# Financial Policy B.5
# Investments

## 1. Purpose

This statement contains guidelines for the prudent investment of SCPA's cash balances in accordance with California Government Code sections 53600, et. seq. The goals of SCPA's Investment Policy are to protect SCPA's cash balances, retain sufficient liquidity, and produce a return on investment to preserve value over time.

## 2. Standard of Care

The standard of prudence to be used by investment officials will be the "prudent investor" standard, which 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."

## 3. Scope

This Investment Policy applies to all funds and investment activities of SCPA. This Policy does not apply to the investment of bond proceeds, which would be governed by any applicable bond documents.

## 4. Objectives

The primary objectives, in priority order, of the investment activities of SCPA are:

- **Safety of Principal** – Preservation of principal is the foremost objective of SCPA.
- **Liquidity** – SCPA's portfolio will remain sufficiently liquid to enable SCPA to meet its cash flow requirements. It is important that the portfolio contain investments which provide the ability of being easily sold at any time.
- **Return on Investment** – SCPA's investment portfolio will be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, considering SCPA's investment risk constraints and cash flow needs.

## Delegation of Authority

Pursuant to California Government Code Section 53607, the Chief Executive Officer (and his/her designee, if necessary) is authorized to invest and reinvest money of SCPA, to sell or exchange securities so purchased, and to deposit such securities for safekeeping in accordance with and subject to this investment policy.

SCPA may engage the support services of outside investment advisors regarding its investment program, so long as these services are likely to produce a net financial advantage or necessary financial protection of SCPA's financial resources. Outside investment advisors must be approved by the Chief Executive Officer and the Board of Directors. SCPA CEO (and his/her designee, if necessary) will be responsible for managing the investment advisors.

## Conflict of Interest

Officers and employees involved in the investment process will 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.

## Authorized Financial Dealers and Institution

The purchase by SCPA of any investment other than those purchased directly from the issuer, will be purchased either from an institution licensed by the State as a broker-dealer, as defined in Section 25004 of the Corporations Code, which is a member of the Financial Industry Regulatory Authority (FINRA), or a member of a federally regulated securities exchange, a national or state chartered bank, a federal or state association (as defined by Section 5102 of the Financial Code), or a brokerage firm designated as a Primary Government Dealer by the Federal Reserve Bank.

Should SCPA staff choose to contract with a dealer or institution to manage its investments, the CEO would be responsible for making this decision, conducting the evaluation of all institutions that wish to do business with SCPA, to determine if they are adequately capitalized, staffed by qualified investment professionals, and agree to abide by the conditions set forth in SCPA's Investment Policy and any other guidelines that may be provided. If SCPA does go forward with a dealer or institution, the following action will be taken annually by having the financial institutions:

1. Provide written notification that they have read, and will abide by, SCPA's Investment Policy.
2. Submit their most recent audited Financial Statements within 120 days of the institution's fiscal year end.

If SCPA has an investment advisor, the investment advisor may use its own list of authorized broker/dealers to conduct transactions on behalf of SCPA.

## Authorized Investments

The Local Agency Investment Guidelines update for 2021 that was issued by the California Debt and Investment Advisory Commission (CDIAC), FIGURE 1, lists the acceptable investments authorized for local agencies in California. The following is a reproduction of FIGURE 1 from the report that is in force as of January 1, 2021. SCPA will abide by these guidelines and any successors issued by the State.

FIGURE 1

| INVESTMENT TYPE | MAXIMUM MATURITY[C] | MAXIMUM SPECIFIED % OF PORTFOLIO[D] | MINIMUM QUALITY REQUIREMENTS | GOV'T CODE SECTIONS |
|---|---|---|---|---|
| Local Agency Bonds | 5 years | None | None | 53601(a) |
| U.S. Treasury Obligations | 5 years | None | None | 53601(b) |
| State Obligations– CA And Others | 5 years | None | None | 53601(c) 53601(d) |
| CA Local Agency Obligations | 5 years | None | None | 53601(e) |
| U.S Agency Obligations | 5 years | None | None | 53601(f) |
| Bankers' Acceptances | 180 days | 40%[E] | None | 53601(g) |
| Commercial Paper–Non-Pooled Funds[F] (under $100,000,000 of investments) | 270 days or less | 25% of the agency's money[G] | Highest letter and number rating by an NRSRO[H] | 53601(h)(2)(c) |
| Commercial Paper–Non-Pooled Funds (min. $100,000,000 of investments) | 270 days or less | 40% of the agency's money[G] | Highest letter and number rating by an NRSRO[H] | 53601(h)(2)(c) |
| Commercial Paper– Pooled Funds[I] | 270 days or less | 40% of the agency's money[G] | Highest letter and number rating by an NRSRO[H] | 53635(a)(1) |
| Negotiable Certificates of Deposit | 5 years | 30%[J] | None | 53601(i) |
| Non-negotiable Certificates of Deposit | 5 years | None | None | 53630 et seq. |
| Placement Service Deposits | 5 years | 50%[K] | None | 53601.8 and 53635.8 |
| Placement Service Certificates of Deposit | 5 years | 50%[K] | None | 53601.8 and 53635.8 |
| Repurchase Agreements | 1 year | None | None | 53601(j) |
| Reverse Repurchase Agreements and Securities Lending Agreements | 92 days[L] | 20% of the base value of the portfolio | None[M] | 53601(j) |
| Medium-Term Notes[N] | 5 years or less | 30% | "A" rating category or its equivalent or better | 53601(k) |
| Mutual Funds And Money Market Mutual Funds | N/A | 20% | Multiple[P,Q] | 53601(l) and 53601.6(b) |
| Collateralized Bank Deposits[R] | 5 years | None | None | 53630 et seq. and 53601(n) |
| Mortgage Pass–Through and Asset–Backed Securities | 5 years or less | 20% | "AA" rating category or its equivalent or better | 53601(o) |
| County Pooled Investment Funds | N/A | None | None | 27133 |
| Joint Powers Authority Pool | N/A | None | Multiple[S] | 53601(p) |
| Local Agency Investment Fund (LAIF) | N/A | None | None | 16429.1 |
| Voluntary Investment Program Fund[T] | N/A | None | None | 16340 |
| Supranational Obligations[U] | 5 years or less | 30% | "AA" rating category or its equivalent or better | 53601(q) |
| Public Bank Obligations | 5 years | None | None | 53601(r), 53635(c) and 57603 |

