

RESOLUTION No. 566

**RESOLUTION OF SUNNYSLOPE COUNTY WATER DISTRICT
APPROVING INVESTMENT POLICY**

WHEREAS, The Board of Directors of the Sunnyslope County Water District ("District") adopted the first District Investment Policy by Resolution of the Board #396 dated May 1986 ; and

WHEREAS, the Board of Directors have reviewed the existing policy and desires to make amendments to this policy to provide clarity and transparency to the public; and

WHEREAS, The Legislature of the State of California has declared that the deposit and investment of public funds by local officials and local agencies is an issue of statewide concern (California Government Code (CGC) §53600.6 and §53630.1); and,

WHEREAS, Government Code Sections 5900 et seq. and 53601 et seq., allow the legislative body of a local agency to invest surplus monies not required for the immediate necessities of the local agency; and,

WHEREAS, The Board recognizes that from time to time amendments are required to update and clarify Board intent and that procedures may be written consistent with this policy to provide staff direction in the implementation of said policy; and

WHEREAS, For these reasons, and to ensure prudent and responsible management of the public's funds, it is the policy of the District to invest funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the District and conforming to all statutes governing the investment of District funds; and

WHEREAS, The Sunnyslope County Water District Board has created policy #8650 to supersede all previous Investment policies of the Board:

NOW, THEREFORE, The District hereby resolves the following:

Reserve Policy #8650 shall be adopted as written and shall be included in the District policies and procedures.

Reserve Policy #8650 shall supersede all previous versions of the District investment policies.

Reserve Policy #8650 shall become effective on the date of adoption and a copy of the amended policy shall accompany this Resolution.

PASSED AND ADOPTED on December 21, 2021, by the following vote:

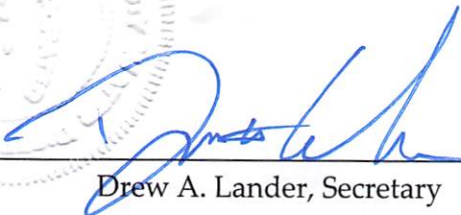
AYES: Directors – Alcorn, Brown, Buzzetta, Mauro, and Parker
NAYS: None
ABSENT: None

SUNNYSLOPE COUNTY WATER DISTRICT

By _____


Jerry Buzzetta, President

ATTEST: _____


Drew A. Lander, Secretary

Adopted December 21, 2021

POLICY TITLE: Investment of District Funds
POLICY NUMBER: 8650

8650.1 PREMISE

The Legislature of the State of California has declared that the deposit and investment of public funds by local officials and local agencies is an issue of statewide concern (California Government Code (CGC) §53600.6 and §53630.1); and,

Government Code Sections 5900 et seq. and 53601 et seq., allow the legislative body of a local agency to invest surplus monies not required for the immediate necessities of the local agency; and,

The District's Financial Officer is required to prepare and submit monthly reports to be considered at the Board meeting of the month following the report month and including the annual "Statement of Investment Policy" to be considered by Board of Directors at the SSCWD January Board meeting (CGC §53646(a)), and a twice annual report to the Budget and Finance Committee including at least the type of investments and amounts that are designated for Operational and Longer-Term investment horizon, and the current market value and source of the valuation

For these reasons, and to ensure prudent and responsible management of the public's funds, it is the policy of the SSCWD to invest funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the District and conforming to all statutes governing the investment of SSCWD funds.

8650.2 SCOPE

This investment policy applies to all financial assets of SSCWD. These funds are accounted for in the Independent Annual Financial Report and include:

- | | |
|---|-------------------------|
| Demand Account: | Investments: |
| Unrestricted Fund | Authorized and Suitable |
| Investments | |
| Emergency Fund | |
| Office and Miscellaneous Equipment Replacement Fund | |
| Rate Stabilization Reserve Fund | |
| Drought Contingency Reserve Fund | |
| Capital Improvement Reserve Fund | |
| Vehicle Replacement Fund | |
| Water Capacity Reserve Fund | |
| Wastewater Capacity Reserve Fund | |

The Investment Program conceptualized by the SSCWD goal is designed to protect and maximize both cash and funds for investment, through meeting daily cash flow needs, ensuring compliance with all laws of the State of California regarding investment of public funds, and achieving reasonable rate of return for SSCWD while minimizing potential for capital losses from market changes or issuer default.

