

## RESOLUTION NO. 13R-01

### RESOLUTION OF THE BOARD OF DIRECTORS OF THE BIGHORN-DESERT VIEW WATER AGENCY ESTABLISHING ITS INVESTMENT POLICY

#### 1. POLICY

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; and

WHEREAS, the legislative body of a local agency may invest monies not required for the immediate necessities of the local agency in accordance with the provisions of California Government Code Sections 53601 and 53635; and

WHEREAS, the Treasurer or fiscal officer of the Bighorn-Desert View Water Agency ("Agency") must annually prepare and submit a statement of investment policy and such policy, and any changes thereto, shall be considered by the Board of Directors at a public meeting; and

WHEREAS, this Resolution No. 13R-01 is updating and replacing Resolution No. 05R-07.

NOW THEREFORE, it shall be the policy of the Agency to invest funds in a manner which will provide the highest investment return with the maximum security while meeting the Agency's daily cash flow demands and conforming to all statutes governing the investment of Agency funds.

#### 2. SCOPE

This investment policy applies to all financial assets of the Agency. These funds are accounted for in the annual Agency audit.

#### 3. PRUDENCE

Investments shall be made with judgment and care, under circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the Agency, 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 (California Government Code Section 53600.3) and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the 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 from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

#### 4. OBJECTIVES

When investing, reinvesting, purchasing, acquiring, exchanging, selling and managing Agency funds, the primary objectives, in priority order, of the investment activities shall be:

- a. **Safety:** Safety of principal is the foremost objective of the investment program. Investments of the Agency shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.
- b. **Liquidity:** The investment portfolio will remain sufficiently liquid to enable the District to meet all operating requirements which might be reasonably anticipated.
- c. **Return on Investments:** The investment portfolio shall 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 the cash flow characteristics of the portfolio.

#### 5. DELEGATION OF AUTHORITY

Authority to manage the investment program is derived from California Government Code Sections 53600, et seq. Management responsibility for the investment program is hereby delegated to the Treasurer, who, where appropriate, shall establish written procedures for the operation of the investment program consistent with this investment policy. No person may engage in an investment transaction except as provided under the terms of this policy and such procedures as may be established by the Treasurer. The Treasurer shall be responsible for all transactions undertaken and shall establish controls to regulate the activities of subordinate officials. Under the provisions of California Government Code Section 53600.3, the Treasurer is a trustee and a fiduciary subject to the prudent investor standard. The Treasurer shall be limited to investments in LAIF except in instances where specifically authorized by Board action to invest in other areas.

#### 6. ETHICS AND CONFLICTS OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict or appear to conflict with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

#### 7. AUTHORIZED FINANCIAL INSTITUTIONS AND DEALERS

The Treasurer 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 who 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 Agency 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 Treasurer shall have received from said firm a signed Certification Form. This form shall attest that the individual responsible for the Agency's account with that firm has reviewed the Agency's Investment Policy and that the firm understands the policy and intends to present investment recommendations and transactions to the Agency that are appropriate under the terms and conditions of the Investment Policy.

Where all funds of the Agency not placed in FDIC-insured accounts are invested through the Local Agency Investment Fund (LAIF), the Treasurer need not be concerned with the qualifications of those financial institutions and broker/dealers with whom LAIF transacts business.

#### 8. AUTHORIZED AND SUITABLE INVESTMENTS

The Agency is empowered by California Government Code Sections 53601 et seq. to invest in the following:

- a. Bonds issued by the Agency.
- b. United States Treasury Bills, Notes and Bonds.
- c. Registered state warrants or treasury notes or bonds issued by the State of California.
- d. Bonds, notes, warrants or other evidence of debt issued by a local agency within the State of California, including pooled investment accounts sponsored by the State of California, County Treasurers, other local agencies or joint powers agencies. The Local Agency Investment Fund (LAIF) is an approved pooled investment account.
- e. 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.
- f. Bankers acceptances, otherwise known as bills of exchange or time drafts that are drawn on and accepted by a commercial bank. Purchase of bankers' acceptances may not exceed 180 days' maturity or 40% of the Agency's money that may be invested pursuant to this policy. However, no more than 30% of the

Agency's money can be invested in the bankers' acceptances of any single commercial bank.

