

BOARD POLICY
Lake Oroville Area Public Utility District

TITLE: INVESTMENT OF DISTRICT FUNDS
ADOPTION DATE: June 14, 2005

NUMBER: 3025
AMENDED DATE: August 12, 2008

3025.1 **PREMISE**

The Legislature of the State of California has declared that the deposit and investment of public funds by local officials and local agencies is an issue of statewide concern (California Government Code (CGC) §53600.6 and §53630.1); and,

Government Code Sections 5921 and 53601, et seq., allow the legislative body of a local agency to invest surplus monies not required for the immediate necessities of the local agency; and,

The treasurer or fiscal officer of a local agency is required to annually prepare and submit a statement of investment policy and such policy, and any changes thereto, is to be considered by the local agency's legislative body at a public meeting (CGC §53646(a)).

For these reasons, and to ensure prudent and responsible management of the public's funds, it is the policy of the Lake Oroville Area Public Utility District to invest funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the District and conforming to all statutes governing the investment of Lake Oroville Area Public Utility District funds.

3025.2 **SCOPE**

This investment policy applies to all financial assets of Lake Oroville Area Public Utility District. These funds are accounted for in the Independent Annual Financial Report and include:

Demand Account:

General Fund
Revolving Fund
Employee FSA
Capacity Charge Fund
 RDA Bond Fund
VVSAD Fund
Health Benefit Reimbursement Fund

Investments:

Local Agency Investment Fund

RDA Debt Reserve Acct.

RDA Loan Surcharges

3025.3 PRUDENCE

Investments shall be made with 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 probable safety of their capital as well as the probable income to be derived. The standard of prudence to be used by investment officials shall be the “prudent investor” standard (CGC §53600.3) and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security’s credit risk or market price changes, provided deviations for expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

3025.4 OBJECTIVES

As specified in CGC §53600.5, when investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds, the primary objectives of the investment activities, in priority order, shall be:

- 3025.4.1** Safety: Safety of principal is the foremost objective of the investment program. Investments of Lake Oroville Area Public Utility District 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.
- 3025.4.2** Liquidity: The investment portfolio will remain sufficiently liquid to enable Lake Oroville Area Public Utility District to meet all operating requirements which might be reasonably anticipated.
- 3025.4.3** Return on Investments: The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio.

3025.5 DELEGATION OF AUTHORITY

Authority to manage the investment program is derived from California Government Code Sections 53600, et seq. Management responsibility for the investment program is hereby delegated to the General Manager, who shall establish written procedures for the operation of the investment program consistent with this investment policy. Procedures should include references to: safekeeping, PSA repurchase agreements, wire transfer agreements, collateral/depository agreements and banking services contracts, as appropriate. Such procedures shall include explicit delegation of authority to persons

responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the General Manager. General Manager shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials. Under the provisions of California Government Code §53600.3, the General Manager is a trustee and a fiduciary subject to the prudent investor standard.

3025.6 ETHICS AND CONFLICTS OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

3025.7 AUTHORIZED FINANCIAL INSTITUTIONS AND DEALERS

For brokers/dealers of government securities and other investments, the General Manager shall select only broker/dealers who are licensed and in good standing with the California Department of Securities, the Securities and Exchange Commission, the National Association of Securities Dealers or other applicable self-regulatory organizations.

Before engaging in investment transactions with a broker/dealer, the General Manager shall have received from said firm a signed Certification Form. This form shall attest that the individual responsible for Lake Oroville Area Public Utility District's account with the firm has reviewed Lake Oroville Area Public Utility District's Investment Policy and that the firm understands the policy and intends to present investment recommendations and transactions to Lake Oroville Area Public Utility District that are appropriate under the terms and conditions of the Investment Policy.

3025.8 AUTHORIZED AND SUITABLE INVESTMENTS

The Lake Oroville Area Public Utility District is empowered by California Government Code §53601, et seq., to invest in the following:

- 3025.8.1** Bonds issued by the Lake Oroville Area Public Utility District.
- 3025.8.2** United State Treasury Bills, Notes & Bonds.
- 3025.8.3** Registered state warrants or treasury notes or bonds issued by the State of California.
- 3025.8.4** Bonds, notes, warrants or other evidence of debt issued by a local agency within the State of California, including pooled investment accounts

sponsored by the State of California, County Treasurers, other local agencies or Joint Powers Agencies.

