1. Agenda Packet

Documents:

190501 AGENDA PACKET.PDF
1. CALL MEETING TO ORDER AND ROLL CALL.

2. ITEMS TO BE ADDED, WITHDRAWN, OR REORDERED IN THE AGENDA.

3. PUBLIC COMMENT.
   Opportunity for members of the public to address the Committee. (Government Code Section 54954.3).

4. ACTION AGENDA.
   The following items on the Action Agenda call for discussion and action by the Committee. All items are placed on the Agenda so that the Committee may discuss and take action on the item if the Committee is so inclined, including items listed for information.
   A. Consideration of One-time Adjustment to Customer Water Bill – Pasha Automotive Service

5. CLOSED SESSION.
   At any time during the regular session, the Committee may adjourn to closed session to consider litigation, personnel matters, or to discuss with legal counsel matters within the attorney-client privilege. (Government Code Section 54954.5.)

6. NEXT MEETING DATE: Wednesday, May 15, 2019 at 4:00 p.m.

7. ADJOURNMENT.
   This agenda was posted at least seventy-two (72) hours before the meeting in a location freely accessible to the Public on the exterior bulletin board at the main entrance to the Authority’s office and it is also posted on the Authority’s website at www.sweetwater.org. No action may be taken on any item not appearing on the posted agenda, except as provided by California Government Code Section 54954.2. Any writings or documents provided to a majority of the members of the Sweetwater Authority Governing Board regarding any item on this agenda will be made available for public inspection at the Authority Administration Office, located at 505 Garrett Avenue, Chula Vista, CA 91910, during normal business hours. Upon request, this agenda will be made available in appropriate alternative formats to persons with disabilities, as required by Section 202 of the Americans with Disabilities Act of 1990. Any person with a disability who requires a modification or accommodation in order to participate in a meeting should direct such request to the Board Secretary at (619) 409-6703 at least forty-eight (48) hours before the meeting, if possible.

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SWEETWATER AUTHORITY
FINANCE AND PERSONNEL COMMITTEE
AGENDA
DATE: Wednesday, May 1, 2019    TIME: 4:00 p.m.
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TO: Governing Board (Finance and Personnel Committee)
FROM: Management
DATE: April 26, 2019
SUBJECT: Consideration of One-time Adjustment to Customer Water Bill – Pasha Automotive Service

SUMMARY

<table>
<thead>
<tr>
<th>Pasha Automotive Service 24th at Quay</th>
<th>Commodity Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water Bill Under Review for Adjustment (a)</td>
<td>$12,128.18</td>
</tr>
<tr>
<td>Average Bi-Monthly Water Bill (prior 12 months)</td>
<td>$34.09</td>
</tr>
<tr>
<td>Above-Average Water Use at Wholesale Rate 2,472-7 = 2,465</td>
<td>$7,395.00</td>
</tr>
<tr>
<td>New Total Amount Due (b)</td>
<td>$7,429.09</td>
</tr>
<tr>
<td>Amount of One-Time Adjustment (a-b)</td>
<td>$4,699.09</td>
</tr>
</tbody>
</table>

POLICY
It is the Board’s policy to set rules for adjusting customer’s water bills so as not to profit by a customer’s misfortune. Under this policy, the General Manager is authorized to approve adjustments up to $1,500; adjustments in excess of $1,500 shall be approved by the Board. In addition, all one-time adjustments are provided without a specific reason.

ALTERNATIVES
1. Approve the one-time adjustment to Pasha Automotive Service’s account in the amount of $4,699.09.
2. Deny the request for the one-time adjustment and grant Pasha Automotive Service an extended payment plan to pay the balance of $23,256.41 over a twelve month period.
3. Deny the request and do not offer a payment plan.

STAFF RECOMMENDATION
Staff recommends that the Governing Board approve a one-time adjustment in the amount of $4,699.09.
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TO: Governing Board (Finance and Personnel Committee)

FROM: Management

DATE: April 26, 2019


SUMMARY
In order to provide background for the financial policies that will be included in the proposed Fiscal Year 2019-20 Budget, the policies will be reviewed in three parts:

1. Reserve Policy – April 10, 2019 Board Meeting
2. Budget Policy – April 24, 2019 Board Meeting
3. Debt, Disclosure Procedures, and Investment Policy – May 8, 2019 Board Meeting

PREVIOUS BOARD ACTION(S)
June 13, 2018 Adopted Resolution 18-12, Adopting a Budget for the Fiscal Year 2018-19.

FISCAL IMPACT
This item is for information only.

POLICY
Strategic Plan Goal 3: Financial Viability – Ensure long-term financial viability of the agency.

- Objective FV1: Develop an annual budget that determines yearly expenditures, incorporates a five-year projection to track fiscal stability, and guides rate-setting decision-making.

ALTERNATIVES
This item is for information only.
Memo to: Governing Board (Finance and Personnel Committee)
Subject: Overview of Financial Policies – Part 3 of 3, Debt, Disclosure Procedures, and Investment Policy
April 26, 2019
Page 2 of 2

STAFF RECOMMENDATION
This item is for information only.

ATTACHMENT(S)
Financial Policies – Debt, Disclosure Procedures, and Investment Policy
Debt Management Policy

Policy Goals
This Debt Management Policy (Policy) documents Sweetwater Authority’s (Authority) goals for the use of debt instruments and provides guidelines for the use of debt for financing the Authority’s infrastructure and capital project needs. The Authority’s overriding goal in issuing debt is to respond to and provide for the infrastructure and capital project needs of its customers while ensuring that debt is issued and managed prudently to maintain a sound fiscal position and protect current and future credit quality. The Authority issues debt instruments, administers Authority-held debt proceeds and makes debt service payments, acting with prudence and diligence, and attention to prevailing economic conditions.

Use of Debt Proceeds
The Authority will endeavor to pay for all infrastructure and other projects from a combination of current revenues, available reserves, and prudently issued debt. The Authority believes that debt can provide an equitable means of financing projects for the Authority’s customers and provide access to new capital for infrastructure and project needs. Debt will be used to finance projects if it: (i) meets the Authority’s goal of equitable treatment of all customers, both current and future; (ii) is the most cost-effective means available to the Authority; and (iii) is fiscally prudent; responsible, and diligent under the prevailing economic conditions.

Objectives
The Policy is designed to:
- Establish parameters for issuing debt;
- Provide guidance on all options available to finance infrastructure and other capital projects;
- Provide guidance on the most prudent, equitable and cost effective method of financing;
- Document the objectives to be achieved by staff both prior to issuance and subsequent to issuance;
- Promote objectivity in the decision-making process; and
- Facilitate the financing process by establishing important policy decisions in advance;

Adopted by Resolution 18-12
The Authority will adhere to the following legal requirements for the issuance of public debt:

- The laws of the State of California (State) which authorize the issuance of the debt;
- Federal and State laws which govern the eligibility of the debt for tax-exempt status;
- Federal and State laws which govern the issuance of taxable debt; and
- Federal and State laws which govern disclosure, sale, and trading of the debt.

