

BELLA VISTA WATER DISTRICT

County of Shasta

INVESTMENT POLICY

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I. BASIC POLICY GOALS AND OBJECTIVES

The primary goals and objectives of this investment policy are, in priority order, as follows:

A. Compliance with Law. It is the intention of the District to conduct its investment portfolio management activities consistent with all applicable State and Federal laws governing the investment of public funds. In the event that any portion of this policy does not meet that goal, the District will comply with applicable law and amend this policy to reflect such compliance.

B. Safety. A primary concern of the District shall be the safety of the funds entrusted to it from whatever source. No undue risks shall be taken to pursue high income at the expense of safety.

C. Diversification. Provide a suitable balance of quality and diversification of the District's assets.

D. Liquidity. Provide the liquidity necessary to meet day to day, cyclical, and long-term changes in the mix of the District's assets and liabilities.

E. Return on Investment. The District shall strive to earn an average rate of return on its invested funds at least equal to that earned on average by other public agencies of similar size and characteristics.

F. Deposits with Financial Institutions. Comply with pledging requirements for deposit of District monies with financial institutions; and/or deposit of District funds only in suitable financial institution deposit accounts.

II. REPORTING TO THE BOARD OF DIRECTORS¹

A. Annual Reporting Requirements. The secretary treasurer of the District shall annually render to the Board of Directors a current statement of the District's investment policy, which the Board shall consider at a public meeting. Any changes in the policy shall also be considered by the Board at such meeting.

B. Quarterly Reporting Requirements. The secretary treasurer shall render a quarterly report to the Board of Directors, to be submitted within 30 days following the end of the quarter covered by the report.

1. The report shall include the following information:

- (a) the type of investment;
- (b) issuer;
- (c) date of maturity par and dollar amount invested on all securities;
- (d) investments and monies held by the District; and
- (e) a description of any of the District's funds, investments, or programs that are under the management of contracted parties, including lending programs. With respect to all securities held by the District, and under management of any outside party that is not also a local agency or the State of California District Investment Fund, the report shall also include a current market value as of the date of the report, and shall include the source of this same valuation.

¹Source - Government Code § 53646

2. The report shall state compliance by the portfolio with this investment policy, or manner in which the portfolio is not in compliance.
3. The report shall include a statement denoting the ability of the District 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.
4. A subsidiary ledger of investments may be used in accordance with accepted accounting practices.
5. The secretary treasurer shall also report whatever additional information or data may be required by the Board of Directors.

C. Optional Monthly Reporting. The Board of Directors, in its discretion, may require the secretary treasurer to render monthly reports in lieu of the quarterly reports required above pursuant to subsection B.

D. Optional Reporting Procedure. If at any time the District has less than \$250,000 invested at all times during the period covered by the report, and if the District has placed all of its investments in the Local Agency Investment Fund, created by Section 16429.1 of the Government Code, or in Federal Deposit Insurance Corporation-insured accounts in a bank or savings and loan association, in a county investment pool, or any combination of these, the secretary treasurer may supply the Board with copies of the most recent statements received by the District from these institutions in lieu of the information required above by subsection B.

III. INVESTMENT ACTIVITIES GENERALLY

A. Responsibility for Implementation. Responsibility for investment decisions shall lie with Board of Directors, any committees established thereby, and the secretary treasurer of the District.

B. Authority for Investment Decisions. The Board of Directors, by proper board action, is authorized to buy and sell securities for the District's portfolio. The Board may delegate such responsibility to the secretary treasurer of the District, as provided below, however such delegation does not relieve the Board of the ultimate responsibility for investment decision review, oversight, and implementation of this Policy.

C. Investment Advisors. The advice and expertise of various securities firms may be utilized by the district to obtain recommendations for proposed investments, investment strategies, and the timing and pricing of securities transactions. Accordingly, the Board of Directors shall review and approve a list of securities firms with whom the District conducts investment activities. Financial information will be maintained on each securities firm used by the District. The Board of Directors will be advised if changes are made in the firms being utilized. A copy of this investment policy shall be delivered to all authorized investment advisors. Any advisor through which investments are purchased must be licensed by the State as a broker-dealer, as defined in Section 25004 of the Corporations Code, or from a member of a federally regulated securities exchange, from a national or state-chartered bank, from a Federal or state association (as defined by Section 5102 of the Financial Code) or from a brokerage firm designated as a primary government dealer by the Federal Reserve Bank.

D. Legal Investments². The District shall invest only in notes, bonds, bills, certificates of indebtedness, warrants, or registered warrants which are legal investments for savings banks in the State.

