

CALLEGUAS MUNICIPAL WATER DISTRICT
2100 Olsen Road, Thousand Oaks, California 91360
www.calleguas.com

FINANCE COMMITTEE MEETING

October 2, 2023, 1:00 p.m.

The Calleguas Municipal Water District's Finance Committee meeting is noticed as a meeting of the Board of Directors for the purpose of compliance with the Brown Act. Members of the Board who are not assigned to the Finance Committee may attend only as observers and cannot participate as members of the Board, whether or not a quorum of the Board is present. In order to preserve the function of the committee as advisory to the Board, members of the Board who are not assigned to the Finance Committee will not vote on matters before the Finance Committee.

AGENDA

A. CALL TO ORDER AND ROLL CALL

Jaquelyn McMillan, Chair
Andy Waters, Committee Member

B. PUBLIC COMMENTS

Opportunity for members of the public to address the committee on matters within the committee's jurisdiction (as required by Government Code Section 54954.3(a)). Please limit comments to three minutes.

C. COMMITTEE ITEMS

1. Discussion regarding options for debt financing
2. Discussion regarding proposed changes to the District's Investment Policy

D. OTHER COMMITTEE ITEMS

E. FUTURE AGENDA ITEMS

F. ADJOURNMENT

Note: Calleguas Municipal Water District has resumed in-person meetings in accordance with the Brown Act. In addition to in-person participation, members of the public may also participate by submitting comments by email to info@calleguas.com by 5:00 p.m. on the calendar day prior to the meeting. Email headers should refer to the committee meeting for which comments are offered. Comments received will be placed into the record and distributed appropriately.

Agendas, agenda packets, and additional materials related to an item on this agenda submitted to the Committee after distribution of the agenda packet are available on the District website at www.calleguas.com

Pursuant to Section 202 of the Americans with Disabilities Act of 1990 (42 U.S.C. Sec. 12132), and applicable federal rules and regulations, requests for disability-related modification or accommodation, including auxiliary aids or services, in order to attend or participate in a meeting, should be made to the Secretary to the Board in advance of the meeting to ensure the availability of the requested service or accommodation. Notices, agendas, and public documents related to Board and Committee meetings can be made available in appropriate alternative format upon request.

Memorandum

To: Calleguas Municipal Water District

From: Montague DeRose and Associates, LLC (“MDA”)

Date: August 29, 2023

Subject: \$20M New Money Financing Options

Executive Summary

The Calleguas Municipal Water District (“CMWD” or the “District”) has identified \$20 million in immediate new money needs to finance improvements to its data center. Further, it anticipates having additional new money needs of \$50 – 60 million in the next two to three years. Montague DeRose (“MDA”) analyzed various financing options available to the District, including a short-term bank product, short-term notes and long-term fixed rate bonds. Below we describe these various options and provide our initial thoughts based on current market conditions and the District’s anticipated future borrowing needs.

Market Update

Fixed income markets have been volatile since the Fed began increasing the Fed Funds Target Rate in March 2022. Overall, it has raised the Target Rate (Upper Bound) 5.25%, from 0.25% in early 2022 to 5.50%. Currently, market participants think there is about a 50% chance the Fed will increase rates another 0.25% before starting to lower them in early 2024. These expectations have resulted in an “inverted” US Treasury yield curve with short-term rates higher than medium- and long-term rates. The municipal market curve is also inverted out to about the 15-year maturity.

Short-term tax-exempt rates have been very volatile recently with the SIFMA Index (a proxy for weekly reset variable rate demand bond yields) ranging between roughly 2.50% and 4.50% over the last several months. California tax-exempt short-term rates have been much lower the SIFMA due to very strong demand for safe, short-term investments exempt from California income tax.

The long-term municipal market has also been volatile, with 10-year “AAA” yields ranging between about 2.10% and 2.90% since the start of the year and 30-year yields ranging between about 3.15% and 3.85%. Currently, long-term tax-exempt yields are near their highs of the year.