Internal Controls

All debt transactions must be approved by the Governing Board. The proceeds of bond sales will be invested until used for the intended project(s) in order to maximize utilization of the public funds. The investments will be made to obtain the highest level of 1) safety, 2) liquidity, and 3) yield, and may be held as cash. The Authority's investment guidelines and the bond indentures will govern objectives and criteria for investment of bond proceeds. The Director of Finance shall comply with arbitrage and tax provisions.

Bond proceeds will be deposited and recorded in separate accounts to ensure funds are not commingled with other forms of Authority funds. The Authority's Trustee or Fiscal Agent will administer the disbursement of bond proceeds pursuant to each certain Indenture of Trust or Fiscal Agent Agreement, respectively. To ensure proceeds from bond sales are used in accordance with legal requirements, invoices will be submitted by the Director of Engineering and approved by the Director of Finance and Management for payment. Requisition for the disbursement of bond funds will be approved by the Director of Finance or designated alternate. Responsibility for general ledger reconciliations and records is segregated from the invoice processing, cash receipting, and cash disbursement functions. The Finance Department will be tasked with monitoring the expenditure of bond proceeds to ensure they are used only for the purpose and authority for which the bonds were issued and exercising best efforts to spend bond proceeds in such a manner that the Authority will meet one of the spend-down exemptions from arbitrage rebate. Tax-exempt bonds will not be issued unless it can be demonstrated that 85% of the proceeds can reasonably be expected to be expended within the three-year temporary period.

Integration with Financial and Capital Planning

The Authority will provide for a periodic review of its financial performance, and review its performance relative to the financial policies outlined herein. These financial policies will be taken into account during the budgeting and rate setting process.

Necessary appropriations for annual debt service requirements will be included in the Authority’s annual budget.

Adopted by Resolution 18-12
The Authority utilizes a Five-year Capital Investment Projection based, in part, on relevant Master Plans (Master Plans) to determine its long-term infrastructure and other project needs. The Authority's Five-year Capital Investment Projection is updated annually and the Master Plans are updated at least every five years or more frequently when necessary. The Authority evaluates each project in relation to established levels of reserves, current rate structure, expected asset life/replacement timeline, and available revenue sources to ensure that adequate financial resources are available to support the Authority's financial obligations.

The Authority's Debt Management Policy, Budget Policy, Reserve Fund Policy, and the Investment Policy are integrated into the decision-making framework utilized in the budgeting and capital improvement planning process. As such, the following principles outline the Authority's approach to debt management.

- The Authority will evaluate funding for each capital project on a case-by-case basis;
- The Authority will assess whether to pay for such projects from current revenues and available reserves prior to or in combination with the use of debt;
- The Authority will issue debt only in the case where there is an identified source of repayment and bonds will be issued to the extent that (i) projected existing revenues are sufficient to pay for the proposed debt service together with all existing debt service covered by such existing revenues, or (ii) additional projected revenues have been identified as a source of repayment in an amount sufficient to pay for the proposed debt;
- Debt issuance for a capital project will not be considered unless such project has been incorporated into the Five-year Capital Investment Projection or Master Plan;
- Water rates will be set at adequate levels, which comply with State law, to generate sufficient revenues to pay all Operating and Maintenance costs, to maintain sufficient operating reserves, and to pay debt service costs;
- Water rates will be set to fulfill bond covenant requirements; and
- Connection fees will be maintained at a level sufficient to finance a portion of growth-related capital costs and cover related annual debt service requirements.

Conditions for Debt Issuance

The following policies formally establish parameters for evaluating, issuing, and managing the Authority's debt. The policies outlined below are not intended to serve as a list of rules to be applied to the Authority's debt issuance process, but rather to serve as a set of guidelines to promote sound financial management.

Adopted by Resolution 18-12
Before issuing debt, the Authority will evaluate the availability of grants and low interest loans before accessing the capital markets.

In issuing debt, the Authority’s objectives will be to:

- Achieve the lowest cost of capital;
- Ensure ratepayer equity;
- Maintain high credit ratings and access to credit enhancement; and
- Preserve financial flexibility.

Standards for Use of Debt Financing

When appropriate, the Authority will use long-term debt financing to achieve an equitable allocation of capital costs/charges between current and future system users, to provide more manageable rates in the near and medium term, and to minimize rate volatility.

The Authority shall not construct or acquire a facility if it is unable to adequately provide for the subsequent annual operation and maintenance costs of the facility throughout its expected life. Capital projects financed through debt issuance will not be financed for a term longer than the expected useful life of the project.

Financing Criteria and Types of Debt

Each debt issuance should be evaluated on an individual basis within the framework of the Authority’s long-term financial plan, as well as within the context of the Authority’s overall financing objectives and current market conditions.

The Authority will evaluate the use of appropriate financial alternatives available as permitted by the State Constitution and applicable State statutes. These alternatives will be considered in order to secure the most cost advantageous financing alternative available while limiting the City’s risk exposure. Types of debt may include, but are not limited to:

- Revenue Bonds;
- Lease Revenue Bonds;
- Certificates of Participation;
- Refunding/refinancing existing debt obligations;
- Short term notes;
- Lease-purchase transactions;
- Loans;
- Letters of Credit and revolving lines of credit; and
- State revolving fund loans.

Adopted by Resolution 18-12
The Authority will evaluate alternative debt structures (and timing considerations) to ensure the most cost-efficient financing under prevailing market conditions. Alternative debt structures include:

**Credit Enhancement** – The Authority will consider the use of credit enhancement on a case-by-case basis and only when clearly demonstrated savings can be realized shall credit enhancement be utilized.

**Cash-Funded Reserve vs. Surety** – The Authority may purchase a surety policy or replace an existing cash-funded Debt Service Reserve Fund when deemed prudent and advantageous. The Authority may use guaranteed investment agreements for the investment of reserve funds pledged to the repayment of any Authority debt when it is financially prudent and approved by the Board of Directors.

**Call Provisions** – In general, the Authority’s securities should include optional call provisions. The Authority will avoid the sale of non-callable, long-term fixed rate bonds, absent careful evaluation of the value of the call option, and specific approval by the Board.

**Additional Bonds Test/Rate Covenants** - The amount and timing of debt will be planned to comply with the additional bonds tests and rate covenants outlined in the appropriate legal and financing documents, and these policies.

**Short-Term Debt** – The Authority may utilize short-term borrowing to serve as a bridge for anticipated revenues, construction financing, or future bonding capacity.

**Use of Variable Rate Debt** - The Authority typically will not issue variable interest rate debt but may consider it based on a financial analysis.

**Investment of Bond Proceeds** - Bond proceeds will be invested in accordance with the permitted investment language outlined in the bond documents for each transaction, unless further restricted or limited in the Authority’s Investment Policy. The Authority will seek to maximize investment earnings within the investment parameters set forth in the respective debt financing documentation. The reinvestment of bond proceeds will be incorporated into the evaluation of each financing decision; specifically addressing arbitrage/rebate position, and evaluating alternative debt structures and refunding savings on a “net” debt service basis, where appropriate.

