VENTURA REGIONAL SANITATION DISTRICT
1001 PARTRIDGE DRIVE, SUITE 150 ▪ VENTURA, CA 93003-0704
A Public Waste Management Agency

December 17, 2020

Board of Directors
Ventura Regional Sanitation District
Ventura, California

ANNUAL REVIEW AND PROPOSED REVISION OF DISTRICT 2.1.02 INVESTMENT POLICY

RECOMMENDATION:

A. Conduct Annual Review of District 2.1.02 Investment Policy

B. Approve the Proposed Revision to District 2.1.02 Investment Policy.

C. Provide direction, if any, to District Staff on any further revisions to District 2.1.02 Investment Policy

FISCAL IMPACT

There are no negative or positive fiscal impacts identified at this time due to the above-referenced action.

BACKGROUND

California Government Code Section 53646(a)(2) provides that the treasurer or chief fiscal officer of a local agency may annually prepare and submit a statement of investment policy for consideration by the Board of Directors. Board consideration and modification of such a statement shall be done at a public meeting.

PROPOSAL

The two proposed Investment Policy modifications are intended to incorporate some recent amendments to the California Government Code (the "Code") sections that govern the investment of public funds. Attached for Board consideration is a redlined version the existing District 2.1.02 Investment Policy. Staff recommendations are summarized below:

Change on Page 6 of Policy:
Eligible commercial paper shall have a maximum maturity of 270 days or less. No more than 25 percent of the District's portfolio may be invested in eligible commercial paper~~, and the District may purchase no more than 10 percent of the outstanding commercial paper of any single issuer~~.

Reason for Recommendation:
SB 998, which will take effect on January 1, 2021, eliminates from the Code the 10% limit on the outstanding commercial paper of any one issuer and replaces it with a combined 10% per issuer limit on commercial paper *and* corporate notes. This is a further limitation on what is acceptable investment by public agencies. Accordingly, it is recommended that the District eliminate the Policy limit that states "and the District may purchase no more than 10 percent of the outstanding commercial paper of any single issuer", as it is no longer in Code. However, there is no need to incorporate the Code's new 10% per issuer limit, as the District's Policy already has a more restrictive 5% per issuer limit that applies across all corporate sectors.

Change on Page 7 of Policy:
Asset-Backed Security ("ABS") – Any mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-back certificate, consumer receivable pass-through certificate, or consumer receivable-backed bond of a maximum of five years maturity. Eligible securities must be rated in a rating category, by a nationally recognized rating service, of "AA", the equivalent or higher~~, and the issuer of the security must be rated in a rating category of "A", the equivalent or higher rating for its debt as provided by a NRSRO~~. No more than 20 percent of the District's portfolio may be invested in this type of security.

Reason for Recommendation:
AB 1770, which took effect January 1, 2019, eliminated the requirement that the issuers of ABS be rated "A" or its equivalent or better by an NRSRO. This revision was made as the requirement had no relevance, as the issuers of ABS are typically organized as trusts that do not have standalone ratings. The minimum "AA" issue rating remains, which is an important risk management criterion. This change is mainly technical in nature and does not change the securities that can be purchased.

ANALYSIS

2.1.02 INVESTMENT POLICY

The District's Investment Policy remains in compliance with Government Code Sections 53600 et seq. that regulate the District's investments and periodic reporting on investment results. The Investment Policy changes proposed simply maintains the District's Investment Policy staying in-line with changes to the applicable Government Code sections.

Generally, the District's existing investment policy is conservative. The maximum investment maturity is limited to five years. The District policy is more restrictive than what the Government Code allows by continuing to prohibit:

- Repurchase and reverse repurchase agreements
- Stocks
- Derivatives, including options and futures; and

- Buying on margin

The Board, on a case-by-case basis, may consider the use of such investment types in the future if it chose to do so.

This letter has been reviewed by VRSD legal counsel as to form.

If you should have any questions or need additional information, please contact me at (805) 658-4646 or via email at TinaRivera@vrsd.com.

