

**RESOLUTION NO. 2015-11**

**A RESOLUTION OF THE BOARD OF DIRECTORS  
OF THE SAN BENITO COUNTY WATER DISTRICT  
RESTATING THE DISTRICT'S INVESTMENT POLICY**

**WHEREAS**, Article 2 of Chapter 4 of the California Government Code sets forth the statutory requirements regarding Local Agency Investment Policy, their annual review and any changes in the Local Agency Investment Policy; and

**WHEREAS**, the District Investment Policy requires review of the Investment Policy, at least annually by the District Investment Committee and Board of Directors; and

**WHEREAS**, the reviews required by State Law and District Investment Policy have been conducted and as a result of those reviews of the District Investment Policy no additions, deletions, or modifications were made.

**NOW, THEREFORE, BE IT RESOLVED**, by the Board of Directors of the San Benito County Water District that the restated Investment Policy attached hereto as Exhibit A is hereby adopted.

**PASSED AND ADOPTED** by the San Benito County Water District Board of Directors at the regular meeting of said board held on the 29<sup>th</sup> day of April, 2015, by the following vote:

AYES: DIRECTORS: Tonascia, Flores, Tobias & Huenemann  
NOES: DIRECTORS: None  
ABSENT: DIRECTORS: Bettencourt

/s/ Joseph A. Tonascia  
Joseph A. Tonascia  
President

ATTEST: /s/ Sara Singleton  
Sara Singleton  
Assistant Manager

## **EXHIBIT “A”**

### **SAN BENITO COUNTY WATER DISTRICT INVESTMENT POLICY**

#### I. Introduction

The investment policies and practices of the San Benito County Water District (the “District”) are based on state law and prudent money management principals and practices. All funds will be invested in accordance with District’s Investment Policy and California Government Code §53600 and §53630, et. seq.

#### II. Scope

This policy covers the investment of all District funds as defined in §53601 of the California Government Code, excluding the investment of employees’ retirement funds and bond proceeds.

#### III. Prudence

The standard of prudence to be used by investment officials shall be the Prudent Investor Standard. The Prudent Investor Standard states that 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 District.

It is the District’s intention to hold investments until maturity. However, market prices vary depending on economic and interest rate conditions and the District may want to sell a security before maturity.

#### IV. Objectives

1. The primary objectives, in priority order, of the investment activities of the District shall be:

a) Safety: Safety of principal is the foremost objective of the District. Each investment transaction shall seek to preserve the principal of the portfolio, whether from institutional default, broker dealer default, or erosion of market value of the securities. Investments shall be undertaken in a manner, which first seeks to insure the preservation of principal. The District shall evaluate or cause to have evaluated each potential investment seeking both quality in the issuer

and in the underlying security or collateral and it shall diversify the portfolio to reduce exposure to loss.

1.) Credit Risk: Credit Risk, defined as the risk of loss due to failure of an issuer of a security, shall be mitigated by investing only in U.S. Treasury Obligations, Federal Agency securities, and in other high-quality investments, and by diversifying the portfolio so that the failure of any issuer would not unduly harm the District's cash flow. The District will diversify its investments by security type and institution.

2.) Market Risk: The risk of market value fluctuations due to overall changes in the general level interest rates shall be mitigated by limiting the maturity of investments in accordance with Government Code §53601. The District may not invest in a security with a maturity greater than five years without authorization by the Board of Directors at least three months prior to the investment.

b) Liquidity: Liquidity is the second most important objective. Investments shall be made whose maturity date is compatible with cash flow requirements and which can easily and rapidly be converted into cash without substantial loss of value. To assure liquidity the District shall maintain, in addition to its investment in the State of California Local Agency Investment Fund, one (1) liquid investment account. The balance in that account shall be maintained, at all times, in an amount sufficient to cover at least two (2) current months of District expenses exclusive of debt payments (principal and interest) secured by separate reserves as set forth in the debt covenants.

c) Return on Investment: Investments shall be undertaken to produce an acceptable rate of return after first considering safety of principal and liquidity.

d) Minimize Investment Expenses: The investment portfolio shall be structured, and sales and purchases executed, in a manner that minimizes expenses.

## V. Delegation of Authority

The Board of Directors retains overall responsibility for the District's investments.

The District Manager is responsible for developing and implementing an investment program within the boundaries of this Investment Policy.

