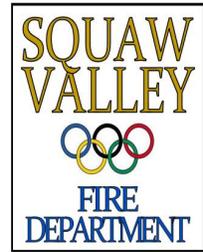




SQUAW VALLEY PUBLIC SERVICE DISTRICT



ANNUAL REVIEW OF INVESTMENT POLICY

DATE: May 26th, 2020

TO: District Board Members

FROM: Danielle Grindle, Finance & Administration Manager

SUBJECT: Review of the District Statement of Investment Policy

BACKGROUND: The District's Investment Policy was originally adopted in 1989 and is reviewed annually by the Board of Directors.

DISCUSSION: The current investment policy is based on conservative principles with an emphasis of earning maximum returns while mitigating any loss of principal. There are no notable market conditions and/or laws legislated that would warrant any changes in that nature. However, there are two changes proposed to the Investment Policy.

The first is aligning the minimum amount in reserves specified in the Investment Policy as "liquid funds" with the minimum amount in reserves specified in the existing Financial Reserves Policy most recently approved in October 2019, attached. For consistency and clarity, the two policies should specify the same minimum balances required in the District's reserves accounts (or Fixed Asset Replacement Funds, or FARFs). To simplify and preclude the need to update both simultaneously, the Investment policy now simply matches the minimum required of the Financial Reserves Policy by reference.

The second is to update the maximum limit in investments allowed from any singular local agency, established by the Local Agency Investment Fund (LAIF), from \$65M to \$75M.

- ALTERNATIVES:**
1. Approve the revised *District Statement of Investment Policy* with proposed changes redlined.
 2. Provide suggestions to amend the Investment Policy.

FISCAL/RESOURCE IMPACTS: Our investment policy is set out to establish a protocol for investment making decisions. If questions ever come up about our fiscal

management, the answers won't come from the investment results, but rather what decisions were made and how we made them. By establishing our priorities in this policy (safety, liquidity, and yield), we are insuring long-term, stable, and effective management of public funds without risking principle. Without this policy we are susceptible to making investment decisions with greater economic loss.

RECOMMENDATIONS: Approve the revised *District Statement of Investment Policy* with proposed changes redlined.

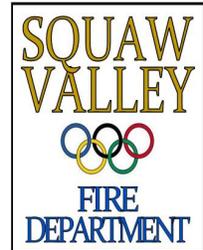
ATTACHMENTS:

- DRAFT District Statement of Investment Policy (2 pages)
- Financial Reserves Policy (2 pages)

DATE PREPARED: May 4th, 2020



SQUAW VALLEY PUBLIC SERVICE DISTRICT



POLICY TITLE: Investment Policy

The Investment Policy of the District is reviewed by staff on a continual basis and submitted annually (with suggested changes, if appropriate) to the Board of Directors for approval.

General Investment Policy Statement

This policy statement is intended to provide guidelines for the prudent investment of the District's cash for which no immediate need is anticipated. The District has chosen to abide by a uniformly conservative policy in the investment of temporarily idle funds.

The District follows the "prudent man rule" outlined in the Civil Code, §2261, et seq., which states in essence that in investing, a trustee shall exercise the judgment and care, under the circumstances then prevailing, which men of prudence, discretion and intelligence exercise in the management of their own affairs. The District is further restricted by provisions of the Government Code, §53600, et seq.

The District considers investments based on, in order of importance, safety, liquidity and yield when choosing investment options. The District attempts to obtain the highest yield obtainable, with no risk to the principal, as long as investments meet the criteria established for safety and liquidity. The District only operates in those investments that are considered very safe (insured or secured as required by law). Liquidity of funds is considered in terms of expected and unexpected need for the funds based on known encumbrances and historical experience. As a minimum the District shall maintain ~~two months of operating expenses and an emergency reserve of \$500,000 in liquid funds~~ **reserve balances consistent with the District's current Financial Reserves Policy.**

Local Agency Investment Fund

The Local Agency Investment Fund (LAIF) has established a maximum limit of ~~seventy-five~~ **sixty-five** million dollars in investments from any singular local agency. The District maintains a balance ranging from \$20,000 to \$10,000,000 with LAIF. There is no set maturity date of these investments. They may be withdrawn at any time without penalty. The LAIF interest rates should be reviewed along with U. S. Treasury Bills (T-Bills) and time Certificates of Deposit (CD's) issued by local banks or savings associations when determining best investment strategies.

U.S. Treasury Bills

The District generally does not maintain or intend to maintain a balance in U. S. Treasury Bills for which the faith and credit of the United States are pledged for the payment of principal and interest due to lack of a full time person to control these investments.

Certificates of Deposit

The District may enter into any contract with a depository relating to any deposit which in the Treasurer's judgment is to the public advantage with certain restrictions.

It is the District's policy not to purchase time certificates of deposit issued by state-chartered banks or savings associations in excess of thirty percent (30%) of the total of the District's temporarily idle funds.

Any deposit to a savings association or bank shall not exceed a level of such that is insured or secured as required by law.

