

# SACRAMENTO GROUNDWATER AUTHORITY POLICIES AND PROCEDURES MANUAL

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Policy Type : Fiscal Management  
Policy Title : Investment Policy  
Policy Number : 400.1  
Date Adopted : February 13, 2003  
Date Amended :

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## **Sacramento Groundwater Authority Investment Policy**

### **1.0 Purpose**

The purpose of this Investment Policy (“Policy”) is to establish cash management and investment guidelines for the Treasurer, who is responsible for the stewardship of the Sacramento Groundwater Authority’s (“SGA”) investment of surplus funds. Each transaction and the entire portfolio must comply with California Government Code (“The Code”) section 53600, et seq., section 53635 et seq., and this Policy.

### **2.0 Scope**

This policy applies to all financial assets of SGA. These funds are accounted for in SGA’s audited annual financial report and include:

1. General Fund
2. Trust and Agency Funds
3. Any new fund created by the legislative body, unless specifically exempted.

Except for cash in certain restricted and special funds, SGA will consolidate cash balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles. Additionally, the costs of managing the investment portfolio, including but not limited to the investment management, custody of the assets, managing and accounting for the banking, and oversight controls are charged to the investment earnings based upon actual labor hours worked in respective areas.

### **3.0 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 investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of principal in the overall portfolio.

**2. Liquidity** The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This liquidity is accomplished by structuring the portfolio so securities mature concurrent with cash needs to meet anticipated demands. A portion or the entire portfolio also may be placed in money market mutual funds or local government investment pools which offer same-day liquidity for short-term funds.

**3. Yield** 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 liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above.

#### **4.0 Standards of Care**

**1. Prudent Investor Standard** The standard of prudence to be used by treasurer shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Treasurers 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 from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

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.

**2. 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 and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose to the Board of Directors 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 SGA.

**3. Delegation of Authority** Authority to manage the investment program is granted to the SGA treasurer and is delegated to the Board of Directors for subsequent re-delegation to the treasurer under the Joint Powers Agreement forming the SGA, as amended May 7, 2002. Responsibility for the operation of the investment program is hereby delegated to the treasurer, who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy.

## **5.0 Safekeeping and Custody**

**1. Authorized Financial Dealers and Institutions** A list will be maintained of financial institutions authorized to provide investment services. In addition, a list also will be maintained of approved security broker/dealers selected by creditworthiness (e.g., a minimum capital requirement of \$10,000,000 and at least five years of operation). These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule).

Except for the Local Agency Investment Fund (LAIF), all financial institutions and broker/dealers who desire to become qualified for investment transactions must supply the following as appropriate:

- Audited financial statements
- Proof of National Association of Securities Dealers (NASD) certification
- Trading resolution
- Proof of state registration
- Completed broker/dealer questionnaire
- Certification of having read and understood and agreeing to comply with the SGA's investment policy.

An annual review of the financial condition and registration of qualified financial institutions and broker/dealers 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 SGA invests. No broker, dealer, or security firm will be eligible within 48 months of making a campaign contribution to any member of the Board of Directors exceeding the limits contained in Rule G-37 of the Municipal Securities Rulemaking Board.

**2. LAIF** LAIF began in 1977 as an investment alternative for California's local governments and special districts and is governed by Code section 16429.1, 2, and 3. This program offers local agencies the opportunity to participate in a major portfolio which invests hundreds of millions of dollars, using the investment expertise of the California State Treasurer's Office investment staff at no additional cost to the agency. LAIF has oversight by the Local Agency Investment Advisory Board consisting of five members. All securities are purchased under the authority of Code Section 16430 and 16480.4.

**3. Delivery vs. Payment** All trades where applicable will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds. Securities will be held by a third-party custodian as evidenced by safekeeping receipts.

## 6.0 Suitable and Authorized Investments

Authorized investments shall match the general categories established by The Code sections 53601 et seq. and 53635 et seq. Authorized investments shall also include investment into LAIF in accordance with The Code section 16429.1.

