

West Orange County Water Board Statement of Investment Policy

1.0 POLICY

1.1 Statement of Investment Policy. This statement of Investment Policy is intended to outline the policies for the prudent investment of funds for the West Orange County Water Board (WOCWB) to meet the short and long term cash flow needs of WOCWB.

This Investment Policy and practices are based upon the West Orange County Water Board Joint Powers Agreement dated October, 1967, as amended, prudent money management principles and State laws affecting the investment of funds. The Treasurer shall invest with the objectives of protecting principal of funds, providing sufficient liquidity to meet cash flow needs, and to achieve a reasonable rate of return within the parameter of prudent risk management as further described in 3.0, below.

1.2 Incorporated Appendices. Appendix 1, Definitions, and Appendix 2, Glossary, are attached to this Investment Policy and incorporated herein by this reference.

2.0 SCOPE

This Investment Policy covers all funds and investment activities under the direct control of WOCWB unless specifically exempted.

3.0 OBJECTIVE

The objective of the Investments is to meet the short and long term cash flow demands of WOCWB. To achieve this objective, and pursuant to Government Code Section 53600.5, the Investments will be structured to provide, in order of priority, (1) safety of principal; (2) providing sufficient liquidity to meet cash flow needs; and (3) providing a reasonable return on investment. These are further described below:

3.1 Safety of Principal. Safety of principal is the foremost objective of WOCWB's Investment Policy. Investments of WOCWB shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

3.2 Liquidity. The portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonable anticipated. This is accomplished by structuring the portfolio so that all funds mature concurrent with cash needs to meet anticipated demands. Furthermore, since all possible cash demands cannot be anticipated, the portfolio will maintain moneys in funds with daily liquidity, such as LAIF.

3.3 Return on Investment. Return on investment is of least importance compared to the safety and liquidity objectives described above. The portfolio will provide a rate of return based on the market rates of investments, at the time of purchase.

4.0 DELEGATION OF AUTHORITY

Pursuant to Section 3.0 of the Joint Powers Agreement and Government Code Section 53607, the Board hereby authorizes the Treasurer, or his/her designee, to invest, reinvest, sell or exchange WOCWB's funds and Investments in accordance with Government Code Sections 53600, 16429.1 and 53684, et seq., as further limited by this Investment Policy. Such delegation of authority is subject to annual review and renewal by the Board as set forth in 16.0. Within the Treasurer's office, the responsibility for the day-to-day investment of WOCWB funds will be the Treasurer or his/her authorized designee. The Treasurer shall be responsible for all transactions undertaken pursuant to this delegation of authority and shall report such transactions to the Board as required pursuant to Government Code Section 53607.

5.0 PRUDENCE

Investments shall be made in the context of the “Prudent Investor” standard set forth in Government Code Section 53600.3 which generally states that investments shall be made with judgment and care—under circumstances then prevailing—which person 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. All Investments purchased shall have daily liquidity or a final stated maturity date, upon which the full principal value of the security will be received. Although the Investment will mature at full principal value, it is recognized that the market values of certain securities may vary from time to time.

The Treasurer and the Treasury Manager, as investment officers acting in accordance with the Investment Policy and exercising due diligence and the referenced standard of care, shall be relieved of personal responsibility for an individual security’s credit risk or market price changes, provided deviations from expectations are reported to WOCWB in a timely fashion and appropriate action is promptly taken to control adverse developments.

6.0 ETHICS AND CONFLICTS OF INTEREST

The Treasurer and his/her authorized designees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program or which could impair their ability to make impartial investment decisions. All individuals involved in the investment process shall disclose any material interest in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio and shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of WOCWB.

The Treasurer and his/her authorized designees are required to file annual disclosure statements as required for “public officials who manage public investments” (as defined and required by the Political Reform Act and related regulations, being Government Code Sections 81000 and following and the Fair Political Practices Commission (FPPC)). During the course of the year, if there is an event subject to disclosure that could impair the ability of the Treasurer or Deputy Treasurer to make impartial decisions, the General Manager and Board will be notified within 15 days of the event.

7.0 AUTHORIZED FINANCIAL INSTITUTIONS

The Treasurer will maintain a list of the financial institutions authorized to provide investment and depository services to WOCWB and will perform an annual review of the financial condition and require annual audited financial statements to be on file for each such company. No public deposit shall be made except in a qualified public depository as established by State law. Negotiable instruments requiring third party safekeeping are not cost effective for WOCWB. Consequently, WOCWB does not require broker/dealers. Money market mutual fund accounts are restricted to funds that are rated “AAA” by at least two nationally recognized statistical-rating organizations (“NRSRO”) as set forth in 8.0.

8.0 AUTHORIZED AND SUITABLE INVESTMENTS

Section 3.0 of the Joint Powers Agreement states that: “the Treasurer shall keep all revenues of WOCWB in an interest bearing account and otherwise perform the duties and responsibilities of that office as specified in Section 6505.5(a)-(e) of the Government Code.”

