

CENTRAL BASIN MUNICIPAL WATER DISTRICT

OCTOBER 11, 2006 - Finance/Administration

Hawkins, Apodaca

OCTOBER 24, 2006 - Board Meeting

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Submitted by: Aileen Hermoso

Approved by: Art Aguilar

INFORMATION CALENDAR

INVESTMENT POLICY UPDATESUMMARY:

California Government Code (Code) Section 53646(a)(2) states that "the treasurer or chief fiscal officer of the local agency may annually render to the legislative body of that local agency and any oversight committee of that local agency a statement of investment policy, which the legislative body of the local agency shall consider at a public meeting. Any change in the policy shall also be considered by the legislative body of the local agency at a public meeting.

The current Investment Policy was updated in November 2005. Staff reviewed the policy and made the following changes:

- a) Revised some definitions in "Section VI. Authorized Investment" to be in compliance with the Code;
- b) Revised the definition of rating agencies for consistency with the Code, which provides the District with a more comprehensive list of rating sources;
- c) Removed the policy on Portfolio Adjustments in order to provide more flexibility in managing the District's investment portfolio. For example, the sale of security at a loss will be allowed if there is an opportunity to swap the loss security for a security with greater safety and greater yield but with the same maturity;
- d) Added a provision to include the current role of the District's external manager in the purchase and sale of investment securities on behalf of the District;
- e) Added a provision to deliver a copy of the policy to all approved dealers on an annual basis to promote suitable recommendations that are compliant with the policy; and
- f) Minor changes to correct redundancy and move items to applicable sections.

In making investment decisions, staff ensures compliance with the Investment Policy.

FISCAL IMPACTS:

None.

ENVIRONMENTAL COMPLIANCE:

Not applicable.

COMMITTEE STATUS:

This item was reviewed by the Finance/Administration Committee on October 11, 2006 and was agendaized to the October 24, 2006 Board meeting as information for discussion.

RECOMMENDED MOTION:

This item is for information only.

LIST OF EXHIBITS:

Exhibit "A" - Revised Investment Policy – October 2006

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EXHIBIT “A”

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INVESTMENT POLICY

I. INVESTMENT AUTHORITY AND DELEGATION OF AUTHORITY

This investment policy is intended to outline the guidelines and practices to be used in effectively managing the District's available cash and investment portfolio. District monies not required for immediate cash requirements will be invested in compliance with the California Government Code Section 53600 et seq.

The authority to invest public funds is expressly delegated to the Board of Directors, the Board re-delegates the investment function to an appointed Treasurer and Deputy Treasurer, which will be District staff, who shall thereafter assume full responsibility for those transactions until the delegation is revoked or expires. The appointed Treasurer may delegate the day-to-day operations of investing to the Deputy Treasurer, but not the responsibility for the overall investment program. All transactions will be reviewed by the appointed Treasurer on a regular basis to assure compliance with the Investment Policy. (California Government Code 53607).

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The investment of the District's monies is annually delegated by the Board of Directors to an appointed Treasurer and Deputy Treasurer (District Finance staff)

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Deleted: Whereas, reference to Treasurer in this document means appointed District staff member.¶

II. STATEMENT OF OBJECTIVES

In accordance with California Government Code 53600.5 and in order of importance, the Treasurer shall adhere to the following three criteria:

1. Safety of Principal - Investments shall be undertaken which first seeks to ensure the preservation of principal in the portfolio. The Treasurer shall ensure each investment transaction is evaluated or cause to have evaluated each potential investment, seeking both quality in issuer and in underlying security or collateral, and shall diversify the portfolio to reduce exposure to loss. Diversification of the portfolio will be used in order to reduce exposure to principal loss.
2. Liquidity - investments shall be made whose maturity date is compatible with cash flow requirements and which will permit easy and rapid conversion into cash without substantial loss of value.
3. Return on Investment - investments shall be undertaken to produce and acceptable rate of return after first considering safety of principal and liquidity and the prudent investor standard..

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III. PRUDENT INVESTOR STANDARD

The Board of Directors and Treasurer adhere to the guidance provided by the “prudent investor rule”, California Government Code (Section 53600.3) which obligates a fiduciary to insure 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 agency, 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 agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law.”

IV. AUTHORIZED FINANCIAL INSTITUTIONS AND SECURITIES DEALERS

For brokers/dealers of government securities and other investments, the Treasurer shall select only brokers/dealers who are licensed and in good standing with the California Department of Securities, the Securities and Exchange Commission, the National Association of Securities Dealers or other applicable self-regulatory organizations. Before engaging in investment transactions with a broker/dealer, the Treasurer shall obtain a signed verification form that attest the individual has reviewed the District's Investment Policy, and intends to present only those investment recommendations and transactions to the District that is appropriate under the terms and conditions of the Investment Policy.

