

MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

INVESTMENT POLICY AND GUIDELINES

~~(FY 2017/18)~~

Policy

It is the policy of the Monterey Regional Water Pollution Control Agency (MRWPCA) to invest public funds in a manner that will provide a high level of safety and security of principal. Given this level of safety, the investment return will be maximized while meeting the cash flow demands of the entity and conforming to all state and local statutes governing the investment of funds.

Scope

The investment policy applies to activities of the MRWPCA with regard to investing the financial assets of all funds, including the following:

- General Fund;
- Capital Improvement Fund;
- Capitalized Equipment Fund;
- Major O&M Repair Fund;
- Debt Service Reserve Fund;
- Pure Water Monterey/GWR Fund;
- Any new fund created by the Board.

Delegation of Authority

The Chief Financial Officer is designated as the MRWPCA Treasurer. The Board hereby delegates its authority to invest funds of the MRWPCA to the Treasurer, who shall thereafter assume full responsibility for those transactions until the delegation of authority is revoked. The Treasurer shall develop and maintain written administrative procedures for the operation of the investment program, consistent with these policies. In order to optimize total return through active portfolio management and consistent with safety of principal, resources shall be allocated to the cash management program. This commitment of resources shall include financial and staffing considerations.

Management Coordination and Review

The Treasurer will coordinate and periodically brief the General Manager on overall investment activities. In addition, the Treasurer, at a minimum, will provide to Senior Management a quarterly status update on investments. Prior to making new investments, the Treasurer will assure that sufficient short-term funds are available for Project O&M and Capital Expenditures.

Prudence

Pursuant to California Government Code Section 53600.3, all persons authorized to make investment decisions on behalf of the MRWPCA 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.” The prudent investor rule shall be applied in the context of managing the overall portfolio.

Authorized individuals acting in accordance with written procedures and exercising due diligence, shall not be held personally responsible for a specific security's credit risk or market price changes, provided that these deviations are reported immediately and that appropriate action is taken to control adverse developments.

Overall Investment Objectives

The primary objectives, in order of priority, of the MRWPCA's investment activities shall be:

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| Safety | Safety of principal is the foremost objective of the investment program. The MRWPCA's investments shall be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio. |
| Liquidity | The MRWPCA's investment portfolio will remain sufficiently liquid to enable the Agency to meet its reasonably anticipated cash flow requirements. |
| Yield | The MRWPCA seeks to attain a market rate of return on its investment portfolio, consistent with constraints imposed by its safety and liquidity objectives. |

Ethics and Conflicts of Interest

Officers and employees 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. Employees and officials shall disclose to the General Manager any material financial interests in financial institutions that conduct business within this jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of this jurisdiction's portfolio. Employees and officers shall subordinate their personal investment transactions to those of this jurisdiction, particularly with regard to the timing of purchases and sales.

Authorized Financial Dealers and Institutions

The Treasurer will maintain a list of financial institutions authorized to provide investment services. When the MRWPCA has funds available to invest, contact is made by phone with those institutions requesting bids.

An annual review of the financial condition and registrations of qualified bidders will be conducted by the Treasurer. A current audited financial statement is required to be on file for each financial institution and broker/dealer in which the MRWPCA invests.

Before accepting funds or engaging in investment transactions with the MRWPCA, the supervising officer at each depository and recognized securities broker/dealer shall submit a certification. The document will certify that the officer has reviewed the investment policies and objectives and agrees to disclose potential conflicts or risks to public funds that might arise out of business transactions between the firm/depository and the MRWPCA. All financial institutions shall agree to undertake reasonable efforts to preclude imprudent transactions involving this entity's funds.

The supervising officer shall agree to exercise due diligence in monitoring the activities of: other officers and subordinate staff members engaged in transactions with this entity. Employees of any firm or financial institution offering securities or investments to the MRWPCA shall be trained in the precautions appropriate to public-sector investments and shall be required to familiarize themselves with our investment objective, policies and constraints.

For transactions initiated through an investment manager, the investment manager may use their own list of approved broker/dealers and financial institutions, which it will maintain and review periodically.

Investment Reports

The Treasurer will render a monthly investment report to the MRWPCA Board showing the type of investment, institution, dollar amount invested, and current market value. Long-Term Investments (more than 1 year) may also include credit rating, date of maturity, par, rate of interest, and current annual yield. The monthly report shall also state that the schedule of investments is in compliance with the MRWPCA's investment policy, or the manner in which the portfolio is not in compliance; and that there are adequate funds available to meet budgeted and actual expenditures for the MRWPCA, which complies with the Agency's reserve policy, or provide an explanation as to why sufficient money shall, or may, not be available. In addition, the Treasurer will provide the Board a monthly list of investment transactions.

