



moulton niguel water district

FINANCIAL POLICY UPDATES

Special Board Finance Workshop

May 25, 2016

WORKSHOP AGENDA

1. Financial Policy Review Process
2. Overview of Current Financial Position
3. Reserve Policy Updates
4. Investment Policy Updates
5. Next Steps



FINANCIAL POLICY REVIEW PROCESS

FINANCIAL POLICY REVIEW PROCESS

- Adopting as part of annual budget process
- Provides opportunity to review regularly
- 3 Main Documents
 - Capital Financing Policy
 - Investment Policy
 - Reserve Policy



CURRENT FINANCIAL POSITION

RATING AGENCY PERSPECTIVE

- Board Financial Policies = Strong Financial Position
 - Rate structure mitigates risk
 - AAA/AA+ Rated
 - Strong ratings = lower-interest for debt

- Favorable outlook on:
 - Coverage Ratio > 1.75
 - Cash on Hand > 365 days cash on hand

FitchRatings





RESERVE POLICY UPDATES

RESERVE POLICY UPDATE AGENDA

1. What Are Reserves?

2. What Are Funds?

3. Proposed Changes

4. Impacts

WHAT ARE RESERVES?

- Board directed designations of holding cash on hand
- Mitigating potential risk from:
 - Cashflow timing
 - Unplanned expenses- earthquake or emergency
- Viewed favorably by Rating Agencies

IMPACTS TO LRFP

LRFP Update	Rate Adjustment					Bond Issuance	
	2014-15	2015-16	2016-17	2017-18	2018-19	Fiscal Year	Amount
May 2016	7.0%	7.0%	5.0%	4.0%	4.0%	2017-18, 2021-22	\$52 million, \$34 million
Reserve Policy Update	7.0%	7.0%	5.0%	4.0%	4.0%	2017-18, 2021-22	\$58 million, \$35 million



INVESTMENT POLICY UPDATES

RECOMMENDED INVESTMENT POLICY CHANGES

- Good News:
 - Investing Restricted Reserves for increased earnings
 - CIP Spending Increased

⇒ Update Investment Policy to capture changes

NEXT STEPS

- Recommended changes w/ redline provided
- Up for adoption as part of Budget Document at June Board Meeting

**MOULTON NIGUEL WATER DISTRICT
NET POSITION
AS OF MARCH 31, 2016**

	Reserve Policy Target	(Unaudited)	Net Change	Audited	Fund #
		Balance		Balance	
		3/31/2016		6/30/2015	
Unrestricted Net Position:					
Designated for Self Insurance Reserves	\$ 250,000	253,094	\$ 3,239	\$ 249,855	4
Designated for Water Efficiency (WBBRS) ¹	n/a	7,048,874	(131,317)	7,180,191	6
Designated for Replacement and Refurbishment	17,061,912	17,324,083	235,268	17,088,815	7
Designated for Water Supply Reliability	n/a	393,956	(407,675)	801,631	12
Designated for Planning and Construction	n/a	29,151,641	22,758	29,128,883	14
Designated for Rate Stabilization	13,250,595	13,545,998	2,545,717	11,000,281	52
Designated for Emergency Reserve	6,884,925	6,884,925	-	6,884,925	1
Unrestricted, undesignated ²	21,097,521	47,834,393	(18,690,804)	66,525,197	1
Total Unrestricted Net Position	58,544,953 ³	122,436,964	(16,422,814)	138,859,778	
Restricted for Capital Facilities (Projects)		2,611,455	1,103,346	1,508,109	15
Net Investment in Capital Assets ⁴		284,923,225	17,529,665	267,393,560	
Total Net Position		\$ 409,971,643	\$ 2,210,196	\$ 407,761,447	

Note: Totals may not sum due to rounding.

1. In addition to realized expenditures, there is approximately \$3,035,269 in project commitments, reducing the available fund balance to \$4,013,605.

2. Unrestricted, undesignated funds include the General Operating Reserve as well as the regular District cash flows.

3. All funds in excess of reserve policy targets will be used to fund capital projects and operations.

4. Net Investment in Capital Assets calculated as follows:

Total capital assets	383,692,234
Less capital related debt	(99,844,115)
Add deferred charges related to debt	1,075,093
Total Net Investment in Capital Assets	284,923,212

