

## RESOLUTION NO. 2021-11

### SAN GORGONIO PASS WATER AGENCY INVESTMENT POLICY AND GUIDELINES RESCINDING RESOLUTION #2021-07

**BE IT RESOLVED** by the Board of Directors of the San Gorgonio Pass Water Agency (“Agency”) that the following is the policy and guidelines of the Agency for Investment of funds and that adoption of this Resolution 2021-11 does hereby revise and nullify Resolution 2021-07.

#### **Policy**

The purpose of this investment policy (“Policy”) is to identify prudent policies and procedures that shall govern the investment of the Agency’s funds. The ultimate goal of this Policy is to protect the safety of the invested funds, enhance the economic status of the Agency, and to ensure that all investments comply with federal, state, and local laws governing the investment of the funds covered by this Policy.

#### **Scope**

This Policy shall cover all funds and investment activities under the direct authority of the Agency and accounted for in the Audited Financial Statements, except for the employee’s retirement and deferred compensation funds. In addition, deposits with banks under the California Government Code’s “Deposit of Funds” provisions are excluded from this Policy’s requirements.

Bond proceeds shall be invested in the securities permitted by the applicable bond documents. If the bond documents are silent as to the permitted investments, the bond proceeds will be invested in the securities permitted by this Policy. Notwithstanding the other provisions of this Policy, the percentage limitations listed elsewhere in this Policy do not apply to bond proceeds.

#### **Objectives**

The primary objectives, in priority order, for the Agency’s investment activities shall be:

1. **Safety:** Safety of principal is the foremost objective of the investment program. The Agency’s investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.
2. **Liquidity:** The Agency’s investment portfolio will remain sufficiently liquid to enable the Agency to meet all operating requirements, which might be reasonably anticipated.
3. **Return on Investment:** The Agency’s investment portfolio shall be managed with the objective of attaining a market rate of return throughout budgetary and economic cycles.

The remainder of this Policy describes the policies and procedures to be followed in support of these objectives.

#### **Prudence**

All persons authorized to make investment decisions on behalf of the Agency are trustees and therefore fiduciaries subject to the prudent investor standard. 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.

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Authorized persons, acting in accordance with written procedures and this Policy and exercising due diligence, shall 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 appropriate action is taken to control adverse developments.

## **Delegation of Authority**

Responsibility for the investment program is expressly delegated by the Agency's Board of Directors ("Board") to the Treasurer and the Assistant Treasurer in Resolution Nos. 1994-09 and 2005-10. The Treasurer/Assistant Treasurer may delegate the day-to-day investment activities to their designee(s) but not the responsibility for the overall investment program.

As authorized by the Board, the Agency may contract with an SEC registered investment adviser to assist the Treasurer/Assistant Treasurer with the Agency's investment program. The investment adviser's actions shall be in conformance with this Policy and any written direction provided by the Treasurer/Assistant Treasurer. The investment adviser shall never take possession of the Agency's cash or assets.

## **Ethics and Conflicts of Interest**

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Additionally, the Treasurer/Assistant Treasurer, other employees designated by the Agency, and the Investment Advisor, if one is used, are required to prepare an Annual Conflict of Interest Statement (FPPC Form 700).

## **Internal Controls**

The Chief Financial Officer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Agency are protected from loss, theft, or misuse. The procedures should include references to individuals authorized to execute transactions or transfers, safekeeping agreements, repurchase agreements, wire transfer agreements, collateral/depository agreements and banking services contracts, as appropriate. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgement by management. Compliance with this Policy and internal controls shall be reviewed annually by the Agency's independent auditor.

## **Authorized Financial Dealers and Institutions**

Investments not purchased directly from the issuer, shall be purchased either from an institution licensed by the state as a broker-dealer or from a member of a federally regulated securities exchange, from a national or state-chartered bank, from a savings association or federal association or from a brokerage firm designated as a primary government dealer by the Federal Reserve bank. If the Agency is utilizing financial dealers or institutions to execute transactions, the Treasurer/Assistant Treasurer shall maintain a list of the firms that have been approved for investment purposes. A copy of this Policy shall be sent annually to all firms with which the Agency executes investments.

If the Agency has contracted with an investment advisor to provide investment services, the investment advisor may use their own list of approved issuers, brokers/dealers, and financial institutions with which to conduct transactions on the Agency's behalf.

