

MINUTES OF THE
FISCAL POLICY COMMITTEE OF
VISTA IRRIGATION DISTRICT

February 9, 2015

A Meeting of the Fiscal Policy Committee was held on Monday, February 9, 2015, at the offices of the District, 1391 Engineer Street, Vista, California.

1. CALL TO ORDER

Chair MacKenzie called the meeting to order at 10:00 a.m.

2. ROLL CALL

Directors present: Chair MacKenzie and Director Vásquez.

Staff present: Roy Coox, General Manager; Marian Schmidt, Assistant Secretary of the Board; Eldon Boone, Assistant General Manager; Marlene Kelleher, Finance Manager; Farrokh Shahamiri, Finance Associate; Brian Smith, Director of Engineering; Al Ducusin, Engineering Department Manager; Don Smith, Director of Water Resources, Frank Wolinski, Operations and Field Services Manager.

3. APPROVAL OF AGENDA

The agenda was approved as presented.

4. PUBLIC COMMENT TIME

There were no members of the public present.

5. 2016 BUDGET PLANNING

See staff report attached hereto.

Staff discussed with the Committee the upcoming Fiscal Year 2016 Budget preparations. General Manager Roy Coox stated that staff is in the process of working on the budget over the next several months with each department to compile their budgets. He indicated that as in the past, the goal will be to continue holding costs down.

Assistant General Manager Eldon Boone reported a request from Director Dorey that the Committee reassess the process of the District's projections on the incoming local water into its system. Historically, the District has looked at the long term average production in Lake Henshaw from 1960 forward. Based on Director Dorey's recommendation, more recently the District has based the production using a 10 year rolling average. This average is used for preparation of the budget and Mr. Boone passed out a copy of a graph that illustrates the history of the actual, 10-year rolling average, and cumulative average of local water (attached hereto as Exhibit A). Mr. Boone summarized the graph and mentioned that the prediction of how much local water the District will have for 2016 is an unknown and is the reason for using a 10 year rolling average for budgeting. This graph will be included with the draft budget when presented to the Board.

Chair MacKenzie suggested that staff present a San Diego County Water Authority invoice and highlight the line items that pertain to the District's value of Lake Henshaw water. Ms. MacKenzie requested adding a 5 and 15-year rolling average of local water production to the graph.

Staff plans to have a draft budget to present to the Fiscal Policy Committee by the end of April and will present it to the Board in May.

6. DISTRICT FEES AND CHARGES OTHER THAN WATER RATES

See staff report attached hereto.

Mr. Boone provided a brief summary and the Committee reviewed the proposed revisions to the District's fees and charges. Staff reported to the Committee that the purpose of these fees and charges is to recover costs associated with the services provided by the District. Staff further reported that these revisions to the fees and charges are necessary to properly account for increased material costs, updated process analyses, increased labor costs, and increased costs of outside services.

Mr. Boone stated that most of the proposed fee increases can be attributed primarily to the cost of parts and paving associated with that fee. He also made note of the fees with large percentage increases such as Construction Meter Deposit. This fee increase is due to the addition of a backflow device on the construction meters that adds protection to the District's system during construction. Another high increase he noted is the refund that is issued back to the developer once the construction meter is returned, less any damage, and upon inspection.

The Committee further discussed the Fee Summary and requested staff to add "With Backflow Device" to the 1" Construction Meter Deposit and also on the 1" Construction Meter Deposit With Spanner descriptions. The Subdivision Construction Meter Deposit had a high percentage increase due to the increased cost of meters using the more accurate ultrasonic meters. The Committee requested staff to include on the Fees Staff Report to the Board an explanation of how the fees for refund amounts are calculated.

The Committee requested staff to verbally summarize the components of the 3/4" Meter Full Install fee and the Late Payment fee to the Board.

A brief break was taken from 11:10 a.m. to 11:20 a.m.

6. INVESTMENT POLICY

See staff report attached hereto.

Staff annually reviews the investment policy for changes deemed necessary to comply with changes in law or that are prudent and proper considering the current investment environment and the District's investment portfolio. Staff has not made any recommendations to the policy since 2007. The Committee reviewed and discussed with staff the consideration of modifications to the District's Investment Policy.

The Committee will present to the Board a draft of the Investment Policy recommending the removal of derivative securities, repurchase agreements and reverse repurchase agreements. The glossary and other sections will be updated accordingly.

7. COMMENTS BY COMMITTEE MEMBERS

None were presented.

8. COMMENTS BY GENERAL MANAGER

None were presented.

9. ADJOURNMENT

There being no further business to come before the Committee, at 12:30 p.m. Chair MacKenzie adjourned the meeting.



Jo MacKenzie, Chair

ATTEST:



Marian Schmidt, Assistant Secretary
Board of Directors
VISTA IRRIGATION DISTRICT



**FISCAL POLICY COMMITTEE
STAFF REPORT**

Agenda Item: 5

Meeting Date:

February 9, 2015

Prepared By:

Marlene Kelleher

Reviewed By:

Eldon Boone

Approved:

Roy Coox

SUBJECT: FISCAL YEAR 2016 BUDGET PLANNING

RECOMMENDATION: For information only.