All Investments under this Investment Policy shall be made in accordance with the provisions of Article I (commencing with Section 6500), Chapter 5, Division 7, Title 1 and Sections 16429.1, 53601, and 53635 of the Government Code.

Authorized Investments under this Investment Policy are as follows:

- 8.1 Passbook or checking account deposits at a financial institution as authorized under 7.0 (insured or collateralized as set forth in 10.0). Except as provided under 11.0 (Diversification) there are no limitations on the amount of funds that can be invested in this Authorized Investment.
- 8.2 Certificates of Deposit (insured or collateralized as set forth in 10.0) limited to 30% of the Book Value of the portfolio.
- 8.3 Local Agency Investment Fund (LAIF). Except as provided under 11.0 (Diversification) there are no limitations on the amount of funds that can be invested in this Authorized Investment.
- 8.4 “AAA” rated Money Market Mutual Funds not to exceed 20% of the Book Value of the portfolio. All Money Market Mutual Funds must be “AAA” (or equivalent) rated by two NRSRO, invest only in direct obligations in US Treasury bills, notes, bonds, agencies and repurchase agreements with a weighted average of 60 days or less, and have a minimum of \$500 million in assets under management. No more than 10% of the portfolio shall be invested in any one mutual fund.

9.0 INVESTMENT POOLS (LAIF DEPOSITS)

The Treasurer will investigate all local government investment pools as authorized under Government Code 53684 and money market mutual funds prior to investing and quarterly thereafter while WOCWB funds are invested in the pool. Investment of funds in LAIF is authorized under provisions in Section 16429.1 of the Government Code as an allowable investment for local agencies even though some of the individual investments of the pool are not allowed as a direct investment by a local agency, and limits deposits to \$75 million per entity.

The Association of Public Treasurer’s of the United States and Canada has issued guidelines and a questionnaire for investment pools. The response from LAIF is on file in the Treasurer’s office. LAIF distributes monthly reports that provide the breakdown of the investment holdings. LAIF also provides quarterly reports indicating the maturity distribution and market value of the portfolio.

10.0 COLLATERALIZATION

Under the provisions of the California Government Code (Sections 53652-53667), California banks, and savings and loan associations are required to secure WOCWB’s Certificate of Deposits, passbook and checking account deposits by pledging eligible securities (as described in Government Code Section 53651) with a value of 110% of principal and accrued interest. Such collateral shall be marked-to-market no less often than monthly. The Treasurer will have the authority to waive collateral requirements for deposits insured by the FDIC pursuant to Government Code Section 53653.

11.0 DIVERSIFICATION

WOCWB may diversify its Investments by security type and institution. If authorized by the Board and the Treasurer, and otherwise permitted by law, the funds of WOCWB may be invested in a single type of Authorized Investment if such Investment is fully insured as to both principal and interest.

12.0 MAXIMUM MATURITIES

To the extent possible, WOCWB will attempt to match its Investments with anticipated cash flow requirements. Unless matched to a specific cash flow need, WOCWB will not invest directly in securities maturing more than five years from the date of purchase.

13.0 PERFORMANCE STANDARDS

The investment portfolio shall be designed 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 investment strategy will be passive and the benchmark for determining market yields will be the monthly average return of the 6-month constant maturity Treasury (6 month CMT). This will be used solely as a reference tool. The comparison to a benchmark does not imply that the Treasurer will add additional risk to the portfolio in order to attain or exceed the benchmark.

14.0 INTERNAL CONTROL

The WOCWB's external auditors shall annually review the investments with respect to the Investment Policy as part of their annual audit procedures. This review will provide internal control by assuring compliance with policies and procedures for the investments that are selected for testing.

To provide further protection of WOCWB funds, written procedures, which are incorporated herein by reference, prohibit the wiring of any funds, or providing payments in the form of checks, without the authorization of at least two of the four following designated officials:

1. Treasurer
2. Treasury Manager
3. Chief Financial Officer
4. Assistant Chief Financial Officer

15.0 REPORTING

Under the requirements of Government Code Section 53607 and 53646, the Treasurer shall render a written report to the Board of Directors containing detailed information on all securities, investments, and moneys of WOCWB. The reports will be submitted on a quarterly basis and provided to the Board within 30 days following the end of the quarter.

The reports will contain the following information:

- (i) Type of investment, name of the issuer, date of maturity, par and cost of each investment;
- (ii) the investments and moneys held by WOCWB, including a description of any funds, investments, or programs that are under the management of contracted parties;
- (iii) the market value and source of the valuation for all investments other than funds in LAIF, bank accounts and Certificates of Deposits (exempt from market valuation per Government Code);
- (iv) a statement of the compliance of the portfolio with the Investment Policy requirements or manner in which the portfolio is not in compliance;
- (v) a statement denoting WOCWB's ability to meet its expenditure requirements for the following six months; or explaining as to why sufficient money shall not, or may not, be available;
- (vi) monthly transaction detail for investments; and
- (vii) with respect to those investments exempt from market valuation pursuant to (iii) the most recent statement or statements received by WOCWB.

