

COACHELLA VALLEY WATER DISTRICT
Investment Policy
September 12, 2017

I. Governing Authority

The investment program of the Coachella Valley Water District shall be operated in conformance with federal, state, and other legal requirements, including applicable portions of California Government Code Sections 53600 through 53686 and the Coachella Valley Water District Resolution as adopted by its Board of Directors.

II. Scope

This policy applies to the investment of all District funds, excluding CalPERS, OPEB Trusts (if any), the investment of employees' deferred compensation funds invested pursuant to Government Code Section 53609, and bond proceeds invested pursuant to their bond documents. Except for cash in certain restricted and special funds, Coachella Valley Water District will consolidate cash balances for all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping of assets, and administration. Investment income will be allocated to the various funds based on their respective cash balances and in accordance with generally accepted accounting principles.

III. General Objectives

The primary objectives, in priority order, of investment activities shall be **safety, liquidity, and yield**:

1. Safety

Safety of principal is the foremost objective of the District's investment program. Investments shall be undertaken in a manner that seeks to avoid capital losses from financial institution default, broker-dealer default or the erosion of market value. The objective is to mitigate credit risk and interest rate risk.

a. Credit Risk

Coachella Valley Water District will minimize credit risk, which is the risk of loss due to issuer default by doing the following:

- i. Limiting investments to the types of securities listed in Section VII of this Investment Policy.
- ii. Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which Coachella Valley Water District will do business in accordance with Section V of this policy.
- iii. Diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

b. Interest Rate Risk

Coachella Valley Water District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.

2. Liquidity

Liquidity is the second most important objective of the District's investment program. The investment portfolio shall remain sufficiently liquid to meet all operating and capital requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrently with cash needs to meet anticipated demands.

3. Yield

Coachella Valley Water District's cash management portfolio shall be designed with the objective of attaining a market rate of return at all times, which is defined as the 1 to 3 year Government and AAA-A Corporate rate or better.

IV. Standard of Care

The District's investment program is a fiduciary responsibility, and shall be conducted using the following standards of care:

1. Prudence

The standard of prudence to be used by District investment officials shall be the "prudent investor standard" as required by California Government Code Section 53600.3. The "prudent investor standard" states that when investing, reinvesting, purchasing, acquiring, exchanging, selling or managing public funds, a trustee shall act with care, skills, 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 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 District.

2. Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activities that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests 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. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the District.

3. Delegation of Authority

California Government Code Section 53607 provides the authority for the legislative body to delegate the full responsibility to the treasurer of the local agency. Investments will be directed under the authority of the Director of Finance of the Coachella Valley Water District. Other authorized staff includes the General Manager, Assistant General Manager, and Financial Analyst. These other staff may direct investments in the absence of the Finance Director or at other times as deemed appropriate.

Whenever possible, investment transactions to be entered into during the absence of the Finance Director should be discussed and approved in advance of the Finance Director's absence. This approval should include the staff member who is going to initiate the investment transactions and the staff member who is going to approve them, and the associated disbursement of funds to complete the purchase.

The Board may delegate day-to-day investment decision making and execution authority to an investment advisor. The advisor shall follow the policy and such other written instructions as are provided.

V. Authorized Financial Institutions, Depositories, and Broker/Dealers

1. For District Directed Investments

A list will be maintained of financial institutions and depositories authorized to provide investment services. In addition, a list will be maintained of approved security broker/dealers selected by creditworthiness (e.g., a minimum capital requirement of \$10,000,000 and at least 5 years of operation). These may include Primary Dealers, as designated by the Federal Reserve, or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule).

All financial institutions and broker/dealers who desire to become qualified for investment transactions must supply the following as appropriate:

- a. Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines
- b. Proof of Financial Industry Regulatory Authority (FINRA) certification (not applicable to Certificate of Deposit counterparties)
- c. Proof of state registration
- d. Completed broker/dealer questionnaire (not applicable to Certificate of Deposit issues)

- e. Certification of having read and understood and agreeing to comply with the District's investment policy

All Time Certificates of Deposit will be purchased directly from the institution receiving the deposit. An annual review of the financial condition and registration of all qualified financial institutions and broker/dealers will be conducted by the Finance Director or Financial Analyst. This list will be reported annually to the Board of Directors at the same time that the Board reviews and approves the District's investment policy.

2. For Investments Executed by an Investment Advisor

Upon approval of the Board, an investment advisor engaged by the District may use its list of approved issuers and broker/dealers for transactions on behalf of the District. For investments not purchased directly from the issuer, the Advisor will ensure that it has confirmed each broker/dealer's:

- a. Securities Exchange Commission (SEC) registration as a broker-dealer
- b. Membership in Financial Industry Regulatory Authority (FINRA)
- c. FINRA State registration or licensure

VI. Safekeeping and Custody

1. Safekeeping

Securities will be held by an independent third-party custodian selected by the entity as evidenced by safekeeping receipts in Coachella Valley Water District's name. The safekeeping institution shall annually provide a copy of their most recent report on internal controls (Statement of Auditing Standards No. 70).