PRIOR BOARD ACTION: None.

FISCAL IMPACT: None.

SUMMARY: Staff would like to meet with the Fiscal Policy Committee to plan the upcoming Fiscal Year 2016 Budget and obtain the Committee's suggestions and input. The budget process begins around this time each year and staff spends March and April compiling the detailed budget document. Staff plans to present a draft of the 2016 Budget to the Fiscal Policy Committee towards the end of April.



**FISCAL POLICY COMMITTEE
STAFF REPORT**

Agenda Item: 6

Meeting Date:
Prepared By:
Reviewed By:
Approved:

February 9, 2015
Marlene Kelleher
Eldon Boone
Roy Coox

SUBJECT: DISTRICT FEES AND CHARGES OTHER THAN WATER RATES

RECOMMENDATION: Review the proposed revisions to the District's fees and charges and recommend that the Board of Directors call for a public hearing for the purpose of receiving comments on revisions to the District's Rules and Regulations relative to fees and charges other than water rates.

PRIOR BOARD ACTION:

- 2/19/14 Called for a public hearing to be held on March 5, 2014 to receive comments on revisions to the District's Rules and Regulations relative to fees and charges other than water rates.
- 3/5/14 Conducted a public hearing. There were no public comments, written or oral, presented. Adopted Resolution No. 14-7 revising Rules and Regulations of the District relative to fees and charges other than water rates.

FISCAL IMPACT: The revenue produced by these fees and charges is designed to recover the costs associated with the services provided by the District. Because of inflationary adjustments, adoption of the new miscellaneous fees and charges will increase revenue to the District if the number and type of transactions remain similar to those in the past. In FY 2014, the District collected approximately \$1.8 million in revenues from miscellaneous fees and charges. Staff estimates an increase in annual fee revenues of approximately \$40,000.

SUMMARY: Every year, the District performs a nexus study to ensure that its fees and charges accurately reflect the actual costs of providing services and only those costs. As a result, the District's fees and charges need revision to properly account for changes in the cost of labor, materials, and outside services for the coming year. The fee summary schedule attached is a comprehensive list of fees and charges other than water rates. The proposed changes result from increased material costs, updated process analyses, increased labor costs and increased costs of outside services.

A new Engineering fee entitled "As-Built Deposit" is proposed to ensure the submittal of as-built drawings from developers at the end of their project. The fee is proposed to be fully (100%) refundable upon submittal of as-built drawings.

The District's fees and charges are being presented to the Fiscal Policy Committee for review and discussion prior to consideration by the full Board. After the Committee's review and recommendation, the Board will be asked to call for and conduct a public hearing prior to adopting the revised fees and charges.

DETAILED REPORT: Staff has performed detailed costs studies on all fees and charges. This year, approximately 500 pages of detailed data and calculations were reviewed and analyzed as part of the study. The proposed changes are necessary due to inflationary factors and the updated results of the very detailed analysis of the cost make-up of each fee. The proposed fees are calculated using current costs for labor, materials and outside services.

ATTACHMENTS: Proposed Fee Summary

Vista Irrigation District
FEE SUMMARY
Effective: _____, 2015

	<u>Current Fee</u>	<u>Proposed Fee</u>	<u>\$ Change</u>	<u>% Change</u>
<u>Construction Fees:</u>				
5/8" Meter Full Install	\$ 4,826	\$ 4,967	\$ 141	2.9%
5/8" Meter Hook On	795	813	18	2.3%
5/8" Service Outlet	4,031	4,154	123	3.1%
3/4" Meter Full Install	4,817	4,959	142	2.9%
3/4" Meter Hook On	786	805	19	2.4%
3/4" Service Outlet	4,031	4,154	123	3.1%
1" Meter Full Install	4,861	5,065	204	4.2%
1" Meter Hook On	830	911	81	9.8%
1" Service Outlet	4,031	4,154	123	3.1%
1 1/2" Meter Full Install	6,194	6,424	230	3.7%
1 1/2" Meter Hook On	1,277	1,295	18	1.4%
1 1/2" Service Outlet	4,917	5,129	212	4.3%
2" Meter Full Install	6,966	7,337	371	5.3%
2" Meter Hook On	1,627	1,680	53	3.3%
2" Service Outlet	5,339	5,657	318	6.0%
Fire Hydrant Full Install	12,755	13,536	781	6.1%
Fire Hydrant Upgrade	6,051	6,572	521	8.6%
4" Fire Service Connection	9,148	9,715	567	6.2%
6" Fire Service Connection	9,692	10,203	511	5.3%
8" Fire Service Connection	10,669	11,272	603	5.7%
10" Fire Service Connection	12,406	13,123	717	5.8%
Air Vent, Blow Off, and Gate Valve for Fire Service	3,361	3,461	100	3.0%
Commercial Irrigation Service Conversion Fee	1,820	1,890	70	3.8%
Backflow Device Set-up	224	228	4	1.8%
Reset Pressure Valve	168	171	3	1.8%
1" Construction Meter Deposit	489	647	158	32.3%
Refundable Amount	114	241	127	111.4%
1" Construction Meter Deposit With Spanner	516	674	158	30.6%
Refundable Amount	137	264	127	92.7%
3" Construction Meter Deposit With Backflow Device	2,643	2,982	339	12.8%
Refundable Amount	1,594	1,868	274	17.2%
Unauthorized Taking of District Water	2,343	2,407	64	2.7%
Relocate Construction Meter	140	143	3	2.1%
Unauthorized Construction Meter and Backflow Device Move Penalty	288	293	5	1.7%
Subdivision Construction Meter Deposit	5,411	7,680	2,269	41.9%
Refundable Amount	4,015	5,411	1,396	34.8%
Meter Service Lateral Termination	1,741	1,849	108	6.2%
Temporary Offsite Meter	13,168	13,772	604	4.6%
Per Foot Charge For Frontages Greater Than 100 Feet	65	69	5	7.7%
Temporary Service Agreement Conversion	13,858	14,460	602	4.3%
Per Foot Charge For Frontages Greater Than 100 Feet	65	69	5	7.7%
Temporary Service Agreement Conversion Excluding Tieback and Permit	12,253	12,855	602	4.9%
Per Foot Charge For Frontages Greater Than 100 Feet	65	69	5	7.7%
Cancellation of Meter Application	223	227	4	1.8%
Meter Downsize from 3/4"	541	551	10	1.8%
Meter Downsize from 1"	541	551	10	1.8%
Meter Downsize from 1 1/2"	836	908	72	8.6%
Meter Downsize from 2"	1,057	1,070	13	1.2%

