Silicon Valley Clean Water

COMMISSION POLICY 1992-01 **APPROVED BY:** George Otte
George Otte (Sep 12, 2024 08:30 CDT)

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Approved by the SVCW Commission at the Meeting held on September 09, 2024, by Resolution No. SVCW 24-34

SUBJECT: Silicon Valley Clean Water Investment Policy and Guidelines

PURPOSE:

The purpose of this Investment Policy (the "Policy") is to establish the investment policy and guidelines to be followed in the investment of all Silicon Valley Clean Water ("SVCW" or the "Authority") surplus funds not required for immediate use by SVCW. All investment of such surplus monies is governed by California Government Code Section (CGC) 53600, et seq. and by the Policy.

To the extent possible, all money belonging to or in the custody of SVCW required for the immediate use of the Authority shall be deposited for safekeeping pursuant to relevant CGC sections, including Sections 53635.2, 53637-53645 and 53649.

SCOPE:

This Policy applies to all funds and investment activities of the Authority except the investment of bond proceeds, which are governed by the appropriate bond documents, and any pension or other post-employment benefit funds held in a trust.

RESPONSIBILITIES:

The Chief Financial Officer (CFO) shall have the responsibility of investing all Authority surplus funds in accordance with this Policy, providing regular investment reports to the Commission (as described in more detail in Section X of this Policy), and allocating interest to each fund.

The SVCW Commission shall have the responsibility for regular review of the Investment Policy and Guidelines and approving proposed changes.

POLICY:

I. INTRODUCTION

Authority monies not required for immediate expenditure will be invested in compliance with governing provisions of law, the Joint Exercise of Powers Agreement establishing the Authority and this Policy.

Funds of the Authority will be invested in accordance with California Government Code Sections 53601 through 53686 and with sound treasury management.

Investments will be made in a range of instruments to ensure diversification of the Authority's portfolio and liquidity of assets.

II. STANDARD OF CARE

Prudence: All investments shall be made within the policy framework of liquidity and safety with the judgment and care which a prudent and intelligent person would, under circumstances then prevailing (including, but not limited to, the general economic conditions and the anticipated needs of SVCW), exercise in the management of his/her affairs. 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.”

Ethics: Officers and employees 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. All investment personnel shall comply with reporting requirements of applicable state laws including annual filing of Statements of Economic Interest.

III. OBJECTIVES

The primary investment objectives of this policy in order of priorities are:

Safety: Safety of the principal shall be the top priority in consideration of any investment undertaken by the CFO. The portfolio shall be so diversified that the losses, if any, on particular securities shall be offset by the revenue generated from other investments. The Authority’s portfolio shall be actively managed. Therefore, securities may be sold prior to maturity if doing so would better align the portfolio with its selected performance benchmark, and/or increase the earnings potential or credit quality of the portfolio. The Authority shall seek to preserve principal by mitigating credit risk and market risk.

Credit risk: Defined as the loss due to failure of the issuer of a security, shall be mitigated by investing in investment grade securities and by diversifying the investment portfolio so that failure of any one issue does not unduly harm the Authority's capital base and cash flow. In the event of a downgrade in credit after the date of purchase to a level below the minimum credit standards provided in the California Government Code, the CFO or his/her designee shall advise the Commission of the change at or before the next regular meeting. If the Authority has retained the services of an Investment Advisor, the Investment Advisor will notify the CFO of such a downgrade and will recommend a plan of action.

Market risk: Defined as market value fluctuations due to overall changes in the general level of interest rates, will be mitigated by structuring the investment portfolio so that securities mature to meet the cash requirements for ongoing operations, thereby limiting the need to sell securities prior to maturity.

Liquidity: The CFO shall keep the portfolio sufficiently liquid to meet the operating and capital needs of the Authority which can be reasonably anticipated from his/her experience of the Authority's operations and adopted budget. S/he shall also review the various construction and other contracts the Authority has entered into to anticipate the cash needs.