- g. Commercial paper of "prime" quality of the highest ranking or of the highest letter and number rating as provided for by nationally-recognized statistical-rating organization (NRSPO). The entity that issues the commercial paper shall meet all of the following conditions in either subparagraph (1) or subparagraph (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).
    - (c) Has debt other than commercial paper, if any, that is rated "A" or higher by a 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 programwide credit enhancements including, but not limited to, over collateralization, letters of credit, or surety bond.
    - (c) Has commercial paper that is rated "A-1" or higher, or the equivalent by a NRSRO.
  - (3) Eligible commercial paper shall have a maximum maturity of 270 days or less. The Agency shall invest no more than twenty-five percent (25%) of its money in eligible commercial paper. The Agency shall purchase no more than ten percent (10%) of the outstanding commercial paper of any single corporate issue."
- h. 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 federally-licensed or state-licensed branch of a foreign bank. Purchases of negotiable certificates of deposit may not exceed 30 percent of the Agency's money which may be invested pursuant to this policy. The Board of Directors and the Treasurer are prohibited from investing Agency funds, or funds in the Agency's custody, in negotiable certificates of deposit issued by a state or federal credit union if a member of the Board of Directors, or any person with investment decision making authority within the Agency also serves on the board of directors, or any committee appointed by the board of directors, or the credit committee or the

supervisory committee of the state or federal credit union issuing the negotiable certificates of deposit.

- i. Repurchase/Reverse Repurchase Agreements of any securities authorized by Section 53601. The market value of securities that underlie a repurchase agreement shall be valued at 102% or greater of the funds borrowed against those securities, and are subject to the special limits and conditions of California Government Code 53601(j).
- j. 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. Notes eligible for investment under this subdivision shall be rated "A" or better by a nationally recognized rating service. Purchases of medium-term notes shall not include other instruments authorized by this policy and may not exceed 30 percent of the Agency's money which may be invested pursuant to this policy.
- k. Shares of beneficial interest issued by diversified management companies (mutual funds) investing in the securities and obligations authorized by this policy, and shares in money market mutual funds, subject to the restrictions of Government Code Section 53601(l). The purchase price of investments under this subdivision shall not exceed 20 percent of the Agency's money that may be invested pursuant to this policy. However, no more than 10 percent of the Agency's money may be invested in any one mutual fund.
- l. Moneys held by a trustee or fiscal agent and pledged to the payment or security of bonds or other indebtedness, or obligations under a lease, installment sale, or other agreement of a local agency, or certificates of participation in those bonds, indebtedness, or lease installment sale, or other agreements, may be invested in accordance with the statutory provisions governing the issuance of those bonds, indebtedness, or lease installment sale, or other agreement, or to the extent not inconsistent therewith or if there are no specific statutory provisions, in accordance with the ordinance, resolution, indenture, or agreement of the local agency providing for the issuance.
- m. Notes, bonds, or other obligations that are at all times secured by a valid first priority security interest in securities of the types listed by Government Code Section 53651 as eligible securities for the purpose of securing local agency deposits having a market value at least equal to that required by Government Code Section 53652 for the purpose of securing local agency deposits. The securities serving as collateral shall be placed by delivery or book entry into the custody of a trust company or the trust department of a bank which is not affiliated with the issuer of the secured obligation, and the security interest shall be perfected in accordance with the requirements of the Uniform Commercial Code or federal regulations applicable to the types of securities in which the security interest is granted.

- n. Any 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 of a maximum of five years maturity. Securities eligible for investment under this subdivision shall be issued by an issuer having an "A" or higher rating for the issuer's debt as provided by a nationally recognized rating service and the securities shall be rated in a rating category of "AA" or its equivalent or better by a nationally recognized rating service. Purchase of securities authorized by this subdivision may not exceed 20 percent of the Agency's money that may be invested pursuant to this policy.
- o. Any other investment security authorized under the provisions of California Government Code 5922 and 53601.

A summary of the limitations and special conditions that apply to each of the above listed investment securities is attached and is included by reference in this Investment Policy.

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

#### 9. AUTHORIZED SIGNATORIES

Every financial transaction shall require two authorized signatures. Each transaction shall require one Authorized Board Member and one Authorized Agency Staff Member to complete the transaction or two authorized Board Members. The aforementioned are authorized to transfer funds between the Local Agency Investment Fund accounts of the Agency with the approval and signature of any two of them. The Bank is authorized to honor all such transactions.

#### 10. COLLATERALIZATION

All certificates of deposits must be collateralized by United States Treasury Obligations. Collateral must be held by a third party trustee and valued on a monthly basis. The percentage of collateralizations on repurchase and reverse agreements will adhere to the amount required under California Government Code 53601(j)(2).

