



January 3, 2022

TO: Finance Advisory Committee

FROM: Ron Munds, General Manager

SUBJECT: Agenda Item 3 – 01/03/2022 FAC Meeting

Reaffirming the District's Investment Policy and Receive and File the Annual Investment Report.

DESCRIPTION

This item will go to the Board at its January 6, 2022 meeting and is to comply with provisions of the Government Code section 53646 (2) that the Chief Fiscal Officer or Treasurer of a local agency renders to the legislative body a statement of investment policy annually. Additionally, the District's Investment Policy requires the Finance Officer/Treasurer file an annual report that identifies the District's investments and their compliance with the District's Investment Policy.

STAFF RECOMMENDATION

Staff recommends that the FAC adopt the following motion:

Motion: I recommend to the Board that the Board:

- 1. Adopt Resolution 2022-03 reaffirming the District's Investment Policy; and***
- 2. Receive and file the District's Annual Investment Report.***

DISCUSSION

The District's original Investment Policy was adopted at the District's inception back in 1999 and reaffirmed by the Board in 2003, 2012 and 2016. At the October 1, 2020 Board meeting, the Board amended and adopted the current policy to reflect changes in state law and comply with current investment regulations. There are no recommended changes to policy and staff recommends reaffirming the policy at this time.

The Investment Policy also requires that the District's Finance Officer/Treasurer (General Manager) to file an annual report (attached) which contains the following information:

1. Type of Investment
2. Institution/issuer
3. Date of Maturity (if applicable)
4. Amount of deposit or cost of the security, including par and dollar amount invested on all securities, investments, and moneys held by the District
5. Current market value of securities, with identification of the source of the valuation, for all securities held by the District as well as securities under the management of any outside party that is not also a local agency or the State of California Local Agency Investment Fund
6. Rate of Interest

President

Christine M. Womack

Vice President

Matthew D. Fourcroy

Directors

Charles L. Cesena

Troy C. Gatchell

Marshall E. Ochylski

General Manager

Ron Munds

District Accountant

Robert Stilts, CPA

Unit Chief

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7. Statement of compliance with the Statement of Investment Policy or the manner in which the portfolio is not in compliance
8. Statement of the District's ability to meet cash flow requirements, including any pool expenditure requirements, for the next six months, or an explanation as to why sufficient money may not be available
9. Accrued Interest (if applicable)
10. Description of any of the District's funds, investments, or programs that are under the management of contracted parties, including lending programs

Financial Impact

There are no direct financial impacts related to the recommended action made in this report.

Attachments

Resolution 2022-03
Exhibit A 2022 Investment Policy
2021 Annual Investment Report

RESOLUTION 2022-03

**A RESOLUTION OF THE BOARD OF DIRECTORS
OF THE LOS OSOS COMMUNITY SERVICES DISTRICT
REAFFIRMING THE DISTRICT INVESTMENT POLICY**

WHEREAS, the Board of Directors of the Los Osos Community Services District (“District”) believes that public funds should, so far as is reasonably possible, be invested in financial institutions to produce revenue for the District rather than to remain idle, and

WHEREAS, from time to time there are District funds which for varying periods of time will not be required for immediate use by the District, and which will, therefore, be available for the purpose of investing in financial institutions with the objectives of safety, liquidity, yield and compliance with state and federal laws and policies.

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Los Osos Community Services District as follows:

1. The District hereby reaffirms the investment policy attached hereto as “Exhibit A” as the District’s Investment policy;
2. The District General Manager shall act as Treasure/Finance Officer of the District and is authorized to invest and re-invest funds in accordance with the Investment Policy for the succeeding twelve (12) month period or until such time as the delegation of authority is revoked.

On the motion of Director _____, seconded by Director _____
and on the following roll call vote, to wit:

Ayes: _____
Noes: _____
Abstain: _____
Absent: _____

The foregoing resolution is hereby passed, approved, and adopted by the Board of Directors of the Los Osos Community Services District this 6th day of January 2022.

President, Board of Directors
Los Osos Community Services District

ATTEST:

APPROVED AS TO FORM:

Ron Munds
General Manager and Secretary to the Board

Jeffrey A. Minnery
District Legal Counsel

**LOS OSOS COMMUNITY SERVICES DISTRICT
2022 INVESTMENT POLICY**

1. INTRODUCTION

In accordance with California Government Code § 53646 which directs the District to annually prepare and adopt a written statement of investment policy, this policy establishes the standards as prescribed by state law under which the District's Finance Officer shall conduct business with financial institutions with regard to the investment process.