Current Reserve	Held in Fund #	Current		Proposed	
		Target	Basis	Target	Basis
Emergency Reserve	1	\$ 6,880,000	2 percent of Asset Value	\$ 35,510,000	2 percent of Replacement Cost Value
Operating Reserve	1	\$ 21,100,000	4 months of operating expenses	\$ 15,820,000	3 months of operating expenses
Replacement and Refurbishment Reserve	7	\$ 17,060,000	10 Year Average R&R	None	Spend down for CIP, Annual Budget Transfer
Self-Insurance Reserve	4	\$ 250,000	5 times JPIA Deductible	\$ 250,000	5 times JPIA Deductible
Water Supply Reliability Reserve	12	None	Spend down for CIP, Annual Budget Transfer	None	Spend down for CIP, Annual Budget Transfer
Planning and Construction Reserve	14	None	Spend down for CIP, Annual Budget Transfer	None	Spend down for CIP, Annual Budget Transfer
Capital Facilities Reserve	15	None	Restricted to Collect Capacity Fees	None	Restricted to Collect Capacity Fees
Rate Stabilization Reserve	52	\$ 13,250,000	50% of AV Property Tax Revenue	\$ 13,250,000	50% of AV Property Tax Revenue
Total		\$ 58,540,000		\$ 64,830,000	

Reserves	Description
Emergency Reserve	Cash on hand to meet spending needs in case of an unplanned emergency and to meet cashflow needs waiting for FEMA reimbursement.
Operating Reserve	Cash on hand due to the delay between the receipt of revenues and expenditures.
Replacement and Refurbishment Reserve	Funding identified to set aside for R&R. The shift to 10-Year CIP and 10-Year Cashflow planning negates need for cash on hand for R&R.
Self Insurance Reserve	Cash on hand for insurance and unemployment claims.
Water Supply Reliability Reserve	CIP Fund identified for new water supplies. Funded through annual budget transfers and planned through 10-year CIP and 10-Year Cashflow.
Planning and Construction Reserve	CIP Fund identified for new construction projects not supply related. Funded through annual budget transfers and planned through 10-year CIP and 10-Year Cashflow.
Capital Facilities Reserve	Restricted Reserve to hold capacity fees. Transferred towards CIP spending through annual budget resolution.
Rate Stabilization Reserve	Reserve required per Bond Covenants. Cash on hand due to delay between property tax receipt and to provide buffer if State borrows Property Tax.

MOULTON NIGUEL WATER DISTRICT
STATEMENT OF INVESTMENT POLICY

ADOPTED: ~~SEPTEMBER 17, 2015~~ June 16, 2016

I. BACKGROUND

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A. Prudent management of the District includes the adoption of appropriate goals, objectives, policies and guidelines for the investment of available funds.

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B. The District's cash management system is designed to monitor and forecast accurately expenditures and revenues, thus enabling the District to invest funds to the fullest extent possible.

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C. This policy serves to organize and formalize the District's investment-related activities, while complying with all applicable statutes governing the investment of public funds.

D. This policy supersedes any previous Investment Policies of the Moulton Niguel Water District.

II. PURPOSE

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A. This statement is set forth by the District for the following purposes:

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1. To establish a clear understanding for the Board, District management, responsible employees and third parties of the objectives, policies, and guidelines for the investment of District funds.

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2. To offer guidance to any investment adviser on the investment of District funds.

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3. To establish a basis for evaluating investment results.

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B. The general purpose of this Investment Policy is to outline a philosophy and attitude, which will guide the investment of District funds toward the desired investment goals. It is intended to be sufficiently specific to be meaningful, yet adequately flexible to be practical.

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III. INVESTMENT AUTHORITY

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A. In accordance with Section 53600 et seq. of the Government Code of the state of California, the authority to invest public funds is expressly delegated to the Board of Directors for subsequent delegation to the Treasurer. Investments are limited to those instruments specified by this Investment Policy.

B. The Moulton Niguel Water District may engage the services of one or more external investment advisers who are registered under the Investment Advisers Act of 1940 to assist in the management of the District's investment portfolio in a manner consistent with the District's objectives. External investment advisers may be granted discretion to purchase and sell investment securities in accordance with this investment policy.

IV. PRUDENCE

A. Pursuant to California Government Code, Section 53600.3, all persons authorized to make investment decisions on behalf of the Agency are trustees and therefore fiduciaries subject to the Prudent Investor Standard:

“...all governing bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds pursuant to this chapter are trustees and therefore fiduciaries subject to the prudent investor standard. 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. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law.”

B. The Treasurer or designated investment advisor and other authorized persons responsible for managing District funds acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes provided that the Treasurer or other authorized persons acted in good faith. Deviations from expectations of a security's credit or market risk should be reported to the governing body in a timely fashion and appropriate action should be taken to control adverse developments.

V. STATEMENT OF OBJECTIVES

A. The District's investment program is based first upon the principals of safety and liquidity. The expected return on investments is considered only after the first two criteria are met.

B. In order of priority, three fundamental criteria shall be followed:

1. 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 capital in the overall portfolio. To attain this objective, the District will diversify its investments by investing funds among a variety of securities with independent returns.

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2. LIQUIDITY. The investment portfolio will remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated.

