

RESOLUTION NO. 2025-03

**A RESOLUTION OF THE BOARD OF DIRECTORS
OF THE SAN BENITO COUNTY WATER DISTRICT
RESTATING THE DISTRICT'S INVESTMENT POLICY**

WHEREAS, Article 2 of Chapter 4 of the California Government Code sets forth the statutory requirements regarding Local Agency Investment Policy, their annual review and any changes in the Local Agency Investment Policy; and

WHEREAS, the District Investment Policy requires review of the Investment Policy, at least annually by the District Investment Committee and Board of Directors; and

WHEREAS, the reviews required by State Law and District Investment Policy have been conducted and as a result of those reviews of the District Investment Policy no additions, deletions, or modifications were made.

NOW, THEREFORE, BE IT RESOLVED, by the Board of Directors of the San Benito County Water District that the restated Investment Policy attached hereto as Exhibit A is hereby adopted.

PASSED AND ADOPTED by the San Benito County Water District Board of Directors at the regular meeting of said board held on the 29th day of January 2025, by the following vote:

AYES: DIRECTORS: Williams, Wright, Flores, Freeman, Tonascia

NOES: DIRECTORS: None

ABSENT: DIRECTORS: None

ABSTAIN: DIRECTORS: None

(Signature of presiding Board member
Attested by Board Secretary
Resolution #2025-03)

/s/ Doug Williams
Doug Williams
President

ATTEST:

/s/ Barbara L. Mauro
Barbara L. Mauro
Board Secretary

EXHIBIT “A”

SAN BENITO COUNTY WATER DISTRICT INVESTMENT POLICY

I. Introduction

The purpose of this document is to identify various policies and procedures that enhance opportunities for a prudent and systematic investment policy and to organize and formalize investment-related activities.

The investment policies and practices of the San Benito County Water District (the “District”) are based on state law and prudent money management principals and practices. All funds will be invested in accordance with this Investment Policy and Article 2 of Chapter 4 of the California Government Code Sections 53600 through 53630, and the authority governing investments for municipal governments.

II. Scope

The investment policy applies to all financial assets of the District as accounted for in the Annual Comprehensive Financial Report (ACFR). Policy statements outlined in this document focus on the District’s pooled funds, but will also apply to all other funds under the District’s Assistant General Manager’s span of control unless specifically exempted by statute or ordinance.

Proceeds of debt issuance shall be invested in accordance with the permitted investment provisions of their specific bond indentures. If, in the opinion of the District’s Assistant General Manager, matching the segregated investment portfolio of the bond reserve fund with the maturity schedule of an individual bond issue is prudent given current economic analysis, the investment policy authorizes beyond the five-year maturity limitation as outlined in this document. The intent to invest in securities with longer maturities shall be disclosed in the permitted investment language authorized by the Board of Directors in an indenture of trust.

The policy does not cover funds held by the Public Employees Retirement System nor funds of the Deferred Compensation program or the Other Post Employment Benefit Trust

III. Prudence

The standard of prudence to be used by investment officials shall be the “Prudent Investor” Standard. The “Prudent Investor” Standard states 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 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.

Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

IV. Objectives

1. The primary objectives, in priority order, of the investment activities of the District shall be:

a) Safety:

Safety of principal is the foremost objective of the investment program. Each investment transaction shall seek to preserve the principal of the portfolio, whether from institutional default, broker dealer default, or erosion of market value of the securities. District investments shall be undertaken in a manner that seeks to insure preservation of Capital in the portfolio. To further achieve the safety objective, the amount invested in all investment categories is limited to a percentage of the portfolio as defined in the section “VII. PERMITTED INVESTMENT INSTRUMENTS”.

b) Liquidity:

The investment portfolio of the District will remain sufficiently liquid to enable the District to meet its cash flow requirements. To assure liquidity the District shall maintain, one (1) liquid investment account. The balance in that account shall be maintained, at all times, and in an amount sufficient to cover at least two (2) current months of District expenses exclusive of debt payments (principal and interest)

secured by separate reserves as set forth in the debt covenants.

c) Return on Investment:

The investment portfolio of the District shall be designed with the objective of attaining a market rate of return on its investments consistent with the constraints imposed by its safety objective and cash flow considerations.

d)

V. Delegation of Authority

The Board of Directors retains overall responsibility for the District's investments.