2. Internal Controls

The Finance Department is responsible for ensuring compliance with the Policy as well as establishing systems of internal control to prevent losses due to fraud, employee error, misrepresentations by third parties, imprudent actions by staff, etc. The internal control structure shall be designed to provide reasonable assurance that these objectives are met.

Compliance with these internal control procedures will be assured through the District's annual independent audit and reported to the District's General Manager and Board of Directors.

These internal controls include the following:

- a. The employee who initiates the investment transaction cannot approve the disbursement of funds.
- b. The record keeping of investment transactions should be performed by staff not involved in the investment process.
- c. All marketable securities purchased shall be held by a third-party custodian on a

Delivery vs. Payment basis. The term “third-party custodian” refers to an institution other than the parties that the District purchases investments from. The arrangement will be formalized by written agreement. The use of a third-party ensures that no funds are released until the securities are delivered. Additionally, by having a third party serve as the custodian, the District will be notified if the security purchased is not delivered on time. “Failed” trades such as this occasionally occur. The District shall take from the third-party custodian institution a receipt for securities so deposited.

- d. Pursuant to Government Code Section 53608, the District may deposit for safekeeping with a federal or state association, a trust company or a state or national bank located within California or with the Federal Reserve Bank of San Francisco or any branch thereof within California, 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 Finance Department shall establish and update, as needed, written investment procedures for the operation of the investment program consistent with this Policy. Procedures will include steps to be taken in preparation for investing, authorized financial institutions, authorized investments, selecting investment maturities and cash flow forecasting, investment safekeeping, wire transfer procedures, investing in the Riverside County Treasurer’s Pooled Investment Fund (TPIF), minimum dollar amounts to be kept in TPIF or other Local Government Investment Pool Shares (LGIPs) for liquidity purposes, banking service contracts, and other business functions associated with maintaining the investment program.

VII. Suitable and Authorized Investments

1. Investment Types

In accordance with Government Code Section 53601, the following investments will be authorized by this Policy:

- a. U.S. 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.
- b. Federal agency or United States government-sponsored enterprise obligations or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.
- 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. Obligations eligible for investment under this subdivision must be rated in a rating category of "A" or its equivalent or better by a Nationally Recognized Statistical Rating Organization (NRSRO).
- d. Registered treasury notes or bonds of any of the other 49 states in addition to California, including bonds payable solely out of the revenues from a revenue-

producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 states, in addition to California. Obligations eligible for investment under this subdivision must be rated in a rating category of "A" or its equivalent or better by a NRSRO.

- e. Bonds, notes, warrants, or other evidences of indebtedness of a local agency within this state, include bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency. Obligations eligible for investment under this subdivision must be rated in a rating category of "A" or its equivalent or better by a NRSRO.
- f. Certificates of deposit and other evidences of deposit issued by a federally or state-chartered bank or savings and loan. These require full collateralization and a contract with the depository for the deposit of public funds, pursuant to Government Code Section 53649. No more than 30% of the District's investment portfolio may be invested in the certificates of deposit of any one commercial bank, at any one time. Certificates of Deposit will be purchased directly from the institution receiving the deposit.
- g. 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- or state-licensed branch of a foreign bank. Purchases are limited to securities rated in a rating category of "A" (long-term) or "A-1" (short-term) or their equivalents or better by a NRSRO. No more than 30% of the District's investment portfolio may be invested in negotiable certificates of deposit.
- h. Bankers' acceptances that are drawn on and accepted by a commercial bank. Eligible bankers' acceptances shall have the highest ranking or the highest letter and number rating as provided for by a nationally recognized statistical-rating organization and a maximum maturity of 180 days. No more than 40% of the District's investment portfolio may be invested in bankers' acceptances.
- i. 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 i. or paragraph ii:
 - i. The entity meets the following criteria:
 - 1. Is organized and operating in the United States as a general corporation.
 - 2. Has total assets in excess of five hundred million dollars (\$500,000,000).
 - ii. Has debt other than commercial paper, if any, that is rated in a rating category of "A" its equivalent, or better by a NRSRO. The entity meets the following criteria:
 - 1. Is organized within the United States as a special purpose corporation, trust, or limited liability company.
 - 2. Has program wide credit enhancements including, but not limited to, over collateralization, letters of credit, or surety bond.

3. Has commercial paper that is rated “A-1” or higher by a NRSRO.

No more than 25% of the District’s investment portfolio may be invested in commercial paper. Eligible commercial paper shall have a maximum maturity of 270 days. Investments may not represent more than 10% of the outstanding commercial paper of any single corporate issue.

