

Orange County Mosquito and Vector Control District
Statement of Investment Policy for Liquid Assets
Fiscal Year 2015-16

Policy No. 38
June 18, 2015

1. Purpose: The purpose of this policy is to comply with the requirements of California Government Code Section 53600 et. seq. and to provide clear guidance for the investment of all monies of the Orange County Mosquito and Vector Control District (District).

2. Application: This regulation applies to all liquid financial assets of the District. This regulation shall not apply to assets designated as post-retirement health care plan funds by the District.

3. Regulation:

A. Investment Objectives

The investment of all funds of the District is structured to achieve, in priority order, the goals of safety, liquidity, and yield within the parameters established by law.

The primary objective of the investment policy of the District is safety. Most investments will be highly liquid. Maturities will be selected to anticipate cash needs, thereby, avoiding the need for forced liquidation. Within the constraints of safety and liquidity, the highest and best yield will be sought.

B. Legal and Policy Constraints

The authority governing investments for municipal government agencies is set forth in the California Government Code Section 53600 et. seq. In all instances, the District

shall comply with the requirements of state law as it is amended from time to time.

In addition to the requirements of state law, the District:

- ◆ shall not purchase or sell securities on margin.
- ◆ shall not borrow funds for the sole purpose of arbitrage.

Investments shall be made with judgement and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

C. Safekeeping of Securities

All purchased securities shall be held in a safekeeping account as designated by the District. It is recognized that this contractual agreement with the designated institution will serve as an independent third party custodian.

D. Maturity and Term

No investment shall be made in any security which at the time of the investment has a term remaining to maturity in excess of five years, unless the Board of Trustees has authorized longer-dated investments no less than three months prior to the investment as allowed by Government Code Section 53601.

The District administers funds according to cash flow requirements. As a result, there is a core of funds that are not necessary for the daily operational needs of the District for paying expenses. From time to time market conditions of fixed income markets present opportunities for higher interest rates on high grade securities with a low risk exposure. It is in the best interest of the District to practice a fully diversified investment plan that will insure safety, liquidity, and the increase of acceptable yield from these situations.

To the extent possible, the District will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the District shall not directly invest in securities maturing more than two years from the date of purchase.

At no time will more than 50 percent (50%) of the District's funds be invested longer than one year. Purchases greater than two years will meet the following requirements and restrictions:

1. The security must be a U.S. Treasury Note or Bond, or Federal Agency Security.
2. A maximum of twenty-five percent (25%) of the District's invested funds can be invested in securities over two years.
3. No securities can be purchased by the District with a maturity greater than five years unless matched to a specific cash flow or asset acquisition.

E. Investment Authority

The District Manager/Treasurer is authorized to make investments on behalf of the District. Such investments shall be

limited to the instruments authorized under California Government Code Sections 53601 and 53635 and further described in Appendix A.

All investments of the District shall be approved by the District Manager/Treasurer.

No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the District Manager /Treasurer.

Officers and employees of the District involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the District Manager/Treasurer any material financial interests in financial institutions that conduct business with the District, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the District, particularly with regard to the time of purchases and sales. The District Manager/Treasurer shall make similar disclosures to the Board of Trustees.

Under no circumstances shall investment officers or employees accept gifts, trips, or any type of gratuity from individuals or institutions engaged in investment practices with the District.

F. Transfer of Investment Funds

The transferring of investment funds will be carried out exclusively by use of telephonic or electronic wire transfers. Each entity with which the District does business shall receive, in writing from the District

Manager/Treasurer, a listing which limits transfers of funds to preauthorized bank accounts only. The listing will also contain the names of District staff authorized to request such transfers and will be updated, in writing, for all changes of authorized staff and bank accounts, as necessary.

G. Deposits

Money must be deposited in state or national banks, state or federal savings associations, or state or federal credit unions in the State of California. Money may be in:

- Active deposits
- Inactive deposits
- Interest-bearing active deposits
- Passbook savings accounts

The bank or savings and loan must secure the District's deposits by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the District) with the pledged securities having a market value of 110% of the total amount of the deposits. State law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150% of the total amount of the deposits.

The District Manager/Treasurer may, at his/her discretion, waive the collateral requirement for deposits which are fully insured up to \$250,000 by the FDIC.