#### 11. SAFEKEEPING AND CUSTODY

All security transactions entered into by the Agency shall be conducted on delivery-versus-payment (DVP) basis. All securities purchased or acquired shall be delivered to the Agency by book entry, physical delivery or by third party custodial agreement.

12. DIVERSIFICATION

The Agency will diversify its investments by security type and institution. Assets shall be diversified to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer or a specific class of securities. Diversification strategies shall be determined and revised periodically, if determined necessary to meet Agency goals. In establishing specific diversification strategies, the following general policies and constraints shall apply:

- a. Portfolio maturity dates shall be matched versus liabilities to avoid undue concentration in a specific maturity sector.
- b. Maturities selected shall provide for stability of income and liquidity.
- c. Disbursement and payroll dates shall be covered through maturities of investments, marketable United States Treasury bills or other cash equivalent instruments such as money market mutual funds.

13. REPORTING

The Treasurer shall submit an investment report to the Board of Directors at least quarterly. The report shall include a complete description of the portfolio, the type of investments, the issuers, maturity dates, par values and the current market values of each component of the portfolio, including funds managed for Agency by third party contracted managers. The report will also include the source of the portfolio valuation. If all funds are placed in LAIF, FDIC-insured accounts and/or in a county investment pool, the foregoing report elements may be replaced by copies of the latest statements from such institutions. The report must also include a certification that (1) all investment actions executed since the last report have been made in full compliance with the Investment Policy and, (2) the Agency will meet its expenditure obligations for the next six months, as required by Government Code Section 53646(b)(2) and (3), respectively. The Treasurer shall maintain a complete and timely record of all investment transactions.

14. INVESTMENT POLICY ADOPTION

The Investment Policy shall be adopted by resolution of the Agency. Moreover, the Policy shall be reviewed on an annual basis, and modifications must be approved by the Board of Directors.

**PASSED, APPROVED AND ADOPTED** by the Board of Directors of Bighorn-Desert View Water Agency this 22th day of January 2013.

By   
Mike McBride, Board President

Attest:

  
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David Larson, Board Secretary

| <u>Govt. Code Section</u> | <u>Investment Type</u>                           | <u>Maximum Maturity</u> | <u>Authorized Limit (%)</u>         | <u>Required Rating</u> |
|---------------------------|--|-------------------------|-------------------------------------|------------------------|
| 53601(a)                  | Bonds issued by Bighorn-Desert View Water Agency | 5 years                 | None                                | None                   |
| 53601(b)                  | U.S. Treasury Bills, Notes and Bonds             | 5 years                 | None                                | None                   |
| 53601(c)                  | State Warrants or Bonds                          | 5 years                 | None                                | None                   |
| 53601(d)                  | Local Agency Investment Fund (LAIF)              | N/A                     | None                                | None                   |
| 53601(e)                  | U.S. Agencies or Enterprises                     | 5 years                 | None                                | None                   |
| 53601(f)                  | Bankers Acceptances                              | 180 days                | 40% (30% in any one bank)           | None                   |
| 53601(g)                  | Prime Commercial Paper                           | 270 days                | 25% (10% in any one entity's paper) | A                      |
| 53601(h)                  | Negotiable Certificates of Deposit               | 5 years                 | 30%                                 | None                   |
| 53601(i)                  | Repurchase/Reverse Repurchase Agreements         | 1 year *                | 20%                                 | None                   |
| 53601(j)                  | Medium-Term Corporate Notes                      | 5 years                 | 30%                                 | A                      |
| 53601(k)                  | Money Market Mutual Funds and Mutual Funds **    | 5 years                 | 20% (10% in any single fund)        | ***                    |
| 53601(l)                  | Bond/COP Funds                                   | N/A                     | None                                | None                   |
| 53601(m)                  | Collateralized Bank Deposits                     | 5 years                 | None                                | None                   |
| 53601(n)                  | Mortgage Pass-Through Securities                 | 5 years                 | 20%                                 | AA                     |

\* the one year limitation for Repurchase/Reverse Repurchase Agreements is subject to a further limitation set forth in Government Code Section 53601(i)(4), which, if applicable, may limit the maturity to 92 days.

\*\* Mutual Funds maturity may be defined as the weighted average maturity; money market mutual funds must have an average maturity of 90 days or less, per SEC regulations.

\*\*\* Highest ratings from two of the top three rating agencies.