The Board of Directors may delegate its investment decision making and execution authority to the District Manager or an investment

advisor, who must make investments in accordance with this Policy and other written instructions as provided with oversight from the Investment Committee.

The Investment Committee is responsible for providing oversight of the District's investment program. The Investment Committee shall review the investment program and the Quarterly Investment Reports submitted by the District Manager (See Section X. Reporting Requirements). The Committee shall submit a written report to the Board stating:

1. That the investment portfolio is in compliance with the District's Investment Policy, or the specific manner in which it is not in compliance;
2. That the District, including its separate Funds (Fund 1, Zone 3, Zone 6), has the ability to meet expenditure requirements for the next six months or provide an explanation as to why sufficient money will, or may, not be available.

#### VI. Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial decisions. Officers, employees, and investment managers are subject to the financial disclosure requirement of Government Code Section 87100 et seq.

#### VII. Permitted Investment Instruments

The District shall invest only in the following:

1. Government obligations for which the full faith and credit of the United States are pledged for the payment of principal and interest. (U.S. Treasury Obligations).
2. 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. No more than 30% of the District's funds shall be invested in securities of any one single issuer for this investment vehicle type.
3. Obligations of the State of California or any local agency within the state, including bonds payable solely out of revenues from a revenue producing property owned, controlled, or operated by the state or any local agency or by a department, board, agency, or authority of

the state or any local agency, provided that the obligations are rated in one of the two highest categories by a nationally recognized statistical rating organization.

4. Registered Treasury notes or bonds of any of the other 49 United 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 United States, in addition to California, provided that the obligations are rated in one of the two highest categories by a nationally recognized statistical rating organization.

5. 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. The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (1) or paragraph (2):

a) The entity meets the following criteria:

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

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

3.) Had debt other than commercial paper, if any, that is rated “A” or higher by a nationally recognized statistical rating organization.

b) The entity meets the following criteria:

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

2.) Has program wide credit enhancements including, but not limited to, overcollateralization, letters of credit, or surety bond.

3.) Has commercial paper that is rated “A-1” or higher, or the equivalent, by a nationally recognized statistical rating organization.

Eligible commercial paper shall have a maximum maturity of 270 days or less. The District may invest no more than 25 percent of its portfolio in eligible commercial paper. The District may purchase no more than 10 percent of the outstanding commercial paper of any single issuer.

6. Medium-term corporate notes issued by corporations organized and operating within the United States or by depository institutions licensed by the U.S. or any state and operating within the U.S. Medium-term corporate notes shall be rated in a rating category “A”

or its equivalent or better by a nationally recognized statistical rating organization.

Purchase of medium-term corporate notes may not exceed 30 percent of the District's investment portfolio. No more than 10 percent of the District's investment portfolio may be invested in a medium-term note of any one corporation.

7. FDIC insured or fully collateralized time certificates of deposit in a state or national bank, savings association or federal association, federal or state credit union in the State of California. In accordance with California Government Code Section 53635.2, to be eligible to receive District deposits, a financial institution shall have received an overall rating of not less than "satisfactory" in its most recent evaluation by the appropriate federal financial supervisory agency of its record of meeting the credit needs of California's communities. CDs are required to be collateralized as specified under Government Code Section 53630 et seq. The District, at its discretion, may waive the collateralization requirements for any portion that is covered by federal deposit insurance. The District shall have a signed agreement with any depository accepting District funds per Government Code Section 53649. No deposits shall be made at any time in CDs issued by a state or federal credit union, if a member of the District's Board or staff serves on the board of directors or any committee appointed by the board of directors of the credit union. In accordance with Government Code Section 53638, any deposit shall not exceed that total shareholder's equity of any depository bank, nor shall the deposit exceed the total net worth of any institution.

8. Negotiable certificates of deposit or deposit notes issued by a nationally or state-chartered bank or a state or federal savings and loan association, a state or federal credit union, or by a state-licensed branch of a foreign bank; provided that the senior debt obligations of the issuing institution are rated "A" or better by a nationally recognized statistical rating organization.

Purchase of negotiable certificates of deposit may not exceed 30 percent of the District's investment portfolio.

9. State of California's Local Agency Investment Fund.

10. 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.). To be eligible for investment pursuant to this subdivision these companies shall either: (1) have attained the highest ranking or the highest letter and numerical rating

provided by not less than two nationally recognized statistical rating organizations or (2) have an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds and with assets under management in excess of \$500,000,000.