From time to time certain institutions may ask to reduce the existing certificate of deposit of \$250,000 down by a few thousand dollars so the accrued interest on the deposit will also be insured. It is to the District's advantage to reduce the principal deposit to the lower level for full insurance coverage of principal and accrued interest if

the financial institution requests the reduction and if there is no penalty assessed for the reduction. If deposits exceed the FDIC insurance level, then the deposits must be collateralized as described in the preceding paragraphs of this section.

H. Investments

The following is a list of investments authorized by the California Government Code (see Appendix A for descriptions):

- Bankers Acceptances
- California Local Agency Bonds, Notes, Warrants, or Other Debt
- Commercial Paper
- Federal Agency Issues
- Local Agency Investment Pools
- Medium Term Corporate Notes
- Money Market Mutual Funds
- Negotiable Certificates of Deposit
- Repurchase Agreements
- Reverse Repurchase Agreements
- Securities Lending Agreements
- State Treasury Notes or Bonds
- U.S. Treasury Issues

The following types of investments can be made directly by the District:

- U.S. Treasury Issues
- Federal Agency Issues
- Prime Bankers Acceptances
- Negotiable Certificates of Deposit
- Local Agency Investment Fund (LAIF)
- Orange County Investment Pool (OCIP)
- Money Market Mutual Funds

I. Diversification

The District shall diversify its investments by security type and institution. With the exception of U.S. Treasury securities and

authorized investment pools (i.e. LAIF or OCIP) the following shall apply:

1. Federal Agency Securities

No more than 50 percent (50%) of the District's investment portfolio shall be invested in a single security type or with a single financial institution that is federally guaranteed.

2. Non-Insured, Non-Federal Investments

No more than 15 percent (15%) of the District's investment portfolio shall be invested in a single security type or with a single financial institution that is not federally guaranteed.

J. Performance Standards

The investment portfolio shall be designed with the objective of obtaining a rate of return, throughout budgetary and economic cycles, commensurate with investment risk constraints and cash flow needs.

The basis used by the District Manager/Treasurer to determine whether market yields are being achieved shall be the U.S. Treasury Bill and Local Agency Investment Fund (LAIF).

K. Reporting

In accordance with California Government Code Sections 53607 and 53646, the District Manager/Treasurer and the Director of Administrative Services shall render monthly reports to the Board of Trustees showing: (a) type of investment; (b) institution; (c) date of maturity; (d) amount of deposit; (e) current market value for all securities with a maturity of more than twelve (12) months; (f) rate of interest on each security; and (g) such other data as the Board of Trustees may, from time to time, specify.

The District Manager/Treasurer 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.

L. Policy Review

1. Annual Statement of Investment Policy

The District Manager/Treasurer and the Director of Administrative Services shall annually in June render to the Board of Trustees a Statement of Investment Policy which Statement shall be adopted by Resolution of the Board of Trustees.

2. Periodic Review

To ensure a statement which is consistent with any new relevant legislation and financial trends, the District Manager/Treasurer and the Director of Administrative Services shall periodically report to the Board of Trustees proposed changes and amendments to this document for review and approval. The District investments may also be subject to quarterly review by the Board of Trustees, with summary statement as to whether or not District investments conform to this policy. In any event, all changes in state law affecting this policy shall be considered incorporated immediately upon their effective date unless otherwise adopted earlier by action of the Board of Trustees.

M. Authorized Financial Institutions and Broker/Dealers

Selection of financial institutions and broker/dealers shall be performed by authorized District Staff under the direction

of the Budget and Finance Committee. Periodically, the District will distribute a Broker/Dealer Questionnaire to interested and known financial institutions and broker/dealers. Qualified broker/dealers selected to do business with the District shall submit annually a current audited financial statement. After the annual adoption of the District's investment policy by the Board of Board of Trustees, a copy shall be sent to all broker/dealers approved to do business with the District. Confirmation of receipt of this policy shall be considered evidence that the dealer understands the District's investment policies and intends to sell the District only appropriate investments authorized by this policy.

Selection of specific institutions in which District funds may be invested shall be performed by the Director of Administrative Services and the District Manager under the direction of the Budget and Finance Committee.

APPENDIX A

DEPOSITORY SERVICES

Active deposits are demand or checking accounts which receive revenues and pay disbursements.

Inactive deposits are Certificates of Deposit issued in any amount for periods of time as short as fourteen days and as long as several years.