Vista Irrigation District FEE SUMMARY

Effective: _____, 2015

	Current Fee	Proposed Fee	\$ Change	% Change	
Engineering Fees:					
Hydraulic Analysis with Schematic Layout	\$ 523	\$ 533	\$ 10	1.9%	
Statement of Cost	355	362	7	2.0%	
Update Statement of Cost	187	191	4	2.1%	
Specifications Book Cost	76	77	1	1.3%	
Plan Check (per Sheet)	448	456	8	1.8%	
As-Built Deposit (per Sheet)*	-	535	-	-	
Refundable Amount (per Sheet)	-	535	-	-	
Construction Contract	891	1,528	637	71.5%	
Water Availability Letter	230	234	4	1.7%	
Water Availability Letter Update	122	124	2	1.6%	
Private Ownership Agreement	802	816	14	1.7%	
Grant of Right of Way (to Public)	581	590	9	1.5%	
Restoration of Water Rights	382	389	7	1.8%	
Assignment of Water Rights	438	446	8	1.8%	
Imported Water Entitlement	438	444	6	1.4%	
Quitclaim/Cancellation of Recorded Documents	690	702	12	1.7%	
Fire Flow Analysis (Only)	196	200	4	2.0%	
Annexation Fee (per Acre)	6,113	6,470	357	5.8%	
Annexation/Administration - VID Not Conducting Agency	2,017	2,053	36	1.8%	
Annexation/Administration - VID Conducting Agency	2,017	2,053	36	1.8%	
Annexation/Administration - VID Conducting Reorganization	2,017	2,053	36	1.8%	
Detachment Fee (per Acre)	-	-	-	-	
Detachment/Administration - VID Conducting Agency	2,017	2,053	36	1.8%	
Detachment/Administration - VID Not Conducting Agency	2,017	2,053	36	1.8%	
5/8" Capacity Fee	<i>Current # of meters:</i> 6,825	3,304	3,321	17	0.5%
3/4" Capacity Fee	<i>Current # of meters:</i> 16,531	4,956	4,981	25	0.5%
1" Capacity Fee	<i>Current # of meters:</i> 2,683	8,260	8,302	42	0.5%
1 1/2" Capacity Fee	<i>Current # of meters:</i> 1,298	16,519	16,605	86	0.5%
2" Capacity Fee	<i>Current # of meters:</i> 867	26,430	26,567	137	0.5%
3" Capacity Fee	<i>Current # of meters:</i> 69	52,861	53,135	274	0.5%
4" Capacity Fee	<i>Current # of meters:</i> 18	82,595	83,023	428	0.5%
6" Capacity Fee	<i>Current # of meters:</i> 14	165,191	166,046	855	0.5%
8" Capacity Fee	<i>Current # of meters:</i> 3	264,305	265,673	1,368	0.5%
10" Capacity Fee	<i>Current # of meters:</i> 1	379,938	381,905	1,967	0.5%
12" Capacity Fee	<i>Current # of meters:</i> 0	710,319	713,996	3,677	0.5%
Meter Service Lateral Inspection	541	551	10	1.8%	
RPDA Inspection	821	836	15	1.8%	
RPDA and Lateral Inspection Without Shutdown	1,493	1,520	27	1.8%	
RPDA and Lateral Inspection With Shutdown	1,829	1,862	33	1.8%	
Fire Hydrant Inspection	821	836	15	1.8%	
Fire Hydrant and Lateral Inspection without Shutdown	1,493	1,520	27	1.8%	
Fire Hydrant and Lateral Inspection with Shutdown	1,829	1,862	33	1.8%	

