

# CASTAIC LAKE WATER AGENCY STATEMENT OF INVESTMENT POLICY

## **Introduction**

The Board of Directors of the Castaic Lake Water Agency recognizes its responsibility to direct the investment of funds under its care. The purpose of this policy is to provide guidelines for the investment of funds based upon prudent cash management practices and in conformity with all applicable statutes. This policy applies to the Castaic Lake Water Agency and the Santa Clarita Water Division.

## **Investment Goals**

The investment of funds by the Castaic Lake Water Agency shall be guided by the goals of safety of principal, liquidity and return on funds invested. These goals, ranked in order of priority, are further defined as follows:

- ◆ **Safety of Principal** is the foremost objective of the investment program. Investments will be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.
- ◆ **Liquidity of Funds** invested will remain sufficient to enable the Agency to meet all operating requirements and budgeted expenditures. Investments will be undertaken with the expectation that unplanned expenses will be incurred, therefore, portfolio liquidity will be created to cover reasonable contingency costs.
- ◆ **Return on Funds Invested** should be focused upon with investment safety and liquidity goals in perspective. The goal is to maximize return while ensuring that safety and liquidity objectives are not compromised.

## **Scope**

This investment policy applies to all financial assets held by Castaic Lake Water Agency. The Agency pools all cash for investment purposes. This policy is applicable, but not limited to all funds listed below:

Operating Fund	Facility Capacity Fee Fund
Interest and Sinking Fund	State Water Project Fund
Capital Improvement Fund	Reserve Funds
Special Revenue Fund	

## **Delegation of Authority**

Responsibility for the Agency's investment program is delegated to the Treasurer who shall oversee management of the portfolio consistent with this policy. With this delegation the Treasurer is given the authority to utilize internal staff and outside investment managers to assist in the investment program. The Treasurer will use care to assure that those assigned responsibility to assist in the management of the Agency's portfolio do so in accordance with this policy.

For the Santa Clarita Water Division, the Retail Manager serves as the Treasurer.

## **Conflicts of Interest**

All Agency officials and staff members involved with investment functions will refrain from personal

business activity that could conflict with the execution of the investment function or could impair their ability to make impartial investment decisions. Officials and staff members involved with the investment function will disclose to the Board of Directors any personal financial interest with a financial institution, broker or investment issuer conducting business with the Agency. Officials and staff members will further disclose to the Board of Directors any personal financial interest in any entity related to the investment performance of the Agency's portfolio.

### **Prudence**

Agency officials and staff members responsible for the investment program, under all circumstances, will conduct themselves in accordance with the "Prudent Man Rule". This rule requires that investments will be made with judgment and care, under circumstances then prevailing, which persons of prudence, direction and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

### **Responsibility**

The Treasurer and other individuals assigned to manage the investment portfolio, acting with the intent and scope of this investment policy while exercising due diligence, shall be relieved of personal responsibility for the credit risk and market price risk for securities held in the investment portfolio, provided deviations from expectations are reported in a timely manner and appropriate action is taken to control adverse developments.

For the Santa Clarita Water Division, the Retail Manager serves as the Treasurer.

### **Portfolio Maturity Limits**

The maximum maturity for any single investment in the portfolio shall not exceed five years.

The maximum weighted average maturity for the investment portfolio shall not exceed three years.

When a security has a mandatory put date, the put date should be used when calculating weighted average portfolio maturity. When a security has an optional put date, the optional put date should be used when calculating weighted average portfolio maturity so long as the put is at the discretion of the Agency and the put price is equal to or greater than the market value for the security. (A put is a contract that gives its holder the right to sell an underlying security, commodity, or currency before a certain date for a predetermined price.)