3. RETURN ON INVESTMENTS. 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 for safety and liquidity needs.

C. Funds are divided into ~~three~~six categories:

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1. Funds needed for current operating expenses and capital requirements, known as the "Liquid Fund,"

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2. Funds needed over the next one to five years known as the "Limited Maturity Fund", and

3. Funds not currently needed, known as the "Operating Reserve Fund."

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4. Funds required per bond trust indentures of the 2009 COPs, known as the "Debt Service Restricted 2009 COP Reserve Fund."

5. Funds required per bond trust indentures of the 2010 COPs, known as the "Debt Service Restricted 2010 COP Reserve Fund."

6. Funds required per bond trust indentures of the 2015 Revenue Refunding Bond, known as the "Debt Service Restricted 2015 Revenue Refunding Reserve Fund."

D. The District shall inform the investment adviser from time to time of amounts to be allocated to each of the ~~three~~six categories.

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E. The investment goals of the Liquid Fund shall be:

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1. To preserve principal,

2. To provide liquidity for operating and maintenance expenses, debt service payments, and capital requirements, and

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3. To earn a total rate of return commensurate with the first two goals.

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F. The investment goals of the Limited Maturity Fund shall be:

1. To preserve principal,

2. To provide liquidity for operating and maintenance expenses, debt service payments, and capital requirements within the next one to five years, and

3. To earn a total rate of return commensurate with the first two goals.

G. The investment goal of the Operating Reserve Fund shall be:

1. To preserve principal and

2. To provide growth over the long term by earning the rate of return available from the longer-term investments permitted under the California Government Code.

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H. The investment goal of the Debt Service Restricted 2009 COP Reserve Fund shall be:

1. To preserve principal

2. To provide liquidity for debt service payments in the event of defaulting, and

3. To earn a total rate of return commensurate with the first two goals.

I. The investment goal of the Debt Service Restricted 2010 COP Reserve Fund shall be:

1. To preserve principal
2. To provide liquidity for debt service payments in the event of defaulting, and
3. To earn a total rate of return commensurate with the first two goals.

J. The investment goal of the Debt Service Restricted 2015 Revenue Refunding Reserve Fund shall be:

1. To preserve principal
2. To provide liquidity for debt service payments in the event of defaulting, and
3. To earn a total rate of return commensurate with the first two goals.

VI. INVESTMENT PERFORMANCE OBJECTIVES AND GUIDELINES

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A. Liquid Fund

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1. The investment performance objectives for the Liquid Fund shall be to earn a return over a market cycle, which equals or exceeds the return on 90-day Treasury Bills.

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2. The average maturity of the Liquid Fund shall not exceed 90 days, and the maximum final stated maturity of individual securities in the Liquid Fund may not exceed one year.

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3. The District's Finance Director/Treasurer shall communicate periodically with the investment adviser in order to keep the adviser informed as to the District's specific short-term liquidity requirements.

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4. The Liquid Fund shall maintain a minimum fund balance sufficient to provide adequate cash reserves to pay current operating expenses.

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B. Limited Maturity Fund

1. The investment performance objective of the Limited Maturity Fund is to earn a return that equals or exceeds the return of the Bank of America Merrill Lynch ~~10~~-3 Year ~~US Treasury~~Agency Treasury Index.

C. Operating Reserve Fund

~~C.~~ 1. The investment performance objective for the Operating Reserve Fund shall be to earn a rate of return over a market cycle, which exceeds the return on the Merrill Lynch 1-10 Year US Corporate and Government Index, or an equivalent index determined by the District.

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2. The maximum stated final maturity of individual investments in the Operating Reserve Fund is ten years.

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D. Debt Service Restricted 2009 COP Reserve Fund

1. The investment performance objectives for the Debt Service Restricted Reserve Fund shall be to earn a return over a market cycle, which equals or exceeds the return on Bank of America Merrill Lynch 3-5 Year US Treasury & Agency Index.

E. Debt Service Restricted 2010 COP Reserve Fund

1. The investment performance objectives for the Debt Service Restricted Reserve Fund shall be to earn a return over a market cycle, which equals or exceeds the return on Bank of America Merrill Lynch 3-month US Treasury Bill Index.

F. Debt Service Restricted 2015 Revenue Refunding Reserve Fund

1. The investment performance objectives for the Debt Service Restricted Reserve Fund shall be to earn a return over a market cycle, which equals or exceeds the return on Bank of America Merrill Lynch 3-5 Year US Treasury & Agency Index.

VII. INVESTMENT POLICIES

A. Investment of District funds is governed by California Government Code Section 53601 et seq., a copy of which is attached to this policy as Exhibit B. A Summary of Permitted Investments, prepared by District's current investment adviser is attached as Exhibit A.

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B. The District manages its investments under the prudent investor standard.