The Assistant General Manager is responsible for developing and implementing an investment program within the boundaries of this Investment Policy.

The Board of Directors may delegate its investment decision making and execution authority to the General Manager, Assistant General Manager, or an investment advisor, who must make investments in accordance with this Policy and other written instructions as provided with oversight from the Investment Committee.

The Investment Committee is responsible for providing oversight of the District's investment program. The Investment Committee shall review the investment program and the Quarterly Investment Reports submitted by the Assistant General Manager (See Section X. Reporting Requirements). The Committee shall submit a written report to the Board stating:

1. That the investment portfolio is in compliance with the District's Investment Policy or the specific manner in which it is not in compliance;

2. That the District, including its separate Funds (Fund 1, Zone 3, Zone 6), has the ability to meet expenditure requirements for the next six months or provide an explanation as to why sufficient money will, or may, not be available.

VI. Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial decisions. Officers, employees, and investment

managers are subject to the financial disclosure requirement of Government Code Section 87100 et seq.

VII. Permitted Investment Instruments

The District shall limit investments in any one non-government issuer, except investments pools, to no more than 5% regardless of security type.

1. **U.S. Treasury obligations** for which the full faith and credit of the United States are pledged for the payment of principal and interest. Up to 100% of the District's investment portfolio may be invested in government obligations.

2. **Federal agency or United States government-sponsored enterprise obligations**, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises. This shall include any mortgage pass through security issued and guaranteed by a Federal Agency with a maximum final maturity of five years. Purchase of Federal Agency issued mortgage-backed securities authorized by this subdivision may not exceed 20% of the District's surplus money; all other investments in Federal Agency securities are unrestricted.

3. **Obligations of the State of California or any local agency within the state**, including bonds payable solely out of revenues from a revenue producing property owned, controlled, or operated by the state or any local agency or by a department, board, agency, or authority of the state or any local agency, provided that the obligations are rated in one of the two highest categories by a nationally recognized statistical rating organization (NRSRO). Up to 100% of the District's investment portfolio may be invested in California municipal obligations.

4. **Registered Treasury notes or bonds of any of the other 49 States** in addition to California, 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 these States, in addition to California, provided that the obligations are rated in one of the two highest categories by a nationally recognized statistical rating organization.

5. **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 in either paragraph (5a) or paragraph (5b):

- a) The entity meets the following criteria:
 - 1.) Is organized and operating in the United States as a general corporation.
 - 2.) Has total assets in excess of five hundred million dollars (\$500,000,000).
 - 3.) Had debt other than commercial paper, if any, that is rated in a ranking category of “A” or its equivalent or higher by a NRSRO.
- b) The entity meets the following criteria:
 - 1.) Is organized within the United States as a special purpose corporation, trust, or limited liability company.
 - 2.) Has program wide credit enhancements including, but not limited to, over collateralization, letters of credit, or surety bond.
 - 3.) Has commercial paper that is rated “A-1” or higher, or the equivalent, by a NRSRO.

Purchases of eligible commercial paper may not exceed 270 days maturity nor represent more than 10% of the outstanding paper of an issuing corporation.

Purchases of commercial paper may not exceed 40% of the District’s investment portfolio.

6. **Medium-term corporate notes** issued by corporations organized and operating within the United States or by depository institutions licensed by the U.S. or any state and operating within the U.S. Medium-term corporate notes shall be rated in a rating category “A” or its equivalent or better by a NRSRO.

Purchase of medium-term corporate notes may not exceed 30% of the District’s investment portfolio. No more than 10 percent of the District’s investment portfolio may be invested in a medium-term note of any one corporation.

7. **FDIC insured or fully collateralized time certificates of deposit** Purchases of time certificates of deposit in combination with negotiable certificates of deposit may not exceed 30% of the District’s investment portfolio.

