralized as discussed above.

The maximum to be invested with any one institution will be up to the federally insured amount with the exception of the District's Santa Cruz County Bank Account No. XXXXX981 designated to be the District's Depository, and accounts held with the Bank of New York (BNY) Mellon Trust Company, Los Angeles as the District's Trustee for the 2011 Certificates of Participation and the First Republic Bank Debt Service Fund for the 2012 Refunding Bonds. Interest earned on all accounts will be paid monthly unless the principal sum is under the federally insured maximum and deposited into the account or accounts that will best ensure the preservation of capital.

3. The State Local Agency Investment Fund for the Investment of the 2011 Certificates of Participation, the 2012 Water Revenue Bonds, and the 2013 Certificates of Participation.

The District does not buy stocks; it does not speculate; it does not deal in futures, options, or security loan agreements; it does not invest or place funds in other than the areas outlined above.

9.0 Investment Pools

A thorough investigation of the pool/fund is required prior to investing, and on a continual basis. There shall be a questionnaire developed which will provide the following information:

- A description of eligible investment securities, and a written statement of investment policy and objectives.
- A description of interest calculations and how it is distributed, and how gains and losses are treated.

- A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited.
- A description of who may invest in the program, how often, what size deposit and withdrawal are allowed.
- A schedule for receiving statements and portfolio listings.
- Whether reserves, retained earnings, etc. are utilized by the pool/fund.
- A fee schedule, and when and how it is assessed.
- Whether the pool/fund is eligible for bond proceeds and/or whether it will accept such proceeds.

10.0 Collateralization

Collateralization will be required on any Certificate of Deposit not fully insured by the Federal Depository Insurance Corporation (FDIC), National Credit Union Administration (NCUA) or Securities Investment Protection Corporation (SIPC). In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 110% of market value of principal and accrued interest for governmental securities and 150% of market value of principal and accrued interest for first mortgage collateral.

Collateral will always be held by an independent third party with whom the entity has a current written custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the Soquel Creek Water District and retained.

The right of collateral substitution is not granted.

11.0 Safekeeping and Custody

All security transactions entered into by the Soquel Creek Water District shall be conducted on a delivery-versus-payment (DVP) basis and held in safekeeping pursuant to a safekeeping agreement.

All financial institutions providing safekeeping services for the District shall be required to provide reports or safekeeping receipts directly to the Financial and Business Services Manager to verify securities taken into their possession.

12.0 Diversification

The Soquel Creek Water District will diversify its investments by security type and institution. No more than 50% of the Soquel Creek Water District's total investment portfolio may be invested in a single security type or with a single financial institution other than U.S. Treasury securities and authorized pools. The maximum allowable percentage for each type of security is set forth as follows:

Security	Maximum % of Portfolio	Maximum Maturity	
U.S. Treasury & Agency Securities	100%	5 years	
Local Agency Pools	100%	N/A	
Bankers Acceptances	40%	180 days	No more than 30% of the surplus funds may be in Bankers Acceptances in any one commercial bank
Commercial Paper – Non-Pooled Funds	25%	270 days	No more than 10 percent of the agency’s money may be invested in any one issuer’s commercial paper.
Negotiable Certificate of Deposit	30% (combined with placement service CDs)	5 years	
CD Placement Service	30%	5 years	
Medium Term Corporate Notes	30%	5 years	“A” Rating
Mutual Funds	20%	N/A	No more than 10% of surplus funds may be invested in any one mutual fund
Collateralized Mortgage Obligations	20%	5 years	“AA” Rating
Money Market Funds	20%	N/A	

Source: California Government Code Sections 53601 & 53635 (a-n)

Note: The government code requires that specific criteria for the selection of both mutual funds and money market funds be met.

13.0 Maximum Maturities

To the extent possible, the Soquel Creek Water District will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the Soquel Creek Water District will not directly invest in securities maturing more than one year from the date of purchase, with the exception of government securities and debt obligations issued by the US Government or its agencies. Government securities may be purchased for a period not to exceed three years.

Reserve funds may be invested in securities exceeding three years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of the funds.

Section 53601 provides that the maximum term of any investment authorized under this section, unless otherwise stated, is five years. However, the governing body may grant express authority to make investments either specifically or as a part of an investment program approved by the governing body that exceeds this five year 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.