**Refinancing Outstanding Debt**

The Director of Finance shall have the responsibility to evaluate potential refunding opportunities. The Authority will consider the following issues when analyzing potential refinancing opportunities:

**Debt Service Savings** – The Authority shall establish a minimum target savings level of at least three (3) percent of the par of debt refunded on a net present value (NPV)
basis for a current refunding and a minimum of at least five (5) percent net present value saving for an advance refunding. This figure will serve only as a guideline; the Authority shall evaluate each refunding opportunity on a case-by-case basis. In addition to the savings guideline, the following shall be taken into consideration:

- Remaining time to maturity of outstanding debt;
- Size of the issue;
- Current interest rate environment;
- Annual cash flow savings;
- Value of the call option;
- Meeting unanticipated revenue expectations
- Termination of swaps
- Mitigating irregular debt service payments
- Releasing reserve funds; or
- Removing unduly restrictive bond covenants.

The decision to take all savings upfront or on a deferred basis must be explicitly approved by the Authority's Finance and Personnel Committee and Board of Directors.

Restructuring - The Authority may seek to refinance a bond issue on a non-economic basis, in order to: restructure debt; mitigate irregular debt service payments; accommodate revenue shortfalls; release reserve funds; or comply with and/or eliminate rate/bond covenants.

Term/Final Maturity – The Authority may consider the extension of the final maturity of any refunding bonds in order to achieve a necessary outcome, provided that such extension is legal, financially prudent, and in the best interest of the Authority’s customers. The term of the bonds should not extend beyond the reasonably expected useful life of the asset being financed. The Authority may also consider shortening the final maturity of the bonds. The remaining useful life of the assets and the concept of inter-generational equity should guide these decisions.

Economic versus Legal Defeasance - When evaluating an economic versus legal defeasance, the Authority shall take into consideration both the financial impact on a net present value basis as well as the rating/credit impact. The Authority shall take all appropriate and reasonable steps to optimize the yield on its refunding escrow investments and avoid negative arbitrage.
Outstanding Debt Limitations

Prior to issuance of new debt, the Authority shall consider and review the latest credit rating agency reports and guidelines to ensure the Authority’s credit ratings and financial flexibility remain at levels consistent with the most highly-rated comparable public agencies.

Method of Issuance

The Authority will determine, on a case-by-case basis, whether to sell its bonds competitively, through negotiation or by private placement.

*Competitive Sale* – In a competitive sale, the Authority’s bonds shall be awarded to the bidder providing the lowest true interest cost, as long as the bid adheres to requirements set forth in the official notice of sale. Condition under which a competitive sale would be preferred are as follows:

- Bond prices are stable and/or demand is strong;
- Market timing and interest rate sensitivity are not critical to the pricing;
- There are no complex explanations required during marketing regarding the City’s projects, media coverage, political structure, political support, funding or credit quality;
- The bond type and structure are conventional;
- Bond insurance is included or pre-qualified (available);
- Manageable transaction size;
- The bonds carry strong credit ratings; or
- Issuer is well known to investors.

*Negotiated Sale* – The Authority recognizes that some bond issues are best sold through negotiation with a selected underwriter. The Authority has identified the following circumstances in which this would likely be the case:

- Issuance of taxable bonds;
- Complex structures or credit considerations (such as non-rated bonds), which require a strong pre-marketing effort. Significant par value, which may limit the number of potential bidders, unique/proprietary financing mechanism (such as a financing pool), or specialized knowledge of financing mechanism or process;
- Market volatility, such that the Authority would be better served by flexibility in the timing of its sale in a changing interest rate environment;
- When an underwriter has identified new financing opportunities or presented

Adopted by Resolution 18-12
alternative structures that financially benefit the Authority;

- As a result of an underwriter's familiarity with the project/financing, the Authority is able to take advantage of efficiency and timing considerations;
- Marketing timing is important, such as refunding;
- The part amount for the transaction is significantly larger than normal; and
- Demand for the bonds by retail investors is expected to be high.

Private Placement – The Authority may elect to issue debt on a private placement basis. Such method shall be considered if it is demonstrated to result in cost savings or provide other advantages relative to other methods of debt issuance, or if it is determined that access to the public market is unavailable and timing considerations require that a financing be completed.

Market Communication, Debt Administration and Reporting Requirements:

Rating Agencies – The Director of Finance shall be responsible for maintaining the Authority’s relationships with Standard & Poor’s Ratings Services, Fitch Ratings and Moody’s Investment Service, and any other agency that provides credit ratings for municipal debt. The Authority may choose to deal with one, two, or all of these agencies as circumstances dictate. In addition to general communication, the Director of Finance: (1) may meet with credit analysts at least once every two fiscal years, and (2) prior to each competitive or negotiated sale, offer conference calls or meetings with agency analysts in connection with the planned sale.

Observance of Debt Covenants – The Director of Finance shall periodically, and at least annually, ensure the Authority is, and is expected to remain, in compliance with all legal covenants for each debt issue.

Board Communication – The Director of Finance shall include in an annual report to the Board of Directors the status of the Authority’s bond rating. If available, new feedback from rating agencies and/or investors regarding the Authority’s financial strengths and weaknesses and recommendations for addressing any weaknesses will be presented to the Board of Directors.

Continuing Disclosure – The Authority shall remain in compliance with Rule 15c2-12(b)(5) by filing its annual financial statements and other financial and operating data for the benefit of its bondholders as covenanted in each debt issue’s Continuing Disclosure Agreement.

Record-Keeping – A copy of all debt-related records shall be retained at the Authority’s offices. At a minimum, these records shall include all official statements, bid documents, bond documents / transcripts, resolutions, trustee statements, leases, and title reports for

Adopted by Resolution 18-12
each Authority financing (to the extent available). To the extent possible, the Authority shall retain an electronic copy of each document - preferably in pdf or CD-ROM format.

**Arbitrage Rebate** – The use of bond proceeds and their investments must be monitored to ensure compliance with all Internal Revenue Code Arbitrage Rebate Requirements. The Director of Finance shall ensure that all bond proceeds and investments are tracked in a manner which facilitates accurate calculation; if a rebate payment is due such payment shall be made in a timely manner.

**Engagement of Professionals**

To ensure that the Authority receives appropriate services at a fair price, and to avoid the appearance of conflict of interest, extra caution will be taken when engaging the services of public finance professionals. Before seeking or considering contracts with public finance professionals, the Director of Finance will review the Authority's Purchasing Policy and the then-current GFOA best practices on the following topics:

- Selecting and Managing Municipal Advisors
- Selecting and Managing the Method of Sale of Municipal Bonds
- Selecting Bond Counsel
- Selecting and Managing Underwriters for Negotiated Bond Sales
- Issuer's Role in Selection of Bond Counsel

The Director of Finance will report to the Board on a recommended process for determining which professionals are needed, how they will be identified (e.g., request for proposal, or bid), and how their contracts will be developed before being submitted to the Board for approval. Emphasis will be placed on competition, openness, clarity, and avoiding conflicts of interest. The process recommended may be for a period of time, or for a particular financing or set of financings. All engagement letters, contracts, disclosures and opinions will be provided to the Board promptly, and Authority staff will not sign any such documents without prior notification to the Board.

