

## RESOLUTION NO. 1341

### RESOLUTION OF THE BOARD OF DIRECTORS OF THE VALLECITOS WATER DISTRICT APPROVING THE STATEMENT OF INVESTMENT POLICY FOR CALENDAR YEAR 2010

WHEREAS, the Board of Directors shall annually approve a Statement of Investment Policy; and

WHEREAS, the annual Statement of Investment Policy of the Vallecitos Water District is as follows:

#### §1 – General Provisions and Objectives

Vallecitos Water District (District) funds not required for immediate expenditure will be invested in compliance with this policy and the provisions of California Government Code Sections 53600 et seq. Criteria for selecting investments and the absolute order of priority are safety, liquidity, and yield. Investments will be made in a range of instruments and maturity dates to insure diversification and liquidity of assets in an emergency or when a large cash outlay is necessary. In accordance with California Government Code §53607, the authority to invest or reinvest the funds of the District is delegated to the Treasurer of the District. The Treasurer may assign investment responsibilities to the Director of Finance.

#### §2 – Prudent Investor Standard

All participants in the investment process shall recognize that the investment portfolio is subject to the prudent investor standard as set forth in California Government Code §53600.3 and to public review and evaluation and shall seek to act responsibly as fiduciaries of the public trust. Investments shall be made with the exercise of that degree of judgment and care under circumstances then prevailing which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation but for investment, considering the preservation of capital, the cash flow needs of the District as well as the income to be derived. In a diversified portfolio, occasional measured losses may be inevitable and must be considered within the context of the overall portfolio's return and the cash flow requirements of the District.

#### §3 – Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. Concentration of credit risk is the risk of loss attributed to the magnitude of a District's investment in a single issuer. All participants in the investment process shall consider aversion to concentration of credit risk by:

1. Limiting investment purchases to those types and amounts permissible by California Government Code §53601 and §6 of this Resolution,
2. Investing no more than 25% of the portfolio with one issuer of federal agency obligations, with the exception of the US Treasury, and no more than 10% of the portfolio with one commercial issuer,

3. If pursuing a commercial paper obligation, investing only in investments rated in the highest tier (A1, P-1, or F-1 or higher for commercial paper, AAA for medium-term notes),
4. For deposits in Local Government Investment Pools, depositing funds only in pools with a AAA rating, and
5. Limiting investments in corporate notes to those fully guaranteed by the Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that the District will not be able to recover deposits or the value of an investment or collateral securities that are in the possession of an outside party. All participants in the investment process shall consider aversion to custodial credit risk by:

1. Investing no more than 25% of the portfolio with one financial institution, with the exceptions of LAIF, the US Treasury, and funds advanced or in trustee accounts for project construction, and
2. If pursuing a deposit, insuring that all deposits are fully collateralized as required by California Government Code §53652 or insured by the Federal Deposit Insurance Corporation or the National Credit Union Administration, and the "Contract for Deposit of Monies" will indicate the type and amount of collateral.

#### §4 – Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. All participants in the investment process shall consider aversion to interest rate risk by limiting the term remaining to maturity on purchased investments to the maturity limits identified in §6 of this Resolution, unless a longer term is permissible within the California Government Code and specifically approved by the Board prior to purchase.

#### §5 – Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. All participants in the investment process shall be prohibited from investing in foreign currency-denominated securities, unless permissible within the California Government Code and specifically approved by the Board prior to purchase.

#### §6 – Permissible Investments

The table below lists permissible investments and limits on amounts and maturities.

Investment	Limits	
	% of Investment Portfolio	Maturity
US Treasury bills and notes	75%	5 years
LAIF	60%	N/A
Federal agency obligations	60%	5 years
Local Government Investment Pools	40%	N/A
State and local agency <sup>1</sup> bonds	20%	5 years
Commercial paper	20%	270 days
FDIC-backed medium-term notes	20%	4 years
Certificates of deposit	20%	4 years
Repurchase agreements	10%	1 year
Savings accounts	10%	N/A

<sup>1</sup>Local agency as defined in California Government Code §53600 include counties, cities, and special districts.

Investments permitted by California Government Code, but not by this policy, will be made only with prior approval of the Board of Directors.

§7 – Strategy

1. Passive investing - Given the absence of staff dedicated to investment analysis, the District will passively manage the portfolio, and avoid medium to long-term corporate investment and realizing gains and losses, thereby diminishing the need for credit monitoring. Staff tasked with investment decisions will avoid speculation.
2. Diversification - Staff will maintain diversified call provisions rather than anticipate market conditions. Staff will diversify timing of trading and maintain diversification by type within the constraints of other provisions of this policy.
3. Minimum liquidity and debt considerations – A portion of the portfolio with maturities of no more than three months shall be maintained in excess of the Board-established operating reserve. A portion of the portfolio with maturities of no more than one year shall be maintained in excess of the Board-established operating reserve plus the replacement reserve floor. Staff will also consider that too much liquidity is a risk, and invest to ladder maturities when possible. Staff will consider debt structures and strategies along with investment strategies.

§8 – Reporting and Miscellaneous Provisions

The Director of Finance may maintain one or more accounts with reputable investment security dealers and brokers with which investment transactions are to be conducted. Investments may be held in safekeeping at a designated financial institution where the District has established a safekeeping account.

Pursuant to California Government Code §53646, a monthly report shall be submitted to the Board of Directors within 30 days following the end of the month covered by the report, and a quarterly report shall be submitted to the Finance/Investment committee for review. The quarterly report shall include the type of investment, issuer, purchase and maturity dates, rate of interest, dollar amount invested, fund, current market value, and percentage of portfolio. The report shall state compliance of the portfolio to the statement of the investment policy, or the manner in which the portfolio is not in compliance. The report shall include a statement regarding the ability of the District to meet its expenditure requirements for the next six months.

The Treasurer, or the Treasurer's designee, shall establish a system of internal controls to be examined and monitored by the District's independent auditor.

The Finance/Investment Committee of the Board of Directors shall meet on a quarterly basis with Staff personnel to review District investments and to appraise market conditions.

**NOW, THEREFORE, BE IT RESOLVED** by the Board of Directors of the Vallecitos Water District as follows:

The Annual Statement of Investment Policy for calendar year 2010 is hereby approved and the District Treasurer is directed to follow this Statement of Investment Policy in investing funds of the District.

**PASSED AND ADOPTED** by the Board of Directors of the Vallecitos Water District at a regular meeting held on this 17<sup>th</sup> day of February 2010, by the following roll call vote:


AYES: GENTRY, HANNAN, POLTL, SHELL, FERGUSON

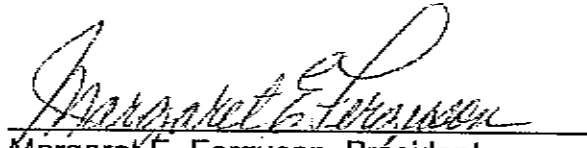
NOES:

ABSTAIN:

ABSENT:

ATTEST:

  
Dennis O. Lamb, Secretary  
Vallecitos Water District  
Board of Directors

  
Margaret E. Ferguson, President  
Vallecitos Water District  
Board of Directors