**Restriction on Investment Policies and SCPA Constraints**
Section 53600 et. seq. of the State of California Government Code outlines the collateral requirements for certain types of investments and limits the percentage of total investments which can be placed in certain classifications. Investments must meet the time schedules as indicated by the cash flow projections of SCPA. Investments will be purchased with the intent to hold until maturity, however this will not preclude the sale of securities prior to maturity in order to reposition the portfolio's duration, liquidity, credit quality, or enhance the rate of return.

**Maturity Limit**
State law requires that the maturity of any given instrument should not exceed five years unless specifically approved by the SCPA Board of Directors at least three months before the investment is made.

**Internal Control**
The CEO is responsible for establishing and maintaining an internal control structure designed to provide reasonable assurance that the assets of SCPA are protected from loss, theft, or misuse. The SCPA CEO or his/her designee shall arrange for an annual audit by an external CPA firm in compliance with the requirements of state law and generally accepted accounting principles as pronounced by the GASB (Governmental Accounting Standards Board). As part of the audit, investment transactions will be tested. The annual audit will be an integral part, but not the sole part of management's program of monitoring internal controls.

**Performance Standards**
SCPA's portfolio shall be structured to achieve a market-average rate of return through various economic cycles, commensurate with the investment risk constraints and the cash flow needs.

**Reporting Requirements**
The CEO will provide a year-to-date investment summary to the Board of Directors on a quarterly or more frequent basis. The summary will show the type of investment, the average balance of funds invested, and average annual percentage yield.

**Policy Review**
This Investment Policy will be reviewed at least annually to ensure its consistency with:

1. The California Government Code sections that regulate the investment and reporting of public funds.
2. The overall objectives of preservation of principal, sufficient liquidity, and a market return.

## Glossary

**Broker-Dealer** is 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** refers to securities, evidence of deposits, or other property that a borrower pledges to secure repayment of a loan. It also refers to securities pledged by a bank to secure deposits. In California, repurchase agreements, reverse repurchase agreements, and public deposits must be collateralized.

**Commercial Paper** is a short term, unsecured, promissory note issued by a corporation to raise working capital.

**Duration** is a measure of the sensitivity of the price of a security or a portfolio of securities to a change in interest rates, typically stated in years.

**Federal Agency Obligations** are issued by U.S. Government Agencies or Government Sponsored Enterprises (GSE). Although they were created or sponsored by the U.S. Government, most Agencies and GSEs are not guaranteed by the United States Government. Examples of these securities are notes, bonds, bills and discount notes issued by Fannie Mae (FNMA), Freddie Mac (FHLMC), the Federal Home Loan Bank system (FHLB), and Federal Farm Credit Bank (FFCB). The Agency market is a very large and liquid market, with billions traded every day.

**Issuer** means any corporation, governmental unit, or financial institution that borrows money through the sale of securities.

**Liquidity** refers to the ease and speed with which an asset can be converted into cash without 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.

**Local Agency Investment Fund (LAIF)** is a special fund in the State Treasury that local agencies may use to deposit funds for investment. There is no minimum investment period and the minimum transaction is $5,000, in multiples of $1,000 above that, with a maximum of $65 million for any California public agency. It offers high liquidity because deposits can be converted to cash in twenty-four hours and no interest is lost. All interest is distributed to those agencies participating on a proportionate share determined by the amounts deposited and the length of time they are deposited. Interest is paid quarterly via direct deposit to the agency's LAIF account. The State keeps an amount for reasonable costs of making the investments, not to exceed one-quarter of one per cent of the earnings.

**Local Government Investment Pools (LGIP)** are investment tools similar to money market funds that allow public entities to invest funds.

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

**Money Market Fund** is a type of investment comprising a variety of short-term securities with high quality and high liquidity. The fund provides interest to shareholders. Eligible money market funds must strive to maintain a stable net asset value (NAV) of $1 per share.

**Net Asset Value (NAV)** is the value of an entity's assets minus the value of its liabilities, often in relation to open-end or mutual funds, since shares of such funds registered with the U.S. Securities and Exchange Commission are redeemed at their net asset value. Money Market funds that SCPA is authorized to invest in are required to maintain an NAV of $1.00 at all times.

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

**Repurchase Agreements** are short-term investment transactions. Banks buy temporarily idle funds from a customer by selling him U.S. Government or other securities with a contractual agreement to repurchase the same securities on a future date at an agreed upon interest rate. Repurchase Agreements are typically for one to ten days in maturity. The customer receives interest from the bank. The interest rate reflects both the prevailing demand for Federal Funds and the maturity of the Repo. Repurchase Agreements must be collateralized.

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

1. **Treasury Bills** which are non-interest-bearing discount securities issued by the U.S. Treasury to finance the national debt. Bills are currently issued in one, three, six, and twelve-month maturities.
2. **Treasury Notes** that have original maturities of one to ten years.
3. **Treasury Bonds** that have original maturities of greater than 10 years.