Available Financing Options

The District has historically issued long-term fixed rate or variable rate demand bonds (VRDBs) to finance capital needs. These options continue to be available to the District, but given the nature of the District’s financing needs over the next several years, there may be other financing structures that the District may want to consider. Also, we do note that with state and federal programs, including state revolving fund loans and federal Water Infrastructure Finance and Innovation Act (“WIFIA”) loans, the application process can be lengthy. A summary of the available financing options follows:

	Description	Benefits	Considerations
Long-Term Fixed-Rate Bonds	<ul style="list-style-type: none"> Long-term bonds with principal repaid over (usually) 30 years and a known, fixed interest cost. 	<ul style="list-style-type: none"> Fixed financing cost for life of debt Can call/restructure debt in 10-years Low ongoing administrative burden 	<ul style="list-style-type: none"> Requires disclosure document and public rating(s) Higher issuance costs than private bank product Proceeds invested prior to being spent Cannot be restructured with tax-exempt debt prior to first call date
Short-Term Fixed-Rate Notes	<ul style="list-style-type: none"> Fixed rate bonds with a short final maturity (e.g., 2 - 5 years). Principal usually repaid at maturity with proceeds of long-term debt. 	<ul style="list-style-type: none"> Fixed financing cost until maturity Usually, lower initial cost than long-term bonds Low ongoing administrative burden 	<ul style="list-style-type: none"> Principal must be repaid at maturity creating cash flow/market access risk Long-term financing cost not locked-in Requires disclosure document and public rating Proceeds invested prior to being spent Higher issuance costs than bank product
Revolving Loan Agreement	<ul style="list-style-type: none"> Private bilateral agreement between District and bank. Interest rate is variable based on short-term index plus a credit spread. 	<ul style="list-style-type: none"> Amounts can be drawn and repaid at almost any time Lowest initial issuance costs Does not require disclosure document or ratings 	<ul style="list-style-type: none"> Funds drawn/repaid on an as-needed basis, no investment risk Risk that variable rates are higher than expected Reduced budgeting certainty Must be refinanced, renewed, or replaced at maturity, creating cash flow/market access/credit access risk Lowest issuance costs

Cost Comparison

Based on current market conditions, estimated costs for each option are below:

	Long-Term Fixed-Rate Bonds	Short-Term Notes ¹	Revolving Loan Agreement ²
Total Interest Cost	4.30% (3.77% if called)	3.25% - 3.75%	3.55% - 3.60%
Estimated Upfront Issuance Costs	\$300,000	\$300,000	\$100,000

¹All-in total interest cost depends exact maturity, call feature, coupon and maturity type (e.g., hard final maturity, hard put, soft put)

²Projected all-in cost based on 3-year SIFMA swap rate of 3.20% plus 35 - 40 basis point spread; we note that SIFMA has averaged only about 1.15% over the last 3-5 years, but markets expect it to be about 3.00% over the next three years given the Fed policy outlook.

Recommendation

Based on the District’s relatively small current new money needs and its expected future issuance schedule, along with an analysis of expected interest costs, we believe obtaining a revolving loan agreement from a bank is the District’s most cost-effective option. This loan agreement could have a term that aligns with the District’s future debt issuance plans to facilitate a refinancing with long-term fixed rate debt. This would require that the District issue public debt only once in the next few years instead of twice, which will save on administrative costs and burden associated with public debt issuance. Further, the revolving loan agreement can be repaid at any time or renewed/extended (subject to credit approval), providing significant flexibility should the District’s future borrowing plans change.

Please do not hesitate to contact Jim Bemis at (805) 728-1381 or Corey McCullough at (805) 372-0613 if you have any questions.

