

**RESOLUTION 2021-26**

**A RESOLUTION OF THE BOARD OF DIRECTORS  
OF THE BEAUMONT-CHERRY VALLEY WATER DISTRICT  
ACKNOWLEDGING THE REVIEW, RECEIPT AND ACCEPTANCE OF THE  
DISTRICT'S INVESTMENT POLICY**

**WHEREAS**, 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 sections 53600.6 and 53630.1); and

**WHEREAS**, the legislative body of a local agency may invest surplus monies not required by the immediate necessities of the local agency in accordance with the provisions of California Government Code Sections 5920 et seq. and 53601 et seq.; and

**WHEREAS**, the General Manager of the Beaumont-Cherry Valley Water District shall annually prepare and submit a statement of investment policy and such policy shall be considered by the Board of Directors at a public meeting (California Government Code 53646(a)); and

**WHEREAS**, the District's investment policy was last reviewed and approved by Resolution 2021-01 on January 13, 2021; and

**WHEREAS**, the entirety of the Beaumont-Cherry Valley Water District Investment Policy attached hereto as Exhibit A is incorporated by reference,

**NOW, THEREFORE, BE IT RESOLVED** that the Board of Directors of the Beaumont-Cherry Valley Water District declares the Investment Policy attached as Exhibit A approved and adopted.

**ADOPTED** this 21 day of December 2021, by the following vote:

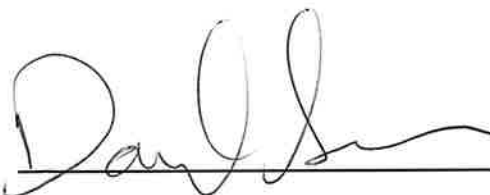
**AYES:** Covington, Williams, Ramirez, Hoffman, Slawson

**NOES:**

**ABSTAIN:**

**ABSENT:**

**ATTEST:**



Director Daniel Slawson, President of the  
Board of Directors of the  
Beaumont-Cherry Valley Water District



Director Andy Ramirez, Secretary to the  
Board of Directors of the  
Beaumont-Cherry Valley Water District

#### **5045.5 Delegation of Authority.**

1. The authority of the District's Board to invest or reinvest funds of the District as permitted under Section 53600 et seq. of the California Government Code is delegated by Board resolution in conjunction with the annual investment policy review.
2. Management responsibility for the investment program is hereby delegated, with the General Manager's oversight, to the Director of Finance and Administrative Services, who shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of their designee, and their procedures in the absence of the General Manager or their designee, or Director of Finance and Administrative Services.
3. The Director of Finance and Administrative Services shall establish procedures for the management of investment activities, including the activities of staff consistent with this policy.
4. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Director of Finance and Administrative Services.
5. The Director of Finance and Administrative Services may retain the services of an outside investment advisor or manager as approved by the Board to assist with the District's investment program.
  - a. Qualified outside managers will be either SEC Registered Investment Advisors or Bank Money Managers. The investment advisor shall make investment decisions and transactions in strict accordance with State and Federal law, this Policy, and such other written instructions as are provided.
  - b. The performance and service levels of such advisors and managers shall be reviewed annually.

**5045.6 Ethics and Conflicts of Interest.** Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution and management of the investment program, or which could impair their ability to make impartial decisions. Employees and investment officials shall disclose to the District's General Manager any material financial interest in the financial institutions that conduct business with the District.

#### **5045.7 Authorized Financial Dealers and Institutions.**

1. The Director of Finance and Administrative Services will maintain a list of authorized broker/dealers and financial institutions that are approved for investment purposes.
2. Broker/dealers will be selected for credit worthiness and must be authorized to provide investment services in the State of California. These may include "primary" dealers or

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. There is no limitation as to the percentage of the portfolio that may be invested in this category.

