

# REGIONAL WATER AUTHORITY POLICIES AND PROCEDURES MANUAL

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## REGIONAL WATER AUTHORITY INVESTMENT POLICY

### 1.0 Purpose

The purpose of this Investment Policy (Policy) is to establish cash management and investment guidelines for the Treasurer, who is responsible for investing and safeguarding the Regional Water Authority and Sacramento Groundwater Authority's surplus funds. Each transaction and the entire portfolio must comply with California Government Code (the "Code") sections 53600 through 53609, sections 53630 through 53686, and this Policy.

### 2.0 Scope

This policy applies to all financial assets of RWA. These funds are accounted for in RWA's audited annual financial report and include:

1. General Fund
2. Trust and Agency Funds
3. Any new fund created by the legislative body, unless specifically exempted.

Except for cash in certain restricted and special funds, RWA will consolidate cash balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles. In addition, the costs of managing the investment portfolio, including but not limited to the costs of investment management, custody of the assets, managing and accounting for the banking, and oversight controls, will be charged to the investment earnings based upon actual hours of labor devoted to managing each of the funds.

### 3.0 General Objectives

In accordance with the Code, the primary objectives, in priority order, of investment activities will be safety, liquidity, and yield:

**1. Safety.** Safety of principal is the foremost objective of the investment program. Investments will be undertaken in a manner that seeks to ensure the preservation of principal in the overall portfolio.

**2. Liquidity.** The investment portfolio will remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. Liquidity will be accomplished by structuring the portfolio so securities mature concurrent with cash needs to meet anticipated demands whenever feasible. A portion or the entire portfolio also may be placed in money market mutual funds or local government investment pools which offer same-day liquidity for short-term funds.

**3. Yield.** The investment portfolio will 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 liquidity needs.

#### **4.0 Standards of Care**

**1. Prudent Investor Standard.** The standard of prudence to be used by the Treasurer and the Board will be the "prudent person" standard and will be applied in the context of managing an overall portfolio. Board members and Treasurers acting in accordance with written procedures and this investment policy and exercising due diligence will 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 the sale of securities are carried out in accordance with the terms of this Policy.

Investments will 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. Ethics and Conflicts of Interest.** The Treasurer and any other officers and employees involved in the investment process will refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Such officers and employees will disclose to the Board of Directors any material interests in financial institutions with which they conduct business. They will further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Affected officers and employees will refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of RWA. All such officers and

employees are discouraged from accepting honoraria, gifts and gratuities in excess of \$100 per year from financial dealers and financial institutions.

**3. Delegation of Authority.** Authority to manage RWA's investment portfolio is granted to the Treasurer and is expressly delegated to the Board of Directors for subsequent re-delegation to the Treasurer under Section 53607 of the Code. Responsibility for the operation of the investment program is hereby delegated to the Treasurer, who will act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this Policy.

## **5.0 Safekeeping and Custody**

**1. Authorized Financial Dealers and Institutions.** The Treasurer will maintain a list of financial institutions authorized to provide investment services and a list of approved security broker/dealers selected by creditworthiness (e.g., a minimum capital requirement of \$10,000,000 and at least five years of operation). These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule).

All financial institutions and broker/dealers who desire to become qualified to conduct investment transactions for RWA must supply the following to the Treasurer as requested:

- Audited financial statements
- Proof of National Association of Securities Dealers (NASD) certification
- Trading resolution
- Proof of state registration
- Completed broker/dealer questionnaire
- Certification of having read and understood and agreeing to comply with the RWA's investment policy.

The Treasurer will conduct an annual review of the financial condition and registration of qualified financial institutions and broker/dealers. A current audited financial statement is required to be on file for each financial institution and broker/dealer in or through which RWA invests. No broker, dealer, or security firm will be eligible within 48 months of making a campaign contribution to any RWA Board member if the contribution exceeds the limits contained in Rule G-37 of the Municipal Securities Rulemaking Board.

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

## 6.0 Suitable and Authorized Investments

Authorized investments shall match the general categories established by sections 53601 and 53635 of the Code. Authorized investments shall also include investment into LAIF in accordance with section 16429.1 of the Code.