**SB 1029 Compliance**

This policy has been updated in regards to SB 1029 (codified in California Government Code section 8855), signed by Governor Brown on September 12, 2016, that requires issuers to adopt debt policies addressing each of the five items below.

1. The purposes for which the debt proceeds may be used.
2. The types of debt that may be issued.
3. The relationship of the debt to, and integration with, the issuer’s capital improvement program or budget, if applicable.
4. Policy goals related to the issuer’s planning goals and objections.
5. The internal control procedures that the issuer has implemented, or will implement, to ensure that the proceeds of the proposed debt issuance will be directed to the intended use.

Adopted by Resolution 18-12
Disclosure Procedures Policy

Introduction

The purpose of these Disclosure Procedures Policy (the “Procedures”) is to memorialize and communicate procedures in connection with obligations, including notes, bonds and certificates of participation, issued by or on behalf of the Sweetwater Authority (the “Authority”) so as to ensure that the Authority continues to comply with all applicable disclosure obligations and requirements under federal securities laws.

Objectives

The Authority from time to time issues revenue bonds, notes or other obligations (collectively, “Obligations”) to fund or refund capital investments, other long-term programs and working capital needs. In offering Obligations to the public, and at other times when the Authority makes certain reports, the Authority must comply with the “anti-fraud rules” of federal securities laws. (“Anti-fraud rules” refers to Section 17 of the Securities Act of 1933 and Section 10(b) of the Securities and Exchange Act of 1934, and regulations adopted by the Securities and Exchange Commission (“SEC”) under those Acts, particularly “Rule 10b-5” under the 1934 Act, as the same may be amended from time to time.)

The core requirement of these rules is that potential investors in Authority Obligations must be provided with all “material” information relating to the offered Obligations. The information provided to investors must not contain any material misstatements, and the Authority must not omit material information which would be necessary to provide to investors a complete and transparent description of the Obligations and the Authority’s financial condition. In the context of the sale of Obligations, a fact is generally considered to be “material” if there is a substantial likelihood that a reasonable investor would consider it to be important in determining whether or not to purchase the Obligations being offered.

When Obligations are issued, the two central disclosure documents which are prepared are a preliminary official statement (“POS”) and a final official statement (“OS,” and collectively with the POS, “Official Statement”). The Official Statement generally consists of: (i) the forepart (which describes the specific transaction including maturity dates, interest rates, redemption provisions, the specific type of financing, the leased premises in lease financings) and other matters particular to the financing; (ii) a section which provides information on the Authority, including its financial condition as well as certain operating information (“Authority Section”); and (iii) various other appendices, including the Authority’s audited financial report, form of the proposed legal opinion, and form of continuing disclosure undertaking. Investors use the Official Statement as one of their primary resources for making informed investment decisions regarding the Obligations.

Adopted by Resolution 18-12
Disclosure Process

When the Authority determines to issue Obligations directly, the Authority's Director of Finance requests the involved departments to commence preparation of the portions of the Official Statement (including particularly the Authority Section) for which they are responsible. While the general format and content of the Official Statement may not normally change substantially from offering to offering, except as necessary to reflect major events, the Authority's Director of Finance and other relevant staff are responsible for reviewing and preparing or updating certain portions of the Authority Section which are within their particular areas of knowledge. Once the draft POS has been substantially updated, the entire draft POS is shared with the Assistant General Manager and General Manager for review and input. Additionally, all participants in the disclosure process are separately responsible for reviewing the entire draft POS.

Members of the financing team, including the Bond Counsel and a financial advisor, if one is engaged with respect to the Obligations (the "Municipal Advisor"), assist staff in determining the materiality of any particular item, and in the development of specific language in the Authority Section. Members of the financing team also assist the Authority in the development of a "big picture" overview of the Authority's financial condition, included in the Authority section. This overview highlights particular areas of concern. Bond Counsel has a confidential, attorney-client relationship with officials and staff of the Authority.

The Director of Finance or a member of the financing team, at the direction thereof, schedules one or more meetings or conference calls of the financing team (which includes Authority officials, Authority General Counsel, Bond Counsel and the Authority's Municipal Advisor, and the underwriters of the Obligations, and the underwriters' counsel, if the proposed financing is being undertaken as a negotiated transaction), and new drafts of the forepart of the draft POS and the Authority Section are circulated and discussed. Such communications may occur via electronic means rather than by meetings or conference calls. During this part of the process, there is substantial contact among Authority staff and the other members of the financing team to discuss issues which may arise, determine the materiality of particular items, and ascertain the prominence in which the items should be disclosed.

Prior to distributing a POS to potential investors, there is typically a formal conference call which includes Authority officials involved in the preparation of the POS and members of the financing team (and the underwriters and the underwriters' counsel, if the financing is a negotiated transaction) during which the POS is reviewed in its entirety to obtain final comments and to allow the underwriters, if any, to ask questions of the Authority's senior officials. This is referred to as a "due diligence" meeting.
A substantially final form of the POS is provided to the Authority's Governing Board in advance of approval to afford such Governing Board an opportunity to review the POS, ask questions and make comments. The substantially final form of the POS is approved by the Governing Board, which generally authorizes certain senior staff to make additional corrections, changes and updates to the POS in consultation with General Counsel and Bond Counsel.

At the time the POS is posted for review by potential investors, senior Authority officials execute certificates deeming certain portions of the POS complete (except for certain pricing terms) as required by SEC Rule 15c2-12.

Between the posting of the POS for review by potential investors and delivery of the final OS to the underwriter for redelivery to actual investors in the Obligations, any changes and developments will have been incorporated into the POS, including particularly the Authority Section, if required. If necessary to reflect developments following publication of the POS or OS, as applicable, supplements will be prepared and published.

In connection with the closing of the transaction, one or more senior Authority officials will execute certificates stating that certain portions of the OS, as of the date of each OS and as of the date of closing, does not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements contained in the Official Statement in light of the circumstances under which they were made, not misleading. General Counsel also provides an opinion letter (generally addressed to the underwriters) advising that information contained in the Authority Section of the OS (or specified portions thereof) as of its date did not, and as of the date of the closing, does not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. General Counsel does not opine to the underwriters or to other third parties as to any financial, statistical, economic or demographic data or forecasts, charts, tables, graphs, estimates, projections, assumptions or expressions of opinion, and certain other customary matters.

**Authority Section**

The information contained in the Authority Section is developed by personnel under the direction of the Director of Finance, with the assistance of the financing team. In certain circumstances, additional officials will be involved, as necessary. The following principles govern the work of the respective staffs that contribute information to the Authority Section:

- Authority staff involved in the disclosure process are responsible for being familiar with its responsibilities under federal securities laws as described above.

