

# Centennial Water & Sanitation District

## Investment Policy

Centennial Water and Sanitation District (“the District”) is a governmental subdivision of the State of Colorado and a body corporate with those powers of a public or quasi-municipal corporation which are authorized in compliance with C.R.S. Section 32-1-101 et. seq.

### Purpose

The purpose of this Investment Policy is to establish the investment objectives, delegation of authority, standards of prudence, eligible investments and transactions, internal controls, reporting requirements, and safekeeping and custodial procedures necessary for the prudent management of District funds which are temporarily in excess of current requirements.

This Investment Policy was adopted by Resolution of the Board of Directors of the District on August 25, 2014.

### Scope

The provisions of this Investment Policy shall apply to all financial assets of the District except pension, deferred compensation, other special agency funds identified specifically by Board action, and proceeds restricted by bond documents related to the issuance of bonded indebtedness. Included under the provisions of this Investment Policy are operating funds, debt service funds and capital projects funds (including proceeds from new capital money generated from bond sales), and any other funds not specifically excluded.

In order to effectively make use of the District’s cash resources, all cash, except for those restricted by the Board and special accounts identified pursuant to various agreements, shall be pooled into one investment account and accounted for separately. The investment income derived from this account shall be allocated to the various funds based upon each fund’s respective participation.

### Investment Objectives

The District’s funds shall be invested in accordance with all applicable District policies and codes, Colorado statutes, and Federal regulations, and in a manner designed to accomplish the following objectives, which are listed in priority order:

- Stewardship in the protection and preservation of investment principal.
- Maintenance of sufficient liquidity to meet anticipated disbursements.
- Productive maximization of funds available for investment.
- Attainment of a market rate of return for investment earnings.

### Delegation of Authority and Internal Controls

The responsibility for investment of all District funds resides with the Director of Finance and Administration who has been designated the Chief Financial Officer in the Bylaws adopted by the District's Board of Directors. Persons authorized to transact investment business on behalf of the District are the following:

- General Manager
- Director of Finance and Administration
- Manager of Revenue and Assets
- Financial Reporting Analyst

The General Manager, with the approval of the District Treasurer, may delegate the authority to transact investment business to additional District personnel for a period not to exceed 60 days. A list of the names of persons authorized to conduct investment transactions on behalf of the District is included as Annex I to this Investment Policy.

The Director of Finance and Administration shall establish and maintain written administrative procedures and internal controls for the operation of the District's investment program which are consistent with this Investment Policy. Authority to establish accounts necessary to facilitate the investment and safekeeping of District funds is delegated to the Director of Finance and Administration and the Treasurer, provided that the investments and delivery thereof are consistent with the Investment Policy and Procedures adopted by Resolution of the District's Board of Directors.

The District may engage the support services of outside professionals. Such services may include portfolio management, special legal representation, third party custodial services and appraisals by independent credit rating services.

### Prudence and Standards for Investment

The standard of prudence to be used for managing the District's assets is the "prudent investor" rule applicable to a fiduciary, which states that a prudent investor "shall exercise the judgment and care, under circumstances then prevailing, which men of prudence, discretion, and intelligence exercise in the management of the property of another, not in regard to speculation but in regard to the permanent disposition of funds, considering the probable income as well as the probable safety of their capital." (CRS 15-1-304, Standard for Investments.)

The District's overall investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. The District recognizes that no investment is totally free of risk and that the investment activities of the District are a matter of public record. Further, the District recognizes that occasional measured losses may occur in a diversified portfolio and shall be considered within the context of the overall portfolio's return, provided that this Investment Policy has been followed and that the sale of a security prior to maturity is in the best long-term interest of the District.

Personnel acting in accordance with this Investment Policy and written procedures and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price change or other loss in accordance with the District's Indemnification Policy in effect at the time pursuant to the District Bylaws.

### Ethics and Conflicts of Interest

Elected officials and employees involved in the investment process and outside professionals retained for portfolio management services shall refrain from personal business activity that could conflict with proper execution of the investment program, or create the appearance of an impairment of their ability to make impartial investment decisions. Employees and investment officials shall disclose to the General Manager any material financial interest they have in financial institutions that conduct business with the District, and they shall subordinate their personal investment transactions to those of the District. Employees shall comply with the District's personnel policy and practices relating to conflicts of interest.