C. The District's Finance Director/Treasurer is designated by the Board of Directors as the officer responsible for the investment of District funds; provided, the Board may designate such responsibility to investment advisers pursuant to Section VII.D. below. The investment function shall be overseen by the Finance and Information Technology Committee of the Board of Directors.

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~~D. The Board of Directors may allocate its funds to professional investment advisers in a manner consistent with the District's objectives. Such advisers may be granted discretion to purchase and sell investment securities in accordance with this Investment Policy. Such advisers must be registered under the Investment Advisers Act of 1940, and shall enter into a written agreement for this service with the District.~~

~~E.D.~~ Because the Operating Reserve Fund has the specific purpose of providing for long-term growth, and because cash flow requirements of the District are met through other investments, the Board of Directors hereby grants authority for the purchase of securities with maturities in excess of five years in the Operating Reserve Fund only.

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~~F.E.~~ The maximum stated final maturity of individual investments in the Operating Reserve Fund is be ten years.

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~~G.F.~~ No more than 40% of the Operating Reserve Fund may be invested in securities with maturities in excess of five years.

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~~H.G.~~ Investment securities and cash shall be held in a bank custody account in the name of the District.

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~~H.H.~~ All investments shall be made as "delivery vs. payment" transactions.

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I. The Debt Service Restricted 2009 COP Reserve Fund, Debt Service Restricted 2010 COP Reserve Fund, and Debt Service Restricted 2015 Revenue Refunding Reserve Fund will be compliant with each of their respective bond trust indenture investment requirements.

VIII. Authorized Financial Institutions, Broker/Dealers, Depositories

A. The District shall work with financial institutions that are reputable and trustworthy, knowledgeable and experienced in Public Agency investing and able to meet all of their financial obligations. These institutions may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15c3-1 (uniform net capital rule).

B. In accordance with Section 53601.5, institutions eligible to transact investment business with the District include:

1. Primary government dealers as designated by the Federal Reserve Bank and non-primary government dealers.

2. Nationally or state-chartered banks.
3. The Federal Reserve Bank.
4. Direct issuers of securities eligible for purchase.

C. Selection of financial institutions and broker/dealers authorized to engage in transactions will be at the sole discretion of the District, except where the District utilizes an external investment adviser in which case the District may rely on the adviser for selection.

D. Public deposits will be made only in qualified public depositories as established by State law. Deposits will be insured by the Federal Deposit Insurance Corporation, or, to the extent the amount exceeds the insured maximum, will be collateralized in accordance with State law.

E. Selection of broker/dealers used by an external investment adviser retained by the District will be at the sole discretion of the adviser. Where possible, transactions with broker/dealers shall be selected on a competitive basis and their bid or offering prices shall be recorded. If there is no other readily available competitive offering, best efforts will be made to document quotations for comparable or alternative securities. When purchasing original issue instrumentality securities, no competitive offerings will be required as all dealers in the selling group offer those securities at the same original issue price.

IX. AUTHORIZED INVESTMENTS

A. The District's investments are governed by California Government Code, Sections 53600 et seq. Within the investments permitted by the Code, the District seeks to further restrict eligible investments to the guidelines listed below. In the event a discrepancy is found between this policy and the Code, the more restrictive parameters will take precedence. Percentage holding limits listed in this section apply at the time the security is purchased.

B. Any investment currently held at the time the policy is adopted which does not meet the new policy guidelines can be held until maturity, and shall be exempt from the current policy (with the exception of credit quality). At the time of the investment's maturity or liquidation, such funds shall be reinvested only as provided in the current policy.

C. An appropriate risk level shall be maintained by purchasing securities that are of high quality, liquid, and marketable. The portfolio shall be diversified by security type and institution to avoid incurring unreasonable and avoidable risks regarding specific security types or individual issuers.

D. The authorized investments are as listed below:

1. MUNICIPAL SECURITIES include obligations of the District, the State of California, any of the other 49 states, and any local District within the State of California, provided that:

- a) *The securities are rated "A" or higher by at least one nationally recognized statistical rating organization ("NRSRO").*
- b) *No more than 5% of the portfolio may be invested in any single issuer.*
- c) *No more than 30% of the portfolio may be in Municipal Securities.*
- d) *The maximum stated maturity does not exceed five (5) years, with the exception of securities that have a "put" feature of five years or less.*

2. U.S. TREASURIES and other government obligations for which the full faith and credit of the United States are pledged for the payment of principal and interest. There are no limits on the dollar amount or percentage of the portfolio that the District may invest in U.S. Treasuries, provided that:

- a) *The maximum maturity is five (5) years, with the exception of securities held in the Operating Reserve, which can have a stated maturity of 10 years.*

3. FEDERAL AGENCIES or United States Government-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. There are no limits on the dollar amount or percentage of the portfolio that the District may invest in Federal District or Government-Sponsored Enterprises (GSEs), provided that:

