

RESOLUTION 2023-30

**A RESOLUTION OF THE BOARD OF DIRECTORS
OF THE BEAUMONT-CHERRY VALLEY WATER
DISTRICT ACKNOWLEDGING THE REVIEW,
RECEIPT AND ACCEPTANCE OF THE DISTRICT'S
POLICY 5045: INVESTMENT OF DISTRICT FUNDS**

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 2023-20 on July 12, 2023; and

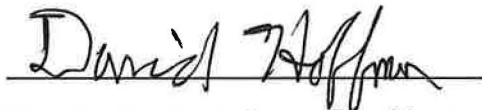
WHEREAS, the entirety of the Beaumont-Cherry Valley Water District Investment Policy attached hereto as Exhibit A is incorporated by reference,

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 13th day of December, 2023 by the following vote:

AYES: Covington, Slawson, Hoffman, Ramirez, Williams
NOES:
ABSTAIN:
ABSENT:

ATTEST:



Director David Hoffman, President of the
Board of Directors of the
Beaumont-Cherry Valley Water District



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

POLICY TITLE: INVESTMENT OF DISTRICT FUNDS
POLICY NUMBER: 5045

5045.1 **Policy.** This investment policy ("Policy") is set forth by the Beaumont-Cherry Valley Water District ("District") for the following purposes:

1. To establish clear guidance and understanding for the District's Board of Directors ("Board"), management, designated employees, citizens and third parties of the objectives, policies and guidelines for the investment of the District's idle surplus funds; and
2. To establish a basis for evaluating investment results.

5045.2 **Scope.** This investment policy applies to all investment activities and financial assets of the District, as set forth in the State Government Code, *Sections 53600 et seq.* The funds covered by this policy are accounted for and incorporated in the District's Annual Comprehensive Financial Report. The Deferred Compensation Plan is excluded because it is managed by a third-party administrator and invested in by individual plan participants. Proceeds of debt issuances shall be invested in securities permitted by the applicable bond documents. If the bond documents are silent as to the permitted investments, such proceeds will be invested in accordance with the general investment philosophy of the District as set forth in this Policy.

5045.3 **Prudent Investor Standard.** The standard of prudence to be used by the designated representative shall be the "prudent investor" standard and shall be applied in the context of managing an overall portfolio. Persons authorized to make investment decisions on behalf of the District are trustees and therefore fiduciaries subject to The **Prudent Investor Standard**, which states "When investing, reinvesting, purchasing, acquiring, exchanging, selling, and 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 acting 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."

5045.4 **Objectives.** As specified in California Government Code Section 53600.5, when investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds, the primary objectives, in priority order, of the District's investment activities and of this Policy shall be:

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 capital in the District's overall portfolio. To attain this objective, the District will diversify its investments by investing funds among a variety of securities with independent returns.
2. **Liquidity:** The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated.

3. **Yield:** The investment portfolio shall be designed with the objective of attaining a market rate of return through budgetary and economic cycles, if it does not diminish the objectives of Safety and Liquidity.

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 Assistant Director of Finance and Administration, 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 Assistant Director of Finance and Administration.
3. The Assistant Director of Finance and Administration 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 Assistant Director of Finance and Administration.
5. The Assistant Director of Finance and Administration 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.

All participants in the investment process are required to comply with terms of the Political Reform Act, Fair Political Practices Commission Regulations promulgated thereunder (2 C.C.R. §§ 18110 through 18998), the District's Conflict of Interest Policy, including, without limitation, filing of Form 700, notification and recusal obligations, and Government Code section 1090 prohibitions.

5045.7 Authorized Financial Dealers and Institutions.

1. The Assistant Director of Finance and Administration 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 regional dealers that qualify under Securities & Exchange Commission Rule 15(C)3-I (uniform net capital rule). The Assistant Director of Finance and Administration will conduct an annual review of the financial condition and registrations of such qualified bidders.
3. No public deposit will be made by the broker/dealer except in a qualified public depository as established by the established state laws. Before a financial institution or broker/dealer is used, they are subject to investigation and approval by the Assistant Director of Finance and Administration or their designee, and must submit the following:
 - a. Certification of having read and understood this investment policy resolution and agreeing to comply with the District's investment policy;
 - b. Proof of Federal Investment Regulatory Authority certification;
 - c. Proof of State of California registration;
 - d. Audited financial statements for the institution's three (3) most recent fiscal years;
 - e. References of other public-sector clients to which similar services are provided to.
4. If a third-party investment advisor is authorized to conduct investment transactions on the District's behalf, the investment advisor may use their own list of approved independent broker/dealers and financial institutions.
5. The investment advisor's approved list must be made available to the District upon request.