The Treasurer will provide at minimum, an annual report of the Agency's investments showing the actual return of each investment and a comparison of Agency investments to overall market rates during the same year (i.e., LAIF, Prime Rate, Treasury Bills). The

Agency's investment information will be reviewed annually by the independent external auditor and presented in the Comprehensive Annual Financial Report.

Internal Controls

The Treasurer shall establish a system of written internal controls to regulate the Agency's investment activities. The internal controls shall be reviewed by the General Manager and the independent external auditor. The controls shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, or imprudent actions. As part of the annual financial audit, the Agency's external auditor will perform a review of the investment transactions to assure compliance with policies and procedures.

Allowable Investment Instruments

The MRWPCA's investments are governed by Government Code, Sections 53600 et seq. Within the investments permitted by the Government Code, the MRWPCA seeks to further restrict eligible investment to the investments listed below. In the event an apparent discrepancy is found between this Policy and the Government Code, the more restrictive parameters will take precedence. Credit criteria listed in this section refers to the credit quality of the issuing organization at the time the security is purchased. The maturity limits are applied at the time of purchase

1. United States Treasury Issues. 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 portfolio that may be invested in this category.
2. Federal Agency Obligations. 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 portfolio that may be invested in this category.
3. State/local Agency Debt Issues. Bonds, notes, warrants, or other evidences of indebtedness of the State or any local agency within this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the State or local agency, or by a department, board, agency, or authority of the State or local agency. Purchases are limited to securities rated "AA" or better by a nationally recognized rating service. A maximum of twenty-five (25) percent of the portfolio may be invested in this category.
4. Bankers Acceptances. Bankers' acceptances, otherwise known as bills of exchange or time drafts, that are drawn on and accepted by a commercial bank. Purchasers are limited to issuers whose short-term debt is rated A-1/P-1. Bankers' acceptances cannot exceed a maturity of one hundred and eighty (180) days. A maximum of twenty-five (25) percent of the portfolio may be invested in this category. The

amount invested in bankers' acceptances with any one financial institution in combination with any other securities from that financial institution shall not exceed ten (10) percent of the portfolio.

5. Commercial Paper. Commercial paper of "prime" quality of the highest ranking or of the highest letter and number rating as provided for by a nationally recognized statistical-rating organization. The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (A) or paragraph (B):
 - (A) The entity meets the following criteria: (i) Is organized and operating in the United States as a general corporation. (ii) Has total assets in excess of five hundred million dollars (\$500,000,000). (iii) Has debt other than commercial paper, if any, that is rated "A" or higher by a nationally recognized statistical-rating organization.
 - (B) The entity meets the following criteria: (i) Is organized within the United States as a special purpose corporation, trust, or limited liability company. (ii) Has program-wide credit enhancements including, but not limited to, over collateralization, letters of credit, or surety bond. (iii) Has commercial paper that is rated "A-1" or higher, or the equivalent, by a nationally recognized statistical-rating organization.

Eligible commercial paper shall have a maximum maturity of two hundred and seventy (270) days or less and not represent more than ten (10) percent of the outstanding paper of an issuing corporation. A maximum of twenty (20) percent of the portfolio may be invested in this category. The amount invested in commercial paper of any one issuer in combination with any other securities from that issuer shall not exceed ten (10) percent of the portfolio.

6. Negotiable Certificates of Deposit. Negotiable certificates of deposit (NCDs) issued by a nationally or state-chartered bank, a savings association or a federal association, a state or federal credit union, or by a state-licensed branch of a foreign bank. Purchases are limited to institutions which have long-term debt rated "A" or higher from a nationally recognized rating service; and/or have short-term debt rated at least A1 from a nationally recognized rating service. A maximum of thirty (30) percent of the portfolio may be invested in this category. The amount invested in NCDs with any one financial institution in combination with any other securities from that financial institution shall not exceed ten (10) percent of the portfolio.
7. Time Certificates of Deposit. Time Certificates of Deposit (TCDs) placed with commercial banks and savings and loans. The purchase of TCDs from out-of-state banks or savings and loans is prohibited. The amount on deposit shall not exceed the shareholder's equity in the financial institution. To be eligible for purchase, the financial institution must have received a minimum overall satisfactory rating for meeting the credit needs of California Communities in its most recent evaluation, as provided in Government Code Section 53635.2. TCDs are required to be collateralized as specified under Government Code Section 53630 et. seq. The

Treasurer, at his discretion, may waive the collateralization requirements for any portion that is covered by federal insurance. The Corporation shall have a signed agreement with the depository per Government Code Section 53649. TCDs may not exceed one (1) year in maturity. A maximum of 10 percent of the portfolio may be invested in this category. The amount invested in TCDs with any one financial institution in combination with any other securities from that financial institution shall not exceed 10 percent of the portfolio.

