

RESOLUTION 00-09

RESOLUTION OF THE CHINO BASIN WATERMASTER,  
SAN BERNARDINO COUNTY, CALIFORNIA, ESTABLISHING  
A WATERMASTER INVESTMENT POLICY

WHEREAS, the normal and prudent operation of the Watermaster's daily business generates cash balances, operating and fund reserves; and

WHEREAS, the cash management system is designed to accurately monitor and forecast expenditures and revenues on behalf of Watermaster, thus enabling the Watermaster to invest funds to the fullest extent possible; and

WHEREAS, the cash funds are to be placed in investments authorized for public agencies of the State of California (Judgment Paragraph 23); and

WHEREAS, Watermaster deems it to be in the best interests of the parties to the Judgment to delegate the authority to invest and reinvest the funds of Watermaster to the Watermaster Office Manager/Accountant subject to the provisions of its Investment Policy and the ongoing review and control of Watermaster and the Watermaster Advisory Committee.

WHEREAS, it is the Watermaster's policy to periodically review, update, and adopt an investment policy;

NOW, THEREFORE, BE IT RESOLVED, by the Chino Basin Watermaster that:

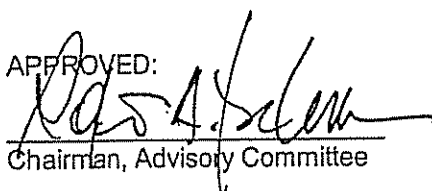
- Section 1. That the Chino Basin Watermaster Investment Policy dated the 28<sup>th</sup> of October, 1999, revising "Controller" to "Office Manager/Accountant", remains in effect.
- Section 2. The authority to invest and reinvest funds of Watermaster is hereby delegated to the Watermaster Office Manager/Accountant subject to the provisions of said Investment Policy and the ongoing review and control of Watermaster and the Watermaster Advisory Committee.
- Section 3. This resolution shall take effect from and after its date of adoption and Resolution 99-11 is rescinded in its entirety.

\*\*Watermaster's Investment Policy originally approved by the Advisory Committee on February 13, 1997 and the Watermaster Board on March 5, 1998.

APPROVED by the Advisory Committee this 22<sup>nd</sup> day of December 2000.

ADOPTED by the Watermaster Board on this 22<sup>nd</sup> day of December 2000.

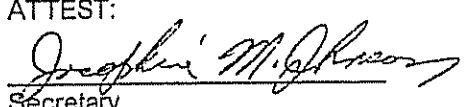
APPROVED:

  
Chairman, Advisory Committee

By:

  
Chairman, Watermaster Board

ATTEST:

  
Secretary  
Chino Basin Watermaster

STATE OF CALIFORNIA                    )  
  ) ss  
COUNTY OF SAN BERNARDINO        )

I, Josephine Johnson, Secretary of the Chino Basin Watermaster, DO HEREBY CERTIFY that the foregoing Resolution being No. 2000-09, was adopted at a regular meeting of the Chino Basin Watermaster Board by the following vote:

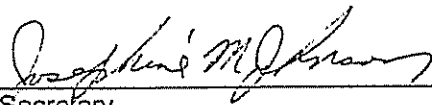
AYES:           Members Arbelbide, Boston, Catlin, Hofer, Johnson, King, Krueger, Neufeld, and  
                  Vanden Heuvel

NOES:           None

ABSENT:        None

ABSTAIN:       None

CHINO BASIN WATERMASTER

  
Secretary

## CHINO BASIN WATERMASTER INVESTMENT POLICY

### I PURPOSE

This statement provides guidelines for the prudent investment of the Chino Basin Watermaster's (Watermaster) cash, and outlines the policies for maximizing the efficiency of Watermaster's cash management system. The ultimate goal, through the implementation of the investment policy, is to maintain the security, the liquidity, and yield (in that order of priority) of the investments made with the Watermaster's reserves and temporarily idle funds to maximize the economic position of the Watermaster while protecting its pooled cash assets through a system of checks and balances.