ALVERTINA RIVERA - DIRECTOR OF FINANCE

APPROVED FOR AGENDA _____
Chris Theisen, General Manager

Attachments: 1. Investment Policy -Proposed

PROPOSED

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2.1.02 Investment Policy
Last revised: 12/17/20

2.1.02 Investment Policy

Policy

It shall be the policy of the Ventura Regional Sanitation District to invest funds in accordance with all statutes governing the investment of the District's funds, and to do so in a manner which provides the maximum security, solvency and creditworthiness while meeting the daily cash flow demands of the District and providing a return in line with the performance benchmark.

Background

The Ventura Regional Sanitation District Bylaws authorize the Finance Officer (current title Director of Finance) to act as the Treasurer of the District and direct the collection and disbursement of all monies into and out of the District treasury, and make investments as necessary to conduct the business of the District. Opening & closing bank accounts requires prior approval of the Board.

Undesignated funds of the Ventura Regional Sanitation District shall be invested using sound treasury management principles and practices in accordance with provisions of California Government Code ("Gov. Code") Sections 53600 et seq. and this Investment Policy.

An independent auditor annually reviews internal controls as related to the duties of the Treasurer in accordance with adopted investment policy and reports any conflict or exceptions to the Board of Directors.

The Treasurer of the Ventura Regional Sanitation District shall annually prepare and submit a statement of the District's investment policy, along with any recommended changes to that policy, to the Board of Directors for review and approval at a public meeting.

Guidelines

This policy covers all funds and investment activities under the direct authority and control of the District, including moneys resulting from debt issuance. In cases where the legal documents governing the investment of debt proceeds conflict with the District's investment policy, the legal documents shall govern. The specific language recommended to govern the investment of debt proceeds shall be submitted to the District's Personnel and Finance Committee and then to the Board of Directors for explicit approval. Funds held in trusts, if any, for retiree pension and medical benefits will be governed by the investment policies of the respective trusts.

Prudence

The Treasurer of the Ventura Regional Sanitation District manages pooled cash under the prudent investor standard. This standard states, "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]." Gov. Code § 27000.3.

Objectives

When investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds, the primary objectives, in priority order, of the investment activities shall be:

1. Safety: Safety of principal is the foremost objective of the investment program. Investments of the Ventura Regional Sanitation District shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

2. Liquidity: The investment portfolio will remain sufficiently liquid to enable the Ventura Regional Sanitation District to meet all operating requirements, which might be reasonably anticipated.

3. Return on Investments: 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 the cash flow characteristics of the portfolio.

Investment Philosophy

The investment program of the District shall be managed in a professional manner that is worthy of public trust and consistent with its fiduciary duty. The District's investment philosophy prohibits speculation, and leveraging or borrowing money for the purpose of investment. The District may contract for professional investment management services. When such services are acquired, periodic evaluations of performance measured against established benchmarks shall be conducted. There are times when it is necessary to sell a security and realize a loss, which includes, but is not limited

to, the following:

1. When interest rates are rising and the funds can be invested shorter term at higher rates.
2. When swapping opportunities arise that will result in an increase in safety of principal for the District's portfolio.
3. When swapping opportunities arise that will result in an increase in overall interest income to the District.
4. When the District's cash needs are greater than expected.

When any of the above instances occur, an explanation for such investment decision or action shall be included in the next investment report.

Delegation of Authority

Management responsibility for the investment program is hereby delegated to the Treasurer for a one-year period. In accordance with Gov. Code § 53607, subject to review, the Board of Directors may renew the delegation of authority pursuant each year. The Treasurer shall make a monthly report of transactions to the Board of Directors.

The Treasurer shall establish written procedures for the operation of the investment program consistent with this investment policy. Such procedures shall include explicit delegation of authority to certain employees and investment managers approved by the Board, and consultants and banks responsible for investment transactions. No persons or organization may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Treasurer. The Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate staff and organizations. The Treasurer is a trustee and a fiduciary subject to the prudent investor standard.

The Treasurer may retain, with the approval of the Board, the services of an outside investment advisor or manager to assist with the District's investment program. Qualified outside managers will be either SEC Registered Investment Advisors or Bank Money Managers. The investment advisor shall make all investment decisions and transactions in strict accordance with State and Federal law, this Policy and such other written instructions as are provided. The investment advisor or manager may not take possession of the District's cash or securities.

Ethics and Conflicts of Interest

Officers, employees, consultants, investment managers and banks involved in the investment process shall refrain from personal business activity that could conflict with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions on behalf of the District.