8. Passbook Savings Account and Demand Deposit Accounts. Short-term deposits to enable the maximum investment of remaining inactive funds. Investments will be made with the MRWPCA's contract banker in conjunction with banking services. The amount on deposit shall not exceed the shareholder's equity in the financial institution. To be eligible to receive deposits, the financial institution must have received a minimum overall satisfactory rating for meeting the credit needs of California Communities in its most recent evaluation. Deposits are required to be collateralized as specified under Code 53630 et. seq.. The Treasurer, at his discretion, may waive the collateralization requirements for any portion that is covered by federal insurance. The MRWPCA shall have a signed agreement with the depository per Code 53649. There is no limitation as to the percentage of the portfolio that may be invested in this category.
9. Money Market Funds. Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1 and following). The company shall 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 nationally recognized statistical rating organizations. (B) Retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five (5) years' experience managing money market mutual funds with assets under management in excess of five hundred million dollars (\$500,000,000). A maximum of twenty (20) percent of the portfolio may be invested in this category.
10. State of California Local Agency Investment Fund (LAIF). For due diligence, a copy of LAIF's current investment policy and its requirements for participation, including limitations on deposits or withdrawals shall be maintained on file. In addition, the Treasurer shall report to the Board quarterly the percentage amount LAIF has invested in each investment sector. There is no limitation as to the percentage of the portfolio that may be invested in this category. However, the amount invested may not exceed the maximum allowed by LAIF.
10. Cal Trust / California Asset Management Program (CAMP) LAIF. For due diligence, a copy of LAIF's current investment policy and its requirements for participation, including limitations on deposits or withdrawals shall be maintained on file. In addition, the Treasurer shall report to the Board quarterly the percentage amount Cal Trust and CAMP have invested in each investment sector. A maximum of twenty (20) percent of the portfolio may be invested in this category.

11. County Pool. The MRWPCA may invest in County Pools. Participation in a County pool requires adoption of an enabling resolution by the Board. If any funds are invested in a County Pool, the Treasurer shall obtain a copy of the County's current investment policy and its requirements for participation, including limitations on deposits or withdrawals shall be maintained on file. In addition, the Treasurer shall report to the Board quarterly the percentage amount the County Pool has invested in each investment sector. A maximum of twenty (20) percent of the portfolio may be invested in this category.

State/local Agency Debt Issues - Eligible Investments for Bond Proceeds

Bond proceeds shall be invested in securities permitted by the applicable bond documents. If the bond documents are silent as to permitted investments, bond proceeds will be invested in securities permitted by this Policy. With respect to maximum maturities, the Policy authorizes investing bond reserve fund proceeds beyond the five (5) years if prudent in the opinion of the Treasurer.

Prohibited Investments

No investments shall be authorized in margin transactions, reverse repurchase agreements, or other speculative investments, which involve unhedged positions on the direction of interest rates. As provided in California Government Code Section 53601.6, the Agency shall not invest any funds in inverse floaters, range notes, mortgage derived interest-only strips or in any security that could result in zero interest accrual if held to maturity.

The purchase of any security not listed above, but permitted by the California Government Code, is prohibited unless the Board approves the investment either specifically or as a part of an investment program approved by the Board.

Maximum Maturity

The maturity criteria should be considered in this investment policy to provide for appropriate liquidity in anticipating cash needs, thereby obviating the need for forced liquidation, as well as to reflect prevalent yield curves in the market. The maximum maturity of individual investments shall not exceed the limits set forth above. However, no investment shall exceed a maturity of five (5) 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 (3) months prior to the investment.

Safekeeping and Custody

To protect against potential fraud and embezzlement, all security transactions entered into by the MRWPCA shall be conducted on a delivery-versus-payment (DVP) basis. All cash and securities in the MRWPCA's portfolio shall be held in safekeeping in the MRWPCA's name by a third-party bank trust department, acting as agent for the MRWPCA under the terms of a custody agreement executed by the bank and the MRWPCA. The only exception to the foregoing shall be depository accounts and securities purchases made with: (i) local government investment pools; (ii) time certificates of deposit, and, (iii) money market mutual funds, since the purchased securities are not deliverable. Evidence of each these investments will be held by the MRWPCA. Safekeeping procedures shall be reviewed annually by the independent auditor.

Investment Policy Adoption

The Treasurer will annually render a Statement of Investment Policy to the MRWPCA Board for their approval. Any change in this policy shall also be reviewed and approved by the Board at a public meeting.