

RESOLUTION NO. 2017-18

**A RESOLUTION OF THE BOARD OF DIRECTORS
OF THE PHELAN PINON HILLS COMMUNITY SERVICES DISTRICT
ESTABLISHING THE STATEMENT OF INVESTMENT POLICY**

THE BOARD OF DIRECTORS OF THE PHELAN PINON HILLS COMMUNITY SERVICES DISTRICT DOES HEREBY FIND AS FOLLOWS:

WHEREAS, the Phelan Pinon Hills Community Services District, under Government Code Section 53646(a)(2), must provide to its governing Board a Statement of Investment Policy; and

WHEREAS, the Statement of Investment Policy has been modeled after similar agency policies and in conformity with California Government Code Sections 53600 and 53635, et seq.; and

WHEREAS, the Statement of Investment Policy provides District Staff with a management tool to implement future investment decisions by the District.

NOW, THEREFORE, BE IT RESOLVED, ORDERED, AND DETERMINED BY THE BOARD OF DIRECTORS OF THE PHELAN PINON HILLS COMMUNITY SERVICES DISTRICT THAT the Statement of Investment Policy attached hereto and incorporated herein by this reference is hereby adopted as the Investment Policy for public funds held by and entrusted to the Phelan Pinon Hills Community Services District through its elected Board of Directors and employees.

APPROVED AND ADOPTED this 16th day of August 2017

AYES: Brandon, Morrissette, Pace, Roberts, Whalen

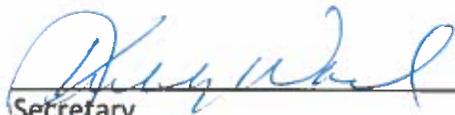
NOES:

ABSTAIN:

ABSENT:



President of the Board



Secretary

Phelan Piñon Hills Community Services District Statement of Investment Policy and Procedures

I. PURPOSE

It is the policy of the Phelan Piñon Hills Community Services District to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the District and conforming to all state and local statutes governing the investment of public funds.

II. OBJECTIVE

The objective of the investment policy is to provide guidelines for insuring the safety of funds invested while maximizing investment interest income to the District.

III. INVESTMENT POLICY

- 1. RESPONSIBILITY.** The General Manager, or authorized designee, is responsible for investing the cash balances in all District funds in accordance with the California Government Code, Sections 53600 et seq. and 53635 et seq. This policy does not include Long Term Debt Reserve Funds and Deferred Compensation Funds, which are exceptions covered by other more specific Government Code sections and the legal documents unique to each debt transaction.
- 2. PRUDENT INVESTOR STANDARD.** The standard of prudence to be used by the General Manager and other individuals assigned to manage the investment portfolio shall be the "prudent investor" standard which states, in essence, that "in investing... property for the benefit of another, a trustee shall exercise the judgment and care, under the circumstances then prevailing, which men of prudence, discretion and intelligence exercise in the management of their own affairs..." (Civil Code Sect. 2261, et seq.) This standard shall be applied in the context of managing an overall portfolio. These individuals acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.
- 3. INVESTMENT INTENT.** It is the District's full intent, at the time of purchase, to hold all investments until maturity in order to ensure the return of all invested principal. However, it is realistically anticipated that market prices of securities purchased as investments will vary depending on economic conditions, interest rate fluctuations, or individual security credit factors. In a well-diversified investment portfolio, such temporary variations in market value will inevitably result in measurable losses at any specific point in time. From time to time, changes in economic or market conditions may dictate that it is in the District's best interest to sell a security prior to maturity.

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4. **PRINCIPAL INVESTMENT FACTORS.** The three principle investment factors of **Safety, Liquidity and Yield** are to be taken into consideration, in the specific order listed, when making any and all investment decisions.

A. **Safety** of principal is the foremost factor to be considered during each investment transaction. Safety in investing refers to minimizing the potential for loss of principal, interest or a combination of the two due to the two types of risk, Credit Risk and Market Risk.

- a. Credit Risk, defined as the risk of loss due to failure of the issuer of a security, shall be mitigated by only investing in very safe, or "investment grade" securities and diversifying where feasible.
- b. Market Risk, defined as market value fluctuations due to overall changes in interest rates shall be mitigated by limiting the average maturity of the investment portfolio to less than 3 years, with a maximum maturity of any one security of 5 years without prior Board approval. Also, the portfolio will be structured based on liquidity needs so as to avoid the need to sell securities prior to maturity.

B. **Liquidity** refers to the ability to convert an investment to cash promptly with minimum risk of losing some portion of principal or interest. The investment portfolio will be structured based on historic cash flow analysis in order to provide the necessary liquidity as investments routinely mature. A portion of the portfolio will be maintained in liquid short term securities which can be converted to cash if necessary to meet unforeseen disbursement requirements.

