

## RESOLUTION NO. 1502

### RESOLUTION OF THE BOARD OF DIRECTORS OF THE VALLECITOS WATER DISTRICT APPROVING THE STATEMENT OF INVESTMENT POLICY FOR CALENDAR YEAR 2017

WHEREAS, the Board of Directors shall annually approve a Statement of Investment Policy; and

WHEREAS, the annual Statement of Investment Policy of the Vallecitos Water District is as follows:

#### Section 1 – General Provisions and Objectives

Vallecitos Water District (District) funds not required for immediate expenditure will be invested in compliance with this policy and the provisions of California Government Code Sections 53600 et seq. The policy applies to all financial assets of the District. These funds are presented in the District's annual financial statements. Criteria for selecting investments and the absolute order of priority are safety, liquidity, and return on investment. Investments will be made in a range of instruments and maturity dates to insure diversification and liquidity of assets in an emergency or when a large cash outlay is necessary. In accordance with California Government Code §53607, the authority to invest or reinvest the funds of the District is delegated to the Treasurer of the District. The Treasurer may assign investment responsibilities to the Finance Manager.

#### Section 2 – Prudent Investor Standard

All participants in the investment process shall recognize that the investment portfolio is subject to the prudent investor standard as set forth in California Government Code §53600.3 and to public review and evaluation and shall seek to act responsibly as fiduciaries of the public trust. Investments shall be made with the exercise of that degree of 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 preservation of capital, the cash flow needs of the District as well as the income to be derived. In a diversified portfolio, occasional measured losses may be inevitable and must be considered within the context of the overall portfolio's return and the cash flow requirements of the District.

#### Section 3 – Ethics and Conflicts of Interest

Officers and staff 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. Staff and investment officials shall disclose to the District's General Manager any material financial interests in financial institutions that conduct business within their jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the District.

Section 4 – Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. Concentration of credit risk is the risk of loss attributed to the magnitude of a District's investment in a single issuer. All participants in the investment process shall consider aversion to concentration of credit risk by:

1. Limiting investment purchases to those types and amounts permissible by California Government Code §53601 and §7 of this Resolution,
2. Conducting delivery-versus-payment (DVP) basis on all security transactions entered into by the District. Securities will be held by a third party custodian designated by the Treasurer or Finance Manager and evidenced by safekeeping receipts.
3. Investing no more than 20% of the portfolio with one issuer of federal agency obligations, with the exception of the US Treasury, and no more than 10% of the portfolio with one commercial issuer,
4. If pursuing a commercial paper obligation, investing only in investments rated in the highest tier (A1, P-1, or F-1 or higher),
5. For deposits in Local Government Investment Pools, depositing funds only in pools with a AAA rating, and
6. Limiting investments in corporate notes to those fully guaranteed by the Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that the District will not be able to recover deposits or the value of an investment or collateral securities that are in the possession of an outside party. All participants in the investment process shall consider aversion to custodial credit risk by:

1. Investing no more than 25% of the portfolio with one financial institution, with the exceptions of LAIF, the US Treasury, and funds advanced or in trustee accounts for project construction, and
2. If pursuing a deposit, insuring that all deposits are fully collateralized as required by California Government Code §53652 or insured by the Federal Deposit Insurance Corporation or the National Credit Union Administration, and the "Contract for Deposit of Monies" will indicate the type and amount of collateral.

Section 5 – Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. All participants in the investment process shall consider aversion to interest rate risk by limiting the term remaining to maturity on purchased investments to the maturity limits identified in §6 of this Resolution, unless a longer term is permissible within the California Government Code and specifically approved by the Board prior to purchase.

### Section 6 – Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. All participants in the investment process shall be prohibited from investing in foreign currency-denominated securities, unless permissible within the California Government Code and specifically approved by the Board prior to purchase.

### Section 7 – Permissible Investments

The table below lists permissible investments and limits on amounts and maturities.