Interest-bearing active deposits are money market accounts at a financial institution (i.e., bank, savings and loan, credit union). These accounts are demand accounts (i.e., checking accounts) with restricted transaction activity.

Passbook savings account is similar to an inactive deposit except not for a fixed term. The interest rate is much lower than Certificates of Deposit, but the savings account allows for flexibility. Funds can be deposited and withdrawn according to daily operational needs.

INVESTMENT SECURITIES

Bankers Acceptances are short term credit arrangements that are high-grade, negotiable instruments. They are time drafts drawn on and accepted by a commercial bank, primarily used to finance international trade. By its acceptance, the bank becomes primarily liable for the payment of the draft at maturity. Purchases of bankers' acceptances may not exceed 180 days to maturity. Local Agencies cannot invest more than thirty percent (30%) of their surplus money in Bankers Acceptances.

California or Local Agency Bonds, Notes, Warrants, or Other Debt are obligations of any U.S. state or of any local agency within

the State of California. These obligations may consist of registered treasury notes or bonds or other types of obligations.

Commercial Paper is a short term unsecured promissory note issued by a corporation to raise working capital. These negotiable instruments may be purchased at a discount to par value or interest bearing.

Local agencies are permitted by state law to invest in commercial paper of "prime" quality to the highest ranking or of the highest letter and numerical rating as provided by a nationally recognized statistical-rating organization such as Moody's Investor's Service, Inc. or Standard and Poor's Corporation. Purchases of eligible commercial paper may not exceed 270 days maturity nor exceed twenty-five percent (25%) of the local agency's surplus funds.

Federal Agency Issues are issued by direct U.S. Government agencies or quasi-government agencies. These issues are guaranteed directly or indirectly by the United States Government. Examples of these securities are Federal Home Loan Bank (FHLB) notes, Federal National Mortgage Association (FNMA) notes, Federal Farm Credit Bank (FFCB) notes, Federal Intermediate Credit Bank (FIC) debentures, Small Business Administration (SBA) notes, Government National Mortgage Association (GNMA) notes, and Student Loan Association (SALLMAE) notes.

Local Agency Investment Pools (such as LAIF or OCIP) are special funds in a state or local agency treasury which local agencies may use to deposit funds for investment. They offer high liquidity

because deposits can quickly be converted to cash. 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.

Medium Term Corporate Notes are unsecured promissory notes issued by a corporation organized and operating in the United States. These are negotiable instruments and are traded in the secondary market. Medium Term Corporate Notes (MTN) can be defined as extended maturity commercial paper. Corporations use these MTN's to raise capital.

Local agencies are restricted by the California Government Code to investments in corporations rated in the top three note categories by a single nationally recognized rating service. Further restrictions are a maximum term of five years to maturity and total investments in Medium Term Corporate Notes may not exceed thirty percent (30%) of the local agency's surplus money.

Money Market Accounts/Mutual Funds are referred to in California Government Code Section 53601(L) as "shares of beneficial interest issued by diversified management companies". The Mutual Fund must be restricted by its by-laws to the same investments as the local agency by the California Government Code.

A further restriction is that the purchase price of shares shall not include any commission that the fund manager may charge and shall not exceed 20 percent of the agency's funds that may be invested. . In addition, no more than 10 percent of the agency's funds may be invested in shares of any single mutual fund.

Negotiable Certificates of Deposit (NCD) are unsecured obligations of the financial institution. These securities are generally issued in bearer form and pay interest at maturity.

Repurchase Agreements and Reverse 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. The customer receives interest from the bank. The term of a repurchase agreement may not exceed one year.

A Reverse Repurchase Agreement (Reverse repo) is opposite of a repurchase agreement; it is an investment in which the local agency sells securities prior to the purchase with a simultaneous agreement to repurchase the security.

Securities Lending Agreement means an agreement with a local agency that agrees to transfer securities to a borrower who, in turn agrees to provide collateral to the local agency. During the term of the agreement, both the securities and the collateral are held by a third party. At the conclusion of the agreement, the securities are transferred back to the local agency in return for the collateral.

U.S. Treasury Issues are direct obligations of the United States Government. These issues are called bills, notes, and bonds. The maturity range of new issues is from 13 weeks (T-Bills) to 30 years (T-Bonds). These are highly liquid and are considered the safest investment security.