- d. **Medium-Term Notes.** 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. Purchases are limited to securities that have a long-term debt rating of at least "A", or its equivalent, by a Nationally Recognized Statistical Rating Organization ("NRSRO"). A maximum of 30 percent of the portfolio may be invested in this category.
- e. **Negotiable Certificates of Deposit.** Negotiable certificates of deposit (NCDs) issued by a nationally or state-chartered bank, a savings association or a federal association, a state or federal credit union, or by a federally licensed or state-licensed branch of a foreign bank. In combination with placement service CDs, a maximum of 30 percent of the portfolio may be invested in this category.
- f. **Placement Service Certificates of Deposit.** Certificates of deposit placed through a deposit placement service shall meet the requirements under Government Code Section 53601.8. The full amount of the principal and the interest that may be accrued during the maximum term of each certificate of deposit shall at all times be insured by federal deposit insurance. In combination with negotiable certificates of deposit, a maximum of 50 percent of the portfolio may be invested in this category.
- g. **Bank Deposits.** FDIC insured or fully collateralized bank deposits, including, but not limited to, demand deposit accounts, savings accounts, market rate accounts, and time deposits. Bank deposits are required to be collateralized as specified under Government Code Section 53630 et. seq. The Director of Finance and Administrative Services, at their discretion, may waive the collateralization requirements for any portion that is covered by federal deposit insurance.
- h. **Commercial Paper.** Commercial paper of "prime" quality of the highest ranking or of the highest letter and number rating as provided for by a NRSRO. The entity that issues the commercial paper shall meet all of the following conditions: (i) is organized and operating in the United States as a general corporation, (ii) has total assets in excess of five hundred million dollars (\$500,000,000), and (iii) has debt other than commercial paper, if any, that is rated at least "A", or its equivalent, by a NRSRO.
  - 1. Eligible commercial paper shall have a maximum maturity of 270 days or less and not represent more than 10 percent of the outstanding paper of an issuing corporation. A maximum of 25 percent of the portfolio may be invested in this category.
- c. **Bankers' Acceptances.** Bankers' acceptances, otherwise known as bills of exchange or time drafts that are drawn on and accepted by a commercial bank. Purchases are limited to bankers' acceptances issued by domestic or foreign banks, which are eligible for purchase by the Federal Reserve System.
  - 1. Purchases of bankers' acceptances may not exceed 180 days maturity. Eligible bankers' acceptances are restricted to issuing financial institutions with a short-term debt rating of at least "A-1", or its equivalent, by a NRSRO.

- i. **Repurchase Agreements.** Repurchase agreements are to be used as short-term investments not to exceed 1 year. Repurchase agreements shall only be made only with counterparties that are a nationally or state-chartered bank that has or has had a significant banking relationship with the District.
  1. The District shall have a properly executed master repurchase agreement with each counterparty for which it enters into an agreement for repurchase agreements.
  2. Collateral of at least 102 percent of market value of principal and accrued interest is required.
  3. For any repurchase agreement with a term of more than one day, the value of the underlying securities must be reviewed on an on-going basis according to market conditions.
  4. Market value must be calculated each time there is a substitution of collateral.
  5. Collateral is limited to obligations of the United States government and its agencies.
  6. Collateral must be delivered to the District's custodian bank or handled under a properly executed master repurchase agreement.
  7. The District, or its trustee, shall have a perfected first security interest in all collateral.
  8. A maximum of 10 percent of the portfolio may be invested in this category.

#### **5045.9 Prohibited Investments.**

1. Section 53601.6 of the Government Code lists the investments that are prohibited.
2. Prohibited investments shall include, but are not limited to:
  - a. equity securities
  - b. inverse floaters
  - c. range notes
  - d. interest-only strips that are derived from a pool of mortgages
  - e. any investment that could result in zero interest earned if held to maturity.
  - f. Under a provision sunseting on January 1, 2026, securities backed by the U.S. Government that could result in a zero- or negative-interest accrual if held to maturity are permitted.
3. The purchase of any investment permitted by the Government Code, but not listed as an authorized investment in section 5045.8 of this Policy is prohibited without the prior approval of the Board.