### Authorized Investments and Transactions

All investments for the District shall be made in accordance with the Colorado Revised Statutes (C.R.S.) as follows: C.R.S. 11-10.5-101, et seq., Public Deposit Protection Act; C.R.S. 24-75-601, et seq., Funds - Legal Investments; C.R.S. 24-75-603, et seq., Depositories; and C.R.S. 24-75-701 and 702, et seq., Investment Funds – Local Government Pooling. Any revisions or extensions of these sections of the C.R.S. will be assumed to be part of this Investment Policy immediately upon being enacted. Only the following types of securities and transactions shall be eligible for use by the District:

1. U.S. Treasury Obligations: Treasury Bills, Treasury Notes, Treasury Bonds and U.S. Treasury Strips (book-entry U.S. Treasury Securities whose coupon has been removed) with maturities not exceeding five years from the date of trade settlement.
2. Federal Instrumentality Securities: Debentures, discount notes, callable securities, step-up bonds and floating rate securities with a final maturity not exceeding five years from the date of trade settlement. Subordinated debt shall not be purchased.
3. Repurchase Agreements with a termination date of 90 days or less collateralized by U.S. Treasury Securities listed in 1 above or Federal Instrumentality Securities listed in 2 above with maturities not exceeding ten years. For the purpose of this section, the term "collateral" shall mean "purchased securities" under the terms of the PSA Master Repurchase Agreement as modified by the District's approved Master Repurchase Agreement Annex (included as Annex II to this Investment Policy).
  - The collateral shall have a minimum market value (including accrued interest) of 102 percent of the dollar value of the transaction.
  - Collateral shall be held by the District's custodian bank as safekeeping agent, and the market value of the collateral securities shall be marked-to-the-market daily.
  - Repurchase Agreements shall be entered into only with broker/dealers recognized as a primary dealer by the Federal Reserve Bank of New York, or with firms that have a primary dealer within their holding company structure, who have executed an approved Master Repurchase Agreement with the District. The Director of Finance and Administration shall maintain a copy of the District's approved Master Repurchase Agreement along with a list of the broker/dealers who have executed a Master Repurchase Agreement with the District. The list of broker/dealers authorized by the Director of Finance and Administration and the District Treasurer to conduct Repurchase Agreement Transactions (included as Annex III to this Investment Policy) shall be limited to five broker/dealers.
4. Prime Commercial Paper with an original maturity of 270 days or less from date of trade settlement which is rated at least A-1, or the equivalent, at the time of purchase by at least

two services that rate the commercial paper. If the commercial paper issuer has senior debt outstanding, the senior debt must be rated at least A+, or the equivalent, at the time of purchase. The District shall limit the combined total of investments in Prime Commercial Paper and Eligible Bankers Acceptances to no more than 25 percent of the total portfolio and 5 percent per issuer.

5. Corporate Debt with a maturity not exceeding three years from the date of trade settlement, issued by any corporation or bank organized and operating within the United States. The debt must be rated at least AA- or the equivalent at the time of purchase by at least two rating agencies. The District shall limit investments in Corporate Debt to no more than 25 percent of the total portfolio and 5 percent per issuer.
6. General Obligations and Revenue Obligations of state or local governments with a final maturity not exceeding five years from the date of trade settlement. Such obligations of Colorado (or any political subdivision, institution, department, agency, instrumentality, or authority of the state) shall be rated at least "A" or the equivalent at the time of purchase by at least two rating services. Such obligations of any other governmental entity shall be rated at least "AA" or the equivalent at the time of purchase by at least two rating services. The District shall limit investments in General and Revenue Obligations to no more than 25 percent of the total portfolio and 5 percent per issuer.
7. Eligible Bankers Acceptances with maturities not exceeding 180 days from the date of trade settlement, issued by FDIC insured state or national banks. Bankers Acceptances shall be rated at least A-1, or the equivalent, at the time of purchase by at least two rating agencies. If the issuing bank has senior debt outstanding, it must be rated at least A+ or the equivalent at the time of purchase. The bank must have a combined capital and surplus of at least \$250 million dollars. The District shall limit the combined total of investments in Eligible Bankers Acceptances and Prime Commercial Paper to no more than 25 percent of the total portfolio and 5 percent per issuer.
8. Local Government Investment Pools authorized under C.R.S. 24-75-702 that are "no-load" (i.e. no commission or fee shall be charged on purchases or sales of shares); have a constant net asset value per share of \$1.00; limit assets of the fund to securities authorized by state statute; and have a maximum stated maturity in accordance with Rule 2a-7 of the Investment Company Act of 1940; and have a rating of AAAM, or the equivalent. The Board shall approve the use of specific local government investment pools.
9. Money Market Mutual Funds that are "no-load" (i.e. no commission or fee shall be charged on purchases or sales of shares); have a constant net asset value per share of \$1.00; have a maximum stated maturity in accordance with Rule 2a-7 of the Investment Company Act of 1940; and have a rating of AAAM, or the equivalent. Board approval shall be required for the use of specific Money Market Funds except for those offered by a commercial bank at which the District maintains accounts for which approval is automatically granted if it meets the above requirements.

