

RESOLUTION NO. 2004-01

**A RESOLUTION OF THE BEAUMONT BASIN WATERMASTER
APPROVING AN INVESTMENT POLICY**

WHEREAS, California Government Code, Section 53646 requires the annual adoption of an investment policy.

NOW, THEREFORE, the Beaumont Basin Watermaster hereby resolves as follows:

Section 1.

Pursuant to Government Code 53600, et seq. the Beaumont Basin Watermaster Investment Policy is hereby approved as attached hereto and incorporated herein by this reference.

Section 2.

The Treasurer of the Watermaster is hereby authorized and directed to do all things necessary to implement the Investment Policy.

PASSED AND ADOPTED this 9th day of March, 2004.


AYES:

NOES:


ABSENT:

ABSTAIN:

Approved:


Chairman of the Watermaster

Attest:


Secretary to the Watermaster

**BEAUMONT BASIN WATERMASTER
STATEMENT OF INVESTMENT POLICY
March 2004**

Introduction

The purpose of this policy is to provide broad guidelines to the officers of the Watermaster charged with the responsibility for the investment of temporarily idle surplus funds of the Watermaster. All investment of idle funds is governed by State law and by this policy.

The Treasurer is responsible for administering the Watermaster's investments. In furtherance of this responsibility, the Treasurer shall issue and administer detailed Investment Instructions which may change periodically and which will implement this Investment Policy. The investment of bond proceeds will be further restricted by the provisions of relevant bond documents.

Policy Guidelines

1) Prudence

The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. All persons investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing public funds shall act with care, skill, prudence and diligence in order to safeguard the principal amount of the investments and maintain the liquidity needs of the Watermaster.

2) Objectives

The primary objectives, in priority order, of the Watermaster's investment activities shall be:

- a. Safety of Principal. The investments shall be undertaken in a manner that seeks to ensure preservation of capital in the portfolio.
- b. Liquidity. The investment portfolio will remain sufficiently liquid to enable the Watermaster to meet its cash flow requirements.
- c. Return on Investment. The investment portfolio shall be designed with the objective of attaining a market rate of return on its investments consistent with the constraints imposed by its safety objective and cash flow requirements.

3) Delegation of Authority

The management and oversight responsibility for the investment program is hereby delegated to the Treasurer who shall monitor and review all investments for consistency with this investment policy. No person may engage in an investment transaction except as provided under the limits of this policy. The Treasurer shall maintain investment instructions for internal and external management of investments consistent with State Government Code requirements. The Watermaster may contract for the use of investment manager services subject to all other provisions of this Investment Policy. The Treasurer

instructions is specifically prohibited. Security types that are thereby prohibited to be purchased include, but are not limited to:

- a. Complex derivative structures such as range notes, inverse floaters, or any other complex variable rate or structure note.
- b. Interest-only strips that are derived from a pool of mortgages, or any security that could result in zero interest accrual if held to maturity.

9) Sales Prior to Maturity

Sales prior to maturity are permitted. It is also recognized that in a changing interest rate environment, it may be financially advantageous to sell investments at a book value loss in order to reinvest in a more profitable security.

10) Reporting

The Treasurer shall render to the Watermaster a quarterly report which shall include the following information for investments:

- a. Type of investment
- b. Issuer name
- c. Maturity date
- d. Par value
- e. Purchase price
- f. Market value and source of valuation
- g. Accrued interest for the period
- h. Weighted average maturity of investments

The quarterly report shall also include:

- a. Compliance of the portfolio to the investment policy and State law, or state the manner in which the portfolio is not in compliance.
- b. A description of any of the Watermaster's funds, investments or programs that are under management of contracted parties, including lending programs.
- c. A statement denoting the ability of the Watermaster to meet its expenditure requirements of the next six months, or provide an explanation as to why sufficient money shall, or may, not be available.

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

11) Interest Allocation

The Treasurer shall allocate interest pursuant to an Interest Allocation Schedule. A list of funds eligible to receive interest shall be maintained by the Treasurer.

shall maintain a list of authorized broker/dealers and financial institutions that are approved for investment purposes, and it shall be the policy of the Watermaster to purchase securities only from those authorized institutions or firms.

4) **Ethics and Conflict of Interest**

Officers and employees involved in the investment process shall refrain from personal business activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial decisions. Officers and employees involved in the investment process shall abide by the Watermaster's Conflict of Interest Code, California Government Code, Section 1090 and the California Political Reform Act.

5) **Permitted Investments**

Government Code, Section 53601 sets forth the eligible investments for the Watermaster. All investments purchased for the Watermaster shall be delivered, either by book entry or physical delivery, to the Watermaster's third party custodian. All investments of the Watermaster shall have the Beaumont Basin Watermaster as registered owner. The Treasurer shall maintain a list of specific investment types and diversification requirements, to include:

- a. Local Agency Investment Fund - The Treasurer may invest in the Local Agency Investment Fund (LAIF) established by the State Treasurer for the benefit of local agencies. There is no minimum investment period and the minimum transaction is \$5,000, in multiples of \$1,000 above that, with a maximum of \$30 million for any agency. The LAIF offers high liquidity because deposits can be converted to cash in 24 hours and no interest is lost. All interest is distributed to those agencies participating on a proportionate share.
- b. Passbook Savings Accounts and Demand Deposit Accounts - For purposes of this policy, passbook savings accounts and demand deposit accounts shall be considered investments. The Watermaster may earn interest on idle funds in a savings or checking account at a federally insured institution.

6) **Nondiscrimination**

Investments shall not knowingly be made in any institution that practices or supports directly or indirectly through its actions discrimination on the basis of race, religion, color, creed, national or ethnic origin, age, gender, or physical disability.

7) **Maximum Maturity**

Investment maturities shall be based on a review of cash flow forecasts. Maturities will be scheduled so as to permit the Watermaster to meet all projected obligations. No investment shall be made in any security, other than a security underlying a repurchase or reverse repurchase agreement, that at the time of the investment has a term remaining to maturity in excess of five years.

8) **Ineligible Investments**

Any security type or structure not specifically approved by this policy and investment