- a) *No more than 25% of the portfolio may be invested in any single District/GSE issuer.*
- b) *The maximum maturity does not exceed five (5) years, with the exception of securities held in the Operating Reserve, which may have a stated maturity of 10 years.*

4. BANKER'S ACCEPTANCES, provided that:

- a) *They are issued by institutions which have short-term debt obligations rated "A-1" or higher by at least one NRSRO; or long-term debt obligations which are rated "A" or higher by at least one NRSRO.*
- b) *No more than 40% of the portfolio may be invested in Banker's Acceptances.*
- c) *No more than 5% of the portfolio may be invested in any single issuer.*
- d) *The maximum maturity does not exceed 180 days.*

5. COMMERCIAL PAPER, provided that:

- a) *The issuer is a corporation organized and operating in the United States with assets in excess of \$500 million.*
- b) *The securities are rated "A-1" or higher by at least one NRSRO.*
- c) *The securities are issued by corporations which have long-term obligations rated "A" or higher by at least one NRSRO.*
- d) *The District may purchase no more than 10% of the outstanding commercial paper of any single issuer.*
- e) *No more than 25% of the portfolio may be invested in Commercial Paper.*
- f) *No more than 5% of the portfolio may be invested in any single issuer.*
- g) *The maximum maturity does not exceed 270 days.*

6. NEGOTIABLE CERTIFICATES OF DEPOSIT (NCDS), issued by a nationally or state-chartered bank, a savings association or a federal association, a state or federal credit union, or by a federally licensed or state-licensed branch of a foreign bank, provided that:

- a) *The amount of the NCD insured up to the FDIC limit does not require any credit ratings.*
- b) *Any amount above the FDIC insured limit must be issued by institutions which have short-term debt obligations rated "A-1" or higher by at least one NRSRO; or long-term obligations rated "A" or higher by at least one NRSRO.*
- c) *No more than 30% of the total portfolio may be invested in NCDs*
- d) *No more than 5% of the portfolio may be invested in any single issuer.*
- e) *The maximum maturity does not exceed five (5) years.*

7. FEDERALLY INSURED TIME DEPOSITS (Non-Negotiable Certificates of Deposit) in state or federally chartered banks, savings and loans, or credit unions, provided that:

- a) *The amount per institution is limited to the maximum covered under federal insurance.*
- b) *No more than 20% of the portfolio will be invested in a combination of federally insured and collateralized time deposits.*
- c) *The maximum maturity does not exceed five (5) years.*

8. COLLATERALIZED TIME DEPOSITS (Non-Negotiable Certificates of Deposit) in state or federally chartered banks, savings and loans, or credit unions in excess of insured amounts which are fully collateralized with securities in accordance with California law, provided that:

- a) *No more than 20% of the portfolio will be invested in a combination of federally insured and collateralized time deposits.*
- b) *The maximum maturity does not exceed five (5) years.*

9. COLLATERALIZED BANK DEPOSITS. District deposits with financial institutions will be collateralized with pledged securities per California Government Code, Section 53651.

10. REPURCHASE AGREEMENTS collateralized with securities authorized under California Government Code, maintained at a level of at least 102% of the market value of the Repurchase Agreement. There are no limits on the dollar amount or percentage that the District may invest, provided that:

- a) *Securities used as collateral for Repurchase Agreements will be delivered to an acceptable third party custodian.*
- b) *Repurchase Agreements are subject to a Master Repurchase Agreement between the District and the provider of the repurchase agreement. The Master Repurchase Agreement will be substantially in the form developed by the Securities Industry and Financial Markets Association (SIFMA).*
- c) *The maximum maturity does not exceed one (1) year.*

11. STATE OF CALIFORNIA LOCAL DISTRICT INVESTMENT FUND (LAIF), provided that:

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- a) *The District may invest up to the maximum amount permitted by LAIF.*
- b) *LAIF's investments in instruments prohibited by or not specified in the District's policy do not exclude the investment in LAIF itself from the District's list of allowable investments, provided LAIF's reports allow the Treasurer and the outside investment adviser to adequately judge the risk inherent in LAIF's portfolio.*

12. LOCAL GOVERNMENT INVESTMENT POOLS

- a) *The District may invest up to the maximum amount permitted by the following respective Local Government Investment Pools:*
 - (1) CALTRUST
 - (2) California Asset Management Program (CAMP)
- b) *Local Government Investment Pool investments in instruments prohibited by or not specified in the District's policy do not exclude the investment in LGIPs itself from the District's list of allowable investments, provided the specific LGIP's reports allow the Treasurer and the outside investment adviser to adequately judge the risk inherent in LGIP's portfolio.*

13. CORPORATE MEDIUM TERM NOTES (MTNS), provided that:

- a) *The issuer is a corporation 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.*
- b) *The securities are rated "A" or higher by at least one NRSRO.*
- c) *No more than 30% of the total portfolio may be invested in MTNs.*
- d) *No more than 5% of the portfolio may be invested in any single issuer.*
- e) *The maximum maturity does not exceed five (5) years.*