- Authority staff involved in the disclosure process should err on the side of raising issues when preparing or reviewing information for disclosure. Officials and staff are

Adopted by Resolution 18-12
encouraged to consult General Counsel, Bond Counsel, or members of the financing team if there are questions regarding whether an issue is material or not.

- Care should be taken not to shortcut or eliminate any steps outlined in the Procedures on an ad hoc basis. However, the Procedures are not necessarily intended to be a rigid list of procedural requirements, but instead to provide guidelines for disclosure review. If warranted, based on experience during financings or because of additional SEC pronouncements or other reasons, the Authority should consider revisions to the Procedures.

- The process of updating the Authority Section from transaction to transaction should not be viewed as being limited to updating tables and numerical information. While it is not anticipated that there will be major changes in the form and content of the Authority Section at the time of each update, everyone involved in the process should consider the need for revisions in the form, content, and tone of the sections for which they are responsible at the time of each update.

- The Authority must make sure that the staff involved in the disclosure process is of sufficient seniority such that it is reasonable to believe that, collectively, they are in possession of material information relating to the Authority, its operations, and its finances.

Training

Periodic training for the staff involved in the preparation of the Official Statement (including the Authority Section) is coordinated by the finance team and the Director of Finance. These training sessions are provided to assist staff members involved in identifying relevant disclosure information to be included in the Authority Section. The training sessions also provide an overview of federal laws relating to disclosure, situations in which disclosure rules apply, the purpose of the Official Statement and the Authority Section, a description of previous SEC enforcement actions, and a discussion of recent developments in the area of municipal disclosure. Attendees at the training sessions are provided the opportunity to ask questions of finance team members, including Bond Counsel, concerning disclosure obligations, and are encouraged to contact members of the finance team at any time if they have questions.

Annual Budget Adjustments

See Budget Policy

Annual Continuing Disclosure Requirements

In connection with the issuance or execution and delivery of Obligations, the Authority has entered into contractual agreements ("Continuing Disclosure Certificates") to provide annual reports related to its financial condition (including its audited financial statements) as well as

Adopted by Resolution 18-12
notice of certain events relating to the Obligations specified in the Continuing Disclosure Certificates. The Authority must comply with the specific requirements of each Continuing Disclosure Certificate. The Authority's Continuing Disclosure Certificates generally require that the annual reports be filed within 180 days after the end of the Authority's fiscal year, and material event notices are generally required to be filed within 10 business days of their occurrence.

Specific events which require "material event" notices are set forth in each particular Continuing Disclosure Certificate.

The Director of Finance shall be responsible for preparing and filing the annual reports and material event notices required pursuant to the Continuing Disclosure Certificates. Particular care shall be paid to the timely filing of any changes in credit ratings on Obligations (including changes resulting from changes in the credit ratings of insurers of particular Obligations).
Introduction

The purpose of this document is to identify various policies and procedures that enhance opportunities for a prudent and systematic investment policy and to organize and formalize investment related activities. The ultimate goal is to enhance the economic status of Sweetwater Authority (Authority) while protecting its funds.

The Governing Board and, upon formal delegation, the Treasurer for Sweetwater Authority, duly authorized to invest Sweetwater Authority monies by California Government Code, are trustees of the Authority’s funds, and therefore, fiduciaries subject to the prudent investor standard.

The investment policies and practices of the Governing Board and Treasurer for the Authority are based upon limitations placed on it by governing legislative bodies. These policies have three primary goals:

- To assure compliance with all federal, state, and local laws governing the investment of monies under the control of the Treasurer.
- To protect the principal monies entrusted to this organization.
- To generate the maximum amount of investment income within the parameters of this Statement of Investment Policy, while meeting the daily cash flow demands of the Authority.

Scope

It is intended that this policy cover all funds and investment activities under the direct authority of the agency, except for the employee’s retirement and deferred compensation funds.

Objectives

Safety: It is the primary duty and responsibility of the Treasurer to protect, preserve, and maintain cash and investments placed in his/her trust. Each investment transaction shall seek to ensure that capital losses are avoided, whether from institution default, broker-dealer default, or erosion of market value of securities. The Treasurer shall evaluate or cause to have evaluated each potential investment, seeking both quality in issuer and in underlying security or collateral. The objective will be to mitigate credit risk and interest rate risk.

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The Authority will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer, by:

- Limiting investments to the types of securities listed in the Authorized Investment Instruments section of this Investment Policy.
- Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the Authority will do business.
- Diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

The Authority will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by:

- Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.
- Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools and limiting the average maturity of the portfolio in accordance with this policy.

**Liquidity:** The secondary consideration of the Treasurer is to insure an adequate percentage of the portfolio will be maintained in liquid short-term securities, which can be converted to cash if necessary to meet disbursement requirements.

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). Alternatively, a portion of the portfolio may be placed in money market mutual funds or local government investment pools which offer same-day liquidity for short-term funds.

**Return on Investment:** The third consideration of the Treasurer is to achieve a reasonable return on investment (yield) only after the basic requirements of safety and liquidity have been met.

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 liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the

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risk being assumed. Securities shall generally be held until maturity with the following exceptions:

- A security with declining credit may be sold early to minimize loss of principal.
- A security swap would improve the quality, yield, or target duration in the portfolio.
- Liquidity needs of the portfolio require that the security be sold.

*Market-Average Rate of Return:* The investment portfolio shall be designed to attain a market-average rate of return throughout economic cycles, taking into account the Authority's risk constraints, the cash flow characteristics of the portfolio, state and local laws and ordinances, or resolutions that restrict investments. The Authority's investment strategy is passive (hold investment to maturity). Given this strategy, the market-average rate of return is defined as the average return on six-month United States (U.S.) Treasury bills.

*Diversification:* The investment portfolio will be diversified to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions.

*Prudence:* The Authority adheres to the prudent investor rule, California Government Code Section 53600.3, which obligates a fiduciary to insure 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 Authority, 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 Authority. Within the limitations of this section and considering individual investments as part of an overall strategy, investment may be acquired as authorized by law."

*Public Trust:* All participants in the investment process shall act as custodians of the public trust. Investment officials shall recognize that the investment portfolio is subject to public review and evaluation. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust. In a diversified portfolio it must be recognized that occasional measured losses are inevitable, and must be considered within the context of the overall portfolio's investment return, provided that adequate diversification has been implemented.

*Maximum Maturities:* To the extent possible, the Authority will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the Authority will not directly invest in securities maturing more than two (2) years from the date of purchase.

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Reserve funds may be invested in securities exceeding two (2) years (but no more than five (5) years) if the maturity of such investments is made to coincide as nearly as practicable with the expected use of the funds.

Delegation of Authority

The investment of the Authority's idle monies, pursuant to this policy, is annually delegated to the Treasurer by the Governing Board, who shall thereafter assume full responsibility for those transactions until the delegation of authority is revoked or expires. The Treasurer may delegate the day-to-day operations of investing to the Deputy Treasurer, but not the responsibility for the overall investment program. The Treasurer will review all transactions on a regular basis to assure compliance with this Statement of Investment Policy.