Return on Investment: Within the safety and liquidity constraints imposed by law and the Authority's own safety objective and cash flow requirements, the investment portfolio shall be designed to attain the market rate of return.

IV. AUTHORIZATION TO INVEST AND DELEGATION OF AUTHORITY

The CFO shall have the authority to invest the funds of the Authority.

The CFO may delegate day-to-day investment decision-making and execution authority to an investment advisor. Such investment advisor must have not less than five years' experience managing public agency funds subject to California Government Code and must have total public agency assets under management nationwide of at least $10 billion. The rights and responsibilities delegated to an investment advisor must be in a written agreement. The investment advisor shall make all investment decisions and transactions in accordance with California Government Code and this Policy. No person may engage in an investment transaction except as provided under the terms of this Policy and the procedures established by the CFO and approved by the SVCW Commission.

Investments of Authority monies not required for immediate expenditure will be made in securities or other certificates of indebtedness as provided by Section 53601, et seq. of the California Government Code for the investment of public funds, except those expressly prohibited by this policy.

V. CASH FLOW AND AVAILABILITY

An amount equal to two weeks' cash flow requirements is to be maintained in immediately available investments, such as the State Treasurer's Local Agency Investment Fund, money market funds, or similar liquid instruments.

VI. ACCEPTABLE INVESTMENT INSTRUMENTS

All investments must be made in accordance with this policy and the State of California Government Code Section 53600, et seq. In the case of a discrepancy between this Policy and California Government Code Section 53600, et seq., the more stringent requirements shall apply.

The Authority will limit investments in any one issuer except for obligations of the U.S. Treasury, U.S. federal agencies, U.S. government-sponsored enterprises, U.S. instrumentalities, and pooled funds (e.g., money market funds, local government investment pools, and LAIF) to no more than 5%, regardless of security type.

Where this section specifies a percentage limitation for a particular issuer or security type, that percentage is applicable only at the date of purchase. A security purchased in accordance with this section shall not have a forward settlement date exceeding 45 days from the time of investment. Credit criteria listed in this section refers to the credit rating category (inclusive of modifiers) at the time the security is purchased.

The Commission may, as part of a bond issuance, direct or authorize staff to invest bond proceeds in investment instruments authorized by the California Government Code that are not contained within this policy.

The Authority's investment portfolio may include the following instruments:

1. **U.S. 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.

2. **U.S. Federal Agency Obligations**. 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.

3. **California State and Local Agency Obligations.** Obligations of the State of California or any local agency within the state, including bonds payable solely out of revenues from a revenue- producing property owned, controlled, or operated by the state or any local agency or by a department, board, agency, or authority of the state or any local agency. Obligations eligible for investment under this subdivision with maturities in excess of one year must be rated "A," its equivalent, or better by a Nationally Recognized Statistical Rating Organizations ("NRSRO"). Obligations eligible for investment under this subdivision with maturities under one year must be rated at least "A-1," its equivalent, or better by an NRSRO.

4. **Other State Obligations.** Registered treasury notes or bonds of any of the other 49 United 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 United States, in addition to California. Obligations eligible for investment under this subdivision with maturities in excess of one year must be rated "A," its equivalent, or better by an NRSRO. Obligations eligible for investment under this subdivision with maturities under one year must be rated at least "A-1," its equivalent, or better by an NRSRO.

   No more than 30% of the Authority’s portfolio may be invested in California State and Local Agency Obligations (subsection 3 above) and Other State Obligations (subsection 4 above), collectively.

5. **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 U.S. or any state, and operating within the U.S. medium-term notes must be rated "A," its equivalent, or better by an NRSRO. No more than 30% of the Authority's portfolio may be invested in medium-term notes.

6. **Bank Deposits.** Funds may be deposited in federally-insured or collateralized bank deposits to include, but not limited to, demand deposit accounts, savings accounts, market rate accounts, and time deposits. To be eligible to receive deposits from the Authority, the financial institution must be located in California and comply with the requirements listed in Government Code Section 53630 et. seq. The CFO, at his/her discretion, may waive the collateralization requirements for any portion that is insured by the Federal Deposit Insurance Corporation or by the National Credit Union Administration. The Authority shall have a signed agreement with any depository accepting Authority funds per Government Code Section 53649. The final maturity of time deposits may not exceed five years. There is no limit on the percentage of the Authority's portfolio that may be invested in bank deposits. However, a maximum of 50% of the Authority's portfolio may be invested in time deposits.