8650.3 PRUDENCE

Investments shall be made: with the 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. The standard of prudence to be used by investment officials shall be the "prudent investor" standard (CGC §53600.3) and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations for expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

8650.4 OBJECTIVES

In order to facilitate the management of the investment program, the SSCWD's portfolio is divided into two sub-portfolios consisting of the Liquidity Portfolio, which is comprised of funds needed for current operating expenses and capital requirements, and the Reserve Portfolio, comprised of funds reserved for longer-term needs. Investment goals of the liquidity portfolio shall be (1) to provide liquidity for operating expenses and capital requirements (2) to preserve capital, and (3) to earn a total rate of return commensurate with the first two goals. The Reserve Portfolio shall be comprised of funds not immediately needed and otherwise available for investment. Goals of the Reserve Portfolio shall be (1) to preserve real capital and (2) to provide growth over the long term by earning the rate of return that is available from the longer-term investments permitted under the California Government Code.

The investment performance objectives for the Liquidity Portfolio shall be to earn a return over a market cycle, which equals or exceeds the return on 90-day Treasury Bills or other comparable index determined by the Board. The investment performance objective for the Reserve Portfolio shall be to earn a rate of return over a market cycle, which exceeds the return on the Merrill Lynch One-to-Ten Year Government Index, or an equivalent index determined by the Board.

Criteria for selecting investments and the order of priority are:

- 8650.4.1** Safety: The safety and risk associated with an investment refers to the potential loss of principal, interest, or combination thereof. The SSCWD only operates in those investments that are considered safe. Investments shall be undertaken in a manner that seeks to ensure that capital losses resulting from institution default, broker/dealer default, or the erosion of market value are avoided. The SSCWD shall seek to preserve principal by mitigating the two types of risk: credit risk and market risk.
 - 8650.4.1.1** Credit risk, defined as the risk of loss due to failure of the issuer of a security, shall be mitigated by investing in only high-quality securities and by diversifying the investment portfolio so that the failure of any one issuer would not unduly harm SSCWD cash flow.
 - 8650.4.1.2** Market risk, defined as the risk of market value fluctuations due to overall changes in the general level of interest rates, shall be mitigated by structuring the portfolio. It is explicitly recognized, however, that in a diversified portfolio, occasional measured losses may occur, and must be considered within the context of overall investment return.
- 8650.4.2** Liquidity: This refers to the ability to sell these securities and terminate the agreement in order to receive cash at any moment in time with minimal chance of losing some portion of principal or interest. Liquidity is an important investment quality especially when the need for unexpected funds occasionally occurs. The SSCWD's investment portfolio will remain sufficiently liquid to enable the SSCWD to meet operating requirements that might be reasonably anticipated. Invested bond proceeds will be structured so as to meet anticipated drawdown requirements.
- 8650.4.3** Yield: The SSCWD's investment portfolio shall be designed with the objective of attaining a reasonable market rate of return throughout economic cycles, as long as it does not diminish the objectives of Safety and Liquidity.

8650.5 DELEGATION OF AUTHORITY

Authority to manage the SSCWD investment program is derived from Public Resources Code Section 9521 and California Government Code Sections 53600, et seq. Management responsibility for the investment program is hereby extended for a one-year period by the Board of Directors to the General Manager and District Financial Officer or other designee who shall assume full responsibility until the delegation of authority is revoked or expired pursuant to California Government Code Section 53607, and who shall cooperate with the Budget and Finance Committee and the General Manager on facilitation of the following elements in this section of the investment policy.