E. Direct Purchase of Securities³. The District may make its investments by direct purchase of any issue of eligible securities at their original sale or after they have been issued.

F. Sale or Exchange of Securities⁴. The Board of Directors may sell or exchange for other eligible securities and reinvest the proceeds of the securities purchased. From time to time, the Board of Directors shall cause the sale of securities so that the proceeds may be applied to the purposes for which the original purchase money was placed in the sinking fund or the treasury of the District.

G. Delegation of Duties to Treasurer⁵. The authority of the Board of Directors to invest or to reinvest funds of the District, or to sell or exchange securities so purchased, may be delegated by the Board of Directors to the secretary treasurer of the District who shall thereafter assume responsibility for such transactions until such time as the delegation of authority is revoked, and shall make a monthly report of such transactions to the legislative body, in addition to the reporting required by this Policy and by law. Before taking action that deviates significantly from this Policy, approval must be obtained from the Board of Directors. Minor exceptions may occur without such authorization. The spirit of this Policy is not to prevent exceptions but to promote planning for investments and to integrate investment strategy with other District goals. H.

²Source - Government Code § 53602

³Source - Government Code § 53603

⁴Source - Government Code § 53604 and § 53605

⁵Source - Government Code § 53607

Deposit of Securities⁶. The Board of Directors of the District may deposit for safekeeping with a Federal or state association (as defined by Section 5102 of the Financial Code), a trust company or a state or national bank located within this state or with the Federal Reserve Bank of San Francisco or any branch thereof within this State, or with any Federal Reserve Bank or with any state or national bank located in any city designated as a reserve city by the Board of Governors of the Federal Reserve System, the bonds, notes, bills, debentures, obligations, certificates or indebtedness, warrants, or other evidences of indebtedness in which the money of the District is invested. The District shall take from such financial institution a receipt for securities so deposited. The authority of the Board of Directors to deposit for safekeeping may be delegated by the Board to the secretary treasurer of the District, who shall not be responsible for securities delivered to and receipted for by a financial institution until they are withdrawn from the financial institution by the secretary treasurer.

I. Investment Guidelines. Whenever this investment policy sets maximums, minimums, and averages, those standards are to be used as guidelines and are intended to be a flexible tool for management and the Board. This policy will be reviewed at least annually, or whenever changes and conditions warrant a review.

IV. SPECIFIED PERMISSIBLE INVESTMENTS⁷

At such time as the District has money in a sinking fund of, or surplus money in, its treasury not required for immediate necessities, the District may invest any portion of the money

⁶Source - Government Code §53608

⁷Source - Government Code § 53608

that it deems wise or expedient in those investments set forth below. Where this section does not specify a limitation on the term or remaining maturity at the time of the investment, no investment shall be made in any security, other than a security underlying a repurchase or reverse repurchase agreement authorized by this section, that at the time of the investment has a term remaining to maturity in excess of five years, unless the Board of Directors has granted express authority to make that investment either specifically or as a part of an investment program approved by the Board of Directors no less than three months prior to the investment.

A. Bonds issued by the District, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the District or by a department, board, agency, or authority of the District.

B. 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.

C. 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.

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

E. Obligations issued by banks for cooperatives, federal land banks, federal intermediate credit banks, federal home loan banks, the Federal Home Loan Bank Board, the Tennessee Valley

Authority, or in obligations, participations, or other instruments of, or issued by, or fully guaranteed as to principal and interest by, the Federal National Mortgage Association; or in guaranteed portions of Small Business Administration notes; or in obligations, participations, or other instruments of, or issued by, a federal agency or a United States government-sponsored enterprise.

F. Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers acceptances. Purchases of bankers acceptances may not exceed 270 days maturity or 40 percent of the District's surplus money that may be invested pursuant to this section. However, no more than 30 percent of the District's surplus funds may be invested in the bankers acceptances of any one commercial bank pursuant to this section.

G. Commercial paper of "prime" quality of the highest ranking or of the highest letter and numerical rating as provided for by Moody's Investors Service, Inc., or Standard and Poor's Corporation. Eligible paper is further limited to issuing corporations that are organized and operating within the United States and having total assets in excess of five hundred million dollars (\$500,000,000) and having an "A" or higher rating for the issuer's debt, other than commercial paper, if any, as provided for by Moody's Investors Service, Inc., or Standard and Poor's Corporation. Purchases of eligible commercial paper may not exceed 180 days maturity nor represent more than 10 percent of the outstanding paper of an issuing corporation. Purchases of commercial paper may not exceed 15 percent of the District's surplus money that may be invested pursuant to this section. An additional 15 percent, or a total of 30 percent of the District's surplus money, may be invested pursuant to this subdivision. The additional 15 percent may be so invested only if the dollar-weighted average maturity of the entire amount does not exceed 31 days. "Dollar-weighted average maturity" means the sum of the amount of each outstanding commercial paper investment multiplied

by the number of days to maturity, divided by the total amount of outstanding commercial paper.