### II SCOPE

This policy covers all funds and investment activities under the direct authority of the Watermaster as administered by the Treasurer and/or Controller and Watermaster Services Staff, that are collected pursuant to adoption of the Watermaster Budget and subsequent assessment levy by the Watermaster for any given fiscal year.

### III OBJECTIVE

The Watermaster's cash management system is designed to accurately monitor and forecast expenditures and revenues, thus enabling the Watermaster to invest funds to the fullest extent possible. The objective is to receive the highest yield obtainable on behalf of Watermaster, as long as investments meet the criteria established for safety and liquidity. The investment portfolio will be diversified to minimize risks and to assure safety and probable income.

### IV POLICY

The Watermaster operates its temporary pooled idle cash investments under the prudent person rule (Civil Code Section 2261, et seq.) which obligates a fiduciary to insure that:

"...investments shall be made with the exercise of that degree of judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment considering the probable safety of their capital as well as the probable income to be derived."

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### V DEPOSITS AND INVESTMENTS CRITERIA:

#### **A. DEPOSITS:**

1. In selecting financial institutions for the deposit or investment of Watermaster funds, the Treasurer and/or the Controller shall consider the creditworthiness of institutions, including the Depositories' latest equity/asset ratio data. They shall continue to monitor the financial institutions' credit characteristics and financial history throughout the period during which Watermaster funds are deposited or invested. Institutions must be at least three (3) years old, have total assets in excess of ten (10) billion dollars and an equity to assets ratio of 5% or better, or have total assets in excess of one hundred (100) million dollars and an equity to assets ratio of 6% or better.

2. Total deposits placed with any local savings and loan institution shall not exceed \$100,000.
3. Except for those funds necessary to meet day-to-day cash demands and the amount required by the bank to maintain Watermaster checking accounts, all Watermaster funds are deposited in interest-bearing accounts.
4. Total deposits placed with any financial institution shall not exceed three (3) million dollars of available funds. The computation of this limitation shall not include the funds in demand deposits, passbook savings accounts, or invested in U.S. Government securities.
5. Upon request by a financial institution, the Watermaster may waive up to 90% of the collateral requirement on funds insured by either the Federal Deposit Insurance Corporation or the Savings Association Insurance Fund (SAIF).
6. All financial "Brokers" utilized in conjunction with Investments or Deposits shall be authorized by an Advisory Committee adopted Resolution.

**B. INVESTMENTS:**

1. Securities of the United States Government, its agencies and instrumentality's with remaining maturities of five years or less, provided that the yield exceeds the currently available yield on Time Certificates of Deposit. These may include Treasury Bills, Notes, Bonds, Certificates of Indebtedness and Government National Mortgage Association issues (GNMA's). Securities may be purchased on a when-issued basis at prices set in the open market prior to the issuance auction and before the settlement date in order to eliminate uncertainty about prices and amounts purchased. When investing in "when-issued" securities, trading will be based on documented ability and intention to accept delivery and make payment on the settlement date to avoid speculation.
2. Insured or Collateralized Certificates of Deposit placed with commercial banks and/or savings and loan institutions.
3. Negotiable Certificates of Deposit issued by a nationally or state chartered bank or savings and loan association; total of purchases shall not exceed 30% of available funds.
4. Commercial Paper rated "prime quality" or of the highest letter and numerical rating by Moody's or Standard and Poor's. The corporations issuing the commercial paper must be organized and operating within the United States, have assets of \$500,000,000 and an "AAA" or better rating on debentures other than commercial paper. The term of the investment shall not exceed 180 days, nor shall the amount placed exceed 10% of the outstanding commercial paper of an issuing corporation. Purchases of commercial paper shall not exceed 15% of the Watermaster's funds available for investment.
5. Local Agency Investment Fund (LAIF) - State Pool. Investment of funds cannot exceed the maximum per agency "floating" cap of the LAIF.
6. Passbook Savings Account and Demand Deposits offered by federally insured institutions and meeting all aforementioned criteria.