14.0 Internal Control

The Financial and Business Services Manager shall establish an annual process of independent review by an external auditor. This independent analysis shall review internal control, account activity and compliance with policies and procedures.

15.0 Performance Standards

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs.

15.1 Market Yield (Benchmark): The Soquel Creek Water District's investment strategy is passive. Given this strategy, the basis used by the Financial and Business Services Manager to determine whether market yields are being achieved shall be the 6-month U.S. Treasury Bill and the Federal Funds rate. These indices are considered benchmarks for low risk investment transactions and therefore comprise a minimum standard for the portfolio's rate of return.

16.0 Reporting

In accordance with Section 53646(b) (1-4) of the Government Code of California, the Financial and Business Services Manager shall provide to the Board of Directors monthly investment reports, which provide a clear picture of the status of the current investment portfolio. The management report may include comments on the fixed income markets and economic conditions, discussions regarding restrictions on percentage of investment by categories, possible changes in the portfolio structure going forward and thoughts on investment strategies if applicable.

Schedules in the monthly report will include the following:

- A listing of individual securities held at the end of the reporting period by authorized investment category to include investment type, issuer, maturity, par value, and dollar amount invested
- Average life and final maturity of all investments listed
- A listing of funds that are under the management of contracted parties
- Market Value as of the date of the report and the source of the valuation
- Percentage of the Portfolio represented by each investment category
- A citation of compliance with the investment policy or an explanation for non-compliance
- A statement of the ability or inability to meet expenditure requirements for six months, as well as an explanation of why money will not be available if that is the case (Statement of Cash Flows)

17.0 Investment Policy Adoption

The Soquel Creek Water District's Investment Policy shall be ***adopted*** by resolution of the Soquel Creek Water District's Board of Directors. The policy shall be reviewed annually by the Board of Directors no later than the second Board Meeting each July of the year to which it applies and any modifications made thereto must be approved by the Board of Directors.

Glossary

Agencies: Federal agency securities.

Asked: The price at which securities are offered.

Bankers' Acceptance (BA): A draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

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 offered by a buyer of securities. (When you are selling securities, you ask for a bid.) See Offer.

Bond Proceeds: The money paid to the issuer by the purchaser or underwriter of a new issue of municipal securities. These moneys are used to finance the project or purpose for which the securities were issued and to pay certain costs of issuance as may be provided in the bond contract.

Broker: A broker brings buyers and sellers together for a commission.

Certificate of Deposit (CD): A time deposit with a specific maturity evidenced by a certificate. Large denomination CD's are typically negotiable.

CD Placement Services: A large sum of money is deposited into one bank that in turn places the funds in CDs issued by other banks in the same network in increments less than the current FDIC maximum so that both principal and interest are eligible for complete FDIC protection.

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

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 risk of loss due to failure of the issuer of a security.

Custodian: A Bank or other financial institution that keeps custody of stock certificates and other assets.

Dealer: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

Debenture: A bond secured only by the general credit of the issuer.

Delivery versus Payment/Receipt: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

Discount: The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

Discount Securities: Non-interest bearing money market instruments that are issued at discount and redeemed at maturity for full face value, e.g. U.S. Treasury Bills.

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

Farm Credit System (FCS): Nationwide cooperative system of banks and associations providing credit to farmers, agricultural concerns, and related businesses. The system is comprised of the Banks for Cooperatives, which makes loans to farmer-owned marketing, supply, and service cooperatives, and rural utilities; the **Farm Credit Banks**, which make short and intermediate term farm loans secured by real estate; and the Federal Farm Credit Banks Funding Corp., which acts as a conduit through which the FCS issues debt in the credit markets. The Farm Credit Banks were created by merger of the old Federal Intermediate Credit Banks, making intermediate term farm loans, and the **Federal Land Banks**. The Farm Credit System, originally capitalized by the federal government, is now self-funding and owned by its member-borrowers.

Federal Credit Agencies: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g. S & L's, small business firms, students, farmers, farm cooperatives, and exporters.

Federal Deposit Insurance Corporation (FDIC): A federal agency that insures bank deposits, currently up to \$250,000 per deposit.

Federal Funds Rate: The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

Federal Home Loan Banks (FHLB): Government sponsored wholesale banks (currently 12 regional banks) which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and

insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district Bank.