The purchase price of shares of beneficial interest purchased shall not include any commission that the companies may charge and shall not exceed 20 percent of the District's investment portfolio. Further, no more than 10 percent of the District's investment portfolio may be invested in shares of beneficial interest of any one money market fund.

11. Shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7 that invests the securities and obligations authorized in subdivision (a) to (n), 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 advisor that meets all of the following criteria:

a) The adviser is registered or exempt from registration with the Securities and Exchange Commission.

b) The adviser has not less than five years of experience investing in the securities and obligations authorized in subdivision (a) to (n), inclusive.

c) The adviser has assets under management in excess of five hundred million dollars (\$500,000.000).

d) The underlying pool will seek to maintain a stable net asset value.

Credit criteria listed in this section refers to the credit of the issuing organization at the time the security is purchased. The District may from time to time be invested in a security whose rating is downgraded. In the event a rating drops below the minimum rating by this Policy, the District Manager will notify the Investment Committee and Board of Directors and recommend a plan of action. Percentage limitations refer to the percentage at the time the security is purchased.

#### VIII. Maximum Maturity

Investment maturities shall be based on a review of cash flow forecasts. Maturities will be scheduled so as to permit the District to meet all projected obligations.

The maximum maturity will be no more than five years from purchase date to maturity date; however, upon recommendation from the Investment Committee, the Board of Directors may approve an investment that at the time of purchase has a maturity that is longer than five years. This approval must be given at least three months prior to the investment.

#### IX. Selection of Financial Institutions and Broker/Dealers

The District shall establish a procedure for the approval of brokers, dealers, banks, and other financial institutions for transaction execution. The District or the District's investment advisor shall maintain a list of eligible brokers and dealers and only execute trades with institutions that have been approved by the Board.

For each security that is bought or sold on the secondary market, the District or the District's investment advisor will solicit a minimum of three brokers or dealers to obtain price quotes. Price quotations will be documented.

#### X. Reporting Requirements

Quarterly investment reports shall be submitted by the Manager to the Investment Committee and the Board. The reports shall include, at a minimum, the following information for each individual investment:

- Description of investment instrument
- Issuer name
- Yield on cost
- Purchase date
- Maturity date
- Purchase price
- Par Value
- Current market value and the source of the valuation
- Portfolio performance as compared to the performance benchmarks
- Weighted average maturity of the portfolio excluding LAIF, LGIPs, and money market funds.
- Distribution of the portfolio by type of security compared to the percentage limits authorized by the District's policy
- Maturity distribution (maturities under 90 days; 90 days to 1 year; 1-2 years; 2-3 years; 3-4 years; and 4-5 years)
- Credit quality distribution (AAA, AA, A, unrated)

The quarterly report shall also (i) compare and declare compliance of the portfolio to the statement of investment policy, or the manner in which the portfolio is not in compliance, (ii) include a description of any



of the District's funds, investments, or programs that are under the management of contracted parties, including lending programs, and (iii) include a statement denoting the ability of the District to meet its expenditure requirements for the next six months, exclusive of debt payments (principal and interest) secured by separate reserves in accordance with debt covenants, or provide an explanation as to why sufficient money shall, or may not, be available.

This quarterly report shall be submitted within fifteen (15) days following the end of the quarter.

The LAIF portfolio and CAMP pool should be reviewed at least annually by the Investment Committee. The review should include:

- Composition of the portfolio
- Maturity distribution
- Diversification by issuer
- Credit quality of securities
- Portfolio return
- Change in size of the pool
- Policy changes that occurred during the year (e.g., changes to the investment policy, custody arrangements, reporting.)

#### XI. Review of Investment Policy

The Investment Committee will review the Investment Policy annually. The Committee will submit to the Board of Directors a recommendation to readopt the Policy as written or make changes. The Board will review the Investment Committee's recommendation and the Policy at a public meeting.

The Investment Policy may be modified only upon action of the Board of Directors of the District.

#### XII. Safekeeping and Custody

##### 1. Delivery vs. Payment

All trades of marketable securities 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.

##### 2. Safekeeping

Securities will be held by an independent third-party custodian selected by the entity as evidenced by safekeeping receipts in the District's name. The safekeeping institution shall annually provide a copy of their most recent report on internal controls (State of Auditing Standards no. 70, or SAS70).