Authorized Investments

Where this section specifies a percentage limitation for a particular security type, that percentage is applied on the date of purchase. Credit criteria listed in this section refers to the credit rating at the time the security is purchased. If an investment's credit rating falls below the minimum rating required at the time of purchase, the Treasurer will perform a timely review and decide whether to sell or hold the investment.

No more than 5 percent of the District's portfolio may be invested in any single issuer regardless of security type excluding U.S. Treasuries, Federal Agencies, Supranationals, and pooled investments such as Local Agency Investment Fund, Ventura County Pool, money market funds, and shares of beneficial interest issued by Joint Powers Authorities.

From the eligible securities permitted by Gov. Code Section 53600 et seq., the Treasurer is authorized to use the following:

- U.S. Government — United States Treasury bills, notes, & bonds, or certificates of indebtedness, or those for which the full faith and credit of the United States Government are pledged for the payment of principal and interest.

- U.S. Agencies — Federal agency or United States government senior debt-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.

- State Municipal Securities — Registered treasury notes or bonds issued by any of the 50 United States, 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 state. Securities eligible for investment under this paragraph shall be rated in the rating category of at least "AA" or "A-1" (for short-term securities), their respective equivalents, or higher by a nationally recognized statistical-rating organization (NRSRO).

- California Local Agency Municipal Securities — Bonds, notes, warrants or other evidence of debt issued by a local agency or municipality located within the State of California, including debt securities issued by the District. Securities eligible for investment under this paragraph shall be rated in a rating categories at least "AA" or "A-1", their respective equivalents, or higher by a NRSRO.

- Non-Negotiable Certificates of Deposit (CDs) — Non-negotiable deposits in a state or national bank, savings association or federal association, federal or state credit union in the State of California. In accordance with CGC Section 53635.2, to be eligible to receive District deposits, a financial institution shall have received an overall rating of not less than "satisfactory" in its most recent evaluation by the appropriate federal financial supervisory agency of its record of meeting the credit needs of California's communities. CDs are required to be collateralized as specified under Gov. Code Section 53630 et seq. The Treasurer, at his/her discretion, may

waive the collateralization requirements for any portion that is covered by federal deposit insurance. The District shall have a signed agreement with any depository accepting District funds per Gov. Code Section 53649. No deposits shall be made at any time in CDs issued by a financial institution if a member of the Board of Directors or the General Manager or Treasurer serves on the board of directors of any committee appointed by the board of directors of the financial institution. In accordance with CGC Section 53638, any deposit shall not exceed that total shareholder's equity of any depository bank, nor shall the deposit exceed the total net worth of any institution. The maturity of CDs may not exceed one year in maturity. A maximum of 20 percent of the portfolio may be invested in CDs.

- Placement Service Deposits — The District may deposit a portion of its funds with commercial bank, savings bank, savings and loan association, or credit union that uses a private sector entity that assists in the placement federally insured deposits. Purchases of placement service deposits may not exceed 30 percent (in combination with negotiable CDs) of the District's funds. The selected depository for placement services must be: a nationally or state chartered, commercial bank, savings bank, savings and loan association, or credit union in California. Further, the selected depository institution may submit the funds to a private sector entity that assists in the placement of certificates of deposit with one or more commercial banks, savings banks, savings and loan associations, or credit unions that are located in the United States, for the District's account. 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 the Federal Deposit Insurance Corporation or the National Credit Union Administration. The selected depository institution shall serve as a custodian for each certificate of deposit that is issued with the placement service for the District's account. The maturity of placement service certificates of deposit may not exceed one year in maturity.

- State Investment Pool — California State Treasurer's Local Agency Investment Fund (LAIF) as authorized by Gov. Code Section 16429.1(b).

- Ventura County Investment Pool — Ventura County Treasurer's Investment Pool as authorized by Gov. Code Section 53684.