* New Fee

Vista Irrigation District
FEE SUMMARY
Effective: _____, 2015

	<u>Current Fee</u>	<u>Proposed Fee</u>	<u>\$ Change</u>	<u>% Change</u>
<u>Customer Service Fees:</u>				
Late Payment	\$ 12	\$ 12	\$ -	-
Door Hanger	48	49	1	2.1%
Non-Payment Lock	130	133	3	2.3%
After Hours Lock or Unlock	148	150	2	1.4%
Broken Lock	148	150	2	1.4%
Pulled Meter	148	150	2	1.4%
Tax Roll	56	57	1	1.8%
Returned Check	34	35	1	2.9%
Voluntary Lock or Unlock	56	57	1	1.8%
Meter Bench Test	289	295	6	2.1%
<u>Water Conservation Fees:</u>				
Second Water Citation within 12 Months	\$ 197	\$ 200	\$ 3	1.5%
Third Water Citation within 12 Months	393	404	11	2.8%
Four or More Water Citations within 12 Months	589	609	20	3.4%
1" and Smaller Flow Restrictor Installation & Removal	261	274	13	5.0%
1½" and 2" Flow Restrictor Installation & Removal	495	521	26	5.3%



**FISCAL POLICY COMMITTEE
STAFF REPORT**

Agenda Item: 7

Meeting Date:
Prepared By:
Reviewed By:
Approved:

February 9, 2015
Farrokh Shahamiri
Marlene Kelleher
Eldon Boone

SUBJECT: INVESTMENT POLICY UPDATE

RECOMMENDATION: Review and consider modifications to the District's Investment Policy.

PRIOR BOARD ACTION:

7/3/07 The Board adopted the current investment policy.

FISCAL IMPACT: There is no fiscal impact associated with this recommendation.

SUMMARY: The District's investment policy is governed by the California Government Code (Code), Section 53600 et seq. Staff annually reviews the investment policy for changes deemed necessary to comply with changes in law or that are prudent and proper considering the current investment environment and the District's investment portfolio. Staff strongly advises to continue to follow the primary objectives of the investment policy which in priority order are: 1) Safety, 2) Liquidity, and 3) Return on Investment (Yield).

DETAILED REPORT: During the annual audit of the District's financial statements, the auditors noted that the District was not in compliance with the Code related to Reverse Repurchase Agreements. The Code allows for a limit of 20% investment in Reverse Repurchase Agreements and the District's current policy is at 25%. Based upon further review by staff, it was also noted that the District's current policy related to Repurchase Agreements was in excess of that allowed by the Code, in the same manner. The Code also allows for a limit of 20% investment in Repurchase Agreements and the District's current policy is at 25%. Staff recommends reducing the allowable investment percentages for these investments to 10%.

Repurchase agreements represent the sale of government securities with an agreement for the seller to buy back the securities at a later date, at a price greater than the original sales price. For the party selling the security (and agreeing to buy it back in the future), it is a repurchase agreement; for the party on the other end of the transaction (buying the security and agreeing to sell it back in the future), it is a reverse repurchase agreement. The District has not invested in repurchase agreements or reverse repurchase agreements and does not plan to do so. Investments of this type represent a higher risk option allowable under the Code.

ATTACHMENTS: Current Investment Policy

4.2 INVESTMENT POLICY

<i>Adoption Date:</i>	July 3, 2007
<i>Action:</i>	Approved by VID Board of Directors, Resolution 07-27
<i>Applicable Law/Code/Agency:</i>	California Government Code, Section 53646

4.2.1 Policy

It is the policy of the Vista Irrigation District (District) to invest public funds in a manner that enhances its economic status while protecting its funds, providing for daily cash flow demands, and conforming to all state and local statutes governing the investment of the public funds.

Investment officials shall recognize that the investment portfolio is subject to public review and evaluation. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust.

4.2.2 Purpose

The purpose of this policy is to establish acceptable parameters to protect, preserve, and maintain the cash and investments of the District's financial portfolio.

4.2.3 Scope

It is intended that this policy is to include all monetary instruments (including cash and cash equivalents) under the direct authority of the Board of Directors (Board), except for funds held by fiscal agents, for which separate investment objectives are specified and are accounted for in the District's audited financial statements.

4.2.4 Prudence

The District adheres to the guidance provided by the "prudent investor rule," which obligates a fiduciary to ensure that: "When investing, reinvesting, purchasing, acquiring, exchanging, selling or 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 familiar 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. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law."

4.2.5 Objective

The primary objectives, in priority order, of the District's investment activities are as follows:

- A. Safety: Safety of principal is the foremost objective of the investment program. It is the primary duty and responsibility of the District to protect, preserve and maintain cash and investments placed in its trust on behalf of the citizens of the community. Investments of the District shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, the District shall evaluate or have evaluated each potential investment seeking both quality in the issuer and in underlying security or collateral. The District will diversify its investments by investing funds among a variety of securities offering independent returns in order to reduce exposure to principal loss.
- B. Liquidity: In order to remain sufficiently liquid to meet all operating requirements which might be reasonably anticipated, an adequate percentage of the portfolio should be maintained in liquid short-term securities which can be converted to cash if necessary. Emphasis should be on marketable securities with low sensitivity to market risk.
- C. Return on Investments (Yield): The investment portfolio shall be designed with the objective of attaining a market rate of return throughout economic cycles, taking into account the investment risk constraints and liquidity needs. Yield should become a consideration only after the basic requirements of safety and liquidity have been met, and therefore is of the least importance when compared to safety and liquidity.