14. MONEY MARKET MUTUAL FUNDS that are registered with the Securities and Exchange Commission under the Investment Company Act of 1940, provided that:

- a) *Such Funds meet either of the following criteria:*
- (1) Have attained the highest ranking or the highest letter and numerical rating provided by not less than two (2) NRSROs; or
 - (2) Have retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience investing in the securities and obligations authorized by California Government Code, Section 53601 and with assets under management in excess of \$500 million.
 - (3) No more than 20% of the total portfolio may be invested in Money Market Mutual Funds.
 - (4) No more than 10% of the portfolio may be invested in any one Fund.

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15. SUPRANATIONALS, provided that:
- a) *Issues are US dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank.*
 - b) *The securities are rated "AA" or higher by a NRSRO.*
 - c) *No more than 30% of the total portfolio may be invested in these securities.*
 - d) *No more than 10% of the portfolio may be invested in any single issuer.*
 - e) *The maximum stated maturity does not exceed five (5) years.*
16. Prohibited Investment Vehicles and Practices

- a) *State law notwithstanding, any investments not specifically described herein are prohibited, including, but not limited to futures and options.*
- b) *In accordance with Government Code, Section 53601.6, investment in inverse floaters, range notes, or mortgage derived interest-only strips is prohibited.*
- c) *Investment in any security that could result in a zero interest accrual if held to maturity is prohibited.*
- d) *Trading securities for the sole purpose of speculating on the future direction of interest rates is prohibited.*
- e) *Purchasing or selling securities on margin is prohibited.*
- f) *The use of reverse repurchase agreements, securities lending or any other form of borrowing or leverage is prohibited.*
- g) *The purchase of foreign currency denominated securities is prohibited.*

X. Collateralization

A. CERTIFICATES OF DEPOSIT (CDs). The District shall require any commercial bank or savings and loan association to deposit eligible securities with an Agency of a depository approved by the State Banking Department to secure any uninsured portion of a Non-Negotiable Certificate of Deposit. The value of eligible securities as defined pursuant to California Government Code, Section 53651, pledged against a Certificate of Deposit shall be equal to 150% of the face value of the CD if the securities are classified as mortgages and 110% of the face value of the CD for all other classes of security.

B. COLLATERALIZATION OF BANK DEPOSITS. This is the process by which a bank or financial institution pledges securities, or other deposits for the purpose of securing repayment of deposited funds. The District shall require any bank or financial institution to comply with the collateralization criteria defined in California Government Code, Section 53651.

C. REPURCHASE AGREEMENTS. The District requires that Repurchase Agreements be collateralized only by securities authorized in accordance with California Government Code:

1. The securities which collateralize the repurchase agreement shall be priced at Market Value, including any Accrued Interest plus a margin. The Market Value of the securities that underlie a repurchase agreement shall be valued at 102% or greater of the funds borrowed against those securities.
2. Financial institutions shall mark the value of the collateral to market at least monthly and increase or decrease the collateral to satisfy the ratio requirement described above.
3. The District and its investment adviser shall receive monthly statements of collateral.

XI. Delivery, Safekeeping and Custody

- A. DELIVERY-VERSUS-PAYMENT (DVP). All investment transactions shall be conducted on a delivery-versus-payment basis.
- B. SAFEKEEPING AND CUSTODY. To protect against potential losses due to failure of individual securities dealers, and to enhance access to securities, interest payments and maturity proceeds, all cash and securities in the District's portfolio shall be held in safekeeping in the District's name by a third party custodian, acting as agent for the District under the terms of a custody agreement executed by the bank and the District. All investment transactions will require a safekeeping receipt or acknowledgment generated from the trade. A monthly report will be received by the District from the custodian listing all securities held in safekeeping with current market data and other information.
- C. The only exceptions 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.

XII. Maximum Maturity

- A. To the extent possible, investments shall be matched with anticipated cash flow requirements and known future liabilities.

XIII. REPORTING AND REVIEWS

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A. Transactions and portfolio holdings

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1. The bank custodian and the investment adviser shall each provide monthly statements of holdings and account activity to the District's Director of Finance/Treasurer. The bank custodian shall also provide such information to the District's Investment Adviser(s).

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2. Confirmations of all transactions and movement of funds shall be forwarded promptly to the District by the investment adviser. The investment adviser shall ensure a duplicate confirmation is provided to the District by the broker.

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B. Investment performance

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1. The investment adviser shall meet at least quarterly with District management and/or with the Finance & Information Technology Committee of the Board of Directors to review account activity, economic conditions and investment performance.