### **Permissible Investments and Investment Restrictions**

Permissible investments and investment credit quality, maturity and concentration restrictions (in aggregate by type of restriction) are as follows:

1. **United States Treasury Bills, Notes and Bonds**

Minimum Credit Quality:	Not Applicable
Maximum Portfolio Concentration:	No Limit
Maximum Concentration per Issuer:	No Limit
Maximum Maturity:	5 Years

2. United States Government Agency and Sponsored Enterprise Securities

Minimum Credit Quality:	Not Applicable
Maximum Portfolio Concentration:	No Limit
Maximum Concentration per Issuer:	No Limit
Maximum Maturity:	5 Years

3. Bankers Acceptances

Minimum Credit Quality:	A-1 or P-1
Maximum Portfolio Concentration:	30%
Maximum Concentration per Issuer:	5%
Maximum Maturity:	180 days

4. Medium Term Notes and Deposit Notes

Minimum Credit Quality:	A2 or better by Moody's or A or better by Standard & Poor's.
Maximum Portfolio Concentration:	30%
Maximum Concentration per Issuer:	5%
Maximum Maturity:	5 years
Issuer Restrictions:	Issuer must be incorporated and operating in the U.S. or a U.S. depository institution licensed by the U.S. or any State.

5. Commercial Paper

Minimum Credit Quality:	A-1 or P-1, long term debt rating, if any, must equal or exceed "A" by Moody's or Standard & Poor's.
Issuer Restrictions:	Issuer must be incorporated and operating in the U.S. and have assets in excess of \$500,000,000. No more than 10% of any issuers' Commercial Paper may be purchased.
Maximum Portfolio Concentration:	10%
Maximum Concentration per Issuer:	5%
Maximum Maturity:	270 Days

6. Certificates of Deposit

Minimum Credit Quality:	A or better by the Financial Directory. The credit quality is waived if the certificate of deposit is insured with Federal Deposit Insurance Corporation (FDIC).
Maximum Portfolio Concentration:	30%
Maximum Concentration per Depository:	10%
Maximum Maturity:	5 years
Depository Restrictions:	Pursuant to Government Code Section 53601.8 and 53635.8, the Agency, at its discretion, may invest funds in certificates of

deposit at a commercial bank, savings bank, savings and loan association, or credit union that uses a private sector entity that assists in the placement of certificates of deposits

7. Time Deposit

Minimum Credit Quality: A or better by the Financial Directory. The credit quality is waived if the time deposit is insured with Federal Deposit Insurance Corporation.

Maximum Concentration per Depository: 10%

Maximum Maturity: 5 years

Depository Restrictions: Pursuant to Government Code Section 53601(f), 53635.2, 53648 and 53649, the Agency, at its discretion, may invest funds in a time deposit at a commercial bank, savings bank, savings and loan association or credit union that uses a private sector entity that assists in the placement of time deposit.

8. Municipal Obligations

***Revenue Obligations***

Minimum Credit Quality: A1 or better by Moody's, A+ or better by Standard & Poor's or A+ by Fitch Ratings or as otherwise approved by the Agency's Board of Directors

Maximum Portfolio Concentration: 30%

Maximum Concentration per Issuer: 5%

Maximum Maturity: 5 years

Issuer Restrictions: Pursuant to Government Code Section 53601(d), registered treasury notes or bonds of any of the other 49 United States, in addition to California, 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 any of the other 49 United States, in addition to California.

***General Obligations***

Minimum Credit Quality: A3 or better by Moody's, A- or better by Standard & Poor's or A- by Fitch Ratings or as otherwise approved by the Agency's Board of Directors

Maximum Portfolio Concentration: 30%

Maximum Concentration per Issuer: 5%

Maximum Maturity: 5 years

Issuer Restrictions: Pursuant to Government Code Section 53601(c), registered general obligation treasury notes or bonds of any of the 50 United States.

***Adjustable Rate Obligations***

Minimum Credit Quality: P-1 or better by Moody's, A-1+ or better by Standard & Poor's or F-1+ by Fitch Ratings or as otherwise approved by the Agency's Board of Directors

Maximum Portfolio Concentration: 30%

Maximum Concentration per Issuer: 5%

Maximum Maturity: 5 years

Issuer Restrictions: Pursuant to Government Code Section 53601(d), adjustable rate registered treasury notes or bonds of any of the 50 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 any of the other 49 United States, in addition to California.

***Local Agency Fixed Rate Obligations***

Minimum Credit Quality: A1 or better by Moody's, A+ or better by Standard & Poor's or A+ by Fitch Ratings or as otherwise approved by the Agency's Board of Directors (the minimum rating shall apply to the local agency, irrespective of any credit enhancement)

Maximum Portfolio Concentration: 30%

Maximum Concentration per Issuer: 5%

Maximum Maturity: 5 years

Issuer Restrictions: Pursuant to Government Code Section 53601(e), taxable or tax-exempt bonds, notes, warrants, or other evidences of indebtedness of any local agency within the State of California, including bonds, notes, warrants, or other evidences of indebtedness payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by either the local agency, a department, board, agency, or authority of the local agency, or of any local agency within this state.

