

**SAN MIGUEL COMMUNITY SERVICES DISTRICT  
STATEMENT OF INVESTMENT POLICY  
Fiscal Year 2023-24**

**Introduction**

The Board of the San Miguel Community Services District (“District”) recognizes its responsibility to properly direct the investments of funds. 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. In instances in which the Policy is more restrictive than Federal or State law, the Policy supersedes.

**Section 1. Investments Goals**

The District’s investment philosophy sets the tone for its policies, practices, procedures, and objectives that control the investment function. The investment of funds will be guided by the primary goals of safety, liquidity, and reasonable market rate of return.

- **Safety** - the District will undertake investments in a manner that ensures the preservation of capital in the overall portfolio.
- **Liquidity** - the District will maintain sufficient cash and short-term investment instruments which together with projected revenues which will cover the District’s cash flow needs
- **Reasonable Market Rate of Return** - the investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio.

**Section 2. Standard of Prudence**

The standard of prudence to be used by investment officials shall be the "prudent investor" standard and shall be applied in the context of managing an overall portfolio. 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.”*

**Section 3. Delegation of Authority**

The Board’s primary responsibilities over the investment function includes establishing investment policies, annually reviewing such policies, and authorizing any deviations from the District’s investment policies. The Board hereby delegate(s) investment authority to the General Manager (“Manager”) for a period of one year.

#### **Section 4. Authorized Financial Dealers and Institutions**

A list of approved financial institutions authorized to provide investment services to the District in the State of California will be maintained by District staff. These may include “primary” dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1. An annual review of the financial condition and registrations of qualified bidders will be conducted by the Manager or his/her designee. A current audited financial statement is required to be accessible for each financial institution and broker/dealer with which the District invests. All financial institutions which desire to become qualified bidders for investment transactions must supply the Manager with proof of FINRA registration and a statement certifying that the institution has reviewed California Government Code section 53600 *et seq.* and the Board’s Investment policy and that all securities offered shall comply fully and in every instance with all provisions of the California Government Code.

#### **Section 5. Strategy**

Passive investing – Given the absence of staff dedicated to investment analysis, the District will passively manage the portfolio and avoid medium to long-term investments, thereby diminishing the need for credit monitoring.

Diversification – Staff will maintain diversified call provisions rather than anticipate market conditions. Staff will diversify timing of trading and maintain diversification by type within the constraints of other provisions of this policy.

Minimum liquidity and debt considerations – A portion of the portfolio with maturities of no more than three months shall be maintained in excess of the Board established operating reserve. A portion of the portfolio with maturities of no more than one year shall be maintained in excess of the Board established operating reserve. Staff will also consider that too much liquidity is a risk and invest to ladder maturities when possible.

#### **Section 6. Restrictions on Allowable Investments**

The maximum maturity of any specific investment will not exceed the maturity limit established by this policy or expressly permitted by the District. State statutory limits will be followed unless the District maturity limits are more restrictive.

The investments made by the District will have the quality standards set forth by the Government Code. This policy sets forth investment quality standards that may be higher than those in the Government Code. When a difference in quality standard occurs, the higher quality standard will be adhered to.

All bank deposits will be FDIC insured or deposited with institutions which comply with the State collateral requirements for public funds. Certificate of deposits will not be placed with an institution once it has received a cease-and-desist order from any bank regulatory agency.

#### **Section 7. General Portfolio Allowable Investments with Quality and Limit Guidelines**

California Government Code section 53600 *et seq.* governs the allowable investments a local government agency can enter into. The Government Code requirements are a starting point for establishing the District quality standards, percentage limits and maturity levels. Presently, this policy exceeds the standards set forth by the State. In the event the Government Code becomes more restrictive than this policy, the Government Code restrictions shall prevail. Where this Policy specifies a percentage limitation for a particular security type or issuer, that percentage is applicable at the time the security is purchased. Credit criteria listed in this section refers to the credit rating at the time the security is purchased.