Federal National Mortgage Association (FNMA or Fannie Mae): FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

Federal Open Market Committee (FOMC): Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

Federal Reserve System: The central bank of the United States created by Congress and consisting of a seven-member Board of Governors in Washington, D.C., 12 regional banks and about 5,700 commercial banks that are members of the system.

Government National Mortgage Association (GNMA or Ginnie Mae): Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. The security holder is protected by the full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the FHA, VA or FMHA mortgages. The term "pass-throughs" is often used to describe Ginnie Maes.

Liquidity: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. Short-term securities, such as Treasury bills that are easily sold to other investors at relatively narrow spreads between bid and asked quotes, and in reasonably large trading volumes, are said to be highly liquid.

Local Agency Investment Fund (LAIF): The aggregate of all funds from local State of California agencies that are placed in the custody of the State Treasurer for investment and reinvestment.

Market Risk: Market value fluctuations due to overall changes in the general level of interest rates.

Market Value: The price at which a security is trading and could presumably be purchased or sold.

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

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

National Credit Union Administration (NCUA): Independent federal agency established by federal law in 1970 to charter and supervise federal credit unions.

Offer: The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See Asked and Bid.

Open Market Operations: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

Par Value: The amount of principal that must be paid at maturity. Also referred to as the face amount of a bond, normally quoted in \$1,000 increments per bond.

Portfolio: Combined holding of more than one stock, bond, commodity, real estate investment, cash equivalent, or other asset. The purpose of a portfolio is to reduce risk by diversification.

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: The face value or par value of a debt instrument, or the amount of capital invested in a given security.

Prudent Person Rule: An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state – the so-called legal list. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

Qualified Public Depositories: A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes

under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

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 or the current income return.

Safekeeping: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

Secondary Market: A market made for the purchase and sale of outstanding issues following the initial distribution.

Security: A document indicating ownership or creditor ship, a stock certificate or bond.

Securities & Exchange Commission: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

Securities Investor Protection Corporation (SIPC): Nonprofit, government sponsored membership corporation chartered in 1970 to protect the customer of insured broker-dealers, up to \$500,000 per account.

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

Structured Notes: Notes issued by Government Sponsored Enterprises (FHLB, FNMA, SLMA, etc.) and Corporations that have imbedded options (e.g., call features, step-up coupons, floating rate coupons, derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

Student Loan Marketing Association (SLMA): Publicly traded corporation established in 1972 to increase the availability of student loans by purchasing loans in the secondary market. The corporation, also know as Sallie Mae, guarantees college education loans under the federal Guaranteed Student Loan Program, and under the Health Education Assistance Program.

Time Deposits: Interest bearing deposits at a savings institution that has a specific maturity date.

Treasury Bills: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

Treasury Bonds: Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than ten years.

Treasury Notes: Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to ten years.

Trustee or trust company or trust department of a bank: A financial institution with trust powers which acts in a fiduciary capacity for the benefit of the bondholders in enforcing the terms of the bond contract.

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.

Yield: The rate of annual income return on an investment, expressed as a percentage. (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.

References*

- A. Indenture of Trust dated February 1, 2004 relating to \$9,035,000 Soquel Creek Water District 2004 Water Revenue Bonds - Article I, pp. 3-5
- B. Government Code of California Section 53600-53609
- C. Government Code of California Section 53630-53649
- D. Probate Code of California Section 16045-16054 The Prudent Investor Rule
- E. Securities & Exchange Commission Rule 15C3-1 (Uniform Net Capital Rule)
- E. Soquel Creek Water District Investment Procedures
- F. Trust Agreement dated May 1, 2011 relating to \$16,800,000 Soquel Creek Water District 2011 Certificates of Participation – Article I, pp. 2-3
- G. Trust Agreement dated July 1, 2013 relating to \$17,520,000 Soquel Creek Water District 2013 Certificates of Participation – Article I, pp. 2-3

*Documents available upon request

STATE LAW (GOVERNMENT CODE)

State of California
GOVERNMENT CODE

53600.3. Except as provided in subdivision (a) of Section 27000.3, 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.

(Amended by Stats. 1996, Ch. 749, Sec. 4. Effective January 1, 1997.)

53600.5. 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.