7. **Pooled Investment Accounts, including the State of California's Local Agency Investment Fund (LAIF) and the California Cooperative Liquid Assets Securities System (Cal Class)**. The Authority may invest up to the maximum amount permitted by the State Treasurer.

8. **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. Sec. 80a-1, et seq.). To be eligible for investment pursuant to this subdivision these companies will either:
   - Attain the highest-ranking letter or numerical rating provided by not less than two of the three largest NRSROs *or*
   - Have 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 and with assets under management in excess of five hundred million dollars ($500,000,000).

   No more than 20% of the Authority's portfolio may be invested in money market funds.

9. **Shares of a Joint Powers Authority (JPA).** Shares of beneficial interest issued by a joint powers authority organized pursuant to Government Code Section 6509.7 that invests in the securities and obligations authorized in subdivisions (a) to (r), inclusive, of Government Code Section 53601. Each share will 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 will have retained an investment adviser that meets all of the following criteria:
   1) The adviser is registered or exempt from registration with the Securities and Exchange Commission, *and*

2) The adviser has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (q), inclusive of California Government Code Section 53601, *and*
3) The adviser has assets under management in excess of five hundred million dollars ($500,000,000).

10. **Commercial Paper.** Commercial paper of "prime" quality of the highest ranking or of the highest letter and number rating as provided for by a nationally recognized statistical rating organization (NRSRO). The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (1) or (2):

    1) The entity meets the following criteria:
        a. Is organized and operating in the United States as a general corporation;
        b. Has total assets in excess of five hundred million dollars ($500,000,000); and
        c. Has debt other than commercial paper, if any, that is rated in a rating category of "A" or its equivalent or higher by an NRSRO.
    2) The entity meets the following criteria:
        a. Is organized within the United States as a special purpose corporation, trust, or limited liability company;
        b. Has program wide credit enhancements including, but not limited to, overcollateralization, letters of credit, or a surety bond;
        c. Has commercial paper that is rated "A-1" or higher by an NRSRO.

    Eligible commercial paper shall have a maximum maturity of 270 days or less. No more than 15% of the Authority's portfolio may be invested in commercial paper.

11. **Negotiable Certificates of Deposit.** 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. The legislative body of the Authority and the treasurer or other officials of the Authority having legal custody of the moneys are prohibited from investing local agency funds, or funds in the custody of the local agency, in negotiable certificates of deposit issued by a state or federal credit union if a member of the legislative body of the local agency, a person with investment decision making authority employed by the investment advisor, if so engaged, or a person with investment decision making authority in the administrative office manager's office, budget office, auditor-controller's office, or treasurer's office of the local agency also serves on the board of directors, or any committee appointed by the board of directors, or the credit committee or the supervisory committee of the state or federal credit union issuing the negotiable certificates of deposit. Eligible negotiable certificates of deposit shall have a maximum remaining maturity of five years or less and shall be rated in a rating category of "A" for long-term, "A-1" for short-term, their equivalent, or better by an NRSRO.

    No more than 15% of Authority's portfolio may be invested in negotiable certificates of deposit.

12. **Asset-Backed Securities (ABS).** A mortgage passthrough security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable passthrough certificate, or consumer receivable-backed bond. Securities eligible for investment under this subdivision shall be rated in a rating category of “AA” or its equivalent or better by an NRSRO and have a maximum remaining maturity of five years or less.

    No more than 20% of the Authority’s portfolio may be invested in these asset-backed securities.

13. **Supranationals.** 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. Investments under this subdivision shall be rated in a rating category of “AA” or its equivalent or better by an NRSRO.