- j. Medium-term corporate notes, defined as all corporate and depository institution debt securities with a maximum remaining maturity of 5 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. Medium-term corporate notes shall be rated in a rating category of “A” or its equivalent or better by a NRSRO. No more than 30% of the District’s investment portfolio may be invested in medium-term notes.
- k. Riverside County Treasurer’s Pooled Investment Fund (TPIF).
- l. Funds may be invested in the District’s own bonds.
- m. 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, et seq.). To be eligible for investment pursuant to this subdivision these companies shall either: attain the highest ranking letter or numerical rating provided by not less than two of the three largest nationally recognized statistical-rating organization, or have an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than 5 years’ experience managing money market mutual funds and with assets under management in excess of \$500,000,000. The purchase price of shares shall not exceed 20% of the investment portfolio of the District.
- n. Local Government Investment Pools (LGIPs). Shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7 that invests in the securities and obligations authorized in Government Code. The District will limit investments to LGIPs that seek to maintain a stable net asset value and have a rating of AAA or the equivalent by an NRSRO.
- o. Supranationals which are United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), or Inter-American Development Bank (IADB), with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated in a rating category of “AA”, its equivalent, or better by at least one NRSRO. Purchases of supranationals shall not exceed 30% of the investment portfolio of the District.
- p. Asset-Backed Securities (ABS) including mortgage pass-through securities, collateralized mortgage obligations, mortgage-backed or other pay-through bonds, equipment lease-backed certificates, consumer receivable pass-through certificates, or consumer receivable-backed bonds of a maximum of five years’ maturity. Securities eligible for investment under this subdivision shall be issued by an issuer having a

rating in a rating category of “A” its equivalent, or higher rating for the issuer’s debt as provided and rated in a rating category of “AA” or its equivalent or better by at least one NRSRO. Purchase of securities authorized by this subdivision may not exceed 20% of the District’s total portfolio.

Non-government investments other than Riverside County TPIF or other LGIPs may only be purchased by the District’s Investment Advisor.

Credit criteria and maximum percentages apply at the time a security is purchased. If an investment’s credit rating falls below the minimum rating required at the time of purchase, the District’s investment advisor will take appropriate action regarding the disposition of the investment and will notify the Director of Finance and General Manager.

2. Collateralization

Collateralization of District investments will be directed pursuant to Government Code Section 53652. Full collateralization will be required on all demand deposit accounts, including checking accounts and non-negotiable certificates of deposit (including FDIC insurance). It will be the District’s policy to regularly verify that all active deposits (checking accounts) and inactive deposits (certificates of deposit) are properly collateralized.

VIII. Investment Parameters

1. Diversification

The District’s investment program shall be diversified by:

- a. Limiting investments to avoid overconcentration in securities from a specific issuer or business sector (excluding U.S. Treasury and Federal Agency securities)
- b. Limiting investment in securities that have higher credit risks
- c. Investing in securities with varying maturities
- d. Investing a portion of the portfolio in readily available funds such as Riverside County Treasurer’s Pooled Investment Fund (TPIF), LGIPs, AAA rated money market funds or overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations

The following diversification limitations shall be imposed on the portfolio:

- i. Non-government investments, other than TPIF or LGIPs, will be restricted to no more than 5% of the District’s portfolio in any one institution at any one time regardless of security type.
- ii. Maturity: The maximum maturity of any single investment in the portfolio shall be limited to 5 years unless the Board determines that there is a specific purpose to make an investment with a maturity longer than 5 years and provides approval no less than three months prior to the investment. Investment maturities shall take into

consideration the anticipated cash flow needs of the District.

- iii. Liquidity risk: A portion of the portfolio will be continuously invested in readily available funds such as TPIF, LGIPs, or money market funds to ensure that appropriate liquidity is maintained to meet the District's ongoing obligations.
- iv. Whenever practical, investments with a minimum par value of \$1 million will be made, in order to efficiently and effectively manage the District's portfolio.

To the extent possible, Coachella Valley Water District shall attempt to match its investments with anticipated cash flow requirements.

2. Competitive Bids

At least three competitive bids/offers shall be obtained and recorded on all investment transactions conducted for securities in the secondary market. The bids/offers shall be retained with other related investment documentation.

IX. Reporting

The Director of Finance shall prepare a monthly investment report within 30 days following the end of the month. This report will include a management summary that provides an analysis of the status of the current investment portfolio and the individual transactions executed over the last month. This management summary will be prepared in a manner which will allow the District to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report will be provided in the General Manager's monthly report. The report will include the following:

1. List of all investments held at end of month, including the name of the institution, type of investment, issuer, effective interest rate, maturity date, cost, par value, and current market value for each investment, and for the portfolio as a whole.
2. Investment transactions
3. The weighted average yield to maturity of the portfolio as of the end of the month.
4. Certification from the Director of Finance that the portfolio is in compliance with the Policy and that sufficient liquidity is available to meet the District's expenditure requirements within the next six months.

X. Policy Considerations

The investment policy shall be reviewed and adopted by the District Board of Directors annually. The General Manager may approve necessary revisions that may arise during the year, which will be later reported to the Board of Directors.