### Allowable Investment Instruments Per State Government Code (as of January 1, 2006)

Investment Type	Maximum Maturity	Maximum Specified Portfolio %	Minimum Quality Requirements	Other Criteria
Local Agency Bonds	5 years	None	None	
U.S. Treasury Obligations	5 years	None	None	
State of California Obligations	5 years	None	None	
CA Local Agency Obligations	5 years	None	None	
U.S. Agencies	5 years	None	None	
Bankers' Acceptances	180 days	40 percent	None	Less than 30% with any commercial bank
Commercial Paper	270 days	25 percent	A1/P1 rating	Less than 10% with a single corporate issuer and less than 10% of that issue
Negotiable Certificates of Deposit	5 years	30 percent	None	
Repurchase Agreements,	1 year	None	None	Only upon approval by the RWA Board of Directors
Reverse Repurchase Agreements & Securities Lending Agreements <sup>1</sup>				
Medium-Term Notes	5 years	30 percent	A rating	
Mutual Funds	N/A	20 percent	Multiple <sup>2</sup>	Less than 10% in any one fund
Money Market Mutual Funds	N/A	20 percent	Multiple <sup>3</sup>	
Collateralized Bank Deposits	5 years	None	None	
Mortgage Pass-Through Securities	5 years	20 percent	AA rating	Must have A or better nationally recognized rating agency
Time Deposits	5 years	None	None	
County Pooled Investment Funds	N/A	None	None	
Local Agency Investment Fund (LAIF)	N/A	None	None	

Sources: Government Code Sections 16429.1, 53601, 53635, 53684

<sup>1</sup> Reverse purchase agreements must be made with primary dealers of the Federal Reserve Bank of New York or with a nationally or state chartered bank that has a significant relationship with the local agency. The issuer must have held securities used for the agreement for at least 30 days.

<sup>2</sup> Must receive the highest ranking by not less than 2 nationally recognized rating agencies or the fund must retain an investment advisor who is registered with the SEC, has assets under management in excess of \$500 million, and has at least 5 years experience investing in instruments authorized by the State Government Code Sections 53601 and 53635.

3 Must receive the highest ranking by not less than 2 nationally recognized rating agencies or the fund must retain an investment advisor who is registered with the SEC, and has at least 5 years experience managing money market funds with assets under management in excess of \$500 million.

## 7.0 Reporting

**1. Methods.** The Treasurer shall prepare an investment report at least quarterly, including a management summary that provides an analysis of the status of the current investment portfolio and transactions made over the last quarter. This management summary will be prepared in a manner which will allow the members of the RWA Board and Executive Director to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the Board of Directors and the Executive Director. The report will include the following:

- Listing of individual securities held at the end of the reporting period by investment category.
- Average life and final maturity of all investments listed
- Coupon, discount, or earnings rate
- Par value, amortized book value and market value
- Percentage of portfolio represented by the investment category
- Benchmark comparison

**2. LAIF Reporting.** If the surplus funds are solely invested in the Local Agency Investment Fund, the monthly LAIF statement shall be sufficient for reporting purposes.

## 8.0 Policy Considerations

**1. Amendments.** This Policy will be reviewed by the Treasurer on an annual basis. Any changes must be approved by the Treasurer and the Board or Executive Committee, as well as the individual(s) charged with maintaining internal controls.

**2. Administration.** The Treasurer may at any time further restrict the securities approved for investment as deemed prudent. From time to time, the established portfolio limitations may be exceeded due to irregular cash flows or in certain economic conditions. In such cases, the Treasurer will inform the Executive Committee and Executive Director and take action consistent with the prudent investor standard to ensure that no category of investments exceeds the statutory limitations provided in the Code.

**3. Performance Review.** The Treasurer will conduct an annual appraisal of RWA's investment portfolio to evaluate its effectiveness and conformance with this Policy. To the extent necessary or appropriate, the Treasurer will make recommendations to the Executive Committee concerning the improvement and/or restructuring of the portfolio.

**4. Existing Investments.** Any investment held by RWA at the time this Policy is first adopted or revised to conform to changes in law or this Policy will not be sold because of a failure to conform to this Policy, unless the Treasurer deems sale of the investment to be prudent.

**5. Conflict With Statute.** In the event that any provision of this Policy conflicts with the Code or any other applicable state or federal statute, the provisions of any such statute will govern.