



Meeting: **Joint Reservoir Committee & Authority Board**
Agenda Item 1.5

May 19, 2023

Subject: **Investment Policy**

Requested Action:

Reservoir Committee and Authority Board considers approval of the new Investment Policy.

Detailed Description/Background:

A new Investment Policy is proposed to provide guidance regarding the management and investment of available funds by the Sites Project Authority on behalf of the Board and Reservoir Committee. As the project grows in scale it is good practice to invest collected funds conservatively to achieve maximum purchasing power while maintaining necessary cash balances to pay project costs.

The proposed Investment Policy provides for the investment of Authority funds in a prudent and professional manner that will provide maximum security of principal while meeting required cash flow demands, complying with all legal requirements, and conforming to State statutes governing the investment of public funds. Cash balances in Amendment 3 have been as high as ~\$30m. To date, all of these funds have been invested in checking and savings accounts at River City Bank. These accounts have earned between 0.1% and 2%. All interest earnings are used to offset project costs. Many public agencies invest surplus funds in LAIF, CAMP, Treasury and Agency securities and short-term instruments such as repurchase agreements. These investment options are returning more than the current earnings Sites is receiving (for example, LAIF earned about 2.74% last quarter).

The Investment Policy describes the parameters for investing Authority funds, including:

- Identifying the investment objectives.
- Standard of care.
- Delegation of authority.
- Ethics and conflicts.
- Authorized investments.
- Daily cash flow management.
- Mitigating credit risk in the portfolio.
- Reporting.

Prior Action:

None.

Fiscal Impact/Funding Source:


Developing policies and procedures is included in the Amendment 3 Work Plan. The Policy's management and investment of funds will increase Authority revenue beyond currently planned revenue. Earning higher rates in interest without incurring excessive risk will generate new revenue to pay for project costs and better maintain purchasing power of dollars collected.

Staff Contact:

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Attachments:

Attachment A – Sites Project Authority Investment Policy

	DOCUMENT TYPE	Policy
	DOCUMENT NO.	XXXXX
	ADOPTED	[Board Date]
	LAST UPDATED	YYYYY

**SITES PROJECT AUTHORITY
INVESTMENT POLICY**

1. Introduction

The Investment Policy is designed to provide clear guidance regarding the management and investment of available funds by the Sites Project Authority (Authority) on behalf of the Board and Reservoir Committee.

2. General Statement of Policy

The policy of the Authority is to invest its funds in a prudent and professional manner that will provide maximum security of principal while meeting required cash flow demands, complying with all legal requirements (including contractual limitations), and conforming to all State statutes governing the investment of public funds and prudent cash management principles.

3. Scope:

This Investment Policy applies to all Authority funds that are under the oversight of the Authority Board. The investment of any bond (or loan) proceeds will also be made in accordance with this policy.

4. Standard of Care:

The Authority Board and those persons authorized to make investment decisions on behalf of the Authority are trustees of public funds. The standard of care to be used in all investment decisions will be the “prudent investor” standard set forth in California Government Code Section 53600.3:

“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 action 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.”

5. **Objectives:**

The primary objectives of the Authority's investment activities, in priority order, are:

1. **Safety:** Safety of principal is the foremost objective. Investments of the Authority 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.
2. **Liquidity:** The investment portfolio will remain sufficiently liquid to enable the Authority to meet all operating requirements that might be reasonably anticipated.
3. **Return on Investments:** The investment portfolio will be designed with the objective of attaining a market rate commensurate with the requirements for the preservation of capital and the maintenance of adequate liquidity.

6. **Delegation of Authority**

Ultimate responsibility for Authority funds rests with the Board of Directors. The authority to implement and carry out the investment policy is delegated to the Treasurer. The Treasurer may delegate investment program operations to staff or to external investment managers as described below. The Treasurer will ensure that written procedures for operating the investment program are consistent with this policy. 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 Authority may engage the services of one or more external investment managers to assist in the management of the Authority's investment portfolio in a manner consistent with the Authority's objectives. Such external managers may be granted discretion to purchase and sell investment securities in accordance with this Investment Policy. Such managers must be registered under the Investment Advisers Act of 1940.

7. **Ethics and Conflicts of Interest**

Officers, employees, consultants and contractors involved in the investment process will 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. Such officers, employees, consultants and contractors will comply with all applicable state laws and regulations regarding conflicts of interest, including, but not limited to, the Political Reform Act and Government Code Section 1090.

