

SAN LORENZO VALLEY WATER DISTRICT
INVESTMENT POLICY 2016

INTRODUCTION

The purpose of this document is to establish formal policies for the prudent investment of the District's unexpended cash. The main objective of this policy is the establishment of guidelines for the investment of all San Lorenzo Valley Water District funds or funds in the custody of the District, in a manner which conforms to all state and local statutes governing the investment of public funds and provides for an optimal combination of safety, liquidity and yield. This policy is in compliance with the provisions of California Government Code Section 53600, et seq.

BASIC POLICIES

1. PRUDENCE: San Lorenzo Valley Water District funds shall be invested under the "prudent investor standard" as defined by California Government Code, which essentially states that all 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.
2. DELEGATION OF AUTHORITY: Authority to manage the San Lorenzo Valley Water District investment program is delegated to the District Manager in consultation with the Finance Committee. This authority is derived from Resolution 79 (87-88) adopted February 1, 1988 by the San Lorenzo Valley Water District Board of Directors which by reference is attached hereto and incorporated herein. The District Manager shall establish written procedures for the operation of the investment program consistent with this investment policy. No person may engage in an investment transaction except as provided under the term of this policy and the procedures established by the District Manager.
3. OBJECTIVES: The primary objectives of the San Lorenzo Valley Water District's investment activities in priority order shall be 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 characteristics of the portfolio.

4. PERFORMANCE STANDARDS: Investments shall only be made as allowable by law with specific reference to California Government Code Section 53600, et seq., and any other applicable provisions of law.
5. AUTHORIZED AND ACCEPTABLE INVESTMENTS: District funds shall be invested only in the following investment instruments and within any limits indicated.
 - A. LAIF – The Local Agency Investment Fund (LAIF) was created by California Government Code Section 16429.1 through 16429.3. LAIF is an investment pool established and controlled by the State of California to afford smaller agencies the benefits of a large investment portfolio, such as higher interest rates and greater diversification. ~~Deposits are limited to \$30,000,000 per account.~~ Funds are completely liquid except for a limitation of ten (10) transactions per month.
 - B. COUNTY OF SANTA CRUZ INVESTMENT POOL – The County of Santa Cruz Investment Pool is a local government investment pool established and controlled by the County of Santa Cruz to afford smaller agencies the benefits of a larger investment portfolio, such as higher interest rates and greater diversification. Authority for the County of Santa Cruz Investment Pool is delegated to the County of Santa Cruz Treasurer.
 - ~~B.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 shall be insured by the Federal Deposit Insurance Corporation (FDIC). The principle and insured interest in any one insured depository institution shall not exceed the limit amount insured by FDIC.
 - ~~C.D.~~ PASSBOOK SAVINGS ACCOUNTS – This is a regular liquid savings account. The principal and accrued shall be insured by the Federal Deposit Insurance Corporation (FDIC). The principle and insured interest in any one insured depository institution shall not exceed the limit amount insured by FDIC.
 - ~~D.E.~~ U.S. TREASURY AND AGENCY SECURITIES OBLIGATIONS – These are negotiable debt obligations of the U.S. Government which guarantee that all interest and principle payments will be paid on time. Government securities and debt obligations issued by the US Government or its agencies which are secured by the federal government. 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 (FFCB).
 - F. GOVERNMENT SPONSORED ENTERPRISES – Government sponsored enterprises are privately held corporations with public purposes created by the U.S. Government, which carry the implicit backing of the U.S. Government, but are not

a direct obligation of the U.S. Government. Among these are Government National Mortgage Association (Ginnie Mae); Federal National Mortgage Association (Fannie Mae); Federal Land Bank (FLB) and Federal Farm Credit Banks (FFCB).

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. Current certificates of deposits exceed this limitation. It is the intent of the District to move toward compliance with said limitation. Whenever certificates of deposit purchased prior to the date of this policy mature or are called, the District shall invest in authorized investment instruments other than certificates of deposit until such time compliance has been achieved. The District shall not exceed fifty percent (50%) of the District's total investment portfolio in any one (1) authorized investment type, with the exception of the following; LAIF and County of Santa Cruz Investment Pool. Current Government Sponsored Enterprises investments exceed this limitation. It is the intent of the District to move toward compliance with said limitation. Whenever Government Sponsored Enterprise issuances purchased prior to the date of this policy mature or are called, the District shall invest in authorized investment instruments other than Government Sponsored Enterprises until such time compliance has been achieved.

7. MATURITY OF INVESTMENTS: In order to minimize the impact of market risk, generally it is intended, that 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 ~~fixed rate~~ investment shall not exceed five (5) years. ~~seven (7) years. However, callable investments that increase ("step-up") at regular intervals may have a maturity term which exceeds seven (7) years.~~ The District will diversify its investment by maturity date in order to avoid over concentration in any one specific maturity sector.

8. REPORTING: The District's Board of Directors shall receive investment reports at least quarterly. The District Manager shall provide to the Board of Directors quarterly investment reports which provide a clear picture of the status of the current investment portfolio as required by law (California Government Code Section 53646).
9. 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. Officers and employees involved in the District's investment process shall disclose to the District Secretary any material financial interests in financial institutions that conduct business within the jurisdiction of the San Lorenzo

Valley Water District and they shall further disclose any large personal financial/investment positions that could be related to the performance of the District's investment portfolio.

10. INVESTMENT POLICY ADOPTION: The District's investment policy shall be adopted by resolution of the San Lorenzo Valley Water District's Board of Directors. The District's investment policy shall be reviewed annually thereafter, and any modifications made thereto must be approved by the Board of Directors. The District's Statement of Investment Policy shall be adopted annually by resolution of the Board of Directors at a public meeting.

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