CALLEGUAS MUNICIPAL WATER DISTRICT INVESTMENT POLICY

1. Policy

- 1.1 Calleguas Municipal Water District (Calleguas) shall invest its funds in such a manner as to comply with all applicable state and local laws; ensure prudent money management; provide for daily cash flow requirements; and comply with the requirements of this Calleguas Investment Policy (Investment Policy).
- 1.2 In order of importance, the following three fundamental criteria shall be followed in the investment program. *Reference: California Government Code (CGC) §53600.5*
 - 1.2.1 Safety: Safety of principal is the foremost objective of the investment program. Investments of the District shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To achieve this objective, the District will diversify its investments by investing funds among a variety of securities with independent returns.
 - 1.2.2 Liquidity: The District's investment portfolio will remain sufficiently liquid to enable the District to meet all operating objectives that might be reasonably anticipated.
 - 1.2.3 Return on Investment: The District's investment portfolio shall have the objective of producing an optimum rate of return on available assets, commensurate with an appropriate level of risk.

2. Scope

Except for funds held in the District's working bank accounts used for daily operations and retirement funds held in a trust, it is intended that the Investment Policy cover all investment activities and financial assets of the District.

3. Prudence

Except as provided in subdivision (a) of Section 27000.3, all governing bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds pursuant to this chapter are trustees and therefore fiduciaries subject to the prudent investor standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing District funds, all those responsible 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 District, 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 District. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized herein. *Reference: CGC §53600.3*

4. **Performance Standards**

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs of the District. The District shall establish a performance benchmark. Benchmarks may change over time based on changes in market conditions investment preferences or cash flow requirements.

5. **Ethics and Conflicts of Interest**

5.1 **Prohibited activities.** All people involved in the District's investment process shall refrain from personal business activities that could conflict with proper execution of the investment program, or that could impair their ability to make impartial decisions. These individuals shall also refrain from undertaking personal investment transactions with the same individual(s) employed by the financial institution(s) with whom business is conducted on behalf of the District.

5.2 **Required Disclosure Filings.** Board members, General Manager, Manager of Administrative Services, and the provider of investment management services are required by the District's Conflict of Interest Code to file annual California Fair Political Practices Commission Statements of Economic Interests (Form 700) when assuming office, leaving office, and on annual basis while serving in these roles.

5.3 **Bond Fee Splitting**

All bond issue participants, including but not limited to, underwriters, bond counsel, financial advisors, brokers and dealers will disclose any fee sharing arrangements or fee splitting to the Manager of Administrative Services prior to the execution of any transaction.

6. **Responsibilities of the District Board of Directors**

6.1 **Policy Adoption and Review.** The Investment Policy and any amendments thereto shall be adopted by action of the District Board of Directors (Board) at a public meeting. On an annual basis and at such other times as the Board desires, the Board shall review the Investment Policy. *Reference: CGC §53646(a)(2)*

6.2 **Delegation of Authority.** On an annual basis and at such other times as the Board desires, the Board shall delegate authority for investment of funds, investment

management services, and emergency actions by the Board. *Reference: CGC §53607*

6.2.1 **Investment of Funds.** The Board delegates the responsibility to invest or reinvest the District's funds or to sell or exchange securities so purchased to the Manager of Administrative Services, who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with the Investment Policy. Delegation of this authority shall be reviewed annually concurrent with the Board's review of the Investment Policy and at such additional times as the Board desires. No person may engage in an investment transaction except as provided under the terms of the Investment Policy and the procedures established by the Manager of Administrative Services.

6.2.2 **Investment Management Services.** The District has authorized the use of investment management services for the District's funds. The provider of investment management services must meet the requirements for authorized financial dealers and institutions described in Section 8 and is required to follow the Investment Policy. Any change in investment management services provider must be approved by the Board.

6.2.3 **Emergency Actions by the Board.** An emergency meeting of the Board will be called whenever necessary to deal with important investment issues that cannot await a regularly scheduled Board meeting. In the event a quorum of the Board cannot be obtained for the emergency meeting prior to the time a decision must be made, the Board Treasurer shall have the authority to make such emergency decisions as are necessary within the parameters of these guidelines and which are in the best interest of the District. In the event the Board Treasurer is unavailable, the Board President shall make any emergency decisions.