Investment	Limits	
	% of Investment Portfolio	Maturity
US Treasury bills and notes	75%	5 years
LAIF	60%	N/A
Federal agency obligations	60%	5 years
Local Government Investment Pools	40%	N/A
State and local agency <sup>1</sup> bonds	20%	5 years
Commercial paper	20%	270 days
Certificates of deposit	20%	5 years
Repurchase agreements	10%	1 year
Savings accounts	10%	N/A

<sup>1</sup>Local agency as defined in California Government Code §53600 include counties, cities, and special districts.

Investments permitted by California Government Code, but not by this policy, will be made only with prior approval of the Board of Directors.

### Section 8 – Authorized Financial Dealers and Institutions

Staff will maintain a list of approved financial institutions authorized to provide investment services to the District in the State of California. These may include "primary" dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1. An annual review of the financial condition and registrations of qualified bidders will be conducted by the Treasurer or Finance Manager. A current audited financial statement is required to be accessible for each financial institution and broker/dealer in which the District invests.

### Section 9 – Safekeeping of Securities

To protect against potential losses by the collapse of individual securities dealers, all trades will be executed on a delivered versus payment (DVP) basis with the securities to be held in safekeeping by a third party custodian, acting as agent for the District under the terms of a custody agreement or a Master Repurchase Agreement. The only exception of the foregoing shall be depository accounts and securities purchases made with: (i) LAIF and local government investment pools (LGIPs); (ii) placement certificates of deposit, and (iii) money market mutual funds, since the purchased securities are not deliverable. Evidence of each of these investments will be held by the Treasurer or his designee.

### Section 10 – Strategy

Passive investing - Given the absence of staff dedicated to investment analysis, the District will passively manage the portfolio, and avoid medium to long-term corporate investment and realizing gains and losses, thereby diminishing the need for credit monitoring. Staff tasked with investment decisions will avoid speculation. Diversification - Staff will maintain diversified call provisions rather than anticipate market conditions. Staff will diversify timing of trading and maintain diversification by type within the constraints of other provisions of this policy.

Minimum liquidity and debt considerations – A portion of the portfolio with maturities of no more than three months shall be maintained in excess of the Board-established operating reserve. A portion of the portfolio with maturities of no more than one year shall be maintained in excess of the Board-established operating reserve plus the replacement reserve floor. Staff will also consider that too much liquidity is a risk, and invest to ladder maturities when possible. Staff will consider debt structures and strategies along with investment strategies.

### Section 11 – Reporting and Miscellaneous Provisions

The Treasurer, or Treasurer's designee, may maintain one or more accounts with reputable investment security dealers and brokers with which investment transactions are to be conducted. Investments may be held in safekeeping at a designated financial institution where the District has established a safekeeping account.

Pursuant to California Government Code §53646, a monthly report shall be submitted to the Board of Directors within 30 days following the end of the month covered by the report, and a quarterly report shall be submitted to the Finance/Investment Committee or the Board of Directors for review. The quarterly report shall include the type of investment, issuer, settlement and maturity dates, rate of interest, dollar amount invested, fund, current market value, and percentage of portfolio. The report shall state compliance of the portfolio to the statement of the investment policy, or the manner in which the portfolio is not in compliance. The report shall include a statement regarding the ability of the District to meet its expenditure requirements for the next six months.

The District shall establish an annual process of independent review by an external auditor as part of the annual audit. This review will provide internal control by assuring compliance with policies and procedures.

The Treasurer, or the Treasurer's designee, shall establish a system of internal controls to be examined and monitored by the District's independent auditor.


The Board of Directors shall meet on a quarterly basis with staff to review District investments and to appraise market conditions.


NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Vallecitos Water District as follows:

The Annual Statement of Investment Policy for calendar year 2017 is hereby approved and the District Treasurer is directed to follow this Statement of Investment Policy in investing funds of the District.

PASSED AND ADOPTED by the Board of Directors of the Vallecitos Water District at a regular meeting held on this 16<sup>th</sup> day of November 2016, by the following roll call vote:

AYES: ELITHARP, HERNANDEZ, MARTIN  
NOES:  
ABSTAIN:  
ABSENT: EVANS, SANNELLA

  
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Craig Elitharp, Vice President  
Board of Directors  
Vallecitos Water District

ATTEST:  
  
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Tom Scaglione, Secretary  
Board of Directors  
Vallecitos Water District