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## Authorized and Suitable Investments

The California Government Code provides basic investment limits and guidelines for government entities. In the event an apparent discrepancy is found between this Policy and the Government Code, the more restrictive parameters will take precedence. Percentage holding limits listed in this Policy apply at the time the security is purchased. Credit ratings, where shown, specify the minimum credit rating category required at purchased. In the event a security held by the Agency is subject to a credit rating change that brings it below the minimum credit ratings specified in this Policy, the Treasurer/Assistant Treasurer should notify the Board of the change in the next quarterly investment report. The course of action to be followed will then be decided on a case-by-case basis, considering such factors as the reason for the change, prognosis for recovery or further rate drops, and the market price of the security.

- A. **U.S. Treasury Instruments.** United States Treasury 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. There is no limitation as to the percentage of the Agency's portfolio that may be invested in this category.
- B. **Federal Agency Securities.** 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. There is no limitation as to the percentage of the Agency's portfolio that may be invested in this category.
- C. **Supranational Obligations.** United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated in a rating category of "AA" or its equivalent or better by a Nationally Recognized Statistical Rating Organization ("NRSRO"). A maximum of 30% of the Agency's portfolio may be invested in this category.
- D. **Municipal Debt.** Registered state warrants or treasury notes or bonds of this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of the state.

Registered treasury notes or bonds of any of the other 49 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 states, in addition to California.

Bonds, notes, warrants, or other evidences of indebtedness of a local agency within this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency.

Purchases are limited to securities rated in a rating category of "A" (long-term) or "A-1" (short-term) or their equivalents or better by an NRSRO. A maximum of 30% of the Agency's portfolio may be invested in this category.

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- E. **Medium-Term Notes.** Medium-term notes, defined as all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Purchases are limited to securities rated in a rating category of “A” or its equivalent or better by an NRSRO. A maximum of 30% of the Agency’s portfolio may be invested in this category.
- F. **Negotiable CDs.** Negotiable certificates of deposit issued by a nationally or state-chartered bank, a savings association or a federal association, a state or federal credit union, or by a federally licensed or state-licensed branch of a foreign bank. Purchases are limited to securities rated in a rating category of “A” (long-term) or “A-1” (short-term) or their equivalents or better by an NRSRO. A maximum of 30% of the Agency’s portfolio may be invested in this category.
- G. **Asset-Backed Securities.** A mortgage passthrough security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable passthrough certificate, or consumer receivable-backed bond with a maximum remaining maturity of five years or less. Securities shall be rated in a rating category of “AA” or its equivalent or better by an NRSRO. A maximum of 20% of the Agency’s portfolio may be invested in this category.
- H. **Commercial Paper.** Commercial paper of “prime” quality of the highest ranking or of the highest letter and number rating as provided for by an NRSRO. The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (1) or (2):
  - (1) The entity meets the following criteria: (A) Is organized and operating in the United States as a general corporation; (B) Has total assets in excess of five hundred million dollars (\$500,000,000), and (C) Has debt other than commercial paper, if any, that is rated in a rating category of “A” or its equivalent or better by an NRSRO.
  - (2) The entity meets the following criteria: (A) Is organized within the United States as a special purpose corporation, trust, or limited liability company, (B) Has program-wide credit enhancements including, but not limited to, overcollateralization, letters of credit, or a surety bond, and (C) Has commercial paper that is rated “A-1” or better, or the equivalent, by an NRSRO.

Purchases are limited to securities that have a maximum maturity of 270 days. A maximum of 25% of the Agency’s portfolio may be invested in this category.
- I. **State of California’s Local Agency Investment Fund (LAIF).** Whenever the Agency has funds invested in LAIF, the Treasurer/Assistant Treasurer shall periodically review the program’s investments. The maximum amount invested in this category may not exceed the limit set by LAIF for operating accounts.
- J. **Local Government Investment Pools (“LGIP”).** Shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7 that invests in the securities and obligations authorized in Government Code. The Agency will limit investments to LGIPs that seek to maintain a stable net asset value. Whenever the Agency has any funds invested in a LGIP, the Treasurer/Assistant Treasurer shall maintain on file a copy of the LGIP’s current information

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statement and periodically review the LGIP's investments. There is no limitation as to the percentage of the Agency's portfolio that may be invested in this category.