4.2.6 Delegation of Authority

In accordance with California Government Code Section 53601, the authority to invest public funds is expressly held under the authority of the Board. In accordance with California Government Code Section 53607, the Board is authorized to delegate the authority and responsibility for the day-to-day operations of investing and reinvesting District funds, as deemed appropriate.

- A. Investment Authority and Procedures: The Board has granted the authority of the management and operation of the investment program to the Treasurer and Assistant Treasurer who shall carry out established written procedures and internal controls of the program consistent with this investment policy.

4.2.7 Ethics and Conflicts of Interest

Directors, Treasurer, Assistant Treasurer, and all employees involved in the investment process shall refrain from personal business activity that conflicts with proper execution of the investment program, or impairs their ability to make impartial investment decisions. Additionally, the Treasurer and Assistant Treasurer are required to annually file applicable financial disclosures as required by the Fair Political Practices Commission.

4.2.8 Authorized Financial Dealers and Institutions

Broker/Dealers will be approved by the Board of Directors. An approved Broker/Dealer list will be maintained by the Treasurer. The approved Broker/Dealer list will be reviewed and affirmed by the Board annually. The Treasurer will obtain and have on file the latest audited financials of all approved Broker/Dealers. Each approved Broker/Dealer who desires to become a qualified bidder for investment transactions must supply the District with most recent audited financial statements, proof of National Association of Security Dealers Certification, trading resolution, proof of state registration, completed Broker/Dealer questionnaire, certification of having read the District's investment policy, and depository contracts. In addition, each Broker/Dealer will have a minimum of \$100 million in net capital or act as an introducing broker for a firm that meets the above requirement. All exceptions to the net capital rule will be subject to approval by the Board of Directors.

An annual review of the financial condition and registrations of qualified bidders will be conducted by the Treasurer. Competitive bidding is required for all investment transactions that are not classified as "new issue" securities. For the purchase of non-new issue securities and the sale of all securities, at least two bidders must be contacted.

4.2.9 Authorized and Suitable Investments

The District is governed by the California Government Code, Sections 53600 et seq. Within the context of these limitations, the following investments are authorized:

- A. Local Government Investment Pools (LGIP): District investments in one LGIP shall not exceed 40% of the District's total available investment capital. All LGIP's, except the Local Agency Investment Fund (LAIF) of the State of California, must maintain an AA or higher rating by a nationally recognized statistical rating organization. The District must adopt a resolution prior to investing in any LGIP, except the LAIF. All LGIP's, except the LAIF, must maintain a net asset value of \$1.00 per share and distribute interest monthly. All LGIP's shall have retained an investment adviser that meets all of the following criteria:
 - (1) The adviser is registered or exempt from registration with the Securities and Exchange Commission.
 - (2) The adviser has not less than five years of experience investing in authorized securities.

- (3) The adviser has assets under management in excess of \$500 million.
- B. FDIC-insured institutions' Certificates of Deposit, and Savings Accounts: District investments shall not exceed 40% of the District's total available investment capital, or more than 20% in a single FDIC-insured financial institution. Negotiable CD's of A1/P1 rated financial institutions are subject to separate limitations.
- C. Corporate Medium Term Notes (MTNs): District investments shall not exceed 20% of the District's total available investment capital. The maturity of MTNs will not exceed 5 years. The investment in one issuer will not exceed 5% of the District's total available investment capital. The long-term credit rating of the issuer must be A-/A3. While one rating is sufficient, all ratings must be A-/A3 or better. There will be no investments in corporate medium term notes without prior Board approval.
- D. U.S. Government Bills, Notes, Bonds and Treasury Strips: There will be no limit to the amount of the investment portfolio in these instruments. Maturity will be limited to 5 years unless offset by a long term liability. All investments over 5 years will state the liability which they offset.
- E. U.S. Government Agency/Instrumentalities other than above: District investments shall not exceed 40% of the District's total available investment capital. Maturity will be limited to 5 years unless offset by a long term liability. All investments over 5 years will state the liability which they offset.
- F. Derivative Securities: Derivative securities will not exceed 10% of the District's total available investment capital. Derivative securities will be limited to U.S. Agency securities. Maturity will not exceed 5 years. Securities must have an interest rate floor of no less than 1% below a U.S. Treasury security with the same or nearly same maturity. All derivative securities will return at least the face amount of the investment at maturity. There will be no investments in derivatives without prior Board approval. In addition, there will be no investments in inverse floaters, range notes, or interest-only strips that are derived from a pool of mortgages.
- G. Money Market Instruments: Money market instruments such as Bankers Acceptances (Bas), Commercial Paper (CP) and Repurchase Agreements (RPs) will not exceed 25% of the District's total available investment capital. Credit ratings on all money market instruments will be A1/P1 or equivalent. While one rating is adequate, all agencies that rate the security must rate it in their highest category. The District may invest (California Government Code Section 53601 (i)) in overnight and term repurchase agreements with primary dealers of the Federal Reserve Bank of New