8. Authorized Investments

The Authority's investments are governed by California Government Code, Sections 53600 et seq. Within the investments permitted by the Code, the Authority further restricts eligible investments to the guidelines listed below. In the event of a discrepancy between this Investment Policy and the California Government Code, the more restrictive parameters will take precedence. Percentage holding limits and credit rating requirements listed in this section apply at the time the security is purchased. The percentage holding limits apply to the total funds held by the Authority.

Given the Authority's cash flow needs and to reduce risk, the Authority is authorized to invest in the following:

- a. United States Treasury Bills, Notes and Bonds. There are no restrictions as to the number of available funds that can be invested in United States Treasury securities. Sections 53601 & 53635 of the CA Government Code allow investment in these securities with no limitations.
- b. 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, including Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), Federal Farm Credit Bank (FFCA), the United States Postal Service; along with obligations issued, assumed or guaranteed by the International Bank For Reconstruction and Development, Inter-American Development Bank, Government Development Bank of Puerto Rico, Asian Development Bank, International Finance Corporation and the Export-Import Bank. No more than 30% of the portfolio may be invested in any single Agency/GSE issuer. The maximum percentage of callable agency securities in the portfolio is 20%.
- c. The state of California's Local Agency Investment Fund (LAIF) and other pooled investment accounts sponsored by California County Treasurers, and other joint powers agencies. No more than 75% of the portfolio may be invested in LAIF or other such pools.
- d. 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 (I). No more than 20% of the portfolio may be invested in any single mutual fund. No more than 75% of the portfolio may be invested in any money market mutual fund. Eligible money market mutual funds must be rated at the highest level by a Nationally Recognized Statistical Rating Organization (NRSRO).

- e. The California Asset Management Program (CAMP) is an authorized investment under this Investment Policy. No more than 75% of the portfolio may be invested in CAMP.
- f. Registered state warrants, notes or bonds issued by the State of California. No more than 25% of the portfolio may be invested in California obligations.
- g. Time Certificates of Deposit insured by the FDIC. Sections 53630 & 53635 of the CA Government Code allow investment in these securities with no limitations.
- h. The maximum term for any investment will be 5 years. For purposes of compliance with this section, an investment's term or remaining maturity shall be measured from the settlement date to final maturity.

9. Daily Cash Flow Management

The Treasurer shall maintain separate checking and payroll accounts at a local bank for daily financial operations. All funds in these accounts shall have government-backed insurance. In addition, the Treasurer may maintain separate accounts to manage federal and state grants and loans.

10. Authorized Financial Institutions

Only financial institutions designated as "primary dealers" by the Federal Reserve Bank of New York, or other dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule), are authorized to provide investment services to the Authority.

A copy of the Authority's Investment Policy will be provided to each institution authorized by the Treasurer to provide service to the Authority. Prior to providing investment services, such financial institution will acknowledge in writing that it has received the Authority's Investment Policy and that all individuals handling the Authority's account have reviewed the policy.

11. Safekeeping and Custody

All security transactions entered into by the Authority will be conducted on a delivery vs. payment (DVP) basis. All securities owned by the Authority will be delivered to the Authority by book entry, physical delivery, or a third-party custodial agreement. Any third-party custodian shall be designated by the Treasurer, and all securities held by such custodian, including book entry and physical securities, shall be held in a manner that clearly establishes the Authority's right of ownership. The Authority's custodial agent will meet the requirements of California Government Code Section 53608. The Authority's

deposits with LAIF or any other investment pool shall be evidenced by the standard reporting requirements of LAIF or the investment pool.

12. Mitigating Credit Risk in the Portfolio

Credit risk is the risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. The Authority will mitigate credit risk by adopting the following strategies:

- a. The Authority may elect to sell a security prior to its maturity and record a capital gain or loss in order to improve the quality, liquidity or yield of the portfolio in response to market conditions or the Authority's risk preferences.
- b. If any security owned by the Authority is downgraded by Standard & Poor's or Moody's to a level below the quality required under this policy, the Treasurer will review the credit situation and make a determination as to whether to sell or retain such securities in the portfolio. If a decision is made to retain a downgraded security, it will be monitored and reported to the Board as needed.

13. Reporting

Staff will submit a quarterly investments report to the Treasurer and Board of Directors. The quarterly report will be submitted within 45 days of the end of the quarter pursuant to California Government Code Section 53646 (b)(1). The investments report shall at a minimum provide information on compliance to this Investment Policy and on the composition of the portfolio, including:

- a. Types of investment
- b. Issuer
- c. Maturity dates
- d. Par and dollar amount
- e. Market values, including the source of valuation
- f. Rates of interest
- g. Expected yields to maturity

In addition, the quarterly report will also include a statement denoting the ability to meet the Authority's expenditure requirements for the next six months.