C. **Yield** is the average annual return on an investment based on the interest rate, price, and length of time to maturity. The District attempts to obtain the highest yield possible, provided that the basic criteria of safety and liquidity have been met.

5. **AUTHORIZED INVESTMENT INSTRUMENTS.** The District is subject to California Government Code, Section 53601 et seq. Within the context of the governing language, the General Manager or designee is authorized to invest in the following types of securities. (The percentage noted in this section is the maximum percentage the investment is allowed in regards to the portfolio.)

A. Local Agency Bonds – Maximum of 100%.

Maximum term of investment 5 years. There is no limitation as to the percentage of the portfolio which can be invested.

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B. United States Treasury Bills, Notes, and Bonds – Maximum of 100%.

Maximum term of investment 5 years. There is no limitation as to the percentage of the portfolio, which can be invested.

C. Obligations issued by the Federal Government – Maximum of 100%.

Obligations issued by the Government National Mortgage Association (GNMA), the Federal Farm Credit Bank System (FFCB), the Federal Home Loan Bank (FHLB), the Federal Home Loan Mortgage Corporation (FHLMC), the Federal National Mortgage Association (FNMA), and the Student Loan Marketing Association (SLMA). Although there is no percentage limitation on “governmental agency” issues, the prudent person rule shall apply for a single agency name.

D. Banker’s Acceptances – Maximum of 25%

Banker’s Acceptances are time drafts drawn on and accepted by a commercial bank. Purchased Banker’s Acceptances shall not exceed 180 days to maturity, or 25% of the market value of the portfolio. No more than 5% of the market value of the portfolio may be invested in Banker Acceptances issued by any one commercial bank.

E. Commercial Paper – Maximum of 10%

Commercial Paper rated “P1” by Moody’s Investor Services and A1 by Standard and Poor’s and issued by a United States corporation having assets exceeding \$500,000 and having an “A” or better rating on its long-term debentures as rated by Moody’s and Standard and Poor. Commercial Paper purchases cannot exceed 10% of the market value of the portfolio (30% if the dollar weighted average maturity of all commercial paper does not exceed 270 days). Purchase of commercial paper may not exceed 10% of outstanding paper of an issuing corporation.

F. Negotiable Certificates of Deposit - Maximum of 25%

Negotiable Certificates of Deposit (NCD) issued by a nationally or state chartered bank or state or federal savings and loan association. To be eligible for purchase by the District the NCD must be issued by:

A California bank rated “BB” or better by Standard and Poor’s; or

A major national regional bank outside California rated “BBB” or better by Standard and Poor’s; or

A savings and loan association operating in California rated “BBB” or better by Standard and Poor’s.

Purchases of negotiable certificates of deposits may not exceed 25% of the market value of the portfolio. A maturity limitation of five (5) years is applicable on NCDs.

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G. Repurchase Agreements – Maximum of 20%

The District may invest in Repurchase Agreements with banks and dealers with which the District has entered into a Master Repurchase Agreement which specifies terms and conditions of Repurchase Agreements. A signed copy of the Master Repurchase Agreement shall be required from the authorized financial dealer prior to the execution of any applicable transaction. The maturity of Repurchase Agreements shall not exceed one year. The market value of securities used as collateral for Repurchase Agreements shall be monitored daily and will not be allowed to fall below 102% of the value of the Repurchase agreement as set forth in California Government Code Section 53601 (i) (2).

H. Local Agency Investment Fund – Maximum of \$40 million per account

The District may invest in the Local Agency Investment Fund (LAIF) established by the State Treasurer for the benefit of local agencies up to the maximum permitted by State law.

I. Medium-Term Notes – Maximum 30%

Medium-Term Notes with a maximum of five years maturity issued by corporations organized and operating within the United States or any state and operating within the United States. Notes eligible for investment shall be rated in a rating category of "A" or its equivalent or better by nationally recognized rating service. No more than 30% of the market value of the portfolio may be invested in Medium-Term Notes.

J. Money Market Mutual Funds – Maximum of 20%

Shares of beneficial interest issued by diversified management companies that are money market mutual funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940, as defined in Section 53601(k)(2) of the California Government Code. To invest in securities and obligations, which comply, with the investment restrictions pursuant to Section 53601(k)(2), companies shall either:

Attain the highest ranking or the highest letter and numerical ranking provided by not less than two out of the three rating services: Moody's Investor Service, Standard and Poor's, or Fitch Investor's Service, Inc.

Retain an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of five hundred million dollars (\$500,000,000). The purchase price of shares of beneficial interest purchased pursuant to this section shall not include any commission that these companies may charge and shall not exceed 20% of the District's surplus money that may be

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invested in money market mutual funds. Further, the District may invest only in money market mutual funds, which have an average maturity of 90 days or less per Securities and Exchange Commission regulations.

All positions in government-sponsored investment pools and permitted money market mutual funds (per Sections G and I, above) shall be subject to periodic review by the General Manager or designee, in order to ensure that the monies in question are managed in a manner consistent with the standards and objectives set forth elsewhere in this policy.

K. Collateralized Bank Deposits – Maximum of 100%

The Agency may invest in notes, bonds or other obligations, which are at all times secured by a valid first priority security interest. The securities serving as collateral shall be placed by delivery or book entry into the custody of a trust company or the trust department of a bank which is not affiliated with the issuer of the secured obligation, and the security interest shall be perfected in accordance with the requirements of the Uniform Commercial Code or Federal regulations applicable to the types of securities in which the security interest is placed. For the purposes of Time Deposits issued by financial institutions, there is no limitation as to the percent of the portfolio, which can be invested/deposited.

L. Investment Pools – Maximum of 30%

Pools and other investment structures rated AA or higher, incorporating investments permitted in California Government Code Sections 53601, 53635, and 5922(d).

M. Joint Powers Investment Pools – Maximum of 100%

There is no limitation as to the percentage of the portfolio which can be invested. The pool must incorporate investments permitted in California Government Code Sections 53601, 53635, and 5922(d).

Summary of Maximum % Limitations of Investments by Investment Type:

The following summary of maximum percentage limits by investment type established for the District's total pooled investment portfolio:

<u>Investment Type</u>	<u>Limit</u>	<u>Period</u>
US Treasury Bills Notes & Bonds	0 to 100%	No Limit
Obligations Issued by the US Government	0 to 100%	No Limit
Banker's Acceptances	0 to 25%	180 Days
Commercial Paper	0 to 10%	270 Days
Negotiable Certificates of Deposit	0 to 25%	5 Years
Repurchase Agreements	0 to 20%	1 Year

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Local Agency Investment Fund	\$40 million/Acct	No Limit
Medium-Term Notes	0 to 30%	5 Years
Money Market Mutual Funds	0 to 20%	90 Days
Collateralized Bank Deposits	0 to 100%	No Limit
Investment Pools	0 to 30%	No Limit
Joint Powers Investment Pools	0 to 100%	No Limit

6. **PROHIBITED INVESTMENTS.** In accordance with California Government Code Section 53601.6, the District will not invest any funds in inverse floaters, range notes, or interest only strips that are derived from a pool of mortgages. The District may hold previously permitted but currently prohibited investments until their maturity dates.
7. **SAFEKEEPING.** All investments of the District shall have the Phelan Pinon Hills Community Services District as registered owner and shall be held in safekeeping by a third party bank trust department, acting as agent for the District under the terms of a custody agreement.
8. **MAXIMUM MATURITIES.** The District will match its investments with anticipated cash flow requirements. Per California Government Code Sections 53601 et seq., maximum maturities shall not exceed five (5) years. The average maturity of funds should not exceed 1,275 days (3.5 years), and the cash flow requirements shall prevail at all times.
9. **DIVERSIFICATION.** Investments shall be diversified among institutions, types of securities and maturities to maximize safety and yield with changing market conditions. Local financial institutions will be given preferential consideration for investment of District funds consistent with the District's objective of attaining market rates of return, and consistent with constraints imposed by its safety objectives, cash flow considerations and State laws.
10. **LEGISLATIVE CHANGES.** Any State of California legislative actions that further restricts allowable maturities, investment type, or percentage allocations will be incorporated into the Phelan Piñon Hills Community Services District Investment Policy and supersede any and all previous applicable language.
11. **DELEGATION AND GRANTS OF AUTHORITY.** Management responsibility for the investment program is delegated to the General Manager, who shall establish written procedures and policies for the operation of the investment program with this Investment Policy. The General Manager may delegate the responsibility for investment to other management employees as necessary and approved by the Board of Directors.
12. **ETHICS & CONFLICT OF INTEREST.** The General Manager and all personnel authorized to invest District monies shall refrain from personal business activity which would create a conflict with the proper execution of the investment program, or the execution of impartial

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investment decisions. A State of California Form 721, Statement of Economic Interests Disclosure shall be completed by the General Manager and other management personnel that invest District monies.

13. INVESTMENT REPORTS. The General Manager shall submit a quarterly investment report to the District Board in accordance with Government Code Section 16481.2 containing the following information for each individual investment:

- Financial institution
- Type of investment
- Purchase Price of investment
- Rate of interest
- Purchase date
- Maturity date
- Current market value for securities
- Other data as required by the District

In addition, the report shall include a statement of compliance of the portfolio with the Board approved Investment Policy and a statement indicating the ability of the District to meet its expenditure requirements for the next six months.

9. INVESTMENT POLICY REVIEW

This investment policy and guidelines shall be adopted by resolution of the District Board on an annual basis after being reviewed to ensure its consistency with the overall objectives of preservation of principal, liquidity, and yield, and its relevance to current law and financial and economic trends.