York rated “A” or better by Moody’s Investors Service, or Standard & Poor’s with which the District has entered into a master repurchase agreement. This agreement will be modeled after the Public Securities Association’s master repurchase agreement. The collateral for repurchase agreements must consist only of securities eligible for investment by the District as described in this policy. Over collateralization of the repurchase agreement must be maintained at a minimum of 102% of the amount invested. The 102% will include accrued interest on the securities. Maturity will be no more than 180 days. There will be no investments in money market instruments without prior Board approval.

- H. Negotiable Certificates of Deposit (NCD’s): Investment limitations will be the same as money market instruments except for maturity. Maturity will not exceed 5 years. NCD’s with a maturity in excess of 1 year will have a long term rating of A-/A3. Investment in one issuer will not exceed 5% of the District’s total available investment capital. There will be no investment in negotiable certificates of deposit without prior Board approval.
- I. Mortgage Backed Securities (MBS) and Asset Backed Securities (ABS): MBS and ABS will not exceed 10% of the District’s total available investment capital. Average life of the security will not exceed 5 years with a final legal maturity of no longer than 7 years. Credit ratings will be AAA/aaa. There will be no investments in mortgage backed securities or asset backed securities without prior Board approval.
- J. Mutual Funds: Mutual Funds will be limited to Money Market Funds with a Net Asset Value of \$1.00. Each Money Market Fund will have assets of a minimum of \$500 million. Only “No Load” Money Market Funds are eligible for investment. District investments shall not exceed 20% of the District’s total available investment capital, or more than 10% in a single Money Market Fund. All Money Market Funds must maintain the highest rating by not less than two nationally recognized statistical rating organizations or retain an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years’ experience managing money market mutual funds with assets under management in excess of \$500 million.
- K. Reverse Repurchase Agreements: Reverse Repurchase Agreements will be limited in amount to 25% of the District’s total available investment capital. Reverse repurchase agreements may be executed with only approved Primary Dealers of the Federal Reserve Bank of New York. The purpose of the reverse repurchase agreement will be either for general liquidity or reinvestment. If the purpose is reinvestment, the investment purchased will be in conformance with the investment policy and will be matched to the term of the reverse. The term of the reverse will be limited

to 92 days. The security sold subject to repurchase will be marked to market daily with cash collateral maintained at no less than 100% of the market value of the security. Securities used to execute Reverse Repurchase Agreements must have been previously paid for and owned by the District for a minimum of 30 days prior to being used as collateral. The District will not enter into reverse repurchase agreements without prior Board approval.

4.2.10 Investment Pools/Mutual Funds

Government sponsored investment pools and mutual funds are to be carefully reviewed prior to investing and are to be monitored on an ongoing basis. Requisite information relating to investment pools and mutual funds are to be kept on file by the District and includes the following:

1. Investment policy and objectives;
2. List of allowable investments;
3. Disclosure for settlement and safeguarding of investments;
4. Description of securities pricing and accounting compliance;
5. Explanation of interest calculations, distributions, disclosures;
6. Deposit and withdrawal restrictions; and,
7. Disclosure of audit findings and reports.

4.2.11 Collateralization

Collateralization shall be required on demand deposits, certificates of deposit, and repurchase agreements. In order to anticipate market changes and provide a level of security for all funds, a minimum collateralization level is required.

State law regarding collateralization of deposits of public funds requires that securities be held by an agent (i.e. a trust company) of the bank, which may include the bank's trust department only if acceptable to both the bank and the Treasurer, pursuant to California Government Code Section 53656 and 53658. Under the provisions of California Government Code Section 53652, banks are required to secure the deposits of public funds, including certificates of deposits, by: a) pledging government securities with a value of 110 percent of the principal and accrued interest; b) pledging first trust deed mortgage notes having a value 150 percent of the total agency deposit; or c) a letter of credit drawn on the Federal Home Loan Bank of 105 percent of the total agency deposit. Deposits must be secured at all times with eligible securities pursuant to section 53651.

Collateralization of repurchase agreements must be at least 102 percent of the market value of principal and accrued interest. Collateral must consist of U.S. Treasury obligations or U.S. Agency obligations. Other specific requirements on repurchase agreements must be addressed in a master repurchase agreement between the District and the financial institution or broker/dealer.

4.2.12 Safekeeping and Custody

All security transactions, including collateral for repurchase agreements, entered into by the District shall be conducted on a delivery-versus-payment (DVP) basis. To protect against fraud or embezzlement or losses caused by collapse of an individual securities dealer, all securities owned by the District shall be held in safekeeping by a third party bank trust department that has been designated by the Treasurer, acting as agent for the District under the terms of a custody agreement. All trades executed by a dealer will settle through the District's safekeeping agent as evidenced by safekeeping receipts.