8. **Negotiable certificates of deposit or deposit notes** issued by a nationally or state-chartered bank, a state or federal savings and loan association, a state or federal credit union, or by a state-licensed branch of a foreign bank

The legislative body of a local agency and the treasurer or other official of the local agency having legal custody of the money are prohibited from investing local agency funds, or funds in the custody of the local agency, in negotiable certificates of deposit issued by a state or federal credit union if a member of the legislative body of the local agency or any person with investment decision making authority in the administrative office manager's office, budget office, auditor-controller's office, or treasurer's office of the local agency also serves on the board of directors, or any committee appointed by the board of directors, or the credit committee or the supervisory committee of the state or federal credit union issuing the negotiable certificates of deposits.

All certificates of deposit must be properly collateralized in accordance with Section 53652 of the California Government Code or fully insured by the Federal Deposit Insurance Corporation (FDIC).

Purchase of time certificates of deposit in combination with negotiable certificates of deposit may not exceed 30% of the District's investment portfolio.

9. **State of California's Local Agency Investment Fund.**

The Local Agency Investment Fund (LAIF) portfolio should be reviewed periodically. Investment in LAIF may not exceed the legally authorized limits.

10. **Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission** under the Investment Company Act of 1940 (15 U.S.C. Sec 80a-1, et seq.). To be eligible for investment pursuant to this subdivision these companies shall either: (1) have attained the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations or (2) have an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds and with assets under management in excess of \$500,000,000.

The purchase price of shares of beneficial interest purchased shall not include any commission that the companies may charge and shall not exceed 20 percent of the District's investment portfolio. Further, no more than 10 percent of the District's investment portfolio may be invested in shares of beneficial interest of any one money market fund.

11. Shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7 that invests the securities and obligations authorized in subdivision (a) to (n), inclusive. Each share shall represent an equal proportional interest in the underlying pool of

securities owned by the joint powers authority. To be eligible under this section, the joint powers authority issuing the shares shall have retained an investment advisor that meets all of the following criteria:

a) The adviser is registered or exempt from registration with the Securities and Exchange Commission.

b) The adviser has not less than five years of experience investing in the securities and obligations authorized in subdivision (a) to (n), inclusive.

c) The adviser has assets under management in excess of five hundred million dollars (\$500,000.000).

d) The underlying pool will seek to maintain a stable net asset value.

12. **Shares in a California common law trust** established pursuant to Title 1, Division 7, Chapter 5 of the Government Code of the State of California that invests exclusively in investments permitted by Section 53635 of Title 5, Division 2, Chapter 4 of the Government Code of the State of California, as it may be amended. Up to 100% of the District's investment portfolio may be invested in this investment type.

13. **Supranationals** are United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), or Inter-American Development Bank (IADB), with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated "AA-", its equivalent, or better by an NRSRO.

Purchases of supranationals shall not exceed 30% of the investment portfolio of the District. Supranationals are permitted by California Government Code § 53601 (q) effective January 1, 2015.

14. **A mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-back certificate, consumer receivable pass-through certificate, or consumer receivable-backed bond.** Securities eligible for investment under this subdivision shall be rated in a rating category of "AA" or its equivalent or better by an NRSRO and have a maximum remaining maturity of five years or less. No more than 20% of the District's surplus funds may be invested in this type of security.

Where this section specifies a percentage limitation for a particular category of investment, that percentage is applicable only on the date of purchase. Credit criteria listed in this section refers to the credit of the issuing organization at the time the security is purchased. If an investment falls below the minimum purchase rating, the Investment Review Committee will perform a timely review to sell or hold the investment.

15. Prohibited Investments

For purposes of this policy, a derivative is defined as any security where the value is linked to or derived from an underlying asset or benchmark. Any security type or structure not specifically approved by this policy is hereby specifically prohibited. The District will not use such derivatives as range notes, dual index notes, inverse floating rate notes, deleveraged notes, or notes linked to lagging indices or to long term indices, nor will the District invest in reverse repurchase agreements or interest-only strips derived from a pool of mortgages. The District will not invest in securities that could result in zero or negative interest accrual if held to maturity, except, in the event of, and for the duration of, a period of negative market interest rates, securities issued by, or backed by, the U.S. Government to preserve principal. This policy does not preclude the use of repurchase agreements and callable securities, as they do not fall within the definition of a derivative as described herein