<b>Investment Type</b>	<b>Maximum Maturity</b>	<b>Maximum Specified % of Portfolio</b>	<b>Minimum Quality Requirements</b>
<b>U.S. Treasury bills, notes &amp; bonds</b>	5 Years	None	Not applicable
<b>Government Agency Securities, including Fed. agency obligations &amp; federally sponsored enterprises</b>	5 Years	None	Not applicable
<b>Calif. Local Agency Investment Fund (LAIF)</b>	No	\$65 million	Not applicable
<b>Bankers Acceptances</b>	180 days	40%	A-1 or higher
<b>Commercial Paper</b>	270 days	25-40%	Highest letter & number rating by an NRSRO
<b>Medium Term Notes</b>	5 years	30% 5% issuer limit	“A” rating category or its equivalent or better
<b>Certificates of Deposit (Negotiable)</b>	5 years	30% 5% issuer limit	“A” rating category or its equivalent or better
<b>Certificates of Deposit (Non-negotiable)</b>	5 years	None \$250,000 limit	Top 25% of peer group independently rated
<b>Money market mutual funds</b>	Not applicable	20% No back loaded	Highest letter & number rating by an NRSRO
<b>Bonds, notes or other indebtedness of the State of California or local agencies in California</b>	5 years	None 5% issuer limit	None
<b>Bonds, notes or other indebtedness</b>	5 years	None 5% issuer limit	None

## Section 8. Prohibited Investment Transactions and Derivatives

The Government Code specifically prohibits certain types of investment instruments for municipalities. In addition to those prohibitions, the following investments are not permitted: reverse repurchase agreements, collateralized mortgage obligations, commodities, common stock, corporate bonds of 5 years or more, and foreign currency.

## Section 9. Reporting and Miscellaneous

The Manager, or his/her designees, may maintain one or more accounts with reputable investment security dealers or brokers with which investment transactions are to be conducted. Investments may be held in safekeeping at a designated financial institution where the District has established a safekeeping account.

Pursuant to Government Code section 53646, a monthly report shall be submitted to the Board of Directors within 30 days following the end of the month covered by the report and a quarterly report shall be submitted. The quarterly report shall include:

- \* the type of investment
- \* the issuer of the investment
- \* maturity date
- \* coupon, discount and/or yield rate
- \* paramount, dollar amount invested and market value of the investment
- \* percentage of the portfolio represented by each investment

The report shall also note whether the portfolio is in compliance or the manner in which the portfolio is in non-compliance. The report shall include a statement regarding the ability of the District to meet its expenditure requirements for the next six months.

The investment policy applies to all financial assets held by the District except employee deferred compensation plans, funds held in trust with the District with specific investments instructions, and any funds held in employee pension plans. The primary guiding investment policy for any bond proceeds will be dictated by the bond documents governing such funds as long as the documents are approved by the District Board.

The Board of Directors may meet on a quarterly basis with District staff to review District investments and to review market conditions.

## Section 12. Conflicts of Interest

Elected officials and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment function or which may impair their ability to make impartial investment decisions. Employees and investment officials shall subordinate their personal investment transactions to those of the District.

**Section 13. Glossary of Terms**

Terms that are used in this Policy or frequently used in connection with the investments made by public agencies are defined in the attached Appendix.



## APPENDIX - GLOSSARY OF TERMS

**Accrued Interest** - Interest earned but not yet received.

**Active Deposits** - Funds which are immediately required for disbursement.

**Amortization** - An accounting practice of gradually decreasing (increasing) an asset's book value by spreading its depreciation (accretion) over a period of time.

**Arbitrage** – Transactions by which securities are bought and sold in different markets at the same time for the sake of the profit arising from a yield difference in the two markets.

**Asked Price** - The price a broker dealer offers to sell securities.

**Bankers' Acceptance (BA)** - A draft or bill of exchange accepted by a bank or a trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

**Basis Point** - One basis point is one hundredth of one percent (.01%).

**Bid Price** - The price a broker dealer offers to purchase securities.

**Bond** - A financial obligation for which the issuer promises to pay the bondholder a specified stream of future cash flows, including periodic interest payments and a principal repayment.

**Book Value** - The value at which a debt security is shown on the holder's balance sheet. Book value is acquisition cost less amortization of premium or accretion of discount.

**Broker** - A broker brings buyers and sellers together for a commission. He does not take a position.

**Callable Securities** – Bonds that the issuer has the right to redeem prior to maturity under certain, specified conditions.

**Certificate of Deposit** - A deposit insured by the FDIC at a set rate for a specified period of time.

**Collateral** - Securities, evidence of deposit or pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposit of public monies.

**Commercial Paper** – Short-term, negotiable unsecured promissory notes of corporations.

**Corporate Notes** - Obligations issued by corporations bearing interest and return of principal at maturing.

**Coupon** - The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value.

**Credit Analysis** - A critical review and appraisal of the economic and financial conditions or of the ability to meet debt obligations.