5045.8 Authorized and Suitable Investments.

1. The District's investments are governed by the California Government Code.
2. Within the investments permitted by the Government Code, the District may seek to further restrict eligible investments.
3. In the event an apparent discrepancy is found between this Policy and the Government Code, the more restrictive parameters will take precedence.
4. A table of allowable investment instruments per California Government Code can be found in section 5045.19 of the Policy.
 - a. **United States Treasury Issues.** United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the full faith and credit of the United States are pledged for the payment of principal and interest. There is no limitation as to the percentage of the portfolio that may be invested in this category.
 - b. **Federal Agency Obligations.** Federal agency or United States government-sponsored enterprise senior debt obligations, participations, mortgage-backed securities, or other instruments, including those issued by or fully guaranteed as to

principal and interest by Federal agencies or United States government-sponsored enterprises. There is no limitation as to the percentage of the portfolio that may be invested in this category.

- c. **Municipal Debt.** Registered treasury notes or bonds of this state or any of the other 49 United States, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of this state or any of the other 49 United States. Bonds, notes, warrants, or other evidence of indebtedness of any local agency, including the District's own bonds, within this state, including bonds payable 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 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 notes eligible for investment under this provision and shall be rated in a rating category of "A" or its equivalent or better 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 Deposits and Certificates of Deposit.** Deposits and 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 Assistant Director of Finance and Administration, 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 in a rating category of "A" or its equivalent or better, 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.

- i. **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.
 - 2. No more than 30 percent of the District's money may be in bankers' acceptances of any one commercial bank, while a maximum of 40 percent of the portfolio may be invested in this category.
- j. **State of California Local Agency Investment Fund (LAIF).** There is no limitation as to the percentage of the portfolio that may be invested in this category. However, the amount invested may not exceed the current maximum allowed by LAIF.
- k. **Local Government Investment Pools (LGIP).** Shares of beneficial interest issued by a joint powers authority organized pursuant to Government Code Section 6509.7. To be eligible for purchase, the pool shall meet all of the following conditions:
 - 1. must meet the requirements of California Government Code Section 53601(p),
 - 2. the pool must seek to maintain a stable Net Asset Value ("NAV"), and
 - 3. the pool must be rated at least "AAm", or its equivalent, by a NRSRO.
 - 4. There is no limitation as to the percentage of the portfolio that may be invested in this category. However, the amount invested may not exceed the current maximum allowed by the pool.
- l. **Money Market Funds.** Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission.
 - 1. The company shall have met either of the following criteria: (A) attained the highest ranking or the highest letter and numerical rating provided by not less than two NRSROs and (B) retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years of experience managing money market mutual funds with assets under management in excess of five hundred million dollars (\$500,000,000).
 - 2. A maximum of 20 percent of the portfolio may be invested in this category.
 - 3. Use of money market funds are restricted to government money market funds.
- m. **Pass-Through Securities.** Asset-Backed, Mortgage-Backed, Mortgage Pass-Through Securities, and Collateralized Mortgage Obligations limited to mortgage-backed pass-through securities for issuers not defined in Sections (a) and (b) of Authorized and Suitable Investments shall be limited to a final maturity not exceeding five years from the date of trade settlement. The securities are rated in a

rating category of "AA" or its equivalent or higher by a NRSRO. The aggregate investment in mortgage-backed and asset-backed securities described in this section shall not exceed 20% of the portfolio with no more than 5% invested in any single Asset-Backed or Commercial Mortgage security issuer, that is not a US government agency.

- n. **Supranational Obligations.** Medium United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, with a maximum maturity of five years or less, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated in a rating category of "AA" or its equivalent or higher by a NRSRO and shall not exceed 30% of the portfolio with no more than 10% invested in any one issuer.
- o. **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.
 - g. securities with a forward settlement date exceeding 45 days from the time of the investment is prohibited.
- 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 Assistant Director of Finance and Administration or their designee shall at least quarterly review the portfolio to identify those securities that do not comply. The Assistant Director of Finance and Administration or their designee shall establish procedures to report to the Board, should one exist, major and critical incidences of noncompliance identified through the review of the portfolio.