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XIV. AMENDMENTS

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A. This Investment Policy is subject to amendment from time to time by the Board of Directors. Any changes must be approved by the Board of Directors and communicated in writing to the Director of Finance/Treasurer and other responsible employees, appropriate third parties and investment advisers.

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B. It shall be the responsibility of the investment adviser to inform the District of changes to the California Government Code, which affect the investment of District funds. Such changes shall be considered promptly by the Board of Directors.

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C. The Investment Policy shall be reviewed and approved annually each fiscal year during the budget process.

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MOULTON NIGUEL WATER DISTRICT RESERVE POLICY

PURPOSE

~~This policy establishes the level of reserves~~ This policy outlines the funding, utilization, and replenishment of the District's reserves consistent with the financial controls established as part of its annual budget process. ~~Additionally, this policy establishes the target reserve balances~~ necessary for maintaining the District's credit worthiness and for adequately providing for:

- Funding infrastructure replacement and refurbishment
- Economic uncertainties, extraordinary costs, and other financial impacts
- Loss of significant revenue sources such as property tax receipts or connection fees
- Local disasters or catastrophic events
- Losses not covered by insurance
- Future debt or capital obligations
- Cash flow requirements

POLICY

A. GENERAL RESERVES

1. **General Operating Reserve (Fund 1)**

The ~~District will maintain a~~ General Operating Reserve ~~will in order to~~ provide ~~sufficient~~ liquidity for funding ~~the~~ day-to-day operating expenses. ~~The General Operating Reserve will support and supporting~~ the District's cash flow needs during normal operations. There is often a delay between the receipt of revenues and the payment of expenses and ~~it is prudent financial planning to set up the establishment of~~ a reserve to mitigate or eliminate the risk of monthly ~~shortfalls, negative cash positions represents prudent financial planning.~~ The target ~~amount~~ balance of ~~the~~ General Operating Reserve will equal ~~four~~ three months of operating expenses ~~allowing consistent with best practices in the industry for both agencies with~~ monthly ~~rate~~ revenue. Sufficient funding for the General Operating Reserve shall be identified at the beginning of each fiscal year and ~~bi-monthly cash flow fluctuations maintained within Fund 1.~~

2. **Self-Insurance Reserve (Fund 4)**

The ~~District will maintain a~~ Self-~~insurance~~ Insurance Reserve ~~will in order to~~ fund property and liability insurance deductibles, losses exceeding insurance limits, and unemployment ~~claims-benefit payments in the event that a claim is made.~~ The target amount of the Self-Insurance Reserve will equal five times the current JPIA

property insurance deductible (current deductible is up to \$50,000). ~~The Sufficient funding for the~~ Self-Insurance Reserve ~~will~~shall be provided at the beginning of each fiscal year via budget transfers and maintained in the District's GeneralSelf-Insurance Fund. ~~(Fund 4).~~

3. Rate Stabilization Reserve (Fund 52)

Since one of the biggest risks and impacts on rates would be a loss of property tax revenues and due to the timing in the receipt of property tax, to avoid large fluctuations in customer- water and sewer rates, the District will fund a Rate Stabilization Reserve to provide for losses of revenue, significant increases in water purchase costs, and other extraordinary financial impacts to revenues and expenses. The target ~~amount~~balance of ~~the~~ Rate Stabilization Reserve will be set equal to fifty percent of the District's budgeted 1% ad valorem property tax revenue. The Rate Stabilization Reserve will be maintained in the Rate Stabilization Fund.

B. CAPITAL IMPROVEMENT RESERVES

The Replacement and Refurbishment (R&R) Reserve ~~and the Emergency, the Emergency Reserve, the Water Supply Reliability Reserve, the Planning and Construction Reserve, and the Capital Facilities Restricted~~ Reserve will constitute the District's Capital Reserves. Key objectives for accumulating these Reserves are to fund projects identified in the Long Range Financial Plan and the Ten-Year ~~Financial~~Capital Improvement Plan, to reduce the volatility of water and sewer rate increases and to quickly repair critical assets in the event of a natural disaster or facility failure.

1. Replacement and Refurbishment (R&R) Reserve (Fund 7)

The R&R Reserve will fund the ongoing costs related to the replacement and refurbishment of existing assets in conjunction with the District's ~~Asset Management Plan. The target's amount of R&R Reserve will equal the annual average of the ten-year expected capital spending on R&R projects as outlined in the District's 10-year~~ Capital Improvement Plan. All amounts will be maintained in a separate R&R ~~—~~ Fund. Funding for the R&R Reserve will be from new debt issuances or fund transfers as part of the budget process.