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Summary of Maximum Percentage Limitations of Investments by Investment Type

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Minimum Credit Quality at Time of Purchase</u>	<u>Maximum Percentage Allowed</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Obligations	5 Years	None	None	None
U.S. Agency Securities	5 Years	None	None	None
Forward Delivery Agreements	N/A	A	None	None
Local Agency Bonds	5 Years	None	None	None
Repurchase Agreements	30 days	None	None	None
Bankers' Acceptances	180 days	None	40%	30%
Commercial Paper	270 days	A-1	40%	10%
Medium-Term Notes	5 Years	A	30%	10%
Collateralized Time Deposits	5 Years	None	30%	None
Negotiable Certificates of Deposit	5 Years	A	30%	None
Local Agency Investment Fund (LAIF)	N/A	None	None	LAIF limit
Insured Saving Accounts	N/A	None	None	None
Money Market Mutual Funds	N/A	None	20%	10%
Shares in a California Common Law Trust	N/A	None	None	None
Interest Rate Swaps	N/A	None	None	None
Supranationals	5 Years	AA-	30%	None
Mortgage Pass-Through Securities	5 Years	AA	20%	None

VIII. Review of Investment Portfolio

The securities held by the District must be in compliance with Permitted Investments at the time of purchase. Because some securities may not comply subsequent to the date of purchase, the Assistant General Manager shall at least annually review the portfolio to identify those securities that do not comply. The Assistant General Manager shall report major and critical incidences of noncompliance identified through the review of the portfolio. The Investment Committee will meet at least quarterly to discuss the investments in the District's portfolios.

IX. Investment Pools

A thorough investigation of any investment pool is required prior to investing and should be monitored on an ongoing basis. The following information should be obtained and analyzed.

- A. A description of eligible of investment securities.
- B. A written statement of investment policies and objectives.
- C. A description of interest calculations and their distribution, and the treatment of gains and losses.
- D. A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced, and the program audited.
- E. A description of who may invest in the program, how often, and what size of deposits and withdraws are allowed.

X. Collateralization

Collateral for Non-negotiable Certificates of Deposit and Negotiable Certificates of Deposit must comply with California Government Code section 53652. In addition, if the Certificate of Deposit is not FDIC insured, collateral is required equal to 110% of principal.

XI. Maximum Maturity

Investment maturities shall be based on a review of cash flow forecasts. Maturities will be scheduled so as to permit the District to meet all projected obligations.

The maximum maturity will be no more than five years from purchase date to maturity date; however, upon recommendation from the Investment Committee, the Board of Directors may approve an investment that at the time of purchase has a maturity that is longer than five years. This approval must be given at least three months prior to the investment.

XII. Diversification

The District's investment pool will be diversified to avoid incurring unreasonable and avoidable risks. The investments will be diversified by security type, maturities of those investments, and institutions in which those investments are made.

XIII. Internal Controls

The Assistant General Manager is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the District are protected from loss, theft, fraud, or misuse. An analysis by an external independent accounting firm shall be conducted annually to review internal controls, account activity, and compliance with the investment policies.

XIV. Performance Benchmark

The investment portfolio will be designed to obtain a market rate of return during budgetary and economic cycles, taking into account the District's investment risk constraints and cash flow needs. The Investment Committee has elected to use for its performance standard the Constant Maturity Treasury (CMT) Index. For the Pooled Portfolio, the 12-month moving average yield on 3Yr CMT will be used. All other District portfolios will follow the 2Yr CMT.