**VI INVESTMENT SELECTION AND PRIORITY CRITERIA**

- A. Safety: The safety and risk associated with an investment refers to the potential loss of principal, interest, or a combination of these amounts. Since it is the primary duty and responsibility of the Treasurer and/or Controller to protect, preserve, and maintain cash and investments placed in his/her trust on behalf of the Watermaster, those instruments that are considered very safe will be used for investment.
- B. Liquidity: This refers to the ability to "cash in" at any moment in time with a minimal chance of losing some portion of the principal or interest. Liquidity is an important investment component since cash requirements cannot be fully anticipated and an unexpected need for funds may occur occasionally.
- C. Yield: Yield is the potential dollar earnings an investment can provide, and sometimes is described as the rate of return. It should become a consideration only after the basic requirements of safety and liquidity have been met.

## **VII**     **SAFEKEEPING**

Securities purchased from broker/dealers shall be held in segregated customer accounts, in the Watermaster's name, either by possession or at an approved depository pursuant to SEC Rule 15C3-3. Securities purchased through the financial institutions shall be held by the institutions' agent(s). All Certificates of Deposit and Government Agency Issues must be issued to and held by Watermaster.

## **VIII**    **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 possible, and must be considered within the context of the overall portfolio's investment return, provided that adequate diversification has been implemented.

## **IX**     **RISK TOLERANCE**

Portfolio diversification is employed as a way to control risk. Investment managers are expected to display prudence in the selection of securities, as a way to minimize default risk. No individual investment transaction shall be undertaken which jeopardizes the total capital position of the overall portfolio. The Treasurer and/or Controller shall, on behalf of Watermaster, periodically prepare and recommend guidelines and strategies to the Advisory Committee to control risks of default, market price changes, and illiquidity. Any changes to the policy will be effectuated by resolution to be adopted by the Watermaster following recommendation of the Advisory Committee. All investment periods shall be for one (1) year or less.

## **X**      **REPORTING**

The Treasurer and/or Controller shall submit a monthly investment report to the Watermaster Advisory Committee and shall submit reports to Watermaster when Watermaster convenes. This report will include all required elements of the monthly report as prescribed by Government Code Section 53646.

Required elements of the monthly report include:

- a. Type of investment
- b. Name of Institution
- c. Date of maturity
- d. Amount of deposit or cost of the security
- e. Current market value of a security with a maturity in excess of 12 months
- f. Rate of interest/earning
- g. Statement relating the report to the Statement of Investment Policy
- h. Statement that there are sufficient funds to meet the next 30 days' obligations

#### **XI**      **DELEGATION OF AUTHORITY**

The financial and accounting duties imposed by Government Code Section 40802-40805 have been transferred to the \_\_\_\_\_.

#### **XII**      **INTERNAL CONTROLS**

The Treasurer and/or Controller shall establish a system of internal controls, which shall be documented in writing. The internal controls shall be reviewed with the Chief of Watermaster and an independent auditor and presented to the Advisory Committee. The controls shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent action by employees and/or officers of the Watermaster.

#### **XIII**      **POLICY ADOPTION**

The above investment policy will be adopted periodically by resolution of the Watermaster. The policy is reviewed on a periodic basis by the Treasurer and/or Controller and by the Watermaster, and any modifications made thereto are subsequently reviewed and approved by a resolution of the Watermaster Advisory Committee prior to implementation.

The Treasurer and/or Controller will strive to maintain the level of investment of all Watermaster funds as near 100% as possible, through daily and projected cash flow determination. Idle cash management and investment transactions are also the assigned responsibility of the Treasurer and/or Controller. The basic premise underlying Watermaster's investment philosophy is, and will continue to be, to insure that money is always safe and available when needed.

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