4.2.13 Diversification

The investment portfolio will be diversified to avoid incurring unreasonable and avoidable risks regarding specific security type or individual financial institutions. In a diversified portfolio, it must be recognized that measured losses are possible, and must be considered within the context of the overall portfolio's investment return, provided that adequate diversification has been implemented.

4.2.14 Maximum Maturities

To the extent possible, the District will make every effort to match its investments with anticipated cash flow requirements. Matching maturities with cash flow dates will reduce the need to sell investments prior to maturity, thus reducing the market risk.

Express authority is granted to invest in investments with term to maturity of greater than five years with a maximum term of ten years, provided the investments are in accordance with stated policy and total investments shall not exceed the amount of long term liabilities outstanding. Investments exceeding 5 years will be matched with a corresponding liability.

4.2.15 Internal Control

The Treasurer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the District are protected from loss, theft, or misuse. 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 the Treasurer and Assistant Treasurer.

Accordingly, the Treasurer shall establish a process for annual independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following points:

1. Control of collusion. Collusion is a situation where two or more employees are working in conjunction to defraud their employer.

2. Separation of transaction authority from accounting and record keeping. By separating the person who authorizes or performs the transaction from the person who records or otherwise accounts for the transaction, a separation of duties is achieved.
3. Custodial safekeeping. Securities purchased from any bank or dealer, including appropriate collateral (as defined by State Law), shall be placed with an independent third party for custodial safekeeping.
4. Avoidance of physical delivery of securities. Book-entry securities are much easier to transfer and track since actual delivery of a document never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities.
5. Clear delegation of authority. The Investment Officers must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.
6. Written confirmation of transactions for investments and wire transfers. Confirmations of trades will be mailed directly to the Treasurer. Confirmations will be checked against pending trades as soon as received. Any discrepancies will be immediately reported to the trade counter party and resolved. All investments and wire transfers will be approved by the Treasurer. In the absence of the Treasurer, the Assistant Treasurer may approve investments and wire transfers. However, upon the return of the Treasurer, the Treasurer will sign and re-approve all trade tickets and wires.

4.2.16 Performance Standards

The investment portfolio will be managed in accordance with the parameters specified within this policy. The objective of the portfolio should be to obtain a stable rate of return taking into consideration economic constraints commensurate with investment risk and cash flow requirements. Portfolio performance should be compared to appropriate benchmarks on a regular basis, as determined by the Treasurer.

- A. Market Yield. The District's investment strategy is passive (buy and hold). Given this strategy, the 6-month US Treasury Bill is used by the Treasurer as the basis to determine whether market yields are being achieved.

A statement of the market value of the portfolio shall be issued at least quarterly. This will ensure that the minimal amount of review has been performed on the investment portfolio in terms of value and subsequently price volatility.

4.2.17 Reporting

The Treasurer shall submit to the Board a quarterly (or more frequently if so directed by the Board) report of the investment portfolio. This report will allow the Board to ascertain whether investment activities during the reporting period have conformed to the investment policy and as a minimum will include the following:

1. The type of investment, name of issuer, date of maturity, par and dollar amount invested in each security, investment, and money within the portfolio.
2. The weighted average maturity of the investments within the portfolio.
3. Any funds, investments, or programs, including loans that are under management of contracted parties.
4. The market value as of the date of the report, and the source of this valuation for any security within the portfolio.
5. A description of the compliance with the statement of investment policy.
6. A statement of the ability (or lack of) to meet six (6) months cash flow needs. If the answer is not affirmative, a statement as to why there may not be sufficient funds available and a proposed course of action to correct the insufficiency.

4.2.18 Investment Policy Adoption

In accordance with California Government Code Section 53646, the investment policy shall be reviewed and submitted to the Board in order to incorporate any changes necessary to ensure its consistency and relevance to current laws, and financial and economic trends. Any additions, deletions and/or changes to this Investment Policy must always be reviewed and approved by the Board at a public meeting.

4.2.19 Glossary of Terms

Agencies — Federal agency securities and/or Government-sponsored enterprises.

Asked — The price at which securities are offered.

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.

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.

Bid — Price a prospective buyer is ready to pay.

Broker/Dealer — Individual or firm acting as principal in securities transaction.

Callables — Securities that the issuer has the right to redeem prior to maturity.

Certificates of Deposit (CD) — A time deposit with a specific maturity evidenced by a certificate.

Collateral — Securities pledged to secure repayment of a loan.

Comprehensive Annual Financial Report (CAFR) — An expanded annual financial report. It includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material and a detailed statistical section.

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.

Custody — A banking service that provides safekeeping for the individual securities in a customer's investment portfolio under a written agreement which also calls for the bank to collect and pay out income, to buy, sell, receive and deliver securities when ordered to do so by the treasurer.

Debenture — A bond secured only by the general credit of the issuer.

Delivery vs. Payment — There are two methods of delivery of securities: Delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with a simultaneous exchange of money. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

Derivatives — a) Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor; b) Financial contracts based upon amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

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.

Discount Securities — Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value, e.g., U.S. Treasury Bills.

Diversification — Dividing investment funds among a variety of securities offering independent returns.