A depository and the agent of the depository are responsible for securing monies with eligible securities in securities pools which have a market value of at least ten percent (10%) in excess of the total amount of all deposits of a depository if the securities are promissory notes secured by first mortgages and first trust deeds. The District requires certification by the depository and the agent of the depository that there are securities in the pool in the amounts required to secure all deposits.

Securities must comply with §53651.2 of the Government Code, which defines eligible security.

Capitalization and Depreciation Policies

Capital projects or composite group purchases approved as part of the Capital Improvement Budget shall be capitalized at the end of the fiscal year that the project or purchase is completed and accepted by the District's Board of Directors as an asset to the District. It is the District's policy not to capitalize any project or purchase with a value of less than \$5,000 unless an individual purchase can be associated with a completed project or composite group of approved purchases. Depreciation shall be computed by the District and reviewed by the Auditor during the annual audit.

Placer County Tax Collector

Property taxes are collected by Placer County and held until requested by the District. These funds are invested according to the Placer County Treasurer's Investment Policy.

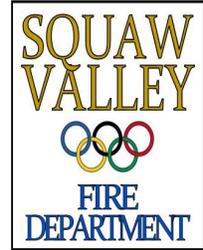
Inter-District Loans

Loans between District departments and accounts may be approved by the Board of Directors. Such loans would provide funds to the borrower at an interest rate equal to or better than the rate available from the depository from which the funds are withdrawn.

(Adopted 05-25-89; reviewed 04-19-90, reviewed 07-30-92; revised 01-25-95; reviewed 02-29-96 reviewed 02-27-97; reviewed 01-29-98; reviewed 01-28-99; revised 01-27-00; reviewed 01-23-01; revised 01-24-02; reviewed 01-28-03; reviewed 01-27-04; reviewed 01-31-06; revised 01-30-07; 12-23-09; reviewed 01-25-11; reviewed 1-31-12; revised 05-30-13; reviewed 05-27-14, reviewed 05-26-15, revised 3-29-16, revised 1-31-17, revised 2-27-18, reviewed 05-28-19, revised 5-26-20)



SQUAW VALLEY PUBLIC SERVICE DISTRICT



POLICY TITLE: Financial Reserves Policy

PURPOSE:

Squaw Valley Public Service District (District) shall maintain reserve funds in the Sewer, Water, Fire and Garbage Fixed Asset Replacement Funds, or FARFs. This policy establishes the level of reserves necessary for maintaining the District's credit worthiness and for adequately providing for:

- Funding infrastructure replacement.
- Economic uncertainties and other financial hardships.
- Loss of significant revenue sources such as property tax receipts or connection fees.
- Local disasters or catastrophic events.
- Future debt or capital obligations.
- Cash flow requirements.
- Unfunded mandates including costly regulatory requirements.

POLICY:

Operating Reserves

The minimum amount of operating reserves will equal two months of operating expenses.

Capital Replacement Reserves

Capital replacement reserves will be accumulated to fund infrastructure replacement projects and will be an integral part of the District's 100-year rolling capital replacement plan. A key objective for accumulating financial reserves is to minimize external borrowing, interest expense, and sharp rate hikes. The amount of funding to the FARFs will be determined annually during the budget cycle and will be based on Capital Replacement Projects planned in the next 100 years. The District strives to be fully funded as projects are completed and to maintain a minimum amount of capital replacement reserves equal to a five-year rolling average of capital replacement spending.

Rate Stabilization Reserves

The Sewer, Water, and Garbage FARFs will each maintain a minimum reserve equal to one year's sewer, water, and garbage debt obligations, respectively. If there is a year where revenues will be less than budget, at a minimum the District needs to cover its debt obligation.

PROCEDURE FOR USING RESERVE FUNDS:

Operating Reserves

Operating reserves can be used at any time to meet cash flow requirements of District operations. Authority to use the funds will be consistent with the District's Purchasing Policy.

Capital Replacement Reserves

The Board of Directors will authorize use of capital replacement reserves during the budget process. Capital replacement reserves are also available for unplanned (unbudgeted) capital replacements. Authorization for the use of capital replacement reserves for unplanned capital replacements will be consistent with the District's Purchasing Policy.

Rate Stabilization Reserves

The General Manager and Finance and Administration Manager are authorized to use rate stabilization funds to supplement operating revenue when:

- Total revenue in the Sewer, Water or Garbage FARFs is projected to be five percent or more below the annual budgeted revenue for each of the three services, respectively.

PROCEDURE FOR MONITORING RESERVE LEVELS:

The Finance and Administration Manager shall perform reserve analyses to be submitted to the Board of Directors upon the occurrence of the following events:

- Board of Directors' deliberation of the annual budget;
- Board of Directors' deliberation of a service charge rate increase;
- When a major change in conditions threatens the reserve levels established within this policy.

If the analyses indicate projected or actual reserve levels falling 10% below the levels outlined in this policy, at least one of the following actions shall be included with the analyses:

- An explanation of why the reserve levels are not at the targeted level, and/ or
- An identified course of action to bring reserve levels within the minimum levels prescribed.