7. Responsibilities of the Manager of Administrative Services

7.1 **General.** The Manager of Administrative Services is responsible for investing or reinvesting the District's funds and selling or exchanging securities so purchased. He is also responsible for coordinating and communicating with the provider of investment management services. *Reference: CGC §53607*

7.2 Annual Reviews

7.2.1 The Manager of Administrative Services shall review the District's portfolio for compliance at least annually and shall report to the Board major incidences of noncompliance through the review of the portfolio.

7.2.2 The Manager of Administrative Services shall perform an annual review of the investment policy and portfolio of the Ventura County Investment Pool (VCIP) and the Local Agency Investment Fund (LAIF) and shall report to the Board any policy changes that affect the risk and/or return of funds invested in those investment pools.

7.3 **Internal Controls.** The Manager of Administrative Services shall establish and maintain a system of internal controls to ensure that the assets of the District are protected from loss, theft, fraud, or misuse. Accordingly, the Manager of Administrative Services shall establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with policies and procedures.

7.4 Reports

The Manager of Administrative Services shall submit monthly and quarterly reports to the Board.

7.4.1 **Monthly Reports.** Monthly reports shall be submitted within 30 days of the month following the end of the month covered by the report. The report shall include a list of investment transactions and for each investment it will describe the type of investment, date of maturity, par and dollar amount invested, yield to maturity, credit quality, and current market value as of the date of the report.

7.4.2 **Quarterly Reports.** The Manager of Administrative Services shall submit a quarterly report within ~~30~~⁴⁵ days following the end of the quarter covered by the report. *Reference: CGC §53646 (b, c, e, g)*

Commented [AS1]: SB 1489, effective 01/01/2023

- Except for investments in VCIP and LAIF, this report shall include the type of investment, issuer, date of maturity, par and dollar amount invested for all securities, investments and moneys held by the District as well as the current market value as of the date of the report and the source of that valuation.
- For investments in LAIF and the Ventura County Pool, the report shall include the most recent statements received from these institutions.
- The report shall document compliance of the portfolio with the investment policy, or explain the manner in which the portfolio is not in compliance.
- The report shall include a statement denoting the ability of the District to meet its expenditure requirements for the next six months, or

provide an explanation as to why sufficient money shall, or may, not be available.

- The report shall additionally include a description of any of the local agency's funds, investments, or programs, that are under the management of contracted parties, including lending programs.

8. Authorized Financial Dealers and Institutions

- 8.1 The purchase by the District of any investment not purchased directly from the issuer shall be purchased either from an institution licensed by the state as a broker-dealer as defined in California Corporations Code §25004, or from a member of a federally regulated securities exchange, from a national or state-chartered bank, from a savings association or federal association (as defined by California Financial Code §5102) or from a brokerage firm designated as a primary government dealer by the Federal Reserve bank. *Reference: CGC §53601.5*
- 8.2 The District shall transact business only with financial dealers and institutions that are recognized primary dealers reporting to the New York Federal Reserve Bank and have offices located in the State of California. These dealers, or if unrated their parent company, must also maintain an A-1/P-1 short-term credit rating.
- 8.3 All broker/dealer firms providing services to the District, and all individuals involved in District investment activity at those firms, shall be reputable and trustworthy. These firms and individuals shall be knowledgeable and experienced in public agency investing and the investment products involved. These firms shall have the ability to meet all of their financial obligations in dealing with the District.

9. Credit Rating Services

The ratings published by the rating services recognized by the Securities and Exchange Commission's (SEC) Nationally Recognized Statistical Rating Organizations (NRSRO) shall be used as a measure of the investment risk associated with an investment.

10. Safekeeping and Custody

All security transactions entered into by the District shall be conducted on a delivery versus payment basis. Securities will be held by the provider of investment management services and evidenced by safekeeping receipts. Third party safekeeping arrangements will be approved by the Manager of Administrative Services and will be corroborated with a written custodial agreement.