    No more than 15% of the Authority’s portfolio may be invested in these specific supranational obligations.

VII. PROHIBITED INVESTMENTS

The Authority shall not invest any funds in Repurchase Agreements (REPOS) or Reverse Repurchase Agreements (REVERSE REPOS). The Authority shall not purchase or sell securities on margin or invest in financial futures/financial options.

VIII. MAXIMUM MATURITY OF INVESTMENTS

Maturities will be based on a review of cash flow forecasts. Maturities will be scheduled to permit the Authority to meet all projected obligations. The purchase of U.S. Treasury obligations, U.S. federal agency and government-sponsored enterprise (GSE) obligations, and California state and local agency obligations and other state obligations (subsections VI. 1, 2, 3, and 4 above) with maturities in excess of five years is permitted, subject to the following constraints: U.S. Treasury, federal agency/GSE, and California state and local agency obligations and other state obligations shall have a maximum remaining maturity at time of purchase of eleven years or less, and federal agency/GSE mortgage-backed securities (including pass-throughs and CMOs) shall have a maximum remaining average life of ten years or less.. For purposes of compliance with this section, an investment’s term or remaining maturity shall be measured from the settlement date to final maturity.

IX. BROKER/DEALERS AND FINANCIAL INSTITUTIONS

The CFO, or his/her designee, will maintain a list of financial dealers and institutions qualified and authorized to transact business with the Authority.

The purchase by the Authority 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, who is a member of 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.

The CFO shall annually send a copy of the current Investment Policy to all financial institutions and broker/dealers approved to do business with the Authority. Written confirmation of receipt of this Policy shall be considered evidence that the dealer understands the Authority's investment policies and intends to sell the Authority only appropriate investments authorized by this Investment Policy. Moreover, the Authority will execute an agreement with any broker/dealer prior to doing business with such.

If the Authority has retained the services of an Investment Advisor, the Investment Advisor may use its own list of authorized broker/dealers to conduct transactions on behalf of the Authority.

Purchase and sale of securities will be made on the basis of competitive bids and offers with a minimum of three quotes being obtained, whenever possible.

X. REPORTS TO COMMISSION

On not less than a quarterly basis, the CFO shall provide to the Commission a detailed investment report that shall include the following information: description of investment instrument, issuer name, maturity date, credit rating, interest rate, yield, purchase price, par value, book value, current market value and the source of the valuation. This report shall also state compliance of the portfolio with this Investment Policy, or manner in which the portfolio is not in compliance. The CFO shall also make a list of monthly investment transactions available upon request.

XI. PERFORMANCE EVALUATION

The Authority’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. The benchmark for “market-average rate” shall be the rate of return of an appropriate market-based index which has a duration similar to that of the the Authority’s portfolio(s), against which portfolio performance shall be compared on a regular basis.

XII. INTEREST ALLOCATION

Quarterly interest is to be allocated to each fund using the average rate of return and based on the average monthly cash balance for each fund. Residual interest earned will remain in the operations fund.

Funds with a negative cash balance will be charged interest using the average rate of return.

The Authority will further allocate the interest earned for each fund by entity. The interest earnings will be allocated based on the average monthly balance of each entity. The beginning balances for each entity will be taken from the audited financial statements of the previous year.

XIII. SAFEKEEPING OF SECURITIES

All marketable securities owned by the Authority shall be held in safekeeping by a third-party administrator (custody bank or trust department) acting as agent for the Authority under the terms of a custody or trustee agreement executed by the bank and the Authority. All securities will be received and delivered using the standard delivery versus payment (DVP) procedure.

XIV. INTERNAL CONTROL

The CFO is responsible for establishing and maintaining an internal control structure designed to provide reasonable assurance that the assets of the Authority are protected from loss, theft, or misuse. A CFO's office staff member who is not involved in the purchase of investments, wire transfers, or maintaining the general ledger shall be assigned the responsibility of reviewing and reconciling the monthly reports received from the investment advisor and custody bank. This review shall include, but not be limited to, reconciling the listing and amounts of each investment position and transaction.