The Board of Directors may engage the services of one or more external managers to assist in the management of the District's investment portfolio. Such external managers may be granted discretion to purchase and sell investment securities in accordance with this Investment Policy and may use their own list of approved broker/dealers when executing trades on the District's behalf. Such managers must be registered under the Investment Advisors Act of 1940.

V. PORTFOLIO

Any reference to the portfolio shall mean the total of the District's cash and securities under management by the Treasurer. The Treasurer may invest in any

security authorized for investment under state law, subject to the limitations described herein:

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A. Maturity Limitations

The Treasurer is authorized to invest District funds for terms set forth below. For certain instruments, the term of the investment is limited by market convention or as otherwise prescribed herein. No investments may be acquired that exceed 5 years.

B. Investment Transactions

Information concerning investment opportunities and market developments will be gained by maintaining contact with the financial community. Confirmations of all investment transactions will be maintained by the Finance Department for the annual audit. When practicable, the Treasurer shall solicit more than one quotation on each trade.

Deleted: Additionally, the Treasurer shall annually send a copy of the current Investment Policy to all approved dealers. Each dealer is required to return a signed statement indicating receipt and understanding of the District's investment policies.

C. Exchange of Securities

An exchange of securities is a shift of assets from one instrument to another and may be done for a variety of reasons, such as to increase yield, lengthen or shorten maturities, to take a profit, or to increase investment quality. In no instance shall an exchange be used for speculative purposes. Any such exchange shall be simultaneous (same day execution of sale and purchase), and shall require the approval of the Treasurer.

D. Safekeeping

All securities purchased may be delivered versus payment (DVP) basis, and held in safekeeping pursuant to a safekeeping agreement.

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¶ Any reference to portfolio shall mean the total of the District's cash and securities under management by the Treasurer. Should and investment percentage-of-portfolio limitation be exceeded due to an incident such as a fluctuation in portfolio size, the affected securities may be held to maturity to avoid losses. When no loss is indicated, the Treasurer shall consider reconstructing the portfolio basing his decision in part on the expected length of time the portfolio will be in balanced.¶

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F. Purchase and Sales of Securities¶

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The purchase of any investment other than those purchased directly from the issuer shall be, to the extent possible, from a firm designated as a Primary Dealer by the Federal Reserve Bank of New York. When practicable, the Treasurer shall solicit more than one quotation on each trade.¶

E. Prohibited Investments

Under the provisions of the California Government Code Sections 53601.6 and 53631.5, the District shall not invest any funds covered by this Investment Policy in inverse floaters, range notes, mortgage-derived, interest-only strips or any investment that may result in a zero interest accrual if held to maturity.

VI. AUTHORIZED INVESTMENTS

The District is governed by the California Government Code, Sections 53600 et. seq. Within the context of these limitations, the investments listed below are authorized. Those investments not identified in Section VI are considered to be ineligible. Credit criteria and maximum percentages listed in this section are calculated at the time the security is purchased.

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1. Time Deposits

The Treasurer may invest in certificates of deposit issued by bank or savings and loans chartered by the United States or California. For purposes of this policy, collateralized time deposits shall be considered investments.

The following criteria will be used in evaluating financial institutions and form of collateral to determine eligibility for deposits:

- a) The financial institution must have been in existence for at least five years.
- b) Eligibility for deposits shall be limited to those financial institutions which maintain a rating equivalent to "A" or higher by one of the nationally recognized statistical-rating organizations (NRSRO). The Treasurer, for deposits up to \$100,000, may waive collateral requirements if the institution insures its deposits with the Federal Deposit Insurance Corporation (FDIC)
- c) The deposit shall not exceed 25 percent of the shareholders' equity of any depository bank. For the purposes of this constraint, shareholders' equity shall be deemed to include capital notes and debentures. (Government Code Section 53638 (a))
- d) The deposit shall not exceed 25 percent of the total of the net worth of any depository savings and loan association.
- e) The total deposits shall not exceed 25 percent of the eligible financial institution's paid-up capital and surplus. (Government Code Section 53638 (b))
- f) To secure such deposits, the financial institution shall maintain in the collateral pool, marketable securities having a market value of at least 10 percent in excess of the total amount deposited. (Government Code Section 53652)
- g) The maximum term for time deposits or bank certificate of deposits shall be one year.