(Amended by Stats. 1996, Ch. 749, Sec. 5. Effective January 1, 1997.)

53600.6. The Legislature hereby finds that the solvency and creditworthiness of each individual local agency can impact the solvency and creditworthiness of the state and other local agencies within the state. Therefore, to protect the solvency and creditworthiness of the state and all of its political subdivisions, the Legislature hereby declares that the deposit and investment of public funds by local officials and local agencies is an issue of statewide concern.

(Added by Stats. 1995, Ch. 784, Sec. 13. Effective January 1, 1996)

53601. This section shall apply to a local agency that is a city, a district, or other local agency that does not pool money in deposits or investments with other local agencies, other than local agencies that have the same governing body. However, Section 53635 shall apply to all local agencies that pool money in deposits or investments with other local agencies that have separate governing bodies. 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. A local agency purchasing or obtaining any securities prescribed in this section, in a negotiable, bearer, registered, or nonregistered format, shall require delivery of the securities to the local agency, including those purchased for the agency by financial advisers, consultants, or managers using the agency's funds, by book entry, physical delivery, or by third-party custodial agreement. The transfer of securities to the counterparty bank's customer book entry account may be used for book entry delivery.

For purposes of this section, "counterparty" means the other party to the transaction. A counterparty bank's trust department or separate safekeeping department may be used for the physical delivery of the security if the security is held in the name of the local agency. Where this section specifies a percentage limitation for a particular category of investment, that percentage is applicable only at the date of purchase. Where this section does not specify a limitation on the term or remaining maturity at the time of the investment, no investment shall be made in any security, other than a security underlying a repurchase or reverse repurchase agreement or securities lending agreement authorized by this section, that at the time of the investment has a term remaining to maturity in excess of five years, unless the legislative body has granted express authority to make that investment either specifically or as a part of an investment program approved by the legislative body no less than three months prior to the investment:

- (a) Bonds issued by the local agency, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency or by a department, board, agency, or authority of the local agency.
- (b) 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.
- (c) Registered state warrants or treasury notes or bonds of this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of the state.

(d) Registered treasury notes or bonds of any of the other 49 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 states, in addition to California.

(e) Bonds, notes, warrants, or other evidences of indebtedness of a local agency within this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency.

(f) Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.

(g) Bankers' acceptances otherwise known as bills of exchange or time drafts that are drawn on and accepted by a commercial bank. Purchases of bankers' acceptances shall not exceed 180 days' maturity or 40 percent of the agency's moneys that may be invested pursuant to this section. However, no more than 30 percent of the agency's moneys may be invested in the bankers' acceptances of any one commercial bank pursuant to this section. This subdivision does not preclude a municipal utility district from investing moneys in its treasury in a manner authorized by the Municipal Utility District Act (Division 6 (commencing with Section 11501) of the Public Utilities Code).

(h) Commercial paper of "prime" quality of the highest ranking or of the highest letter and number rating as provided for by a nationally recognized statistical rating organization (NRSRO). The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (1) or (2):

(1) The entity meets the following criteria:

(A) Is organized and operating in the United States as a general corporation.

(B) Has total assets in excess of five hundred million dollars (\$500,000,000).

(C) Has debt other than commercial paper, if any, that is rated in a rating category of "A" or its equivalent or higher by an NRSRO.

(2) The entity meets the following criteria:

(A) Is organized within the United States as a special purpose corporation, trust, or limited liability company.

(B) Has programwide credit enhancements including, but not limited to, overcollateralization, letters of credit, or a surety bond.

(C) Has commercial paper that is rated "A-1" or higher, or the equivalent, by an NRSRO. Eligible commercial paper shall have a maximum maturity of 270 days or less. Local agencies, other than counties or a city and county, may invest no more than 25 percent of their moneys in eligible commercial paper. Local agencies, other than counties or a city and county, may purchase no more than 10 percent of the outstanding commercial paper of any single issuer. Counties or a city and county may invest in commercial paper pursuant to the concentration limits in subdivision (a) of Section 53635.