- 3025.8.5** Obligations issued by agencies or instrumentalities of the United States Government.
- 3025.8.6** Bankers' acceptances with a term not to exceed 270 days. Not more than 40% of surplus funds can be invested in bankers' acceptances and no more than 30% of surplus funds can be invested in the banker's acceptances of any single commercial bank.
- 3025.8.7** Prime commercial paper of U.S. corporations with assets greater than \$500 million, with a term not to exceed 180 days and the highest ranking issued by Moody's Investors Service (Moody's) or Standard & Poor's Corporation (S&P). Commercial paper cannot exceed 15% of total surplus funds, provided that, if the average maturity of all commercial paper does not exceed 31 days, up to 30% of surplus funds can be invested in commercial paper.
- 3025.8.8** Negotiable certificates of deposit issued by federally or state chartered banks or associations. Not more than 30% of surplus funds can be invested in certificates of deposit.
- 3025.8.9** Repurchase/reverse repurchase agreements of any securities authorized by this section. Securities purchased under these agreements shall be no less than 102% of market value. (See special limits in CGC §53601.i.)
- 3025.8.10** Medium term notes (not to exceed 5 years) of U.S. corporations rated "A" or better by Moody's or S&P. Not more than 30% of surplus funds can be invested in medium term notes.
- 3025.8.11** Shares of beneficial interest issued by diversified management companies (money market mutual funds) investing in the securities and obligations authorized by this Section. Such funds must carry the highest rating of at least two of the three largest national rating agencies. Not more than 15% of surplus funds can be invested in money market mutual funds.
- 3025.8.12** Funds held under the terms of a trust indenture or other contract or agreement may be invested according to the provisions of those indentures or agreements.
- 3025.8.13** Collateralized bank deposits with a perfected security interest in accordance with the Uniform Commercial Code (UCC) or applicable federal security regulations.

3025.8.14 Any mortgage pass-through security, collateralized mortgage obligation, mortgaged backed or other pay-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate or consumer receivable backed bond of a maximum maturity of five years. Securities in this category must be rated AA or better by a nationally recognized rating service. Not more than 30% of surplus funds may be invested in this category of securities.

3025.8.15 Any other investment security authorized under the provisions of CGC §5922 and §53601. (Also, see CGC §53601 for a detailed summary of the limitations and special conditions that apply to each of the above listed investment securities. CGC §53601 is included by reference in this investment policy.)

3025.8.15.1 *Prohibited Investment:* Under the provisions of CGC §53601.6 and §53631.5, Lake Oroville Area Public Utility District shall not invest any funds covered by this Investment Policy in inverse floaters, range notes, interest-only strips derived from mortgage pools or any investment that may result in a zero interest accrual if held to maturity.

3025.9 COLLATERALIZATION

All certificates of deposits must be collateralized by U.S. Treasury Obligations. Collateral must be held by a third party trustee and valued on a monthly basis. The percentage of collateralization on repurchase and reverse repurchase agreements will adhere to the amount required under CGC §53601(i)(2).

3025.10 SAFEKEEPING AND CUSTODY

All security transactions entered into by the Lake Oroville Area Public Utility District shall be conducted on delivery-versus-payment (DVP) basis. All securities purchased or acquired shall be delivered to Lake Oroville Area Public Utility District by book entry, physical delivery or by third party custodial agreement as required by CGC §53601.

3025.11 DIVERSIFICATION

Lake Oroville Area Public Utility District will diversify its investments by security type and institution. It is the policy of the Lake Oroville Area Public Utility District to diversify its investment portfolio. Assets shall be diversified to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer or a specific class of securities. Diversification strategies shall be determined and revised periodically. In establishing specific diversification strategies, the following general policies and constraints shall apply:

- 3025.11.1** Portfolio maturities shall be matched versus liabilities to avoid undue concentration in a specific maturity sector.
- 3025.11.2** Maturities selected shall provide for stability of income and liquidity.
- 3025.11.3** Disbursement and payroll dates shall be covered through maturities investments, marketable U.S. Treasury bills or other cash equivalent instruments such as money market mutual funds.

3025.12 REPORTING

In accordance with CGC §53646(b) (1), the General Manager shall submit to each member of the Board of Directors a quarterly investment report. The report shall include a complete description of the portfolio, the type of investments, the issuers, maturity dates, par values and the current market values of each component of the portfolio, including funds managed for Lake Oroville Area Public Utility District by third party contracted managers. The report will also include the source of the portfolio valuation. As specified in CGC §53646 (e), if all funds are placed in LAIF, FDIC-insured accounts and/or in a county investment pool, the foregoing report elements may be replaced by copies of the latest statements from such institutions. The report must also include a certification that: (1) all investment actions executed since the last report have been made in full compliance with the Investment Policy; and, (2) Lake Oroville Area Public Utility District will meet its expenditure obligations for the next six months as required by CGC §53646(b)(2) and (3), respectively. The General Manager shall maintain a complete and timely record of all investment transactions.

3025.13 INVESTMENT POLICY REVIEW

This Investment Policy shall be reviewed on an annual basis, and the Board of Directors must approve modifications.