Reporting

The Treasurer will submit a monthly investment report to the Governing Board. This report will include: type of investment, institution, date of maturity, amount of deposit/par value, book value, current market value of all securities with a maturity in excess of twelve (12) months, rate of interest, statement relating the report to this Statement of Investment Policy, statement that there are sufficient funds to meet the next one hundred eighty (180) days obligations. Additional items listed will also include average weighted yield, weighted average days to maturity and percent distribution to each type of investment and any funds under management by contracted parties.

Authorized Investment Instruments

The Authority is governed by the California Government Code Sections 53600, et seq. Within the context of these limitations, the following investments are authorized:

Managed Pools: The Authority may invest in the Local Agency Investment Fund pursuant to Government Code Section 16429.1 (LAIF) (maximum determined by state law, currently $50 million), a county treasurer's pooled money fund pursuant to Government Code Section 53684, as well as managed pools rated a minimum of "AA" by one major rating agency, as permitted under California Government Code Sections 53601, et seq. The Treasurer will thoroughly investigate the investment policies and management practices of each investment alternative prior to investing funds as well as perform a detailed quarterly review if funds are ultimately deposited to ensure purchased securities are in compliance with the Government Code. With the exception of LAIF, no more than 20 percent of the Authority's funds may be held by any one pool. The Authority may also invest bond proceeds (if permitted by covenant) in the LAIF.

Bankers' Acceptances: The Authority may invest funds in prime self-liquidating bankers acceptances limited to banks rated a minimum of "A" by either Moody's Investor Service, Inc., Standard & Poor's, or Fitch Financial Services, Inc. (Fitch). The maximum investment

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maturity will be restricted to one hundred eighty (180) days pursuant to Government Code Section 53601 (g). Maximum portfolio exposure will be limited to 20 percent.

Bank Demand: The Authority may invest in a bank’s savings and/or demand deposit account. These accounts must be covered by Federal Deposit Insurance Corporation (FDIC) regulations of $250,000 per account plus the 110 percent collateral rule (Government Code Section 53652 (a).) The maximum portfolio exposure is limited to five percent.

Treasury Securities: The Authority may invest funds in the U.S. Treasury notes and bills for which the faith and credit of the United States are pledged for the payment of principal and interest. Because these investments are the safest possible, there is no maximum portfolio limit. Maximum investment maturities will be restricted to five (5) years. The purchase of zero coupon, strips, or deep discount treasury bonds is not permitted.

Repurchase Agreements: The Authority may invest funds (Government Code Section 53601 (j)) in overnight and term repurchase agreements (sweep accounts) with banks or Primary Dealers rated "A" or better by either Moody’s Investor Service, Inc., Standard & Poor’s, or Fitch with which the Authority has entered into a master repurchase agreement. This agreement will be modeled after the Public Securities Associations master repurchase agreement.

All collateral used to secure this type of transaction is to be delivered to a third party prior to release of funds. The third party will have an account in the name of the Authority. The market value of securities used as collateral for repurchase agreements shall be monitored on a daily basis by the Treasurer and/or Deputy Treasurer and will not be permitted to fall below 102 percent of the value of the repurchase agreement. Collateral shall not include strips, zero-coupon instruments, or instruments with maturities in excess of five (5) years. The right of substitution will be granted, provided that permissible collateral is maintained.

In order to conform with the provision of the Federal Bankruptcy Code which provides for the liquidation of securities held as collateral for repurchase agreements, the only securities acceptable as collateral shall be securities that are U.S. Treasury obligations. The Authority will maintain a first perfected security interest in the securities subject to the repurchase agreement and shall have a contractual right to liquidation of purchased securities upon the bankruptcy, insolvency, or other default of the counterparty. Maximum portfolio will be limited to 20 percent and maturities that do not exceed one (1) year.

Certificates of Deposit: The Authority may invest funds in collateralized and/or insured (FDIC) negotiable certificates of deposits issued by commercial banks and savings and loans. A written depository contract is required with all institutions that hold the Authority’s deposits. Securities placed in a collateral pool must provide coverage for at least 110

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percent of all deposits that are placed in the institution. Acceptable pooled collateral is governed by California Government Code Section 53651. Real estate mortgages are not considered acceptable collateral by the Authority, even though they are permitted in Government Code Section 53651 (m). All banks are required to provide the Authority with a regular statement of pooled collateral. This report will state that they are meeting the 110 percent collateral rule (Government Code Section 53652 (a)), a listing of all collateral with location and market value, plus an accountability of the total amount of deposits secured by the pool.

No bank that has a Moody's Investors Service, Inc., Standard and Poor's, or Fitch rating less than "A" shall receive Authority funds.

All banks which have accounts of the Authority in excess of $250,000 are required to provide annual information regarding compliance to the Community Reinvestment Act. Banks are required to maintain a minimum rating of "satisfactory" as defined under the Financial Institutions Recovery Reform and Enforcement Act.

Pursuant to Section 53638 of the California Government Code, any deposit shall not exceed that total paid-up capital and surplus of any depository bank, nor shall the deposit exceed the total net worth of any institution.

Maximum portfolio exposure is limited to 30 percent. Maximum investment maturity will be restricted to five (5) years.

Placement Service Certificates of Deposit: The Authority may invest in certificates of deposit placed with a private sector entity that assists in the placement of certificates of deposit with eligible financial institutions located in the United States (Government Code Section 53601.8). The full amount of the principal and the interest that may be accrued during the maximum term of each certificate of deposit shall at all times be insured by federal deposit insurance. The combined maximum portfolio exposure to Placement Service Certificates of Deposit and Negotiable Certificates of Deposit is limited to 30 percent.

Agencies: The Authority is permitted to invest in the obligations, participations, or other instruments of the following discount and coupon security issuers: Small Business Administration (SBA), Farm Credit Consolidated System (FCCS); Federal Home Loan Banks (FHLB); Federal Home Loan Mortgage Corporation Obligation (FHLMC PC); Government National Mortgage Association (GNMA); Federal National Mortgage Association (FNMA); Federal Farm Credit Bank (FFCB); Tennessee Valley Authority (TVA); and Federal Land Bank (FLB). Maximum maturity is limited to five (5) years. Maximum portfolio exposure is limited to 70 percent.

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**Money Market Funds:** Composition of the fund is limited to investments that are authorized by this Statement of Investment Policy. Funds must have the highest rating (AAA) by two of the three largest nationally recognized rating services, or have an investment adviser registered with the Securities and Exchange Commission with not less than five (5) years' experience investing in the securities and obligations authorized by this investment policy and with assets under management of 500 million dollars ($500,000,000). Any fund shares purchased will not include any type of commission (Government Code Section 53601 (i)). Maximum portfolio exposure is limited to 20 percent.