- K. **Money Market Funds ("MMF").** Purchases are restricted to Government Money Market Funds. Furthermore, these Money Market Funds must have met either of the following criteria: (A) Attained the highest ranking or the highest letter and numerical rating provided by not less than two NRSROs, or (B) Retained an investment advisor with not less than five years' experience and registered or exempt from registration with the SEC, with assets under management in excess of five hundred million dollars (\$500,000,000). Whenever the Agency has any funds invested in an MMF, the Treasurer/Assistant Treasurer shall maintain on file a copy of the MMF's current information statement. A maximum of 20% of the Agency's portfolio may be invested in this category.

## **Ineligible Investments**

The Agency shall not invest in any investment authorized by the Government Code, but not explicitly listed in this Policy without the prior approval of the Board. Furthermore, the Agency will not invest in inverse floaters, range notes, mortgage-derived, interest-only strips, or any security that could result in zero interest accrual if held to maturity, except as authorized by Government Code Section 53601.6. The Agency may hold any previously permitted but currently prohibited investments until their maturity dates.

## **Diversification**

The Agency shall diversify the investments within the portfolio to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions, or maturities. To promote diversification, no more than 5% of the portfolio may be invested in the securities of any one issuer, regardless of security type; excluding U.S. Treasuries, federal agencies, supranationals, and pooled investments such as LAIF, money market funds, or local government investment pools.

## **Maximum Maturities**

The Treasurer/Assistant Treasurer and/or their designee(s) shall maintain a system to monitor and forecast revenues and expenditures so that Agency funds can be invested to the fullest extent possible while providing sufficient liquidity to meet the Agency's reasonably anticipated cash flow requirements. Maturities of investments will be selected to provide necessary liquidity, manage interest rate risk, and optimize earnings. Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds.

The weighted average maturity of the investment portfolio shall not exceed 3.0 years. For those investment types for which this Policy does not specify a maturity limit, no individual investment shall exceed a maturity of five years from the date of purchase unless the Board has granted express authority to make that investment either specifically or as a part of an investment program approved by the Board no less than three months prior to the investment.

This Policy authorizes investing bond project and reserve funds beyond five years if the maturities of such investments do not exceed the expected use of the funds, the investments are deemed prudent in the opinion of the Treasurer/Assistant Treasurer, and the investments are not prohibited by the applicable bond documents.

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## **Safekeeping and Custody**

To protect against potential losses by collapse of individual securities dealers, all deliverable securities owned by the Agency, including collateral on repurchase agreements, shall be held in safekeeping by a third party bank trust department acting as agent for the Agency under the terms of a custody agreement executed by the bank and by the Agency. All deliverable securities will be received and delivered using standard delivery-versus-payment procedures.

## **Performance Standards**

The investment portfolio shall be managed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs. The Agency will employ an active management approach that allows for the sale of securities prior to their scheduled maturity dates for purposes of improving the portfolio's credit quality, liquidity, or return in response to changing market conditions or Agency circumstances. This Policy recognizes that in a diversified portfolio occasional measured losses are inevitable and must be considered within the context of the overall portfolio's structure and expected investment return, with the proviso that adequate diversification and credit analysis have been implemented.

An appropriate performance benchmark shall be established against which portfolio performance shall be compared on a regular basis. The selected performance benchmark shall be representative of the Agency's overall investment objectives and liquidity requirements.

## **Reporting**

The Treasurer/Assistant Treasurer will prepare a quarterly investment report that shall include a description of the portfolio, type of investments, issuers, maturity dates, par values and current market values of each component of the portfolio, list of transactions, including funds managed for the Agency by third party contract managers. The report will include a certification that: (1) all investment actions executed since the last report have been made in full compliance with this Policy and (2) the report shall include a statement denoting the ability of the Agency to meet its expenditure requirements for the next six months, or provide an explanation as to why sufficient money shall, or may not be available.

## **Investment Policy Adoption**

The Agency's investment policy shall be adopted by resolution of the Board. This Policy and the Agency's agreement with PFM Asset Management shall be reviewed annually by the Treasurer/Assistant Treasurer and any modifications made thereto must be approved by the Board of Directors.