11. Authorized Investments

11.1 The Board authorizes the Manager of Administrative Services and the provider of investment management services to make investments of the type described in this section. *Reference: CGC §53601*

11.1.1 Ventura County Investment Pool (VCIP)

Definition: VCIP is a fund managed by the Treasurer-Tax Collector of the County of Ventura that local agencies may use to deposit funds for investment. Each investor earns interest proportional to their investment in the overall pool.

Authorized Investment: Investment in the VCIP must not exceed the lesser of the limit established by County of Ventura or 15% of the portfolio. Should the District's holdings in the VCIP reach or exceed this limit, the District will take immediate action to reduce the balance upon receipt of the monthly statement.

11.1.2 Local Agency Investment Fund (LAIF)

Definition: LAIF is a special fund in the State Treasury that local agencies may use to deposit funds for investment. It offers high liquidity because deposits can be converted to cash in twenty-four hours and no interest is lost. Each investor earns interest proportional to their investment in the overall pool. The State keeps an amount for reasonable costs of making the investments, not to exceed one quarter of one per cent of the earnings.

Authorized Investment: Investment in LAIF must not exceed the lesser of the limit established by LAIF or 15% of the portfolio. Should the District's holdings in LAIF reach or exceed this limit, the District will take immediate action to reduce the balance upon receipt of the monthly statement. The District's ~~portfolio~~ portfolio invested in LAIF must also follow the maximum limit, \$75 million.

11.1.3 Certificates of Deposit

Definition: A certificate of deposit (CD) is a savings certificate with a fixed maturity date and fixed interest rate. CDs of up to \$250,000 are federally insured.

Authorized Investment: Investment in CDs is limited to a maximum of 30% of the portfolio and to a maximum of 5% deposited in any one institution. CDs must be issued by a nationally or state-chartered bank, a savings association or a federal association (as defined by §5102 of the Financial

Code), a state or federal credit union, or by a federally licensed or state-licensed branch of a foreign bank. *Reference: CGC §53601(i)*

The first \$250,000 of collateral security may be waived if the institution is insured pursuant to Federal Law. *Reference: CGC §53653*

CD deposits exceeding \$250,000 must be collateralized with the collateral held separately from the issuing institution and must be placed in institutions rated AA or higher by two of the three major rating agencies (Moody's, Standard & Poor's, and Fitch). Collateral is limited to the following:

- Mortgages/trust deeds valued at no less than 150% of the deposit amount; or
- Eligible securities other than mortgages/trust deeds valued at no less than 110% of the deposit amount.

Any Non-Negotiable Certificates of Deposit (NCD) shall be limited to no more than 20% of the portfolio will be invested in a combination of federally insured and collateralized time deposits.

11.1.4 Treasury Obligations

Definition: Treasury obligations are direct obligations of the United States Government. They are highly liquid and are considered the safest investment security. U.S. Treasury issues include:

- Treasury Bills are non-interest-bearing securities issued by the U.S. Treasury to finance the national debt. They are issued at a lower dollar amount ("discount") than the dollar amount that will be paid at maturity. Most bills are issued to mature in three months, six months, or one year.
- Treasury Notes are medium-term interest-bearing securities issued as direct obligations of the U.S. Government having initial maturities of two to 10 years.
- Treasury Bonds are long-term interest-bearing securities issued as direct obligations of the U.S. Government having initial maturities of more than 10 years.

Authorized Investment: There is no limitation on the percentage of the portfolio invested in this category. Under a provision sunseting on January 1, 2026, securities backed by the U.S. Government that could result in a zero- or negative-interest accrual if held to maturity are permitted. *Reference: CGC §53601(b)*

11.1.5 Federal Agency Obligations

Definition: Federal Agency Obligations are issued by U.S. Government Agencies (Agencies) or Government Sponsored Enterprises (GSEs). Although they were created or sponsored by the United States (U. S.) Government, most Agencies and GSEs are not guaranteed by the U. S. Government. The GSE and Agency market is very large and liquid, with billions traded every day.