If a security owned by the District is downgraded to a level below the requirements of this policy, making the security ineligible for additional purchases, the following steps will be taken:

- 1. Any actions taken related to the downgrade by the investment manager will be communicated to the Assistant Director of Finance and Administration in a timely manner.
- 2. If a decision is made to retain the security, the credit situation will be monitored and reported to the Board.

5045.11 Investment Pools/Mutual Funds Due Diligence. A thorough investigation of the pool/fund is required prior to investing, and on a continual basis. There shall be a questionnaire developed which will answer the following general questions:

- 1. A description of eligible investment securities, and a written statement of investment policy and objectives.
- 2. A description of interest calculations and how it is distributed, and how gains and losses are treated.
- 3. A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced, and the program audited.
- 4. A description of who may invest in the program, how often, what size deposit and withdrawal are allowed.
- 5. A schedule for receiving statements and portfolio listings.
- 6. Are reserves, retained earnings, etc. utilized by the pool/fund?

7. A fee schedule, and when and how is it assessed.

8. Is the pool/fund eligible for bond proceeds and/or will it accept such proceeds?

5045.12 **Collateralization.** Collateralization will be required on three types of investments: certificates of deposit, bank deposits, and repurchase (and reverse repurchase) agreements. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be set by asset class:

1. **Certificates of Deposit (CDs).** The District shall require any commercial bank or savings and loan association to deposit eligible securities with an agency of a depository approved by the State Banking Department to secure any uninsured portion of a Non-Negotiable Certificate of Deposit. The value of eligible securities as defined pursuant to California Government Code, Section 53651, pledged against a Certificate of Deposit shall be equal to 110% of the face value of the CD for all other classes of security.
2. **Collateralization of Deposits.** This is the process by which a bank or financial institution pledges securities, or other deposits for the purpose of securing repayment of deposited funds. The District shall require any bank or financial institution to comply with the collateralization criteria defined in California Government Code, Section 53651.
3. **Repurchase Agreements.** The District requires that Repurchase Agreements be collateralized only by securities authorized in accordance with California Government Code:
 - a. The securities which collateralize the repurchase agreement shall be priced at Market Value, including any Accrued Interest plus a margin. The Market Value of the securities that underlie a repurchase agreement shall be valued at 102% or greater of the funds borrowed against those securities.
 - b. Financial institutions shall mark the value of the collateral to market at least monthly and increase or decrease the collateral to satisfy the ratio requirement described above.
 - c. The District shall receive monthly statements of collateral.
4. The District chooses to limit collateral to the following: U.S. Treasuries and Federal Agency Obligations.
5. Collateral will always be held by an independent third party with whom the entity has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the entity and retained. The right of collateral substitution is granted.

5045.13 **Safekeeping and Custody.** All security transactions, including collateral for repurchase agreements, and reverse repurchase agreements entered into by the (District) shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third-party custodian designated by the Assistant Director of Finance and Administration and evidenced by safekeeping receipts.

5045.14 **Diversification and Maximum Maturities.** It is the policy of the 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. 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 investment portfolio.

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 settlement date 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 Assistant Director of Finance and Administration 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 shall be designed to attain a market-average rate of return throughout budgetary and economic cycles, taking into account the District's risk constraints, the cash flow characteristics of the portfolio, and state and local laws, ordinances or resolutions that restrict investments.

The Assistant Director of Finance and Administration shall monitor and evaluate the portfolio's performance relative to the chosen market benchmark(s). The Assistant Director of Finance and Administration shall select an appropriate, readily available index to use as a market benchmark. This review will be conducted annually with the Board's Finance and Audit Committee.

5045.17 Investment Reporting.

1. **Monthly.** The Assistant Director of Finance and Administration 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
 - g. Certification of sufficient liquidity to meet budgeted expenditures over the ensuing six months (CGC Section 53646).
2. **Quarterly.** On a quarterly basis within 45 days after the end of the quarter, the Assistant Director of Finance and Administration shall report the total rate of return on each of the District's portfolios to the Board.
 3. **Annually.** On an annual basis, the Assistant Director of Finance and Administration shall present the Investment Policy, together with any proposed amendments, to the Board for its consideration.
 4. As specified in CGC 53646(e), if funds are placed in LAIF, FDIC insured accounts and/or in an LGIP, the foregoing report elements may be replaced by copies of the latest statements from such institutions.
 - a. 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. the Beaumont Cherry Valley Water District will meet its expenditure obligations for the next six months as required by CGC 53646(b)(2) and (3) respectively.
 3. The Assistant Director of Finance and Administration shall maintain a complete and timely record of all investment transactions.