**Commercial Paper:** Investment is limited to the highest ranking or of the highest letter and number rating as provided for by a nationally recognized statistical-rating organization. The entity that issues the commercial paper shall meet either one of the following criteria:

- The corporation shall be organized and operating within the United States; shall have total assets in excess of five hundred million dollars ($500,000,000); and shall issue debt other than commercial paper, if any, that is rated "A" (Government Code Section 53601 (h)) or higher, or the equivalent, by a nationally recognized statistical-rating organization.
- The corporation shall be organized within the United States as a special purpose corporation, trust, or limited liability company; have program-wide credit enhancements including, but not limited to, over collateralization, letters of credit, or surety bond; and have commercial paper that is rated "A-1" or higher, or the equivalent, by a nationally rated statistical-rating organization.

Eligible commercial paper may not exceed two hundred seventy (270) days maturity nor represent more than 25 percent of the Authority's total investment portfolio, and no more than 10 percent of outstanding commercial paper may be purchased from any single issuer (Government Code Section 53601 (h)).

**Joint Powers Authority:** The Authority may invest funds in shares of beneficial interest issued by a joint powers authority organized pursuant to Government Code Section 6509.7, provided that the joint powers authority issuing shares has retained an investment advisor who is registered or exempt from registration with the Securities and Exchange Commission, has assets under management in excess of $500,000,000 and has at least five (5) years of experience investing in securities authorized under Government Code Section 53601. No more than 20 percent of the Authority's funds may be held by any one pool.

**Authorized Investment Instruments – Bond Proceeds**

All investment types listed above are authorized investments for bond proceeds with the addition of the following:

*Adopted by Resolution 18-12*
Collateralized Guaranteed Investment Contracts (GICs)/Full Flex Repurchase Agreements: Investment of funds in GICs is permitted, pursuant to Section 5922 of the Government Code, when collateralized by U.S. Government guaranteed and direct obligation securities. Collateral must be held by a third party institution, and must be marked to market on a weekly basis to a minimum of the value of the outstanding balance of the contract. The maximum maturity date on a GIC is limited to the final maturity date of the bonds being issued.

Initially Uncollateralized Guaranteed Investment Contracts (GICs): Investment of funds in GICs which are not initially collateralized is permitted, pursuant to Section 5922 of the Government Code, only if (a) the term of the GIC does not exceed three (3) years, (b) the counterparty to the GIC is rated in the highest long-term rating category by Moody's Investors Service, Inc., Standard & Poor's, and Fitch (or whose payment obligations under such GIC are insured or guaranteed by an entity the unsecured obligations of which are so rated), and (c) the GIC requires that it be collateralized as described above in the event the counterparty's rating is downgraded below the highest long-term rating category by either Moody's Investors Service, Inc., Standard & Poor's, or Fitch.

Local Agency Investment Fund (LAIF): The Authority may also invest bond proceeds in LAIF. There is no limit on the amount of bond proceeds that may be deposited in the fund. Liquidity for bond proceeds, pursuant to fund regulations, is thirty (30) calendar day increments from the date of the initial deposit. Bond proceeds deposited in LAIF should be managed to include a ninety (90)-day review by the Treasurer to insure safety, as well as probable income.

In the event that a conflict arises between the bond covenants and this Statement of Investment Policy, the following will guide the (re)investment of bond proceeds: when the Statement of Investment Policy is more conservative than the bond covenants, the Statement of Investment Policy will prevail; if the bond covenants are more conservative than the Statement of Investment Policy, the bond covenants will prevail.

Derivatives

A derivative is defined as a financial instrument that derives its cash flows, and therefore its value, by reference to an underlying instrument, index, or reference rate. The purchase of yield curve notes, interest only, principal only, range notes, and inverse floaters are prohibited (this list is not intended to cover all types of securities and is presented as an example of the types of securities that should be avoided). Callable bonds or notes are permitted investments. No security will be purchased that could result in a zero interest accrual if held to maturity.

Portfolio Limitations

The total dollar amount of bond proceeds invested in Investment Pools, U.S. Treasury

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Notes, and investment contracts are to be excluded from the total used to calculate percentages for investment types. The weighted average days to maturity of the total portfolio excluding GNMA investments shall not exceed five hundred forty (540) days to maturity.

In the event that the percentage limits attributable to each security type are violated due to a temporary imbalance in the portfolio, the Treasurer will make a determination as to the appropriate course of action. The appropriate course of action may be to liquidate securities to rebalance the portfolio or to hold the securities to maturity in order to avoid a market loss. Portfolio percentages are in place to ensure diversification of the investment portfolio and as such a small temporary imbalance would not violate this basic tenet. When a portfolio percentage is exceeded, the Treasurer will report the violation in the Treasurer's Report at the next regularly scheduled Board meeting, with detail of the strategy determined to address the imbalance, for Board ratification.

In the event that an investment originally purchased within policy guidelines is downgraded by any one of the credit rating agencies, the Treasurer shall report it at the next regularly scheduled Board meeting.

Other Considerations

When securities of like credit quality, maturity, and price are available, it is the policy of the Authority's Governing Board to invest in securities issued by domestic based entities.

Ineligible Investments

Investments not described herein, including but not limited to, common stocks, futures, and option-writings, are prohibited from use in this portfolio. The use of short positions is also prohibited.

Internal Controls

A system of internal controls shall be established and documented in writing by the Treasurer. The controls shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation of third parties, unanticipated changes in financial markets, or imprudent action by employees and officers of the Authority. Controls deemed most important include: control of collusion, separation of duties and administrative controls, separating transaction authority from accounting and record keeping, custodial safekeeping, clear delegation of authority, management review and approval of investment transactions, specific limitations regarding securities losses and remedial action, written confirmation of telephone transactions, minimizing the number of authorized Investment Officials, documentation of transactions, and strategies and code of ethic standards. The Treasurer will establish an annual process of independent review by an external audit firm. This review will provide assurances of strong internal controls by reviewing compliance with

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previously established policies and procedures; the result of this review will be part of the annual audit report to the Governing Board.

Qualified Banks and Securities Dealers

The Authority shall conduct business only with banks, savings and loans, and registered investment securities dealers. The Authority's staff will conduct business with institutions that agree to abide by the conditions set forth in the Authority's Investment Policy. All brokers and/or dealers must sign the appropriate Information Request Form.

A list will be maintained of financial institutions and depositories authorized to provide investment services. In addition, a list will be maintained of approved security broker/dealers selected by creditworthiness (e.g., a minimum capital requirement of $10,000,000 and at least five (5) years of operation). These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule).

All financial institutions and broker/dealers who desire to become qualified for investment transactions must supply the following as appropriate:

- Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines
- Proof of National Association of Securities Dealers (NASD) certification (not applicable to Certificate of Deposit counterparties)
- Proof of state registration
- Completed broker/dealer questionnaire (not applicable to Certificate of Deposit counterparties)
- Certification of having read and understood and agreeing to comply with the [entity's] investment policy.
- Evidence of adequate insurance coverage.

An annual review of the financial condition and registration of all qualified financial institutions and broker/dealers will be conducted by the investment officer.