Authorized Investment: Federal Agency Securities and Instruments of Government Sponsored Enterprises may be purchased from the following issuers:

- Federal Farm Credit System
- Federal Home Loan Bank System
- Federal Home Loan Mortgage Corporation (Freddie Mac)
- Federal National Mortgage Association (Fannie Mae)
- Federal Agriculture Mortgage Association (Farmer Mac)
- Tennessee Valley Authority (TVA)

There is no limitation on the percentage of the portfolio invested in this category. No more than 30% of the District's investment portfolio may be invested in any one Agency or GSE. The maximum percent of agency callable securities in the portfolio will be 20%. Under a provision sunseting on January 1, 2026, securities backed by the U.S. Government that could result in a zero- or negative-interest accrual if held to maturity are permitted. *Reference: CGC §53601(f)*

11.1.6 Bankers' Acceptances

Definition: A bankers' acceptance is short-term credit arrangement guaranteed by a commercial bank that enables a business to obtain funds to finance commercial transactions. By its acceptance, the bank becomes

primarily liable for the payment of the draft at maturity. An acceptance is a high-grade negotiable instrument.

Authorized Investment: Bankers' acceptances must be issued by domestic banks and must be eligible for purchase by the Federal Reserve System. Purchases of these instruments may not exceed 180 bankers days maturity. At the time of purchase, no more than 40% of the portfolio may be invested in bankers' acceptances and no more than 5% of the District's portfolio may be invested in bankers' acceptances from any one bank.

Reference: CGC §53601(g)

11.1.7 Commercial Paper

Definition: Commercial paper is a short term, unsecured, promissory note issued by a corporation to raise working capital.

Authorized Investment: The District may invest in commercial paper which is rated at the time of purchase in the highest rating category as provided by an NRSRO (for example, A1 by Standard & Poor's, P-1 by Moody's, or F-1 by Fitch). Purchases of commercial paper may not exceed 270 days maturity nor represent more than 10% of the outstanding paper of an issuing corporation. At the time of purchase, no more than 25% of the portfolio may be invested in commercial paper and no more than 5% of the portfolio may be invested in any one issuer. Under a provision sunsetting on January 1, 2026, no more than 40% of the portfolio may be invested in Commercial Paper if the Agency's investment assets under management are greater than \$100,000,000.

The entity that issues the commercial paper shall meet all of the conditions in at least one of the bullets below. *Reference: CGC §53601(h)*

- Is organized and operating in the United States as a general corporation; has total assets in excess of \$500,000,000; and has debt other than commercial paper, if any, that is rated in a rating category of A or its equivalent or higher by an NRSRO.
- Is organized within the United States as a special purpose corporation, trust, or limited liability company; has program-wide credit enhancements including, but not limited to, overcollateralization, letters of credit, or a surety bond; and has commercial paper that is rated A-1 or higher, or the equivalent, by an NRSRO.

11.1.8 Asset-Backed Securities (ABS)/Mortgage backed Securities (MBS)

Definition: Asset-backed securities (ABS) are securities whose income payments and hence value is derived from and collateralized (or "backed") by a specified pool of underlying assets which are receivables. Pooling the assets into financial instruments allows them to be sold to general investors and allows the risk of investing in the underlying assets to be diversified because each security will represent a fraction of the total value of the diverse pool of underlying assets. The pools of underlying assets can comprise common payments credit cards, auto loans, mortgage loans, and other types of assets. Interest and principal are paid to investors from borrowers who are paying down their debt. A mortgage-backed security is a type of ABS that is secured by a mortgage or collection of mortgages.