XV. Reporting Requirements

Quarterly investment reports shall be submitted by the Assistant General Manager to the Investment Committee and the Board. The reports shall include, at a minimum, the following information for each individual investment:

- Description of investment instrument
- Issuer name
- Yield on cost
- Purchase date
- Maturity date
- Book Value
- Par Value
- Current market value
- Portfolio performance as compared to the performance benchmarks
- Weighted average maturity of the portfolio excluding LAIF, LGIPs, and money market funds.
- Distribution of the portfolio by type of security compared to the percentage limits authorized by the District's policy
- Maturity distribution (maturities under 90 days; 90 days to 1 year; 1-2 years; 2-3 years; 3-4 years; and 4-5 years)
- Credit quality distribution (AAA, AA, A, unrated)

The quarterly report shall also (i) compare and declare compliance of the portfolio to the statement of investment policy, or the manner in

which the portfolio is not in compliance, (ii) include a description of any of the District's funds, investments, or programs that are under the management of contracted parties, including lending programs, and (iii) include a statement denoting the ability of the District to meet its expenditure requirements for the next six months, exclusive of debt payments (principal and interest) secured by separate reserves in accordance with debt covenants, or provide an explanation as to why sufficient money shall, or may not, be available.

This quarterly report shall be submitted within thirty (30) days following the end of the quarter.

XVI. Review of Investment Policy

The Investment Committee will review the Investment Policy annually. The Committee will submit to the Board of Directors a recommendation to readopt the Policy as written or make changes. The Board will review the Investment Committee's recommendation and the Policy at a public meeting.

The Investment Policy may be modified only upon action of the Board of Directors of the District.

XVII. Safekeeping and Custody

1. Delivery vs. Payment

All trades of marketable securities will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds.

2. Safekeeping

Securities will be held by an independent third-party custodian selected by the entity as evidenced by safekeeping receipts in the District's name. The safekeeping institution shall annually provide a copy of their most recent report on internal controls (State of Auditing Standards no. 70, or SAS70).

XVIII. Glossary

Agencies - Federal agency and instrumentality securities.

Asked - The price at which securities are offered.

Bid - The price offered by a buyer of securities (when one sells securities, one asks for a bid). See "Offer".

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.

Broker-Dealer – a person or a firm who can act as a broker or a dealer depending on the transaction. A broker brings buyers and sellers together for a commission. They do not take a position. A dealer acts as a principal in all transactions, buying and selling for his own account.

Certificate of Deposit (CD) – A time deposit with a specific maturity evidenced by a Certificate. Large-denomination CDs are typically negotiable.

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.

Custody – Safekeeping services offered by a bank, financial institution or trust company, referred to as the “custodian.” Service normally includes the holding and reporting of the customer's securities, the collection and disbursement of income, securities settlement and market values.

Delivery Versus Payment –A type of securities transaction in which the purchaser pays for the securities when they are delivered either to the purchaser or custodian. It ensures that securities are deposited in an eligible financial institution prior to the release of funds. Securities should be held by a third-party custodian as evidenced by safekeeping receipts.

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

Federal Agency Obligation – A debt instrument issued by one of the federal agencies. Federal agencies are considered second in credit quality and liquidity only to U.S. Treasuries.

Investment Committee –The investment committee consists of the District Manager, Assistant General Manager and two members of the Board of Directors.

Liquidity – An investment that can be converted easily and rapidly into cash without a substantial loss of value.

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.

Market Value – The price at which a security is trading and could presumably be purchased or sold on a specific date.

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

Money Market Fund – a type of safe investment comprising a variety of short-term securities with high quality and high liquidity. The fund provides interest to shareholders and must maintain a stable net asset value (NAV) of \$1 per share.

Offer - The price asked by a seller of securities (when one buys securities, one asks for an offer). See “Asked” and “Bid”.

Portfolio – Collection of securities held by an investor.

Principal – the original cost of a security. It represents the amount of capital or money that the investor pays for the investment.

Prudent Investor Standard – An investment standard that all investments should be made 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.

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.

U.S. Treasury – Government debt issued by the United States Department of the Treasury through the Bureau of the Public Debt. Treasury securities are the debt financing instruments of the United States federal government, and they are often referred to simply as Treasuries. There are four types of marketable treasury securities: Treasury bills, Treasury notes, Treasury bonds, and Treasury Inflation Protected Securities (TIPS). All of the marketable Treasury securities are very liquid and are heavily traded on the secondary market.

Yield - The rate of annual income return on an investment, expressed as a percentage.

Yield-To-Call (YTC) - The rate of return an investor earns from a bond assuming the bond is redeemed (called) prior to its nominal maturity date.

Yield-To-Maturity - The current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity.