

Number: **BP 005**

Authority: Board of Directors
Effective: September 1, 2011
Last Revised: October 11, 2023
Last Reviewed: October 19, 2023
Initiating Dept./Div.: Administration/Finance



BOARD POLICY

STATEMENT OF INVESTMENT POLICY

PURPOSE

The investment policy of the Central Contra Costa Sanitary District (Central San) governs investments held with the following:

- Contra Costa County
- Other Post-Employment Benefits (OPEB) Trust*
- Pension Prefunding Trust*
- Debt Reserves – as indicated in the Bond Official Statement (if applicable)

*Trusts are governed by a separate Investment Guidelines Document provided by Investment Manager on an annual basis.

Investments will be in compliance with the provisions of, but not necessarily limited to *California Government Code* Section 53601 and other applicable statutes.

This investment policy is embodied in the following sections:

POLICY

I. Statement of Objectives

The primary objectives, in priority order, of the Central San's investment activities shall be:

- **Safety.** Investments of Central San shall be undertaken in the manner that seeks to ensure the preservation of capital in the overall portfolio.
- **Liquidity.** Central San's portfolio will remain sufficiently liquid to enable Central San to meet all operating requirements which might be reasonably anticipated.

- Return on Investment. The portfolio will be invested to attain a market average rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints, liquidity needs, and cash flow characteristics of the portfolio.

II. Permissible Investments

Within the constraints prescribed by the *California Government Code* for permissible investments, Central San's investment portfolio will only be invested in the following instruments:

- **United States Treasury Obligations.** United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the full faith and credit of the United States are pledged for the payment of principal and interest.
- **United States Government Agency Issues.** Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.
- **Municipal Investments.** Registered state warrants or treasury notes or bonds of this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of the state.

Registered treasury notes or bonds of any of the other 49 states in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 states, in addition to California.

Eligible obligations shall be rated in category "AA" or its equivalent or better by a nationally recognized statistical rating organization Nationally Recognized Statistical Rating Organization (NRSRO). No more than 5% shall be invested in any single issuer.

- **Money Market Funds.** Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. See. 80a-1, et seq.). That invest in the securities and obligations as authorized by *California Government Code* Section 53601 subdivisions (a) to (k), inclusive, and subdivisions (m) to (q), inclusive, and that comply with the investment restrictions of this article and Article 2

(commencing with Section 53630). To be eligible for investment pursuant to this subdivision, these companies shall either:

- i. Attain the highest ranking or the highest letter and numerical rating provided by not less than two NRSROs;
- ii. 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).

A maximum of 20% of Central San's portfolio may be invested in money market funds. No more than 10% of Central San's portfolio may be invested in any one fund.

- **Bankers' Acceptances**, otherwise known as bills of exchange or time drafts, drawn on and accepted by a commercial bank. Purchases of bankers' acceptances shall not exceed 180 days' maturity or 40% of Central San's moneys that may be invested pursuant to this section. However, no more than 5% of Central San's moneys may be invested in the bankers' acceptances of any one commercial bank pursuant to this section.
- **Collateralized Time Deposits (Non-Negotiable Certificates of Deposit)** issued by a Federal or State chartered bank or a Federal or State chartered savings and loan association. Time certificates of deposit shall meet the requirements for deposit under *California Government Code* Section 53635 et. seq., The Deputy General Manager of Administration, for deposits up to the current FDIC insurance limit, may waive collateral requirements if the institution insures its deposits with the Federal Deposit Insurance Corporation (FDIC). No more than 20% of Central San's moneys shall be invested in a combination of federally insured and collateralized non-negotiable certificates of deposit.

Fully insured time certificates of deposit placed through a deposit placement service shall meet the requirements under *California Government Code* Section 53601.8.

- **Negotiable Certificates of Deposit** issued by a nationally or state-chartered bank, a savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a federally licensed or state-licensed branch of a foreign bank. Purchases of negotiable certificates of deposit shall not exceed 30% of Central San's moneys that may be invested pursuant to this section and not more than 5% may be invested in any single issuer. Eligible negotiable

certificates of deposit in excess of the FDIC insured limit shall be rated in category "AA" or its equivalent or better by a NRSRO.

- **Commercial Paper** of prime quality of the highest ranking or of the highest letter and number rating as provided for by a NRSRO. The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (a) or paragraph (b):
 - a) The entity meets the following criteria: (i) Is organized and operating in the United States as a general corporation. (ii) Has total assets in excess of five hundred million dollars (\$500,000,000). (iii) Has debt other than commercial paper, if any, that is rated "A" or higher by a NRSRO.
 - b) The entity meets the following criteria: (i) Is organized within the United States as a special purpose corporation, trust, or limited liability company. (ii) Has program wide credit enhancements including, but not limited to, over collateralization, letters of credit, or surety bond. (iii) Has commercial paper that has a short term rating of "A-1" / "P-1" / "F1" or higher, or the equivalent, by a NRSRO.

Eligible commercial paper shall have a maximum maturity of 270 days or less. Central San may invest no more than 25% of its moneys in eligible commercial paper and no more than 10% of its total investment assets in the commercial paper of any single issuer.

- **Medium Term Notes**, defined as all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the United States, or any state and operating within the United States. Notes eligible for investment under this subdivision shall be rated "AA" (or equivalent "P-1" / "A-1" / "F1") or better by an NRSRO. Purchases of medium-term notes shall not include other instruments authorized by this section and shall not exceed 30% of Central San's moneys that may be invested pursuant to this section. Central San may invest no more than 10% of its total investment assets in the medium-term notes of any single issuer.
- **Government Pools (e.g., California Asset Management Program, CalTrust, etc.)**. Shares of beneficial interest issued by a joint powers authority organized pursuant to *California Government Code* Section 6509.7 that invests in securities and obligations authorized by *California Government Code* Section 53601 subdivisions (a) to (q), inclusive. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible under this section, the joint powers authority issuing the shares shall have retained an investment adviser that meets all of the following criteria:

- i. The adviser is registered or exempt from registration with the Securities and Exchange Commission.
 - ii. The adviser has not less than five years of experience investing in the securities and obligations authorized in *California Government Code* Section 53601 subdivisions (a) to (q), inclusive.
 - iii. The adviser has assets under management in excess of five hundred million dollars (\$500,000,000).
- **Local Agency Investment Fund of the State of California.** Investment in LAIF may not exceed the current LAIF limit (\$75,000,000) and should be reviewed periodically.
 - **Supranationals**, defined as 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, with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Supranationals shall be rated “AA” (or “P-1” / “A-1” / “F1” short term rating) or its equivalent or better by a NRSRO. Purchases of supranationals may not exceed 30% of Central San’s investment portfolio and no more than 5% may be invested in any single issuer.

A summary matrix of permissible investments and restrictions associated with each is provided in Appendix A.

III. Bank and Dealers

Central San has the option of investing funds internally, using the services of the Treasurer’s Office of the County of Contra Costa or a registered investment advisor to transact Central San’s investments in compliance with the requirements described in this investment policy. If Central San uses the services of the County, the County Treasurer’s Office will execute Central San’s investments through such brokers, dealers and financial institutions as are approved by the County Treasurer, and through the State Treasurer’s Office for investment in the Local Agency Investment Fund.

The General Manager, with the approval of the Board, may appoint an independent investment advisor registered with the Securities and Exchange Commission pursuant to the Investment Advisers Act of 1940 and the rules adopted thereunder, or a “Municipal Advisor” as defined by Section 975 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, amending Section 15B of the Securities Exchange Act of 1934, and interpreted by the Securities and Exchange Commission in its final rules adopted September 10,

2013, to advise the Central San on investment activities. The investment advisor will be selected through a competitive process. The terms and conditions of such a relationship shall be set out in a contract. The duties and responsibilities of the investment advisor at a minimum shall include the following.

- Providing advice and analysis on the Central San's Investment Policy, portfolio management techniques, portfolio structures, and new investment securities and products;
- Assistance in developing or improving and implementing cash flow modeling;
- Providing advice on investment benchmarking and performance reporting;
- Evaluation of the capabilities and usage of software utilized in management of and accounting for the investments;
- Assisting in any investment related presentations to the Finance Committee and/or Board, including, but not limited to, the quarterly investment portfolio report; and
- Providing analysis, advice, and assistance on other investment-related matters, including investment of bond proceeds.

IV. Settlements

The settlement date of an investment transaction is the date when a trade is final. The ownership of the security is transferred to the buyer and the payment of funds is transferred to the seller. The settlement date establishes a legal transfer of ownership. Security purchases with a forward settlement date exceeding 45 days from the time of the investment are prohibited.

V. Maturities

To the extent possible, Central San shall attempt to match its investments with anticipated cash flow requirements. Unless stated otherwise in this Policy or approval made by Central San's executive body, the maximum maturity of Central San's eligible investments will not exceed five years. The calculation of an investment's remaining maturity/term is to be measured from the settlement date to final maturity.

VI. Diversification

Central San's investments shall be diversified by:

- Limiting investments to avoid over concentration in securities from a specific issuer or sector.
- Limiting investments in securities that have higher credit risks.
- Investing in securities with varying maturities.
- Continuously investing a portion of the portfolio in readily available funds such as local government investment pools or money market funds to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

VII. Risk

Credit and market risks will be minimized through adherence to the list of permissible investments, a limit on maximum maturities, and the limitation on the total investment in a single issuer.

VIII. Delegation and Authority

Central San's Board of Directors (Board) is responsible for the investment of Central San's funds. The Board hereby delegates responsibility for investment transactions for the investment program to the General Manager or designee, for a one-year period.

The General Manager or designee may delegate the day-to-day execution of investments to a registered investment advisor, via written agreement approved by the Board. The Advisor in coordination with the General Manager or designee will manage on a daily basis Central San's investment portfolio pursuant to the specific and stated investment objectives of Central San. The Advisor shall follow the policy and such other written instructions provided by the General Manager or designee.

IX. Prudence

Prudent judgment must be exercised by the General Manager or designee and all investment staff responsible for investment transactions undertaken in accordance with this investment policy. The standard of prudence to be applied by the investment officer shall be the "prudent person" rule:

"Investments shall be made with judgment 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." The prudent person rule shall be applied in the context of managing the overall portfolio.

X. Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of Central San.

XI. Controls

The General Manager or designee will establish subsidiary accounting records of each investment which will enable the determination of income earned monthly and through maturity, and the balancing of the principal amounts to a control account in the general ledger. Internal control procedures require the General Manager or designee to sign all transactions, which are then countersigned by the General Manager. Such internal controls are to be reviewed by Central San's independent auditors annually.

XII. Safekeeping and Custody

All investment transactions will be executed on a delivery versus payment basis. Securities will be held in safekeeping by a third party custodian designated by Central San. The custodian will be required to provide timely (written or on-line) confirmation of receipt and monthly position and transaction reports.

XIII. Reporting

The General Manager or designee will annually render a statement of investment policy to the Board. Additionally a quarterly investment portfolio report shall be prepared showing the type of investment, issuer, date of maturity, par (or face), dollar amount invested, current market value of all securities, and the source of this same valuation, and a statement of compliance of the portfolio with the investment policy. The quarterly investment portfolio report shall be delivered to Central San's Internal Auditor,

the General Manager, and the Board for review within 45 days of the end of the quarter to which it pertains.

Also, annually, the OPEB and Pension Prefunding Trust Investment Guidelines Documents (IGD) will be brought before the Board Administration Committee for review. Quarterly statements for both Trusts are reviewed by the Board Finance Committee. At least, twice a year the investment manager and/or the Trust Administrator meets with the Finance Committee.

XIV. Performance Evaluation

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.

XV. Policy Considerations

This policy shall be reviewed on an annual basis. Any changes must be approved by the Board after review by the Administration Committee, as well as the individual(s) charged with maintaining internal controls.

Appendix A: Permissible Investment Restrictions Summary Matrix

[Original Retained by the Secretary of the District]

Permissible Investment Restrictions Summary Matrix

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the matrix below:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer	Minimum Credit Quality
Banker's Acceptances	180 days	40%	5%	n/a
Certificates of Deposit – Collateralized / Non-negotiable	5 years	20%	n/a	AAA
Certificates of Deposit - Negotiable	5 years	30%	5%	AA ³
Commercial Paper ¹	270 days	25%	10%	A-1
County Investment Pool	n/a	n/a	n/a	n/a
Government Investment Pools (CAMP, Cal Trust, etc.)	n/a	n/a	n/a	n/a
Local Agency Investment Fund (LAIF) ²	n/a	n/a	n/a	n/a
Medium Term Notes	5 years	30%	10%	AA
Money Market Funds	n/a	20%	10%	A
Municipal Investments	5 years	n/a	5%	AA
Supernational	5 years	30%	5%	AA
U.S. Government Agency Issues	5 years	n/a	n/a	n/a
U.S. Treasury Obligations	5 years	n/a	n/a	n/a

¹ Prime quality; limited to corporations with assets over \$500,000,000.

² As of June 30, 2023, the maximum amount an agency could invest with LAIF was \$75,000,000.

³ Credit rating requirement not applicable for issuer if under FDIC insurance coverage, currently \$250,000.