**5045.10 Review of Investment Portfolio.** The securities held by the District must comply with Section 5045.8 Authorized and Suitable Investments at the time of purchase. Because some securities may not comply with Section 5045.8 Authorized and Suitable Investments subsequent to the date of purchase, the Director of Finance and Administrative Services or their designee shall at least annually review the portfolio to identify those securities that do not comply. The Director of Finance and Administrative Services or their designee shall

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. Adequate diversification shall be applied to the individual issuers of debt, both within each class of investments and collectively. Except for U.S. Treasuries, Federal Agency securities, LGIPs, and LAIF, the District's investment in any one issuer is limited to 5 percent of the District's surplus funds.

To the extent possible, the District will attempt to match its investments with anticipated cash flow requirements. The maximum maturity of individual investments shall not exceed the limits set forth in Section 5045.8. Where no maturity limit is stated, no investment shall exceed a maturity of five years from the date of purchase unless the Board has granted express authority to make that investment either specifically or as a part of an investment program approved by the Board no less than three months prior to the investment. With respect to maximum maturities, this Policy authorizes investing reserve funds beyond five years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of the funds.

**5045.15 Internal Controls.** The Director of Finance and Administrative Services shall establish a system of internal controls designed to prevent losses due to fraud, employee error, misrepresentation by third parties, unanticipated market changes, and/or imprudent actions by employees of the District. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that 1) the cost of a control should not exceed the benefits likely to be derived and 2) the valuation of costs and benefits requires estimates and judgments by management. Compliance with this Policy and internal controls shall be reviewed annually by the District's independent, external auditors.

**5045.16 Performance Standards.** The investment performance of the District's operating portfolio shall be evaluated and compared to an appropriate benchmark in order to assess the success of the investment program relative to the District's Safety, Liquidity and Yield objectives. This review will be conducted annually with the Board's Finance Committee.

**5045.17 Investment Reporting.**

1. **Monthly.** The Director of Finance and Administrative Services shall prepare a monthly investment report for review and approval by the Board, including a management summary that provides an analysis of the status of the current investment portfolio and transactions made over the last month. This management summary will be prepared in a manner which will allow the Board to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report will include the following.
  - a. Listing of individual securities held at the end of the reporting period;
  - b. Cost and market value of all securities, including realized and unrealized market value gains or losses in accordance with GASB requirements;
  - c. Average weighted yield to maturity of portfolio;
  - d. Listing of investment by maturity date;
  - e. Percentage of the total portfolio, which each type of investment represents;
  - f. Statement of compliance with Investment Policy, including an explanation of any compliance exceptions (CGC Section 53646); and

Commercial Paper – Non-Pooled Funds <sup>F</sup> (under \$100,000,000 of investments)	270 days	25% of the District's money <sup>G</sup>	Highest letter and number rating by an NRSRO <sup>H</sup>
Commercial Paper – Non-Pooled Funds (min. \$100,000,000 of investments)	270 days	40% of the District's money <sup>G</sup>	Highest letter and number rating by an NRSRO <sup>H</sup>
Commercial Paper – Pooled Funds <sup>I</sup>	270 days	40% of the District's money <sup>G</sup>	Highest letter and number rating by an NRSRO <sup>H</sup>
Negotiable Certificates of Deposit	5 years	30% <sup>J</sup>	None
Non-negotiable Certificates of Deposit	5 years	None	None
Placement Service Deposits	5 years	50% <sup>K</sup>	None
Placement Service Certificates of Deposit	5 years	50% <sup>K</sup>	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements and Securities Lending Agreements	92 days <sup>L</sup>	20% of the base value of the portfolio	None <sup>M</sup>
Medium-Term Notes <sup>N</sup>	5 years	30%	"A" rating category or its equivalent or better
Mutual Funds and Money Market Mutual Funds	N/A	20% <sup>O</sup>	Multiple <sup>P,Q</sup>
Collateralized Bank Deposits <sup>R</sup>	5 years	None	None
Mortgage Pass-Through and Asset-Backed Securities	5 years	20%	"AA" rating category or its equivalent or better <sup>R</sup>
County Pooled Investment Funds	N/A	None	None
Joint Powers Authority Pool	N/A	None	Multiple <sup>S</sup>
Local Agency Investment Fund (LAIF)	N/A	None	None
Voluntary Investment Program Fund <sup>T</sup>	N/A	None	None
Supranational Obligations <sup>U</sup>	5 years	30%	"AA" rating category or its equivalent or better
Public Bank Obligations	5 years	None	None