**Current Yield** - The interest paid on an investment expressed as a percentage of the current price of the security.

**Dealer** - A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

**Discount** - The difference between the cost of a security and its value at maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

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

**Diversification** - Dividing investment funds among a variety of securities offering independent returns and risk profiles. The technique is used to minimize risk to the District's portfolio.

**Fannie Mae** - Trade name for the Federal National Mortgage Association (FNMA), a U. S, sponsored corporation.

**Federal Deposit Insurance Corporation (FDIC)** - A federal agency that insures bank deposits, currently up to \$250,000.

**Federal Funds Rate** - The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

**Federal Home Loan Banks (FHLB)** - The institutions that regulate and lend to savings and loan associations. The Federal Home Loan Banks play a role analogous to that played by the Federal Reserve Banks vis a vis member commercial bank.

**Federal Reserve System** - The central bank of the U.S. which consists of a seven-member Board of Governors, 12 regional banks, and 5,700 commercial banks that are members.

**Freddie Mac** - Trade name for the Federal Home Loan Mortgage Corporation (FHLMC), a U.S. sponsored corporation.

**Fannie Mae** - Trade name for the Government National Mortgage Association (GNMA), a direct obligation bearing the full faith and credit of the U. S. Government.

**Interest Rate** - The annual yield earned on an investment, expressed as a percentage.

**Investment Agreements** - An agreement with a financial institution to borrow public funds subject to certain negotiated terms and conditions concerning collateral, liquidity and interest rates.

**Liquidity** - Refers to the ability to rapidly convert an investment into cash. A liquid asset is one that can be converted easily and rapidly to cash without a substantial loss of value.

**Local Government Investment Pool** - The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment. In California, the pool is called the Local Agency Investment Fund (LAIF).

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

**Mark-to-Market** – Adjustment of an account or portfolio to reflect actual market price rather than book price, purchase price or some other valuation. Adjustment is required under GASB #31 for reporting purposes.

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

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

**Par Value** – The amount of principal which must be paid at maturity. Also referred to as the face amount of the bond, normally quoted in \$1,000 increments per bond.

**Portfolio** - Collection of securities held by an investor. The purpose of a portfolio is to reduce risk by diversification.

**Primary Dealer** - A group of government securities dealers that submit daily reports of market activity and security positions held to the Federal Reserve Bank of New York and are subject to its informal oversight.

**Principal** – The face value or par value of a debt instrument, or the amount of capital invested in a given security.

**Prudent Investor Standard** – A standard of conduct where a person acts with care, skill, prudence and diligence when investment, reinvesting, purchasing, acquiring, exchanging, selling, and managing funds. The test of whether the standard is being met is if a prudent person acting in a similar situation would engage in similar conduct to ensure that investments safeguard principal and maintain liquidity.

**Purchase Date** - The date in which a security is purchased for settlement on that or a later date.

**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 or the current income return.

**Rating** – The designation used by investor services to rate the quality of a security's creditworthiness.

**Repurchase Agreement (REPO)** - A transaction where the seller (bank) agrees to buy back from the buyer (District) the securities at an agreed upon price after a stated period of time. The buyer in effect lends the seller money for the period of this agreement, and the terms of the agreement are structured to compensate the buyer for this.

**Risk** - Degree of uncertainty of return on an asset.

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

**Securities and Exchange Commission (SEC)** - Agency created by Congress to protect investors in securities transactions by administering securities legislation.

**Settlement Date** - The date on which a trade is cleared by delivery of securities against funds.

**Treasury Bills** - U. S. Treasury Bills which are short-term, direct obligations of the U. S. Government issued with original maturities of 13 weeks, 26 weeks, and 52 weeks; sold in minimum amounts of \$10,000 in multiples \$5,000 above the minimum. Issued in book entry form only. T-bills are sold on a discount basis.

**Treasury Bond** - Long-term U. S. Treasury securities having initial maturities of more than 10 years.

**Treasury Notes** - Intermediate-term coupon bearing U. S. securities having maturities from one year to ten years.

**Weighted Average Maturity (WAM)** – The average maturity of all the securities that comprise a portfolio that is typically expressed in days or years.

**Yield** - The rate of annual income return on an investment, expressed as a percentage. It is obtained by dividing the current dollar income by the current market price of the security.

**Yield to Maturity** - The rate of income return on an investment, minus any premium above par or plus any discount with the adjustment spread over the period from the date of the purchase to the date of maturity of the bond.

**Yield Curve** - The yield on bonds, notes or bills of the same type and credit risk at a specific date for maturities up to thirty years.