- Other Pools — Shares of beneficial interest issued by a joint powers authority organized in the State of California pursuant to Gov. Code Section 6509.7 that invests in the securities and obligations authorized in Gov. Code Section 53601 subdivisions (a) to (q), inclusive. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. Purchases are limited to those pools that seek to maintain a constant net asset value and are rated in the highest category by a NRSRO. To be eligible under this section, the joint powers authority issuing the shares shall have retained an investment adviser that meets all of the following criteria:(1) The adviser is registered or exempt from registration with the Securities and Exchange Commission; (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 [Gov. Code] section 53601; and (3) the adviser has assets under management in excess of five hundred million dollars ($500,000,000). Gov. Code § 6509.7(a).

- 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.). Such funds must carry the highest rating of at least two of the three largest national rating agencies or have retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of five hundred million dollars ($500,000,000). Not more than 20 percent of funds shall be invested in Money Market Funds. All such investments shall be placed only in money market funds intended to maintain constant net asset value and that invest solely in U.S. Treasuries and Federal Agency obligations and repurchase agreements invested in such obligations.

- Bankers' Acceptances — Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers' acceptances. Purchases of bankers' acceptances may not exceed 180 days' maturity, or 40 percent of the District's portfolio. Eligible bankers' acceptances are restricted to issuing financial institutions with short-term paper rated in the highest category by one NRSRO.

- 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 paragraph (2) below:

    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). (C) has debt other than commercial paper, if any, that is rated in a rating category of "A", the equivalent or higher by a 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, over collateralization, letters of credit, or surety bond. (c) Has commercial paper that is rated in a rating category of "A-1" or the equivalent or higher by a NRSRO.

  Eligible commercial paper shall have a maximum maturity of 270 days or less. No more than 25 percent of the District's portfolio may be invested in eligible commercial paper~~, and the District may purchase no more than 10 percent of the outstanding commercial paper of any single issuer~~.

- Medium-Term Corporate Notes — Medium term notes with a maximum maturity of five years issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States that are rated in a rating category of “A”, the equivalent or higher by a NRSRO. Purchases of medium term notes may not exceed 30 percent of the District's portfolio.

- Negotiable Certificates of Deposit – Negotiable CDs issued by a nationally or state-chartered bank or a state or federal savings and loan association, a state or federal credit union, or by a federally- or state-licensed branch of a foreign bank. Purchases of negotiable CDs may not exceed 30 percent (in combination with CDs purchased through a deposit placement service) of the District's portfolio. Negotiable CDs issued with maturities in excess of one year must be rated in a rating category of “A”, the equivalent or higher by a NRSRO. Negotiable CDs with maturities under one year must be rated in a rating category of “A-1,” the equivalent, or higher by a NRSRO.

- Asset-Backed Security – Any mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-back certificate, consumer receivable pass-through certificate, or consumer receivable-backed bond of a maximum of five years maturity. Eligible securities must be rated in a rating category, by a nationally recognized rating service, of “AA”, the equivalent or higher~~, and the issuer of the security must be rated in a rating category of “A”, the equivalent or higher rating for its debt as provided by a NRSRO~~. No more than 20 percent of the District's portfolio may be invested in this type of security.

- Supranational – United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), or Inter-American Development Bank (IADB), 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”, the equivalent or higher by a NRSRO.

  Purchases of these securities shall not exceed 30 percent of the District’s portfolio.

Only the Board of Directors may authorize other types of investments permitted by the Government Code.

Prohibited Investments

Under the provisions of Gov. Code Section 53601.6, the Ventura Regional Sanitation District shall not invest any funds covered by this Investment Policy in inverse floaters, range notes, interest-only strips that are derived from a pool of mortgages, repurchase & reverse repurchase agreements and stocks. The use of derivatives, options, futures or buying on margin is also specifically prohibited.

Maximum Maturities

To the extent possible, the Treasurer will attempt to match investments with anticipated cash flow requirements. Unless matched to a specific cash flow and explicitly authorized by the Board of Directors no less than three months prior to the investment, investments shall have a maturity no more than five (5) years from the date of purchase.

Safekeeping and Custody

All security transactions entered into by the Ventura Regional Sanitation District shall be conducted on delivery-versus-payment basis. All securities purchased or acquired shall be in the name of the District and be held in safekeeping by a bank or trust company. The only exception to the foregoing shall be depository accounts and securities purchases made with: (i) local government investment pools; (ii) time certificates of deposit, and, (iii) money market mutual funds, since the purchased securities are not deliverable. Evidence of each of these investments will be held by the District.