A current audited financial statement is required to be on file for each financial institution and broker/dealer authorized to provide investment services to the Authority.

Risk Tolerance

The Authority recognizes that investment risks can result from issuer defaults, market price changes, or various technical complications leading to temporary illiquidity. Portfolio diversification is employed as a way to control risk. The Treasurer is expected to display prudence in the selection of securities, as a way to minimize default risk. No individual

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investment transaction shall be undertaken which jeopardizes the total capital position of the overall portfolio. The Treasurer shall periodically establish guidelines and strategies to control risks of default, market price changes, and illiquidity.

Risk will also be managed by subscribing to a portfolio management philosophy that helps to control market and interest rate risk by investing to a shorter term. This philosophy also prohibits trading losses (for speculative purposes) unless there is a sudden need for liquidity and the need cannot be satisfied on a more cost-effective basis. Loss of principal will only be acceptable if economic gain can be conclusively demonstrated.

Controlling and managing risk is the foremost portfolio management objective. The Authority strives to maintain an efficient portfolio by providing for the lowest level of risk for a given level of return. This acceptable level of return has been quantified as a return that is consistent with the six-month Treasury bill yield. Any level of return above this measure should be reviewed in order to ensure that such investments meet the criteria previously specified.

In addition to these general policy considerations, the following specific policies will be strictly observed:

- All transactions will be executed on a delivery-versus-payment basis except for purchase of certificates of deposit when purchased through a registered investment securities dealer.
- A competitive bid process (two or more brokers/dealers), when practical, will be used to place all investment purchases and sales.

Safekeeping and Custody

To protect against potential losses caused by the collapse of a security dealer(s), all book-entry securities owned by the Authority, including repurchase agreement collateral, shall be kept in safekeeping with "perfected interest" by a third party bank trust department, acting as agent for the Authority under the terms of a written custody agreement executed by the bank and by the Authority. All securities will be received and delivered using standard delivery-versus-payment procedures.

Ethics and Conflict of Interest

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. Employees and investment officials shall disclose to the General Manager any material financial interests in financial institutions that conduct business within this jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the

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performance of the Authority’s portfolio. Employees and officers shall subordinate their personal investment transactions to those of the Authority, particularly with regard to the time of purchases and sales and should avoid transactions that might impair public confidence.

Review by Governing Board

This Investment Policy shall be reviewed and submitted annually to the Governing Board to be adopted by resolution.

GLOSSARY OF TERMS

Average weighted yield - The accumulative yield of each security weighted by the security’s dollar value as compared to the total value of all the securities.

Bankers’ Acceptance - A letter of credit is issued in a foreign trade transaction. For example, a U.S. corporation planning to import goods from abroad will ask its bank to issue a letter of credit on behalf of the corporation in favor of the foreign supplier. Upon receipt of this letter and draft, the supplier will ship the goods and present the draft at its bank for discounting. The foreign bank then forwards the draft to its U.S. correspondent. The draft is stamped "accepted" with the U.S. bank incurring an obligation to pay the draft (now a bankers’ acceptance) at maturity. Initial maturities range from thirty (30) to two hundred seventy (270) days, but the short-term ninety (90)-day acceptance is the market standard.

Book-entry securities - Securities that are purchased, sold, and held with electronic computer entries rather than transfer of physical certificates.

Broker - A broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides; he does not position. In the money market, brokers are active in markets in which banks buy and sell money and in interdealer markets.

Callable Bonds or Notes - Bonds or Notes may be repurchased at the option of the issuer within a specified period at a specified price. Early redemption of high-coupon bonds and/or notes occurs whenever interest rates subsequently decline (i.e., thirty (30)-year GNMA Notes).

Certificate of Deposit (CD) - A time deposit with a specific maturity evidenced by a certificate. Large-denomination CDs are typically negotiable.

Collateralization - The act of securing or guaranteeing the discharge of an obligation with anything such as stocks or bonds.

Commercial Paper - Negotiable corporate debt, usually unsecured, and issued on a

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continuous basis for short time frames.

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

Deep Discount Treasury Bonds - A price well below par or a security selling at a price well below par (i.e., 90 percent).

Delivery-versus-payment basis - Funds are not wire-transferred until the securities are delivered. If the transfer is accomplished through the federal wire system, the investor is notified before cash is released. If a third party acts as custodian, funds are released by the custodian or the customer only when delivery is accomplished.

Derivatives - A financial instrument that derives its cash flows, and therefore its value, by reference to an underlying instrument, index, or reference rate.

Liquid short-term securities - A security which is instantly negotiable at par value. A checking account, demand deposit, money market funds, and state investment pools with check-writing features are very liquid.

Liquidity - The ability to convert securities into cash on short notice. Liquidity incorporates a security holder's ability to sell an instrument without significant loss, as well as other factors that might expedite quick exchange for cash.

Market Value - The price that a security can be expected to bring when sold in a given market.

Market-average rate of return - The average return on a six-month U.S. Treasury Bill.

Option-writing - To supplement income generated from a bond portfolio, an option against securities held in the portfolio is written (sold).

Perfected Interest - In the event of a default of a repurchase agreement by the dealer, you have the first right of liquidity.

Prime self-liquidating bankers' acceptance - The bankers' acceptance will be liquidated at maturity from the proceeds of the sale of goods which distinguishes self-liquidating acceptance from those used only to finance inventories.

Prudent Person Rule - An investment standard established in 1630. It states that a trustee who is investing for another should behave in the same way as a prudent individual of discretion and intelligence who is seeking a reasonable income and preservation of capital.
Repurchase Agreement (Repo) - A contractual transaction between an investor and an issuing financial institution (bank or securities dealer). The investor exchanges cash for temporary ownership or control of collateral securities, with an agreement between the parties that, on a future date, the financial institution will repurchase the securities. The investor receives interest during the term of the repurchase agreement as agreed at the time of the investment transaction.

Safekeeping - A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

Secondary markets - The market for trading already issued outstanding securities.

Strips - A book-entry ownership of separate segments (interest and principal payments) of certain Treasury Bonds and their coupons.

Sweep - A daily transfer of available cash balances from a demand deposit (checking) account to an interest-earning vehicle such as an overnight repurchase agreement.

Treasury Bills - A short-term obligation of the U.S. Treasury having a maturity period of one (1) year or less and sold at a discount from face value.

Treasury Notes - An intermediate-term obligation of the U.S. Treasury having a maturity period of one (1) to ten (10) years and paying interest semiannually.

Weighted average days to maturity - The accumulative days of each security between the reporting date and maturity of the security weighted by the security's dollar value as compared to the total value of all the securities.

Yield - The rate of annual income return on an investment, expressed as a percentage. (a) INCOME YIELD is obtained by dividing the current dollar income by the current market price for the security. (b) NET YIELD or YIELD TO MATURITY is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

Zero coupon - A bond without current interest coupons sold at a substantial discount from par that provides its return to investors through accretion in value at maturity.

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