(Source: *Local Agency Investment Guidelines: Update for 2021* published by the California Debt and Investment Advisory Commission (CDIAC).)

#### Notes to Authorized and Suitable Investments Table

- A. Sources: Sections 16340, 16429.1, 27133, 53601, 53601.6, 53601.8, 53630 et seq. 53635, 53635.8, and 57603.
- B. Municipal Utilities Districts have the authority under the Public Utilities Code Section 12871 to invest in certain securities not addressed here.
- C. Section 53601 provides that the maximum term of any investment authorized under this section, unless otherwise stated, is five years. However, the Board of Directors (Board) may grant express authority to make investments either specifically or as a part of an investment program approved by the Board that exceeds this five-year maturity limit. Such approval must be issued no less than three months prior to the purchase of any security exceeding the five-year maturity limit.
- D. Percentages apply to all portfolio investments regardless of source of funds. For instance, cash from a reverse repurchase agreement would be subject to the restrictions.
- E. No more than 30 percent of the District's money may be in bankers' acceptances of any one commercial bank.

- U. Only those obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), and Inter-American Development Bank (IADB), a maximum remaining maturity of five years or less.

#### 5045.20 Glossary of Terms.

1. **Agency Securities:** Securities issued by a U.S. government-sponsored entity (GSE) and federally related institutions. Examples of a GSE include: Federal Farm Credit Bank System (FFCB), Federal Home Loan Bank (FHLB), Federal Home Loan Mortgage Company (FHLMC-Freddie Mac), Federal National Mortgage Association (FNMA-Fannie Mae), and Student Loan Marketing Association (SLMA-Sallie Mae).
2. **Asked:** The price at which securities are offered.
3. **Bankers' Acceptance (BA):** A draft, bill, or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.
4. **Benchmark:** A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.
5. **Bid:** The price offered by a buyer of securities.
6. **Broker:** A broker brings buyers and sellers together for a commission.
7. **Callable Security:** A security that is redeemable by the issuer before the scheduled maturity. Bonds are usually called when the interest rates fall so significantly that the issuer can save money by floating new bonds at lower rates.
8. **Certificate of Deposit (CD):** A time deposit with a specific maturity evidenced by a Certificate. Large-denomination CD's are typically negotiable.
9. **Collateral:** Securities, evidence of deposit or other property, which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.
10. **Annual Financial Report:** The official annual report of the Beaumont-Cherry Valley Water District. It includes financial statements prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions and extensive introductory material.
11. **Coupon:**
  - a. The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value.
  - b. A certificate attached to a bond evidencing interest due on a payment date.
12. **Dealer:** A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for their own account.

25. **Maturity:** The date upon which the principal or stated value of an investment becomes due and payable.
26. **Money Market:** The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.
27. **Nationally Recognized Statistical Ratings Organization (NRSRO):** A credit rating agency that provides credit ratings that are used by the U.S. government and investors as benchmarks. Examples include Moody's, Standard & Poor's, and Fitch Ratings.
28. **Offer:** The price asked by a seller of securities.
29. **Open Market Operations:** Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.
30. **Portfolio:** Collection of securities held by an investor.
31. **Primary Dealer:** A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.
32. **Prudent Investor Standard:** An investment standard to be followed by those authorized to make investment decisions on behalf of a local agency. Those authorized 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 that agency.
33. **Qualified Public Depositories:** A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.
34. **Rate of Return:** The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond the current income return.
35. **Repurchase Agreement (REPO):** A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate them for this.