5045.18 **Policy Adoption and Review.** This Policy shall be adopted by resolution of the Board. Moreover, the Policy shall be reviewed by the Assistant Director of Finance and Administration on an annual basis and modifications, if any, must be approved by the Board by resolution.

5045.19 Allowable Instruments per California Government Code.

ALLOWABLE INVESTMENT INSTRUMENTS PER STATE GOVERNMENT CODE (AS OF JANUARY 1, 2023)^A APPLICABLE TO ALL LOCAL AGENCIES^B			
Investment Type	Maximum Maturity^C	Maximum Specified % of Portfolio^D	Minimum Quality Requirements
Local Agency Bonds	5 years	None	None
US Treasury Obligations:	5 years	None	None
State Obligations – CA and others	5 years	None	None
CA Local Agency Obligations	5 years	None	None
US Agency Obligations	5 years	None	None
Bankers Acceptances	180 days	40% ^E	None
Commercial Paper – Non-Pooled Funds ^F (under \$100,000,000 of investments)	270 days or less	25% of the District's money ^G	Highest letter and number rating by an NRSRO ^H
Commercial Paper – Non-Pooled Funds (min. \$100,000,000 of investments)	270 days or less	40% of the District's money ^G	Highest letter and number rating by an NRSRO ^H
Commercial Paper – Pooled Funds ^I	270 days or less	40% of the District's money ^G	Highest letter and number rating by an NRSRO ^H
Negotiable Certificates of Deposit	5 years	30% ^J	None
Non-negotiable Certificates of Deposit	5 years	None	None
Placement Service Deposits	5 years	50% ^K	None
Placement Service Certificates of Deposit	5 years	50% ^K	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements and Securities Lending Agreements	92 days ^L	20% of the base value of the portfolio	None ^M
Medium-Term Notes ^N	5 years or less	30%	"A" rating category or its equivalent or better
Mutual Funds and Money Market Mutual Funds	N/A	20% ^O	Multiple ^{P,Q}
Collateralized Bank Deposits ^R	5 years	None	None
Mortgage Pass-Through and Asset-Backed Securities	5 years or less	20%	"AA" rating category or its equivalent or better
County Pooled Investment Funds	N/A	None	None
Joint Powers Authority Pool	N/A	None	Multiple ^S
Local Agency Investment Fund (LAIF)	N/A	None	None
Voluntary Investment Program Fund ^T	N/A	None	None
Supranational Obligations ^U	5 years or less	30%	"AA" rating category or its equivalent or better
Public Bank Obligations	5 years	None	None

(Source: *Local Agency Investment Guidelines: Update for 2023* published by the California Debt and Investment Advisory Commission (CDIAC).)

Notes to 5045.19 Allowable Instruments per California Government Code 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 from the settlement date. However, the legislative body may grant express authority to make investments either specifically or as a part of an investment program approved by the legislative body that exceeds this five year remaining 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 agency's money may be in bankers' acceptances of any one commercial bank.
- F. Includes agencies defined as a city, a district, or other local agency that do not pool money in deposits or investment with other local agencies, other than local agencies that have the same governing body
- G. Local agencies, other than counties or a city and county, may purchase no more than 10 percent of the outstanding commercial paper and medium-term notes of any single issuer.
- H. Issuing corporation must be organized and operating within the U.S., have assets in excess of \$500 million, and debt other than commercial paper must be in a rating category of "A" or its equivalent or higher by a nationally recognized statistical rating organization, or the issuing corporation must be organized within the U.S. as a special purpose corporation, trust, or LLC, have program wide credit enhancements, and have commercial paper that is rated "A-1" or higher, or the equivalent, by a nationally recognized statistical rating agency.
- I. Includes agencies defined as a county, a city and county, or other local agency that pools money in deposits or investments with other local agencies, including local agencies that have the same governing body. Local agencies that pool exclusively with other local agencies that have the same governing body must adhere to the limits set forth in Section 53601(h)(2)(C).
- J. No more than 30 percent of the agency's money may be in negotiable certificates of deposit that are authorized under Section 53601(i).
- K. Effective January 1, 2020, no more than 50 percent of the agency's money may be invested in deposits, including certificates of deposit, through a placement service as authorized under 53601.8 (excludes negotiable certificates of deposit authorized under Section 53601(ii)). On January 1, 2026, the maximum percentage of the portfolio reverts back to 30 percent.
- L. Reverse repurchase agreements or securities lending agreements may exceed the 92-day term if the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement or securities lending agreement and the final maturity dates of the same security.
- M. Reverse repurchase 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 local agency must have held the securities used for the agreements for at least 30 days.
- N. "Medium-term notes" are defined in Section 53601 as "all corporate and depository institution debt securities with a maximum maturity of five 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."
- O. No more than 10 percent invested in any one mutual fund. This limitation does not apply to money market mutual funds.
- P. A mutual fund must receive the highest ranking by not less than two nationally recognized rating agencies or the fund must retain an investment advisor who is registered with the SEC (or exempt

