

DRAFT SLVWD INVESTMENT POLICY

Effective July 1, 2021 to June 30, 2022

1. PURPOSE OF INVESTMENT POLICY

It is the policy of the San Lorenzo Valley Water District to invest funds under the prudent investor standard, in accordance with California Government Code Section 53600, et seq. Funds should be invested to ensure maximum security, while getting maximum investment return and meet the daily cash flow needs of the District.

2. DELEGATION OF AUTHORITY

Authority to manage the investment program is derived from the California Government Code Section 53600, et seq. The authority to invest public funds is expressly delegated to the Board of Directors for the subsequent re-delegation to the District Manager. The District Manager will establish written procedures for the operation of the investment program consistent with this investment policy. The District Manager is encouraged to consult with the Budget & Finance Committee in between quarterly reports as needed.

No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the District Manager.

3. 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 the District, and not in the interest of broker-dealers.

4. OBJECTIVES

The objectives of the District’s investment activities in priority order are as follows:

- a. **SAFETY** – Safety of principal is the foremost objective of the investment program. The District’s investment portfolio shall be designed and undertaken in a manner that seeks to ensure the preservation of the principal invested.
- b. **LIQUIDITY** – The District’s investment portfolio shall be designed to remain sufficiently liquid to enable the District to meet all operating requirements which might be reasonably anticipated. The liquid needs of the District shall be commensurate with the constraints of anticipated cash flow requirements.
- c. **RETURN ON INVESTMENTS** – The District’s investment portfolio shall be designed with the objective of attaining the maximum possible rate of return commensurate with the District’s investment risk constraints and the cash flow

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

characteristics of the portfolio. Funds in excess of the cash flow needs should be invested to meet the District's performance standards.

5. AUTHORIZED AND ACCEPTABLE INVESTMENTS

- a. LAIF – The Local Agency Investment Fund (LAIF) is an investment pool established and controlled by the State of California to afford smaller agencies the benefits of a large investment portfolio, including higher interest rates and greater diversification. Funds are completely liquid except for a limitation of 10 transactions per month.
- b. COUNTY OF SANTA CRUZ INVESTMENT POOL – This is an investment pool established and controlled by the County of Santa Cruz to afford smaller agencies the benefits of a larger investment portfolio, including higher interest rates and greater diversification. Authority for the County of Santa Cruz Investment Pool is delegated to the County of Santa Cruz Treasurer.
- c. CERTIFICATES OF DEPOSIT – These are receipts for funds deposited in a bank, or savings and loan, or broker deposits for a specific term and rate of interest. The principal and accrued interest shall be insured by the Federal Deposit Insurance Corporation (FDIC). The principal and accrued interest in any one insured depository institution shall not exceed the limit amount insured by FDIC.
- d. PASSBOOK SAVINGS ACCOUNTS – This is a regular liquid savings account. The principal and accrued interest shall be insured by the Federal Deposit Insurance Corporation (FDIC). The principal and accrued interest in any one insured depository institution shall not exceed the limit amount insured by FDIC.
- e. U.S. TREASURY OBLIGATIONS – These are negotiable debt obligations of the U.S. Government which guarantee that all interest and principal payments will be paid on time. Among these are Treasury Bills, Notes and Bonds.
- f. With Board approval, repurchase bonds issued by the District or accelerate payback of loans incurred by the District, including bonds payable solely from a revenue producing property owned, controlled or operated by the District.
- g. Registered warrants, treasury notes or bonds of the State of California, including bonds payable solely from a revenue producing property owned, controlled or operated by the State of California, or by a department, board, agency or authority of same.

Commented [SH1]: Gina – what would us investing in a restricted trust like CERBT fall? This would be where the Board chose to fund our OPEB trust where the monies can only be used for that. I believe the investment policy is to cover general funds, so once funds are designated to something like the trust, they may not fall under this policy anymore?

6. DIVERSIFICATION

The purpose of diversification is to reduce overall portfolio risks while attaining market yields. The District will diversify its investments by security type and institution, especially when there is no decrease in yield. Pursuant to California Government Code Section 53601(i) certificates of deposit invested outside of an authorized pool shall not exceed thirty percent (30%) of the District's total investment portfolio.

7. MATURITY OF INVESTMENTS

In order to minimize the impact of market risk, to the maximum extent possible, all investments will be held until maturity. Projected cash flow requirements are the primary factor to be used in determining investment maturity terms. After cash flow needs, have been met, yield considerations will be the next factor in determining maturity terms, with the expectations that longer maturity periods will generally yield greater returns on investments. Investments may be sold before maturity if required for cash flow or appreciation purposes.

The maximum maturity term of any investment will not exceed five (5) years, unless prior expressed authority has been granted by the Board of Directors. The District will diversify its investments by maturity date in order to avoid over concentration in any one specific maturity sector. Investments will be made so that the maturity date is compatible with cash flow needs.

8. PERFORMANCE STANDARDS

The District's investment strategy is passive. Given this strategy, the basis used by the District Manager to determine whether market yields are being achieved will 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.

9. REPORTING

The District's Board of Directors will receive investment reports at least quarterly. The District Manager will provide to the Board of Directors investment reports which provide a clear picture of the status of the current investment portfolio, including but not limited to, compliance of the portfolio in accordance to the policy.

10. ETHICS AND CONFLICTS OF INTEREST

Officers and employees involved in the District's investment process shall not conduct personal business activity that could conflict with proper execution of the investment program or which could impair their ability to make impartial investment decisions.

11. INVESTMENT POLICY ADOPTION

The District's Investment Policy shall be adopted by Board of Directors by resolution. The policy shall be reviewed annually by the Board of Directors ideally with the budget review process, but 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.