Authorized Investment: The District may invest in any equipment lease-backed certificate, consumer receivable pass-through certificate, consumer receivable-backed bond, or mortgage pass-through security, collateralized mortgage obligation, mortgage-backed, or other pay-through bond with a maximum remaining final maturity of five years. ABS must be rated in rating category of AA by an NRSRO. At the time of purchase, no more than 20% of the portfolio may be invested in asset-backed/mortgage backed securities paper and no more than 5% of the District's portfolio may be invested in any one issuer. *Reference: CGC §53601(o)*

11.1.9 Medium Term Notes

Definition: Medium term notes are debt obligations issued by corporations and banks, usually in the form of unsecured promissory notes. These are negotiable instruments that can be bought and sold in a large and active secondary market. For the purposes of California Government Code, the term "Medium Term" refers to a maximum remaining maturity of five years or less. They can be issued with fixed or floating interest rates, and with or without early call features, although the vast majority are fixed-rate and non-callable. Corporate notes have greater risk than Treasuries or Agencies because they rely on the ability of the issuer to make payment of principal and interest.

Authorized Investment: The District may invest in corporate notes issued by corporations organized and operating within the United States. Corporate notes eligible for investment shall have a rating category of A or higher at time of purchase by an NRSRO. They shall have a maximum remaining maturity of no more than five years after the date of purchase. Purchases of corporate notes must not exceed 30% of the District's

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portfolio. The maximum principal amount in any one company must not exceed 5% of the District's portfolio. *Reference: CGC §53601(k)*

11.1.10 Money Market Funds

Definition: A money market fund is an investment vehicle made up of a pool of moneys collected from several investors for the purpose of investing in short-term securities representing high-quality, liquid debt and monetary instruments.

Authorized Investment: The District may invest in money market funds that are registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1 et seq.) and are rated AAAM or Aaa or better by Standard & Poor's or Moody's. Purchases of money market funds may not exceed 20% of the portfolio. The maximum principal amount in any one issuer must not exceed 5% of the District's portfolio. *Reference: CGC §53601(l)*

11.1.11 Municipal Securities of Local Agencies

Definition: Municipal securities of local agencies are debt securities issued by states, cities, counties and other governmental entities to fund their day-to-day obligations and to finance their capital projects.

Authorized Investment: The District may invest in municipal securities rated ~~in rating category A or higher by at least one NRSRO A2/A/A or better by Standard & Poor's, Moody's, or Fitch.~~ The maximum principal amount in any one issuer must not exceed 5% of the District's portfolio. *Reference: CGC §53601(c, d, e)*

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11.1.12 Supranationals

Definition: United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank,

Authorized Investments: The District may invest in obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank 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 in a rating category of "AA" or its equivalent or better by an NRSRO and shall not exceed 10

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percent of the agency's moneys that may be invested pursuant to this section. *Reference: CGC §53601(q)*

11.1.13 Collateralized Bank Deposits

Definition: A bank deposit that is collateralized at least 100% (principal plus interest to maturity). The deposit is collateralized using assets set aside by the issuer such as Treasury securities or other qualified collateral to secure the deposit in excess of the limit covered by the Federal Deposit Insurance Corporation.

Authorized Investment: Agency's deposits with financial institutions will be collateralized with pledged securities. There are no limits on the dollar amount or percentage that the Agency may invest in collateralized bank deposits. *Reference: CGC §53651*

11.2 **Investment Agreements.** Investment agreements must be approved in advance by the Board with notice to Standard & Poor's and Moody's.

11.3 **Ineligible Investments.** Investments not described herein, including but not limited to common stocks ~~and~~ financial futures contracts and options, ~~and securities with a forward settlement date exceeding 45 days~~ are prohibited in the District's portfolio. Additionally, the District shall not invest in reverse floaters, range notes, or interest only strips that are derived from a pool of mortgages, nor may the District invest in any security that could result in zero interest accrued if held to maturity.

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11.4 **Application of portfolio percentages and credit ratings.** Percent limitations for each permissible investment type listed herein are based on book value at time of purchase. Percentages may change after purchase as a result of withdrawals from the portfolio. Credit quality refers to the credit rating at the time of purchase. If an investment's credit rating falls below the minimum rating, the Manager of Administrative Services will perform a timely review and decide whether to sell or hold the investment.