(i) Negotiable certificates of deposit issued by a nationally or state-chartered bank, a savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a federally licensed or state-licensed branch of a foreign bank. Purchases of negotiable certificates of deposit shall not exceed 30 percent of the agency's moneys that may be invested pursuant to this section. For purposes of this section, negotiable certificates of deposit do not come within Article 2 (commencing with Section 53630), except that the amount so invested shall be subject to the limitations of Section 53638. The legislative body of a local agency and the treasurer or other official of the local agency having legal custody of the moneys are prohibited from investing local agency funds, or funds in the custody of the local agency, in negotiable certificates of deposit issued by a state or federal credit union if a member of the legislative body of the local agency, or a person with investment decisionmaking authority in the administrative office manager's office, budget office, auditor-controller's office, or treasurer's office of the local agency also serves on the board of directors, or any committee appointed by the board of directors, or the credit committee or the supervisory committee of the state or federal credit union issuing the negotiable certificates of deposit.

(j) (1) Investments in repurchase agreements or reverse repurchase agreements or securities lending agreements of securities authorized by this section, as long as the agreements are subject to this subdivision, including the delivery requirements specified in this section.

(2) 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 market value of securities

that underlie a repurchase agreement shall be valued at 102 percent or greater of the funds borrowed against those securities and the value shall be adjusted no less than quarterly. Since the market value of the underlying securities is subject to daily market fluctuations, the investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102 percent no later than the next business day.

(3) Reverse repurchase agreements or securities lending agreements may be utilized only when all of the following conditions are met:

(A) The security to be sold using a reverse repurchase agreement or securities lending agreement has been owned and fully paid for by the local agency for a minimum of 30 days prior to sale.

(B) 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.

(C) The agreement does not exceed a term of 92 days, unless 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 date of the same security.

(D) Funds obtained or funds within the pool of an equivalent amount to that obtained from selling a security to a counterparty using a reverse repurchase agreement or securities lending agreement shall not be used to purchase another security with a maturity longer than 92 days from the initial settlement date of the reverse repurchase agreement or securities lending agreement, unless the reverse repurchase agreement or securities lending 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 date of the same security.

(4) (A) Investments in reverse repurchase agreements, securities lending agreements, or similar investments in which the local agency sells securities prior to purchase with a simultaneous agreement to repurchase the security may be made only upon prior approval of the governing body of the local agency and shall be made only with primary dealers of the Federal Reserve Bank of New York or with a nationally or state-chartered bank that has or has had a significant banking relationship with a local agency.

(B) For purposes of this chapter, "significant banking relationship" means any of the following activities of a bank:

(i) Involvement in the creation, sale, purchase, or retirement of a local agency's bonds, warrants, notes, or other evidence of indebtedness.

(ii) Financing of a local agency's activities.

(iii) Acceptance of a local agency's securities or funds as deposits.

(5) (A) "Repurchase agreement" means a purchase of securities by the local agency pursuant to an agreement by which the counterparty seller will repurchase the securities on or before a specified date and for a specified amount and the counterparty will deliver the underlying securities to the local agency by book entry, physical delivery, or by third-party custodial agreement. The transfer of underlying securities to the counterparty bank's customer book-entry account may be used for book-entry delivery.

(B) "Securities," for purposes of repurchase under this subdivision, means securities of the same issuer, description, issue date, and maturity.

(C) "Reverse repurchase agreement" means a sale of securities by the local agency pursuant to an agreement by which the local agency will repurchase the securities on or before a specified date and includes other comparable agreements.

(D) "Securities lending agreement" means an agreement under which a local agency agrees to transfer securities to a borrower who, in turn, agrees to provide collateral to the local agency. During the term of the agreement, both the securities and the collateral are held by a third party. At the conclusion of the agreement, the securities are transferred back to the local agency in return for the collateral.

(E) For purposes of this section, the base value of the local agency's pool portfolio shall be that dollar amount obtained by totaling all cash balances placed in the pool by all pool

participants, excluding any amounts obtained through selling securities by way of reverse repurchase agreements, securities lending agreements, or other similar borrowing methods.

(F) For purposes of this section, the spread is the difference between the cost of funds obtained using the reverse repurchase agreement and the earnings obtained on the reinvestment of the funds.

(k) Medium-term notes, defined 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. Notes eligible for investment under this subdivision shall be rated in a rating category of “A” or its equivalent or better by an NRSRO. Purchases of medium-term notes shall not include other instruments authorized by this section and shall not exceed 30 percent of the agency’s moneys that may be invested pursuant to this section.