2. PURPOSE AND SCOPE

This investment policy is intended to outline the guidelines and practices to be used in effectively managing the District's available cash and investment portfolio. It applies to all cash and investment assets of the District including but not limited to moneys held in sinking funds, reserves or designations, trust funds or surplus funds not required for the immediate necessities of the District. Proceeds of debt issuance that shall be invested in accordance with the permitted investment provisions of their specific bond indentures. District monies not required for immediate expenditure will be invested in compliance with governing provisions of law (California Government Code § 53600 et seq.) and this policy. Investments shall be made in 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. The standard of prudence to be used by investment officials shall be the "prudent investor" standard (California Government Code § 53600.3) and shall be applied in the context of managing an overall portfolio. Investment officers (Finance Officer) acting in accordance with written procedures and the investment policy and exercising prudence and due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

3. FINANCE OFFICER

The Board of Directors appoints the General Manager as the District Finance Officer and Treasurer and delegates the principal management responsibility for the deposit and investment of District monies, funds and financial assets pursuant to this statement of investment policy. In the event of an extended absence of the General Manager, the Acting General Manager or Interim General Manager will act as the Acting District Finance Officer and Treasurer. The services of any investment or financial advisor to the District shall be governed by the terms and standards set forth in this Policy.

4. OBJECTIVES

The primary objectives are safety, liquidity, yield, and compliance.

A. SAFETY

The investment portfolio shall be managed in a manner that ensures the preservation of capital. The objective is to minimize credit risk and interest rate risk.

B. LIQUIDITY

The investment portfolio shall remain sufficiently liquid to meet all operating requirements. This shall be accomplished by structuring the investment portfolio so that investments mature in advance of cash needs.

C. YIELD

Yield shall be a consideration only after the requirements of safety and liquidity have been met.

D. COMPLIANCE

This Investment Policy is written to be in compliance with applicable California and Federal law.

5. STANDARDS OF CARE

A. PRUDENCE

The Finance Officer will manage the portfolio pursuant to the "Prudent Investor Standard." When investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds in the District's investment portfolio, the Finance Officer shall act with care, skill, prudence, and diligence under the circumstances then prevailing, 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 District.

B. DISCLOSURES

Finance Officer shall disclose any material interest in financial institutions or professionals with which he/she conducts the District business, and shall comply with all applicable laws relating to conflicts of interest.

6. INVESTMENTS AUTHORITY

A. PERMITTED INVESTMENTS

The District Finance Officer is authorized to deposit or invest District funds only in the following institutions and investments:

1. County pooled funds (California Government Code §§53635, 61053)
2. The Local Agency Investment Fund created by the California State Treasury (California Government Code § 16429.1)
3. One or more FDIC insured Banks and/or Savings and Loan Associations that are designated as District depositories by resolution of the Board of Directors (California Government Code § 61053).
4. Intra-District fund loans and transfers with a fair rate of return from one fund to another specifically authorized and evidenced by District resolution.
5. Investment funds collateralized as per California Government Code § 53652.
6. Such other financial institutions or securities that may be designated by the Board of Directors from time to time in compliance with California and Federal law.

7. Allowable investments instruments per California Government Code which are consistent with California Debt and Investment Advisory Commission's guidelines.

B. PROHIBITED INVESTMENTS

The District's Finance Officer shall not invest in:

1. Inverse floaters, range notes or interest only strips that are derived from a pool of mortgages.
2. Any security that could result in a zero interest accrual if held to maturity.
3. A state or federal credit union, if a member of the District's Board of Directors or an administrative officer also serves on the Board of Directors, or any committee appointed by the Board of Directors, or the credit committee or supervisory committee, of the state or federal credit union.
4. Those investments or institutions not permitted by this Policy, or by action of the Board of Directors.

C. DIVERSIFIED INVESTMENTS

Investments, other than investments referenced in paragraphs **6-A** (1) and (2) above, will be diversified to avoid losses that may be associated with any one investment.

7. REPORTS

A. MONTHLY REPORT

Finance Officer/Treasurer shall make monthly reports to the Board with the following information:

- Investments made or retired during the preceding month.
- Single transfers between permitted institutions of greater than \$150,000.

B. QUARTERLY REPORT

Finance Officer/Treasurer shall file a quarterly report that identifies the District's investments and their compliance with the District's Investment Policy. The quarterly report must be filed with the District's auditor and considered by the District's Board of Directors within thirty (30) days after the end of each quarter (i.e., by May 1, August 1, November 1, and February 1) (California Government Code § 53646). Required elements of the quarterly report are as follows:

1. Type of Investment
2. Institution/issuer
3. Date of Maturity (if applicable)
4. Amount of deposit or cost of the security, including par and dollar amount invested on all securities, investments, and moneys held by the District
5. Current market value of securities, with identification of the source of the valuation, for all securities held by the District as well as securities under the management of any outside party that is not also a local agency or the State of California Local Agency Investment Fund
6. Rate of Interest

7. Statement of compliance with the Statement of Investment Policy or the manner in which the portfolio is not in compliance
8. Statement of the District's ability to meet cash flow requirements, including any pool expenditure requirements, for the next six months, or an explanation as to why sufficient money may not be available
9. Accrued Interest (if applicable)
10. Description of any of the District's funds, investments, or programs that are under the management of contracted parties, including lending programs

C. ANNUAL REPORT

Prior to February 1, of each year, the Finance Officer/Treasurer shall file and submit an annual report to the District's auditor and Board of Directors which will contain the same information required in the quarterly report.

The annual report will include a recommendation to the Board of Directors to either:

1. Readopt the District's then current annual Investment Policy; or
2. Amend the District's then current Investment Policy.