11.5 **Portfolio Life and Maximum Maturities.** The average life of the total portfolio at any time shall not exceed four years. The maximum maturity for all investments, unless otherwise noted, is five years. U.S. Treasuries and Federal Agencies with maturities longer than five years may be purchased for specific purposes with the prior approval by the Board at least 90 days in advance of the purchase.

11.6 **Amount on Deposit in any One Institution.** The amount deposited in any one banking institution shall not exceed the lesser of the percentage set forth in the Investment Policy or the amount allowed by law, whichever is less.

Authorized Investments Summary Table

Investment Category	Max % of Portfolio in Category	Max % of Portfolio in a Single Issuer	Maximum Maturity	Minimum Quality
Ventura County Investment Pool	15%	N/A	N/A	N/A
Local Agency Investment Fund	15%	N/A	N/A	N/A
Certificates of Deposit	30%	5%	5 years	above \$250,000, collateral AA by Moody's, S&P & Fitch (2 of 3 rating agencies)
Treasury Obligations	100%	100%	5 years	None
Federal Agency Obligations	100%	50 30%	5 years	None
Bankers' Acceptances	40%	5%	180 days	Federal Reserve Eligible
Commercial Paper	40%	5%	270 days	A-1 by S&P, P-1 by Moody's, or F-1 by Fitch
Asset-Backed/Mortgage-Backed Securities	20%	5%	5 years	<u>Rating category AA</u> by an NRSRO
Medium Term Notes	30%	5%	5 years	<u>Rating category A or higher</u> by an NRSRO
Money Market Funds	20%	5%	N/A	AAAm or Aaa by S&P or Moody's
Municipal Securities	100%	5%	5 years	<u>Rating category A or higher by an NRSRO</u> <u>A2/A/A by Moody's, S&P or Fitch</u>
SupraNationals IBRD/IADB/IFC	10%	5%	5 years	<u>Rating category AAA</u> by an NRSRO
Collateralized Bank Deposits	100%	None	5 years	None

Commented [AS6]: Align to language in 11.1.5

Commented [AS7]: Aligned language to match 11.1.12

(see Sections 11.1 through 11.5 for additional requirements)

13. Glossary

Below are definitions of terms used in this policy.

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.

Collateral: Securities, evidence of deposit or other property, which a borrower pledges to secure repayment of a loan. It also refers to securities pledged by a bank to secure deposits of public monies.

Delivery Versus Payment: A settlement system that stipulates that cash payment must be made prior to or simultaneously with the delivery of the security.

Federal Reserve System: The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., 12 regional banks and about 5,700 commercial banks that are members of the system.

Issuer: Any corporation, governmental unit, or financial institution that borrows money through the sale of securities.

Liquidity: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the difference between the bid and asked prices is narrow and reasonably sized trades can be done at those quotes.

Market Value: The price at which a security is trading and could presumably be purchased or sold.

Maturity: The date upon which the principal or stated value of an investment becomes due and payable. The investment's term or remaining maturity is measured from the settlement date to final maturity.

Commented [AS8]: SB 1489, effective 01/01/2023

Portfolio: Collection of securities held by an investor.

Primary dealer: One of a group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.

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

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

Securities: A security is any proof of ownership or debt that has been assigned a value and may be sold. For the investor, a security represents an investment as an owner, creditor or rights to ownership on which the investor hopes to gain profit. Examples are stocks, bonds and options.

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

Time Draft: A type of check that is guaranteed by the issuing bank, but that is not payable in full until a specified amount of time after it is received and accepted.

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

Adopted by the Calleguas Municipal Water District Board of Directors on ~~June 16^{XX}~~, 202~~31~~.

~~Steve Blois~~[Scott Quady](#), President
Board of Directors

Date

ATTEST:

Raul Avila, Secretary
Board of Directors

Date