### Allowable Investment Instruments Per State Government Code (as of January 1, 2002)

Investment Type	Maximum Maturity	Maximum Specified % of Portfolio	Minimum Quality Requirements	Other Criteria
Local Agency Bonds	5 years	None	None	
U.S. Treasury Obligations	5 years	None	None	
State of California Obligations	5 years	None	None	
CA Local Agency Obligations	5 years	None	None	
U.S. Agencies	5 years	None	None	
Bankers' Acceptances	180 days	40 percent	None	Less than 30% with any one commercial bank
Commercial Paper – Select Agencies	270 days	40 percent <sup>1</sup>	A1/P1 rating	Excludes JPA's
Commercial Paper – Other agencies	270 days	25 percent	A1/P1 rating	Less than 10% with a single corporate issuer and less than 10% of that issue
Negotiable Certificates of Deposit	5 years	30 percent	None	
Repurchase Agreements <sup>3</sup>	1 year	None	None	
Reverse Repurchase Agreements & Securities Lending Agreements			None	
	5 year	30 percent		
Medium-Term Notes	5 years	30 percent	A rating	
Mutual Funds	N/A	20 percent	Multiple <sup>4</sup>	Less than 10% in any one fund
Money Market Mutual Funds	N/A	20 percent	Multiple <sup>5</sup>	
Collateralized Bank Deposits	5 years	None	None	
Mortgage Pass-Through Securities	5 years	20 percent	AA rating	Must have A or better by nationally recognized rating agency
Time Deposits	5 years	None	None	
County Pooled Investment Funds	N/A	None	None	
Local Agency Investment Fund (LAIF)	N/A	None	None	

Sources: Government Code Sections 16429.1, 53601, 53635, 53684

1 Recent Legislative changes to Government Code 53635 specify that "all local agencies that pool money in deposit or investments with other local agencies that have separate governing bodies" may invest in commercial paper as specified. However, existing language in the same code section still defines local agency as a county or city and county (thereby not including local agencies such as JPAs and cities that would qualify under the new commercial paper investment guidelines. Cleanup language should correct this in 2003.

2 Applies to a local agency that is a city, a district, or local agency that does not pool money in deposits or investments with other local agencies, other than local agencies that have the same governing body.

3 Reverse purchase agreements must be made with primary dealers of the Federal Reserve Bank of New York or with a nationally or state chartered bank that has a significant relationship with the local agency. The issuer must have held securities used for the agreement for at least 30 days.

4 Must receive the highest ranking by not less than 2 nationally recognized rating agencies or the fund must retain an investment advisor who is registered with the SEC, has assets under management in excess of \$500 million, and has at least 5 years experience investing in instruments authorized by the State Government Code Sections 53601 and 53635.

5 Must receive the highest ranking by not less than 2 nationally recognized rating agencies or the fund must retain an investment advisor who is registered with the SEC, and has at least 5 years experience managing money market funds with assets under management in excess of \$500 million.

## 7.0 Reporting

**1. Methods** The treasurer shall prepare an investment report at least quarterly , including a management summary that provides an analysis of the status of the current investment portfolio and transactions made over the last quarter. This management summary will be prepared in a manner which will allow SGA to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the treasurer and the board of directors. The report will include the following:

- Listing of individual securities held at the end of the reporting period by investment category.
- Average life and final maturity of all investments listed
- Coupon, discount, or earnings rate
- Par value, amortized book value and market value
- Percentage of portfolio represented by the investment category
- Benchmark comparison

**2. LAIF Reporting** If the surplus funds are solely invested in the Local Agency Investment Fund, the monthly LAIF statement shall be sufficient for reporting purposes.

## 8.0 Policy Considerations

**1. Amendments** This policy shall be reviewed annually by the Board of Directors at its discretion, and any changes must be approved by the Board of Directors.

Approved by the Board of Directors of the Sacramento Groundwater Authority at their regular board meeting on February 13, 2003.