D. LIMITED QUARTERLY REPORT

If the District has placed all of its investments in the Local Agency Investment Fund (LAIF) created by California Government Code § 16429.1, or in Federal Deposit Insurance Corporation, insured accounts in a bank or savings and loan association, in a County investment pool, or any combination of these, the Finance Officer may submit to the Board of Directors and the auditor of the District the most recent statement or statements received by the District from these institutions in lieu of the information required in paragraph 7.B, above. This special reporting policy does not relieve the Finance Officer of the obligation to prepare an annual investment report as identified in paragraph 7.C, above.

LOS OSOS COMMUNITY SERVICES DISTRICT 2021 ANNUAL INVESTMENT REPORT

Background

The purpose of the Investment Policy is to outline the guidelines and practices to be used in effectively managing the District's available cash and investment portfolio. It applies to all cash and investment assets of the District including but not limited to moneys held in sinking funds, reserves or designations, trust funds or surplus funds not required for the immediate necessities of the District. The primary objectives are safety, liquidity, yield and compliance with applicable California and Federal Law.

Permitted Investments

The District Finance Officer is authorized to deposit or invest District funds only in the following institutions and investments:

1. County pooled funds (California Government Code §§53635, 61053)
2. The Local Agency Investment Fund created by the California State Treasury (California Government Code § 16429.1)
3. One or more FDIC insured Banks and/or Savings and Loan Associations that are designated as District depositories by resolution of the Board of Directors (California Government Code § 61053).
4. Intra-District fund loans and transfers with a fair rate of return from one fund to another specifically authorized and evidenced by District resolution.
5. Investment funds collateralized as per California Government Code § 53652.
6. Such other financial institutions or securities that may be designated by the Board of Directors from time to time in compliance with California and Federal law.
7. Allowable investments instruments per California Government Code which are consistent with California Debt and Investment Advisory Commission's guidelines.

Prohibited Investments

The District's Finance Officer shall not invest in:

1. Inverse floaters, range notes or interest only strips that are derived from a pool of mortgages.
2. Any security that could result in a zero-interest accrual if held to maturity.
3. A state or federal credit union, if a member of the District's Board of Directors or an administrative officer also serves on the Board of Directors, or any committee appointed by the Board of Directors, or the credit committee or supervisory committee, of the state or federal credit union.
4. Those investments or institutions not permitted by this Policy, or by action of the Board of Directors.

Diversified Investments

Investments, other than investments referenced in paragraphs **6-A** (1) and (2) above, will be diversified to avoid losses that may be associated with any one investment.

Standards of Care

The Finance Officer is charged with managing the portfolio pursuant to the "Prudent Investor Standard." When investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds in the District's investment portfolio, the Finance Officer shall act with care, skill, prudence, and diligence under the circumstances then prevailing, 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 District.

Finance Officer shall disclose any material interest in financial institutions or professionals with which he/she conducts the District business, and shall comply with all applicable laws relating to conflicts of interest.

Annual Report Elements

The District's Investment Policy states that prior to February 1, of each year, the Finance Officer/Treasurer shall file and submit an annual report to the Board of Directors which will contain the following elements:

1. Type of Investment
2. Institution/issuer
3. Date of Maturity (if applicable)
4. Amount of deposit or cost of the security, including par and dollar amount invested on all securities, investments, and moneys held by the District
5. Current market value of securities, with identification of the source of the valuation, for all securities held by the District as well as securities under the management of any outside party that is not also a local agency or the State of California Local Agency Investment Fund
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Statement of Compliance

All investment listed in Table 1 below are in compliance with the Investment Policy.

Statement of Cash Flow Requirements

The District has the ability to meet all cash flow requirements for the next six months.

Table 1: 2021 Annual Report Investment Summary¹					
Institution	Type of Account	Account Balance	Interest Rate	Compliant	Interest Received²
Mechanics³					
General Checking	Checking	\$2,734,799.41	0.2%	Yes	\$1,912
Payroll	Checking	\$56,629.49	0.2%	Yes	See footnote 3
Disbursement Reserve	Checking	\$102,793.69	0.2%	Yes	See footnote 3
Pacific Premier					
Low Income Assistance	Checking	\$9,393.02	0.0	Yes	\$0.00
Fire Reserve	Money Market	\$1,861,480.38	0.13/30	Yes	\$1,168.03
Water Reserve	Money Market	\$2,687,917.52	0.17/30	Yes	\$2,071.49
US Bank					
Redemption Fund	Money Market	\$213,142.63	0.01%	Yes	\$22.61
Reserve Fund	Money Market	\$1,027,826.60	0.01%	Yes	\$5,201.60
Pre-Payment Fund	Money Market	\$4,225.95	0.01%	Yes	\$0.18
LAIF					
	Pooled Money Investment	\$684,052.51	0.20/30	Yes	\$973.99
Community Foundation					
Low Income Assistance		\$109,015.64	0.0	Yes	\$0.00

¹ All balances as of 11/30/21

² Method of applying to the account the interest earned vary from the various banks

³ Mechanics Bank Accounts. Fees are subtracted from the interest accrued over the month and then any additional fees are debited from the General Checking account. The interest for the 3 accounts is consolidated.