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2. Local Agency Investment Fund (LAIF) Deposits

Deposits for the purpose of investment in the Local Agency Investment Fund of the State Treasury may be made up to the maximum amount permitted by State Treasury policy.

3. Negotiable Certificates of Deposit

The Treasurer may invest in negotiable certificates of deposit as follows:

- (a) Investment in negotiable certificates of deposit shall not exceed 20 percent of the total portfolio in effect immediately after any such investment is made.
- (b) To be eligible, a certificate of deposit must be issued by a nationally or California chartered bank, a California or federal savings and loan association or savings bank, or by a California licensed branch of a foreign bank. (Government Code Section 53601 (h))

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- (c) Eligibility for deposits shall be limited to those financial institutions which maintain a rating equivalent to "A" or higher by one of the NRSRO.
- (d) The investment shall not exceed 25 percent of the shareholders' equity of any depository bank. For the purposes of this constraint, shareholders' equity shall be deemed to include capital notes and debentures. (Government Code Section 53638(a))
- (e) The investment shall not exceed 25 percent of the total net worth of any depository savings and loan association.
- (f) The total investment in an eligible financial institution shall not exceed 25 percent of the total portfolio available for investment in this investment category.
- (g) The maximum maturity shall be limited to one year.

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4. Bankers' Acceptances

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The Treasurer may invest in bankers' acceptances as follows:

- (a) Investment in prime bankers' acceptance shall not exceed 15 percent of the portfolio in effect immediately after any such investment is made.
- (b) Eligibility shall be limited to those bankers acceptances issued by domestic or foreign banks, which are eligible for purchase by the Federal Reserve System, the short-term paper of which is rated in the highest category by one or more of the NRSRO.
- (c) No more than 15 percent of this category of investments may be invested in any one commercial bank's acceptances.
- (d) The maximum maturity shall be limited to 180 days. (Government Code Sections 53601 (f))

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5. Commercial Paper

The Treasurer may invest in commercial paper as follows:

- (a) Only commercial paper of prime quality of the highest ranking or of the highest letter and numerical rating as provided for by a NRSRO. (Government Code Sections 53601 (g))
- (b) Eligible paper is further limited to issuing corporations that are organized and operating within the United States as a general corporation and having total assets in excess of \$500,000,000.
- (c) Eligible issuer's debt other than commercial paper, if any, that is rated "A" or higher by a NRSRO.
- (d) Investments in commercial paper shall not exceed 25 percent of the portfolio.
- (e) No more than 10 percent of the outstanding commercial paper of an issuing corporation may be purchased.
- (f) The term shall not exceed 270 days.

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6. U.S. Treasuries

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The Treasurer may invest in United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the full faith and credit of the United States are pledged for the payment of principal and interest. (Government Code 53601 (b))

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7. Federal Agencies

The Treasurer may invest in 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. (Government Code 53601 (e))

Deleted: The Treasurer may invest in debts issued by governmental agencies as follows:¶

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<#>The concentration of investments in federal agency obligations shall not exceed 100 percent of all investments in effect immediately after any such investment is made.¶

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<#>Investments in U.S. Treasury obligation shall not be subject to any maturity limitations. U.S. Treasury Securities consist of notes, bonds, bills or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest. ¶

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8. Money Market Funds

The Treasurer may invest in 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 (Government Code Section 53601(k))

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The following criteria will be used in evaluating companies:

- a) Attain the highest ranking letter and numerical rating provided by not less than two nationally recognized rating services; or
- b) 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.
- c) The maximum purchase price of shares shall not exceed 20% of the portfolio.

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VII. BOND FUNDS

Investment of bond proceeds shall be subject to the conditions and restrictions of bond documents and are not governed by this policy.

VIII. REPORTING REQUIREMENTS

In accordance with Government Code Section 53646, the Treasurer shall submit a monthly report to the Executive Secretary of the Board of Directors via the General

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Manager indicating the types of investment by fund, institution, date of maturity, and amount of deposit, and shall provide the current market value of all securities with a maturity of more than 12 months, rates of interest, and expected yield to maturity.

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The Treasurer shall also submit a monthly summary report to the Board of Directors via the General Manager showing Investment activity and the status of cash by depository.

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IX. INVESTMENT POLICY ADMINISTRATION

The Treasurer may, at any time, further restrict the securities approved for investment as deemed appropriate. This policy shall be reviewed at least annually by the Board of Directors.

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Additionally, the Treasurer shall annually send a copy of the current Investment Policy to all approved dealers. Each dealer is required to return a signed statement indicating receipt and understanding of the District's investment policies.