- 8650.5.1** The District Financial Officer shall make a monthly report of the SSCWD investment program transactions to the Board of Directors.
- 8650.5.2** The District Financial Officer shall establish written procedures for the operation of the investment program consistent with this investment policy. Procedures should include references to: safekeeping, wire transfer agreements, and banking services contracts, as appropriate. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the General Manager.
- 8650.5.3** The General Manager shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

Under the provisions of California Government Code §53600.3, the District shall identify an Investment Broker who is a trustee and a fiduciary subject to the prudent investor standard. Notwithstanding this paragraph, nothing in this Policy shall be interpreted to preclude the Sunnyslope County Water District from availing itself of statutes including, but not limited to, Government Code section 65966(m) permitting a third-party to hold, manage and invest endowment funds.

8650.6 ETHICS AND CONFLICTS OF INTEREST

Officers, Directors, 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 or create the appearance of an impairment of their ability to make impartial investment decisions. Employees and investment officials shall disclose to the Investment Broker any financial interests they have in financial institutions that conduct business with the SSCWD and they shall subordinate their personal investment transactions to those of the SSCWD. In addition, the Investment Broker shall file a Statement of Economic Interests each year pursuant to California Government Code Section 87203.

8650.7 AUTHORIZED FINANCIAL INSTITUTIONS AND DEALERS

The Investment Broker will maintain a list of financial institutions, selected on the basis of credit worthiness, financial strength, experience and minimal capitalization authorized to provide investment services. In addition, a list will also be maintained of approved security broker/dealers selected by credit worthiness that are authorized to provide investment and financial advisory services in the State of California. No public deposit shall be made except in a qualified public depository as established by state laws.

For brokers/dealers of government securities and other investments, the Investment Broker shall select only broker/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 Investment Broker shall have received from said firm a signed Certification Form. This form shall attest that the individual responsible for SSCWD's account and the firm has reviewed SSCWD's Investment Policy and that the firm understands the policy and intends to present investment recommendations and transactions to SSCWD that are appropriate under the terms and conditions of the Investment Policy.

8650.8 AUTHORIZED AND SUITABLE INVESTMENTS

The SSCWD is authorized by California Government Code Section 53600, et. seq. to invest in specific types of securities. The SSCWD has further limited the types of securities in which it may invest. Any security not listed is not a valid investment for the SSCWD. The authorized designee may invest only in those investments identified herein. The concise list of approved securities is as follows:

- 8650.8.1 Securities of the U.S. Government, or its agencies**
The authorized designee may invest in bonds, debentures, notes, discount notes, and certain callable and step-up notes issued by the following United States Treasury and Government Agencies: United States Treasury Bonds, Federal Home Loan Bank (FHLB), Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), Federal Farm Credit Banks (FFCB).

The total percentage of Portfolio is unlimited; maturity maximum of five years. The SSCWD will ensure that securities purchased from broker/dealers shall be held by third party bank or other designated third party trust department acting as agent for the SSCWD under the terms of a custody agreement executed by the bank and the SSCWD. All securities will be received and delivered using standard delivery-versus-payment (DVP) procedures. No outside broker/dealer or advisor may have access to SSCWD funds, accounts or investments, and any transfer of funds to or through an outside broker/dealer must be approved by the Investment Broker.

- 8650.8.2 Non-negotiable Certificates of Deposit**
The total percentage of Portfolio is unlimited; maturity maximum of five years. All purchases must be fully insured by the FDIC or fully collateralized.

- 8650.8.3 Negotiable Certificates of Deposit** - As authorized in Government Code Section 53601(i), no more than 30 percent of the agency's money may be invested in negotiable certificates of deposit issued by a nationally or state-chartered bank, a savings association, or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a state-licensed branch of a foreign bank. All purchases must be fully insured by the FDIC or fully collateralized.

- 8650.8.4 Money Market Account**
The total percentage of Portfolio is unlimited

- 8650.8.5 Local Agency Investment Fund (State Pool) Demand Deposits**
Maximum of \$50M of portfolio; maturity terms require daily liquidity

8650.9 DIVERSIFICATION