Federal Credit Agencies — Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., S&L's, small business firms, students, farmers, farm cooperatives and exporters.

Federal Deposit Insurance Corporation (FDIC) — A federal agency that insures bank deposits, currently up to \$100,000.00 per deposit.

Federal Funds Rate — The rate of interest associated with borrowing a Federal Reserve bank's excess reserves. This rate is currently pegged by the Federal Reserve through open-market operations.

Federal Home Loan Banks (FHLB) — Government sponsored wholesale banks (currently 12 regional banks) which lend funds and provide correspondent banking services to member commercial banks, draft institutions, credit unions and insurance companies.

Federal National Mortgage Association (FNMA or Fannie Mae) — A publicly owned government sponsored corporation chartered in 1938 to purchase mortgages from lenders and resell them to investors. FNMA is a federal corporation working under the auspices of the Department of Housing (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

Federal Open Market Committee (FOMC) — A committee that sets interest rate and credit policies for the Federal Reserve System, the United States' central bank. The FOMC has 12 members. Seven are the members of the Federal Reserve Board, appointed by the President of the United States. The other five are presidents of the 12 regional Federal Reserve banks. Of the five, four are picked on a rotating basis; the other is the president of the Federal Reserve Bank of New York, who is a permanent member. The committee decides whether to increase or decrease interest rates through open market operations of buying or selling government securities. The committee's decisions are closely watched and interpreted by economists and stock and bond market analysts, who try to predict whether the Fed is seeking to tighten credit to reduce inflation or to loosen credit to stimulate the economy.

Federal Reserve System — System established by the Federal Reserve Act of 1913 to regulate the U.S. monetary and banking system. The Federal Reserve System (the Fed) is comprised of 12 regional Federal Reserve Banks, their branches, and all national and state banks that are a part of the system. The Federal Reserve System's main functions are to regulate the national money supply, set reserve requirements for member banks,

supervise the printing of currency at the mint, act as clearinghouse for transfer of funds throughout the banking system, and examine member banks to make sure they meet various Federal Reserve regulations.

Government National Mortgage Association (GNMA or Ginnie Mae) — A government-owned corporation, nicknamed Ginnie Mae, which is an agency of the U.S. Department of Housing and Urban Development. Security holders are protected by the full faith and credit of the U.S. government. Ginnie Mae securities are backed by the FHA, VA or FmHA mortgages. The term “pass throughs” is often used to describe Ginnie Maes.

Intermediate Maturity — Investment period greater than one year but less than five years and one day.

Liquidity — The ability to turn an asset into cash. The ability to buy or sell an asset quickly and in large volume without substantially affecting the asset’s price.

Local Agency Investment Fund (LAIF) — The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

Long-Term Maturity — Investment period greater than five years.

Long-Term Investment — Maturity on investment greater than five years, as of the date of purchase.

Market Value — The price at which a security is trading, usually the liquidation value.

Master Repurchase Agreement — A written contract covering all future transactions between the parties to repurchase reverse repurchase agreements that establish each party’s rights in the transactions. A master repurchase agreement will often specify the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

Maturity — The date upon which the principal or stated value of an investment becomes due and payable.

Money Market — The market in which short-term debt instruments (Treasury bills, commercial paper, bankers acceptances, etc.) are issued and traded.

Offer — Price at which someone who owns a security offers to sell it, also known as the asked price.

Open Market Operations — Activities by which the Securities Department of the Federal Reserve Bank of New York, popularly called the desk, carries out instructions of the Federal Open Market Committee designed to regulate the money supply. Open market operations are the Federal Reserve’s most important and most flexible monetary policy tool.

Portfolio — Collection of securities held by an investor.

Primary Dealer — Investment dealers authorized to buy and sell government securities in direct dealings with the Federal Reserve Bank of New York in its execution of Federal Open Market Operations. Such dealers must be qualified in terms of reputation, capacity, and adequacy of staff and facilities.

Qualified Investment — An investment instrument which is approved by this policy or pursuant to procedures set forth in this policy.

Range Note — An investment instrument that pays a high interest rate, if a given index falls within a stipulated range, but pays no interest if the stipulated index falls outside that range.

Rate of Return — The yield obtainable on a security based on its purchase price or its current market price.

Repurchase Agreement (RP or REPO) — Agreement between a seller and a buyer, usually of U.S. government securities, whereby the seller agrees to repurchase the securities at an agreed upon price and usually, at a stated time. 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 him for this. Dealers use RP extensively to finance their positions. Exception: when the Fed is said to be doing RP, it is lending money, that is, increasing bank reserves.

Safety — The ability of a security issuer to guarantee redemption of the security.

Safekeeping — See custody.

Secondary Market — A market for the purchase and sale of outstanding issues following the initial distribution.

Securities & Exchange Commission — Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SEC Rule 15C3-1 — See Uniform Net Capital Rule.

Short-term Maturities — Investment period of one year or less.

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 or six months.

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.

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 ten years.

Uniform Net Capital Rule — Securities and Exchange Commission requirement that member firms as well as nonmember broker/dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members.

Yield — Percentage rate of interest received versus the purchase price of the instrument if held to maturity.