- from registration), has assets under management in excess of \$500 million, and has at least five years' experience investing in instruments authorized by Sections 53601 and 53635.
- Q. A money market mutual fund must receive the highest ranking by not less than two nationally recognized statistical rating organizations or retain an investment advisor registered with the SEC or exempt from registration and who has not less than five years' experience investing in money market instruments with assets under management in excess of \$500 million.
 - R. Investments in notes, bonds, or other obligations under Section 53601(n) require that collateral be placed into the custody of a trust company or the trust department of a bank that is not affiliated with the issuer of the secured obligation, among other specific collateral requirements.
 - S. A joint powers authority pool must retain an investment advisor who is registered with the SEC (or exempt from registration), has assets under management in excess of \$500 million, and has at least five years' experience investing in instruments authorized by Section 53601, subdivisions (a) to (o).
 - T. Local entities can deposit between \$200 million and \$10 billion into the Voluntary Investment Program Fund, upon approval by their governing bodies. Deposits in the fund will be invested in the Pooled Money Investment Account.
 - 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), with a maximum 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. **Annual Comprehensive 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.
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. **Broker:** A broker brings buyers and sellers together for a commission.
6. **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.
7. **Certificate of Deposit (CD):** A time deposit with a specific maturity evidenced by a Certificate. Large-denomination CD's are typically negotiable.

8. **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.
9. **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.
10. **Dealer:** A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for their own account.
11. **Delivery versus Payment (DVP):** The delivery of securities with an exchange of money for the securities.
12. **Discount:** The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.
13. **Diversification:** Dividing investment funds among a variety of securities offering independent returns with the goal of spreading risk throughout the portfolio holdings.
14. **Duration:** A measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years. Rising interest rates mean falling bond prices, while declining interest rates mean rising bond prices.
15. **Federal Deposit Insurance Corporation (FDIC):** A federal agency that insures bank deposits.
16. **Liquidity:** A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value.
17. **Local Agency Investment Fund (LAIF):** A voluntary program created by state statute as an investment alternative for California's local governments and Special Districts under the administration of the California State Treasurer's Office. All securities are purchased under the authority of the Government Code Section 16430 and 16480.4.
18. **Local Government Investment Pool (LGIP):** A state or local government pool offered to public entities for the investment of public funds.
19. **Market Value:** The price at which a security is trading and could presumably be purchased or sold.
20. **Master Repurchase Agreement:** A written contract covering all future transactions between the parties that establishes each party's rights in the transactions. A master

agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller borrower.

21. **Maturity:** The date upon which the principal or stated value of an investment becomes due and payable. The investment's term or remaining maturity is measured from the settlement date to final maturity.
22. **Money Market:** The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.
23. **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.
24. **Offer:** The price asked by a seller of securities.
25. **Portfolio:** Collection of securities held by an investor.
26. **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.
27. **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.
28. **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.
29. **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.
30. **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.
31. **Reverse Repurchase Agreement (Reverse REPO):** A reverse-repurchase agreement (reverse repo) involves an investor borrowing cash from a financial institution in exchange for securities. The investor agrees to repurchase the securities at a specified date for the same cash value plus an agreed upon interest rate. Although the transaction is similar to a

repo, the purpose of entering into a reverse repo is quite different. While a repo is a straightforward investment of public funds, the reverse repo is a borrowing.

32. **Safekeeping:** A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.
33. **Secondary Market:** A market made for the purchase and sale of outstanding issues following the initial distribution.
34. **Securities & Exchange Commission:** Agency created by Congress to protect investors in securities transactions by administering securities legislation.
35. **Treasury Bills:** A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.
36. **Treasury Bonds:** Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than 10 years.
37. **Treasury Notes:** Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to 10 years.
38. **Yield:** The rate of annual income return on an investment, expressed as a percentage.