

**MCMULLIN AREA GROUNDWATER
SUSTAINABILITY AGENCY
INVESTMENT POLICY**

POLICY NO. 2020 - 01

DATE ADOPTED: June 3, 2020

1.0 Purpose

The purpose of this Investment Policy (“Policy”) is to establish cash management and investment guidelines for the Treasurer, who is responsible for investing and safeguarding the McMullin Area Groundwater Sustainability Agency (“MAGSA”) surplus funds. Each transaction and the entire portfolio must comply with the California Government Code (the “Code”) sections 53600 through 53610 (Investment of Surplus), section 53630 through 53686 (Deposit of Funds), and this Policy.

2.0 Scope

This Policy applies to all surplus financial funds of MAGSA that may be invested because they are not needed for immediate payment of normal operating expenses. These funds are accounted for in MAGSA’s audited annual financial report and include:

- a. Reserve Funds
- b. Designated Item Funds
- c. Any new fund created by the Board of Directors, unless specifically exempted.

Except for cash in certain restricted and special funds, MAGSA will consolidate cash balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles. In addition, the costs of managing the investment portfolio, including but not limited to, the costs of investment management, custody of assets, managing and accounting for banking, and oversight controls, will be charged to investment earnings based upon actual hours of labor devoted to managing each of the funds.

3.0 General Objectives

In accordance with the Code, the primary objectives, in priority order, of investment activities will be safety, liquidity, and yield:

- a. Safety.** Safety of principal is the foremost objective of the investment program. Investments will be undertaken in a manner that seeks to ensure the preservation of principal in the overall portfolio. Each investment transaction will be entered into with due consideration for the quality of the issuer and of the underlying security and collateral.
- b. Liquidity.** The investment portfolio will remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. Liquidity will be

accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands whenever feasible. A portion or the entire portfolio also may be placed in money market mutual funds or local government investment pools which offer same-day liquidity for short-term funds.

- c. **Yield.** The investment portfolio will 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.

4.0 Standards of Care

- a. **Prudent Investor Standard.** In accordance with Section 53600.3, the MAGSA Board of Directors and the General Manager and/or Treasurer are trustees and fiduciaries subject to the “Prudent Investor Standard.” The Prudent Investor Standard requires the Board of Directors and the General Manager and/or Treasurer, when investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing the MAGSA’s funds, to act with the 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 MAGSA, that a prudent person acting in a like capacity and familiarity with those matters would use in the handling of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the MAGSA. This standard will be applied in all investment decisions, including those related to hedging interest rate risks associated with debt financing.
- b. **Ethics and Conflicts of Interest.** The General Manager and/or the Treasurer and any other officers and employees involved in the investment process will refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial investment decisions. Such officers and employees will disclose to the Board of Directors any material interests in financial institutions with which they conduct business. They will further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Affected officers and employees will refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of MAGSA. All such officers and employees are prohibited from accepting honoraria or gifts from financial dealers and financial institutions.
- c. **Delegation of Authority.** Under Section 53607 of the Code, authority to manage MAGSA’s investment portfolio is expressly delegated to the Board of Directors, which may delegate its authority to the Treasurer. In accordance with Section 53607, the Board hereby delegates its responsibility for the operation of the investment program to the Treasurer, who will act in accordance with established written

procedures and internal controls for the operation of the investment program consistent with this Policy. Nothing in this paragraph shall limit the ability of the General Manager/Secretary from serving in the capacity of Treasurer, as well as the other positions.

5.0 Reporting

a. Required Periodic Reports. The Treasurer shall prepare an investment report at least quarterly, including a management summary that provides an analysis of the status of the current investment portfolio and transactions made over the last quarter. This management summary will be prepared in a manner which will allow the members of the MAGSA Board of Directors and General Manager to ascertain whether investment activities during the reporting period have conformed to this Policy. The report shall be provided to the Board of Directors and the General Manager. If applicable, the investment report will include the following:

- Listing of individual securities held at the end of the reporting period by investment category.
- Average life and final maturity of all investments listed
- Coupon, discount, or earnings rate
- Par value, amortized book value and market value
- Percentage of portfolio represented by the investment category

b. LAIF Reporting. If the surplus funds are solely invested in the Local Agency Investment Fund (LAIF), the monthly LAIF statement shall be sufficient for reporting purposes.

6.0 Policy Considerations

a. Amendments. This Policy will be reviewed by the Treasurer on an annual basis. Any changes to this Policy recommended by the Treasurer must be approved by the Board of Directors, after review and comment by the individual(s) charged with maintaining internal controls.

b. Administration. The Treasurer may at any time further restrict the securities approved for investment as deemed prudent. From time to time, the established portfolio limitations may be exceeded due to irregular cash flows or in certain economic conditions. In such cases, the Treasurer will inform the Board of Directors and General Manager and take action consistent with the prudent investor standard to ensure that no category of investments exceeds the statutory limitations provided in the Code.

- c. Performance Review.** The Treasurer will conduct an annual appraisal of MAGSA's investment portfolio to evaluate its effectiveness and conformance with this Policy. To the extent necessary or appropriate, the Treasurer will make recommendations to the Board of Directors concerning the improvement and/or restructuring of the portfolio.
- d. Existing Investments.** Any investment held by MAGSA at the time this Policy is first adopted or revised to conform to changes in law or this Policy will not be sold because of a failure to conform to this Policy, unless the Treasurer deems sale of the investment to be prudent or required by law.
- e. Conflict With Statute.** In the event that any provision of this Policy conflicts with the Code or any other applicable state or federal statute, the provisions of any such statute will govern.

APPENDIX A
PERMITTED INVESTMENT INSTRUMENTS PER GOVERNMENT CODE
(AS OF JANUARY 1, 2012)¹

Investment Type	Maximum Maturity	Maximum Specified % of Portfolio	Minimum Quality Requirement
Local Agency Bonds	5 years	100	None
U.S. Treasury Obligations	5 years	100	None
State Obligations—CA And Others	5 years	100	None
CA Local Agency Obligations	5 years	100	None
U.S Agency Obligations	5 years	100	None
Bankers' Acceptances	180 days	40%	None
Commercial Paper—Select Agencies	270 days	25% of the agency's money	"A-1" if the issuer has issued long-term debt it must be rated "A" without regard to modifiers
Commercial Paper—Other Agencies	270 days	40% of the agency's money	"A-1" if the issuer has issued long-term debt it must be rated "A" without regard to modifiers
Negotiable Certificates of Deposit and CD Placement Service	5 years	30%	None
Medium-Term Notes	5 years	30%	"A" Rating
Mutual Funds And Money Market Mutual Funds	N/A	20%	Multiple
Collateralized Bank Deposits	5 years	100	None
Bank/Time Deposits	5 years	100	None
County Pooled Investment Funds	N/A	100	None
Joint Powers Authority Pool	N/A	100	Multiple
Local Agency Investment Fund (LAIF)	N/A	100	None

¹ See Article 6 of the Policy for a more complete description of each permitted investment and related limitations.