(l) (1) Shares of beneficial interest issued by diversified management companies that invest in the securities and obligations as authorized by subdivisions (a) to (k), inclusive, and subdivisions (m) to (q), inclusive, and that comply with the investment restrictions of this article and Article 2 (commencing with Section 53630). However, notwithstanding these restrictions, a counterparty to a reverse repurchase agreement or securities lending agreement is not required to be a primary dealer of the Federal Reserve Bank of New York if the company’s board of directors finds that the counterparty presents a minimal risk of default, and the value of the securities underlying a repurchase agreement or securities lending agreement may be 100 percent of the sales price if the securities are marked to market daily.

(2) Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1 et seq.).

(3) If investment is in shares issued pursuant to paragraph (1), the company shall have met either of the following criteria:

(A) Attained the highest ranking or the highest letter and numerical rating provided by not less than two NRSROs.

(B) Retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years’ experience investing in the securities and obligations authorized by subdivisions (a) to (k), inclusive, and subdivisions (m) to (q), inclusive, and with assets under management in excess of five hundred million dollars (\$500,000,000).

(4) If investment is in shares issued pursuant to paragraph (2), the company shall have met either of the following criteria:

(A) Attained the highest ranking or the highest letter and numerical rating provided by not less than two NRSROs.

(B) Retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years’ experience managing money market mutual funds with assets under management in excess of five hundred million dollars (\$500,000,000).

(5) The purchase price of shares of beneficial interest purchased pursuant to this subdivision shall not include commission that the companies may charge and shall not exceed 20 percent of the agency’s moneys that may be invested pursuant to this section. However, no more than 10 percent of the agency’s funds may be invested in shares of beneficial interest of any one mutual fund pursuant to paragraph (1).

(m) Moneys held by a trustee or fiscal agent and pledged to the payment or security of bonds or other indebtedness, or obligations under a lease, installment sale, or other agreement of a local agency, or certificates of participation in those bonds, indebtedness, or lease installment sale, or other agreements, may be invested in accordance with the statutory provisions governing the issuance of those bonds, indebtedness, or lease installment sale, or other agreement, or to the extent not inconsistent therewith or if there are no specific statutory provisions, in accordance with the ordinance, resolution, indenture, or agreement of the local agency providing for the issuance.

(n) Notes, bonds, or other obligations that are at all times secured by a valid first priority security interest in securities of the types listed by Section 53651 as eligible securities for the purpose of securing local agency

deposits having a market value at least equal to that required by Section 53652 for the purpose of securing local agency deposits. The securities serving as collateral shall be placed by delivery or book entry 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, and the security interest shall be perfected in accordance with the requirements of the Uniform Commercial Code or federal regulations applicable to the types of securities in which the security interest is granted.

(o) A mortgage passthrough security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable passthrough certificate, or consumer receivable-backed bond. Securities eligible for investment under this subdivision shall be rated in a rating category of "AA" or its equivalent or better by an NRSRO and have a maximum remaining maturity of five years or less. Purchase of securities authorized by this subdivision shall not exceed 20 percent of the agency's surplus moneys that may be invested pursuant to this section.

(p) Shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7 that invests in the securities and obligations authorized in subdivisions (a) to (q), inclusive. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible under this section, the joint powers authority issuing the shares shall have retained an investment adviser that meets all of the following criteria:

- (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 (q), inclusive.
- (3) The adviser has assets under management in excess of five hundred million dollars (\$500,000,000).

(q) United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated in a rating category of "AA" or its equivalent or better by an NRSRO and shall not exceed 30 percent of the agency's moneys that may be invested pursuant to this section.

(Amended by Stats. 2018, Ch. 271, Sec. 1. (AB 1770) Effective January 1, 2019)

53601.1 The authority of a local agency to invest funds pursuant to Section 53601 includes, in addition thereto, authority to invest in financial futures or financial option contracts in any of the investment categories enumerated in that section.

(Added by Stats. 1983, Ch. 534, Sec. 3.)

53601.2 As used in this article, "corporation" includes a limited liability company.

(Added by Stats. 2004, Ch. 118, Sec. 18. Effective January 1, 2005.)