32. Emergency Reserve (Fund 1)

The Emergency Reserve will provide funds to enable the District to quickly repair critical assets in the event of a natural disaster or facility failure. The target ~~amount~~balance of the Emergency Reserve will equal 2% of the ~~histori~~replacement costs of the District's assets, as outlined in current guidelines from the Federal Emergency Management Agency (FEMA). ~~All amounts will be maintained in a separate Emergency Fund.~~

3. Water Supply Reliability Reserve (Fund 12)

The Water Supply Reliability Reserve will fund the development of new water or recycled water supplies as identified in the District Capital Improvement Plan. All amounts will be maintained in a separate Water Supply Reliability Fund. Funding for the Water Supply Reliability Reserve will be from new debt issuances or fund transfers as part of the budget process.

4. Planning and Construction Reserve (Fund 14)

The Planning and Construction Reserve will fund the development of new capital facilities that do not result in new water or recycled water supplies as identified in the District Capital Improvement Plan. All amounts will be maintained in a separate Planning and Construction Fund. Funding for the Planning and Construction Reserve will be from new debt issuances or fund transfers as part of the budget process.

5. Capital Facilities Restricted Reserve (Fund 15)

The Capital Facilities Restricted Reserve will fund the development of new district-wide capital facilities or replacement or refurbishment. All amounts will be maintained in a separate Capital Facilities Restricted Reserve Fund and transferred to Funds 7, 12, or 14 as part of the annual budget process. Funding for the Capital Facilities Restricted Reserve will be from capacity fees charged to new developments to buy into existing assets.

C. DEBT SERVICE RESERVE

1. Debt Service Reserve

The District will fund Debt Service Reserves, which are held in trust with a third party trustee as provided for in bond covenants. Increases and decreases to these reserves will be consistent with bond covenants. The District's accounting records show these amounts in various debt funds.

D. PROCEDURE FOR USING RESERVE FUNDS

1. General Operating, and Self-Insurance

General Operating, and Self-Insurance 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.

2. Rate Stabilization Reserve

The Rate Stabilization Reserve can be used at any time to meet cash flow requirements of District operations. The use of the Rate Stabilization Reserve will require Board authorization.

3. **Replacement and Refurbishment, and Emergency Capital Improvement Reserves**

The Board of Directors will authorize the use of the Replacement and Refurbishment ~~Reserve~~, Planning and Construction, and Water Supply Reliability Reserves during the budget process. Funds from the Capital Facilities Restricted Reserve are transferred to the R&R, Planning and Construction, and/or Water Supply Reliability Reserves as part of the budget process. The Emergency Reserve is also available for unplanned (unbudgeted) capital replacement and emergency expenditures in the event of a natural disaster or facility failure. When appropriate, the Board may adopt Reimbursement Resolutions as necessary to advance reserves prior to obtaining external capital financing. Authorization for the use of Capital Improvement Reserves for unplanned capital replacement will be consistent with the District's Purchasing Policy.

E. PROCEDURE FOR REPLENISHING RESERVE FUNDS

1. **General Operating, Self-Insurance, and Rate Stabilization Reserves**

General Reserves are replenished from the District's revenues with the General Operating and Self-Insurance Reserves taking precedence to the Rate Stabilization Reserve. General Operating and Self Insurance Reserves will be replenished by the end of each fiscal year. The Rate Stabilization Reserve will be replenished as soon as possible with replenishment to commence within 12 months of any Rate Stabilization Reserve draw to bringing the reserve in line with targets.

2. **Replacement and Refurbishment, and Emergency (Capital) Improvement Reserves**

The R&R ~~Reserve is~~, Planning and Construction, and Water Supply Reliability Reserves are replenished at year end ~~from net operating revenues as part of the budget process via transfers or through debt issuances.~~ The Emergency Reserve is replenished from the District's revenue as quickly as possible after an emergency outside of the budgeting process. The Capital Facilities Restricted Reserve is funded by developer's capacity fees throughout the year and transferred to the R&R, Planning and Construction, and Water Supply Reliability Reserves as part of the budget process. The District's General Manager or Director of Finance/Treasurer will do a full review of the District's Long Range Financial Plan and cash flow models to determine if corrective actions are needed to replenish the funds in the event of a draw on the Emergency Reserve.

F. PROCEDURE FOR MONITORING RESERVE LEVELS

The General Manager or Director of Finance/Treasurer will submit a reserve analysis to the Board of Directors upon the occurrence of the following events:

- Board of Directors' consideration of the annual budget;
- Board of Directors' consideration of a water and sewer rate increase; and
- When a major change in conditions threatens the reserve levels established within this Policy.

If the analysis indicates projected or actual individual reserve levels would fall 10% or more below the target levels outlined in this Policy, at least one of the following actions shall be included with the analysis:

- An explanation of why the reserve levels are not at the targeted level; and/ or
- Actions needed to bring reserve levels within the target levels prescribed.

In addition, the district will utilize the internal Long Range Financial Plan and 10 year and monthly cash flow models to determine forecasted reserve target shortfalls and report on needed corrective actions.