H. Negotiable certificates of deposits issued by a nationally or state-chartered bank or a state or federal association (as defined by Section 5102 of the Financial Code) or by a state-licensed branch of a foreign bank. Purchases of negotiable certificates of deposit may not exceed 30 percent of the District's surplus money which may be invested pursuant to this section. For purposes of this section, negotiable certificates of deposits do not come within Article 2 (commencing with Section 53630 of the Government Code), except that the amount so invested shall be subject to the limitations of Section 53638 of the Government Code.

I. Investments in repurchase agreements or reverse repurchase agreements of any securities authorized by this section, as long as the proceeds of the reverse repurchase agreement are invested solely to supplement the income normally received from these securities. Investment in a reverse repurchase agreement shall be made only upon prior approval of the Board of the District. For purposes of this section, the term "repurchase agreement" means a purchase of securities by the District pursuant to an agreement by which the seller will repurchase the securities on or before a specified date and for a specified amount and will deliver the underlying securities to the District by book entry, physical delivery, or by third-party custodial agreement. The transfer of underlying securities to the counter party bank's customer book-entry account may be used for book-entry delivery. The term "counter party," for the purposes of this subdivision, means the other party to the transaction. A counter party bank's trust department or safekeeping department may be used for physical delivery of the underlying security. The term of repurchase agreements shall be for one year or less. The term "securities," for purpose of repurchase under this subdivision, means securities of the same issuer, description, issue date, and maturity. The term "reverse

repurchase agreement" means a sale of securities by the District pursuant to an agreement by which the District will repurchase those securities on or before a specified date and for a specified amount.

J. Medium-term notes of a maximum of five years maturity 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 in a rating category of "A" or its equivalent or better by a nationally recognized rating service. Purchases of medium-term notes may not exceed 30 percent of the District's surplus money which may be invested pursuant to this section.

K. Shares of beneficial interest issued by diversified management companies, as defined in Section 23701m of the Revenue and Taxation Code, investing in the securities and obligations as authorized by subdivisions (a) to (l), inclusive, of this section and which comply with the investment restrictions set forth in Government Code Section 53630, and following. To be eligible for investment pursuant to this subdivision, these companies shall either:

- (1) Attain the highest ranking or the highest letter and numerical rating provided by not less than two of the three largest nationally recognized rating services, or
- (2) Retain an investment adviser registered with the Securities and Exchange Commission with not less than five years' experience investing in the securities and obligations as authorized by subdivisions (a) to (m), inclusive, and with assets under management in excess of five hundred million dollars (\$500,000,000).

The purchase price of shares of beneficial interest purchased pursuant to this subdivision shall not include any commission that these companies may charge and shall not exceed 15 percent of the District's surplus money that may be invested pursuant to this section.

L. Notwithstanding anything to the contrary contained in this section, Government Code Section 53635, or any other provision of law, monies held by a trustee or fiscal agent and pledged to the payment or security of bonds or other 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 in Government Code Section 53651 as eligible securities for the purpose of securing District deposits having a market value at least equal to that required by Government Code Section 53652. 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 pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable pass-through 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 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 District's surplus money that may be invested pursuant to this section.

O. The authority of the District to invest funds as set forth above includes, in addition thereto, authority to invest in financial futures or financial option contracts in any of the investment categories set forth above.

V. PROHIBITED INVESTMENTS

A. The District shall not invest any funds in inverse floaters, range notes, or interest only strips that are derived from a pool of mortgages.

B. The District shall not invest any funds in any security that could result in zero interest accrual if held to maturity. However, the District may hold any such investments which it may have as of the date of adoption of this polity to maturity. The foregoing restriction shall not apply to investments in shares of beneficial interests issued by diversified management companies registered under the Investment Company Act of 1940 (15 U.S.C. § 80a-1, and following) that are authorized for investment pursuant to California Government Code Section 53601(k)⁸.

⁸Source - Government Code § 53631.5

VI. AMENDMENT

Whenever a change in law or other circumstances require, this policy shall be amended on adoption of an appropriate resolution by the Board of Directors of the District. This policy shall be reviewed at least annually to determine if any amendments are appropriate, given investment experience of the District during the preceding period, or as may be required by law.