53601.5 The purchase by a local agency of any investment authorized pursuant to Section 53601 or 53601.1, not purchased directly from the issuer, shall be purchased either from an institution licensed by the state as a broker-dealer, as defined in Section 25004 of the Corporations Code, or from a member of a federally regulated securities exchange, from a national or state-chartered bank, from a savings association or federal association (as defined by Section 5102 of the Financial Code) or from a brokerage firm designated as a primary government dealer by the Federal Reserve bank.

(Amended by Stats. 2001, Ch. 57, Sec. 2. Effective January 1, 2002.)

53601.6 (a) A local agency shall not invest any funds pursuant to this article or pursuant to Article 2 (commencing with Section 53630) in inverse floaters, range notes, or mortgage derived, interest-only strips.

(b) A local agency shall not invest any funds pursuant to this article or pursuant to Article 2 (commencing with Section 53630) in any security that could result in zero interest accrual if held to maturity. However, a local agency may hold prohibited instruments until their maturity dates. The limitation in this subdivision shall not apply to local agency investments in shares of beneficial interest issued by diversified management companies registered under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1 et seq.) that are authorized for investment pursuant to subdivision (l) of Section 53601.

(Amended by Stats. 2009, Ch. 332, Sec. 68.1. (SB 113) Effective January 1, 2010.)

53601.8 Notwithstanding Section 53601 or 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:

(a) The local agency shall choose a nationally or state chartered commercial bank, savings bank, savings and loan association, or credit union in this state to invest the funds, which shall be known as the “selected” depository institution.

(b) The selected depository institution may use a private sector entity to help place local agency deposits with one or more commercial banks, savings banks, savings and loan associations, or credit unions that are located in the United States and are within the network used by the private sector entity for this purpose.

(c) Any private sector entity used by a selected depository institution to help place its local agency deposits shall maintain policies and procedures requiring both of the following:

(1) The full amount of each deposit placed pursuant to subdivision (b) and the interest that may accrue on each such deposit shall at all times be insured by the Federal Deposit Insurance Corporation or the National Credit Union Administration.

(2) Every depository institution where funds are placed shall be capitalized at a level that is sufficient, and be otherwise eligible, to receive such deposits pursuant to regulations of the Federal Deposit Insurance Corporation or the National Credit Union Administration, as applicable.

(d) The selected depository institution shall serve as a custodian for each such deposit.

(e) On the same date that the local agency’s funds are placed pursuant to subdivision (b) by the private sector entity, the selected depository institution shall receive an amount of insured deposits from other financial institutions that, in total, are equal to, or greater than, the full amount of the principal that the local agency initially deposited through the selected depository institution pursuant to subdivision (b).

(f) Notwithstanding subdivisions (a) to (e), inclusive, a credit union shall not act as a selected depository institution under this section or Section 53635.8 unless both of the following conditions are satisfied:

(1) The credit union offers federal depository insurance through the National Credit Union Administration.

(2) The credit union is in possession of written guidance or other written communication from the National Credit Union Administration authorizing participation of federally insured credit unions in one or more deposit placement services and affirming that the moneys held by those credit unions while participating in a deposit placement service will at all times be insured by the federal government.

(g) It is the intent of the Legislature that this section shall not restrict competition among private sector entities that provide placement services pursuant to this section.

(h) The deposits placed pursuant to this section and Section 53635.8 shall not, in total, exceed 30 percent of the agency’s funds that may be invested for this purpose.

(i) This section shall remain in effect only until January 1, 2021, and as of that date is repealed.

(Amended (as amended by Stats. 2013, Ch. 228, Sec. 1) by Stats. 2015, Ch. 181, Sec. 1. (AB 283) Effective January 1, 2016. Repealed as of January 1, 2021, by its own provisions. See later operative version, as amended by Sec. 2 of Stats. 2015, Ch. 181.)

53602 The legislative body shall invest only in notes, bonds, bills, certificates of indebtedness, warrants, or registered warrants which are legal investments for savings banks in the State, provided, that the board of supervisors of a county may, by a four-fifths vote thereof, invest in notes, warrants or other evidences of indebtedness of public districts wholly or partly within the county, whether or not such notes, warrants, or other evidences of indebtedness are legal investments for savings banks.

(Amended by Stats. 1954, 1st Ex. Sess., Ch. 10.)