***Local Agency Adjustable Rate Obligations***

Minimum Credit Quality:	P-1 or better by Moody's, A-1+ or better by Standard & Poor's or F-1+ by Fitch Ratings or as otherwise approved by the Agency's Board of Directors
Maximum Portfolio Concentration:	30%
Maximum Concentration per Issuer:	5%
Maximum Maturity:	5 years
Issuer Restrictions:	Pursuant to Government Code Section 53601(e), adjustable rate notes or bonds, warrants, or other evidences of indebtedness of any local agency within the State of California, including bonds, notes, warrants, or other evidences of indebtedness payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by either the local agency, a department, board, agency, or authority of the local agency, or of any local agency within this state.

9. Repurchase Agreements

Minimum Credit Quality:	Not Applicable
Maximum Portfolio Concentration:	10%
Maximum Term:	30 days
Collateral:	U.S. Treasury or Government Securities – 102% marked-to-market daily.

10. California State Local Agency Investment Fund (LAIF)

Minimum Credit Quality:	Not Applicable
Maximum Portfolio Concentration:	State Max
Maximum Term:	Not Applicable

11. Los Angeles County Investment Pool

Minimum Credit Quality:	Not Applicable
Maximum Portfolio Concentration:	20%
Maximum Term:	Not Applicable

12. Money Market Mutual Funds

Minimum Credit Quality:	Pursuant to Government Code Section 53601(l), AA- or better if fund has retained 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 five hundred million dollars (\$500,000,000) or otherwise AAA.
Maximum Portfolio Concentration:	20%

Maximum Concentration per Issuer: 10%

### **Prohibited Investments**

Pursuant to Government Code Section 53601.6 the Agency shall not invest any funds pursuant to this article or pursuant to Article 2 (commencing with Section 53630) in inverse floaters, range notes, or mortgage-derived, interest-only strips. The Agency shall not invest in any funds that could result in zero interest accrual if held to maturity.

### **Safekeeping of Securities**

All securities owned by the Agency, except collateral for repurchase agreements, will be held in safekeeping at a third party bank trust department that will act as agent for the Agency under terms of a custody agreement.

Securities used as collateral for repurchase agreements with a term of up to seven days can be safe kept by a third party bank trust department, or by the broker/dealer's safekeeping institution, acting as agent for the Agency under the terms of a custody agreement executed by the broker/dealer and the Agency and specifying the Agency's perfected ownership of the collateral.

Payment for all transactions will be versus delivery.

### **Leveraging**

Investments may not be purchased on margin. Securities can be purchased on a "When Issued" basis only when a cash balance can be maintained to pay for the securities on the purchase settlement date.

### **Reporting**

The Treasurer will issue a monthly report to the Board of Directors providing the following information:

- ◆ List of securities by security type
- ◆ Yield to maturity at purchase per asset
- ◆ Maturity date for each asset
- ◆ Par value for each security
- ◆ Percent of portfolio invested in each asset
- ◆ Average portfolio maturity

The Treasurer will issue a quarterly report to the Board of Directors within 60 days of the end of each quarter that will include the above information as well as the market value for each asset held at quarter end and the market value for the portfolio at quarter end.

### **Annual Review**

The Board of Directors will initiate an annual review of investment practices and procedures to ensure conformance with this investment policy. This policy will be reviewed annually to ensure it is in conformance with the overall objectives of the Agency.

(Adopted January 2011)

**2000**

continued

Agency completes construction of Groundwater Perchlorate Contamination Treatment Project.

2009

Agency begins construction of the Rio Vista Water Treatment Plant expansion.

The Water Conservation Act of 2009 (SBX7-7) is issued, requiring that California achieve 20% conservation in per capita water use by 2020.

Agency creates Facebook page.

Agency School Education Program wins the Golden Apple Award for outstanding support of local education from the Santa Clarita Valley School Administrators Association.