Distribution of Investment Earnings

Whenever practical, District cash shall be consolidated and invested on a pooled concept basis. Interest earnings shall be allocated according to average monthly balances on a calendar month basis.

Reporting

The Treasurer shall submit to each member of the Board and the General Manager a monthly investment report of all funds held at the end of each month which are directly controlled and managed by the Treasurer including a detailed listing of all investment transactions during the month or, if none, a statement to that effect. As recommended by Gov. Code Section 53646(b)(1), this report shall include a complete description of the portfolio, the type of investments, the issuers, maturity dates, par values, dollar amount invested and the current market values of each component of the portfolio, including funds managed for Ventura Regional Sanitation District by third party contracted managers. This report shall also include the source of the portfolio valuation and an explanation when it is necessary to sell a security and realize a loss. However, for funds invested in the County of Ventura Pool or in the State of California Local Agency Investment Fund, market values need not be reported.

Each investment report shall be submitted within 30 days following the end of the period covered by the report, but may be extended to 60 days following the end of the period covered by the report to allow for variances in Board meeting dates. The report must also include a certification that (1) all investment actions executed since the last report have been made in full compliance with the Investment Policy or state areas of non-compliance and (2) the Ventura Regional Sanitation District will meet its expenditure obligations for the next six months or state why sufficient money shall, or may, not be available.

Investment Policy Review

The Treasurer shall annually render to the Board a Statement of Investment Policy, which the Board shall consider at a public meeting.

Glossary

Asset-Backed Securities (ABS) - Securities whose income payments and hence value is derived from and collateralized (or "backed") by a specified pool of underlying assets which are receivables. Pooling the assets into financial instruments allows them to be sold to general investors, a process called securitization, and allows the risk of investing in the underlying assets to be diversified because each security will represent a fraction of the total value of the diverse pool of underlying assets. The pools of underlying assets can comprise common payments credit cards, auto loans, mortgage loans, and other types of assets. Interest and principal is paid to investors from borrowers who are paying down their debt.

Broker-Dealer – a person or a firm who can act as a broker or a dealer depending on the transaction. A broker brings buyers and sellers together for a commission. They do not take a position. A dealer acts as a principal in all transactions, buying and selling for his own account.

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

Collateral – Securities, evidence of deposit or other property, which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

Custody – Safekeeping services offered by a bank, financial institution or trust company, referred to as the “custodian.” Service normally includes the holding and reporting of the customer’s securities, the collection and disbursement of income, securities settlement and market values.

Delivery Versus Payment –A type of securities transaction in which the purchaser pays for the securities when they are delivered either to the purchaser or custodian. It ensures that securities are deposited in an eligible financial institution prior to the release of funds. Securities should be held by a third-party custodian as evidenced by safekeeping receipts.

Diversification – Dividing investment funds among a variety of securities offering independent returns.

Federal Agency Obligation – A debt instrument issued by one of the federal agencies. Federal agencies are considered second in credit quality and liquidity only to U.S. Treasuries.

Liquidity – An investment that can be converted easily and rapidly into cash without a substantial loss of value.

Local Agency Investment Fund (LAIF) – The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

Market Value – The price at which a security is trading and could presumably be purchased or sold on a specific date.

Maturity – The date upon which the principal or stated value of an investment becomes due and payable.

Money Market Fund – a type of safe investment comprising a variety of short-term securities with high quality and high liquidity. The fund provides interest to shareholders and must maintain a stable net asset value (NAV) of $1 per share.

Portfolio – Collection of securities held by an investor,

Principal – the original cost of a security. It represents the amount of capital or money that the investor pays for the investment.

Prudent Investor Standard – An investment standard that all investments should be made 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.

Supranationals – Securities issued or unconditionally guaranteed by multi-lateral international financial institutions whose member nations contribute capital and participate in management.

U.S. Treasury – Government debt issued by the United States Department of the Treasury through the Bureau of the Public Debt. Treasury securities are the debt financing instruments of the United States federal government, and they are often referred to simply as Treasuries. There are four types of marketable treasury securities: Treasury bills, Treasury notes, Treasury bonds, and Treasury Inflation Protected Securities (TIPS). All of the marketable Treasury securities are very liquid and are heavily traded on the secondary market.

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