53603 The legislative body may make the investment by direct purchase of any issue of eligible securities at their original sale or after they have been issued.

(Amended by Stats. 1953, Ch. 537.)

53604 The legislative body may sell, or exchange for other eligible securities, and reinvest the proceeds of, the securities purchased.

(Amended by Stats. 1953, Ch. 537.)

53605 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. (Amended by Stats. 1953, Ch. 537.)

53606 The bonds purchased, which were issued by the purchaser, may be canceled either in satisfaction or sinking fund obligations or otherwise. When canceled, they are no longer outstanding, unless in its discretion, the legislative body holds them uncanceled. While held uncanceled, the bonds may be resold. (Added by Stats. 1949, Ch. 81.)

53607 The authority of the legislative body to invest or to reinvest funds of a local agency, or to sell or exchange securities so purchased, may be delegated for a one-year period by the legislative body to the treasurer of the local agency, who shall thereafter assume full responsibility for those transactions until the delegation of authority is revoked or expires, and shall make a monthly report of those transactions to the legislative body. Subject to review, the legislative body may renew the delegation of authority pursuant to this section each year. (Amended by Stats. 1996, Ch. 749, Sec. 6. Effective January 1, 1997.)

53608 The legislative body of a local agency may deposit for safekeeping with a federal or state association (as defined by Section 5102 of the Financial Code), a trust company or a state or national bank located within this state or with the Federal Reserve Bank of San Francisco or any branch thereof within this state, or with any Federal Reserve bank or with any state or national bank located in any city designated as a reserve city by the Board of Governors of the Federal Reserve System, the bonds, notes, bills, debentures, obligations, certificates of indebtedness, warrants, or other evidences of indebtedness in which the money of the local agency is invested pursuant to this article or pursuant to other legislative authority. The local agency shall take from such financial institution a receipt for securities so deposited. The authority of the legislative body to deposit for safekeeping may be delegated by the legislative body to the treasurer of the local agency; the treasurer shall not be responsible for securities delivered to and received for by a financial institution until they are withdrawn from the financial institution by the treasurer. (Amended by Stats. 1985, Ch. 983, Sec. 17. Effective September 26, 1985.)

53609 Notwithstanding the provisions of this chapter or any other provisions of this code, funds held by a local agency pursuant to a written agreement between the agency and employees of the agency to defer a portion of the compensation otherwise receivable by the agency's employees and pursuant to a plan for such deferral as adopted by the governing body of the agency, may be invested in the types of investments set forth in Sections 53601 and 53602 of this code, and may additionally be invested in corporate stocks, bonds, and securities, mutual funds, savings and loan accounts, credit union accounts, life insurance policies, annuities, mortgages, deeds of trust, or other security interests in real or personal property. Nothing herein shall be construed to permit any type of investment prohibited by the Constitution. Deferred compensation funds are public pension or retirement funds for the purposes of Section 17 of Article XVI of the Constitution. (Amended by Stats. 1979, Ch. 373.)

53610 (a) For purposes of this section, "Proposition 1A receivable" means the right to payment of moneys due or to become due to a local agency, pursuant to clause (iii) of subparagraph (B) of paragraph (1) of subdivision (a) of Section 25.5 of Article XIII of the California Constitution and Section 100.06 of the Revenue and Taxation Code. (b) Notwithstanding any other law, a local agency may purchase, with its revenue, Proposition 1A receivables sold pursuant to Section 53999. (c) A purchaser of Proposition 1A receivables pursuant to this section shall not offer them for sale pursuant to Section 6588. (Added by Stats. 2009, Ch. 634, Sec. 5. (SB 67) Effective October 19, 2009.)

Georgetown Divide PUD FY2020/2021

Conceptual Budget Timeline

February

TBD Strategic Planning / Board Goals Workshop

March

Wednesday, March 18th Finance Committee Meeting - FY 2020-21 Budget progress update

April

Tuesday, April 14th Board Meeting - FY 2020-21 Budget progress update
Wednesday, April 22th Finance Committee Meeting – FY 2020-21 Draft Proposed Budget

May

Tuesday, May 12th Board Meeting – FY 2020-21 Final Draft Proposed Budget
Possible Joint Meeting with the Finance Committee

June

Tuesday, June 9th Board Meeting – Adopt FY 2020-21 Budget