16.0 INVESTMENT POLICY ADOPTION AND PERIODIC REVIEW

This Investment Policy shall be adopted by Resolution of the Board. This Investment Policy is subject to review and amendment by the Board, as the Board shall direct. This Investment Policy shall be reviewed on an annual basis by the Treasurer and annually submitted to the Board by the Treasurer pursuant to Government Code Section 53607 and annually approved or readopted by the Board at a public meeting thereof.

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DEFINITIONS

The terms defined in this Appendix shall, for purposes of the West Orange County Water Board Investment Policy, have the meanings specified below:

“Authorized Investments” means those classes of investments, which are authorized pursuant to this Investment Policy in 8.0. Authorized Investments may be more restrictive than those authorized by State Law.

“Board” means the Board of Directors of WOCWB.

“Book Value” means the value of an Investment, or all Investments, based upon a marked-to-market valuation as of any particular date.

“FDIC” means the Federal Deposit Insurance Corporation.

“General Manager” means the General Manager of WOCWB as appointed by the Board.

“Investment Policy” means the investment policy adopted by the Board, as it may be supplemented or amended.

“Investments” means those investments made with the funds of WOCWB.

“Joint Powers Agreement” means that Joint Powers Agreement under which the WOCWB was organized and operates, pursuant to Government Code Section 6500 et. seq., as amended and supplemented.

“State” means the State of California.

“Treasurer” means the Treasurer of WOCWB, appointed by the Board pursuant to the Joint Powers Agreement. This includes an officer of a member agency of WOCWB (such as a city treasurer) serving in the capacity of Treasurer of WOCWB.

“WOCWB” means the West Orange County Water Board, a joint powers agency.

Rules of Construction. Words of the masculine gender shall be deemed and construed to include correlative words of the feminine and neuter genders. Unless the context clearly otherwise indicates, words importing the singular number shall include the plural number and vice versa, and words importing persons shall include public bodies, as well as natural persons.

The terms “hereby,” “hereof,” “hereto,” “herein,” “hereunder” and any similar terms, as used in this Investment Policy, refer to this Investment Policy.

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GLOSSARY

ASKED: The price at which securities are offered. (The price at which a firm will sell a security to an investor.)

BASIS POINT: One one-hundredth of a percent (i.e. 0.01%)

BID: The price offered by a buyer of securities. (When you are selling securities, you ask for a bid.)

BROKER: A broker brings buyers and sellers together for a commission. He does not take a position.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a certificate. Large-denomination CD's are typically negotiable.

COLLATERAL: Securities, evidence of deposit or other property, which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COUPON: a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. b) A certificate attached to a bond evidencing interest due on a payment date.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

DEBENTURE: A bond secured only by the general credit of the issuer.

DISCOUNT: The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

DISCOUNT SECURITIES: Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value (e.g. US Treasury Bills).

DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent returns.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A Federal agency that insures bank deposits, currently up to \$100,000 per deposit.

FEDERAL FUNDS RATE: The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

FEDERAL OPEN MARKET COMMITTEE (FOMC): Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other presidents serve on a rotating basis. The committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

FEDERAL RESERVE SYSTEM: The central bank of the United States created by congress and consisting of a seven-member Board of Governors in Washington, D.C.; 12 regional banks and about 5700 commercial banks are members of the system.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

LOCAL GOVERNMENT INVESTMENT (LGIP): the aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.

NEGOTIABLE CERTIFICATES OF DEPOSIT: Unsecured obligations of the financial institution, bank or savings and loan, bought at par value with the promise to pay face value plus accrued interest at maturity. They are high-grade negotiable instruments, paying a higher interest rate than regular certificates of deposit.

OFFER: The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See “Asked” and “Bid.”

OPEN MARKET OPERATIONS: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit. Sales have the opposite effect. Open market operations are the Federal Reserve’s most important and most flexible monetary policy tool.

PORTFOLIO: Collection of securities held by an investor.

PRIMARY DEALER: A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker/dealers, banks and a few unregulated firms.

PRUDENT PERSON RULE: An investment standard. In some states, the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state—the so-called “legal list.” In other states, the trustee may invest in a security if it is one, which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity; on a bond, the current income return.

SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank’s vaults for protection.

SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.

SECURITIES & EXCHANGE COMMISSION: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SEC RULE 15C3-1: See “Uniform Net Capital Rule.”

TREASURY BILLS: A non-interest bearing discount security issued by the US Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

TREASURY BOND: Long-term US Treasury securities having initial maturities of more than 10 years.

TREASURY NOTES: Intermediate-term coupon bearing US Treasury having initial maturities of from one year to ten years.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well

as nonmember broker/dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

YIELD: The rate of annual income return on an investment, expressed as a percentage. (a) Income Yield is obtained by dividing the current dollar income by the current market price for the security. (b) Net Yield or Yield to Maturity is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.