The foregoing list of authorized securities and transactions shall be strictly interpreted. Securities held by the District that have been downgraded to a level that is below the minimum ratings described herein may be sold or held at the District's discretion. The Director of Finance and Administration shall notify the Board of any such downgrade and the recommended course of action. The portfolio will be brought back into compliance with Investment Policy guidelines as soon as is practical.

### Investment Diversification

It is the intent of the District to diversify the investments within its portfolio to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions, corporations, or maturities. The asset allocation in the portfolio should, however, be flexible depending upon the outlook for the economy, the securities market, and the District's anticipated cash flow needs. The District will limit the combined total of investments in Prime Commercial Paper and Eligible Bankers Acceptances and allocations to Corporate Debt and Municipal Securities as described under Authorized Investments and Transactions.

### Investment Maturity and Liquidity Requirements

To the extent possible, investments shall be matched to anticipated cash flow requirements. The Director of Finance and Administration shall maintain sufficient liquidity in the portfolio to meet anticipated disbursements. Investments shall be limited to maturities not exceeding five years from the date of trade settlement. In the case of callable securities, the final maturity date of the security shall not exceed five years from the date of trade settlement.

### Competitive Transactions

Each investment transaction shall be competitively transacted with authorized broker/dealers. Whenever possible, at least three broker/dealers or issuers shall be contacted for each transaction and their bid and offering prices shall be recorded.

If the District is offered a security for which there is no other readily available offering, quotations on comparable or alternative securities shall be recorded.

### Selection of Depository and Custodial Banks

The Board shall approve and the Director of Finance and Administration shall maintain a list (included as Annex IV to this Investment Policy) of commercial banks approved to provide depository, custodial and other banking services for the District. To be considered eligible, a bank must be a member of the FDIC; must qualify as a depository of public funds in the State of Colorado, as defined in C.R.S. 24-75-603 as evidenced by a Certificate issued by the State Banking Board, and shall collateralize all deposits in excess of FDIC coverage as required by the Colorado Public Deposit Protection Act.

The Director of Finance and Administration shall utilize a commercial bank rating service to perform credit analysis on the District's approved banks. Data obtained from the bank rating service will include factors covering overall rating, liquidity, credit risk, interest rate risk, profitability, and capital adequacy.

Annually, the Board of Directors shall review the most recent credit rating analysis reports performed for each approved bank. Banks that in the judgment of the Director of Finance and Administration no longer provide adequate safety to the District will be recommended for removal from the list.

### Selection of Broker/Dealers

The Director of Finance and Administration shall maintain a list (included as Annex V to this Investment Policy) of broker/dealers approved for investment purposes, and securities shall be purchased only from those authorized firms. To be eligible, a firm must meet at least one of the following criteria:

#### Broker/Dealer Criteria

1. Be recognized as a Primary Dealer by the Federal Reserve Bank of New York or have a

- primary dealer within its holding company structure; or
- 2. Report voluntarily to the Federal Reserve Bank of New York, or
- 3. Qualify under Securities and Exchange Commission (SEC) Rule 15c3-1 (Uniform Net Capital Rule).

Broker/dealers will be selected by the Director of Finance and Administration as follows:.

1. Consideration will be given to Colorado domiciled broker/dealers, however selection will ultimately be on the basis of their expertise in public cash management and their ability to provide timely, economical and efficient services and transaction processing for the District's account.
2. If selected directly by the Director, approved broker/dealer representatives and the firm they represent shall be licensed to do business in the State of Colorado and as such are subject to the provisions of the Colorado Revised Statutes, including but not limited to CRS 24-75-601.
3. If the District engages the services of a professional investment advisory firm to assist in the management of the District's portfolio and to purchase and sell investment securities in accordance with this Policy the Director of Finance and Administration may authorize the investment advisory firm to utilize their own approved list of broker/dealers. Such approved broker/dealer list shall comply with the Broker/Dealer Criteria listed above and shall be provided to the District on an annual basis
4. If selected directly by the Director, Finance and Administration each authorized broker/dealer shall be required to submit and annually update a District approved Broker/Dealer Information Request form, including the firm's most recent financial statements, and which the Director of Finance and Administration shall maintain on file.
5. In the event that an external professional investment advisory firm is not used in the process of recommending a particular transaction for the District's portfolio, authorized broker/dealers shall attest in writing that they have received a copy of this policy.

The District may purchase Commercial Paper from direct issuers even though they are not on the approved list of broker/dealers as long as they meet the criteria outlined in Item 4 of the Authorized Investments and Transactions section of this Investment Policy.

#### Safekeeping and Custody

Investment securities purchased for the District will be delivered by either book entry or physical delivery and held in third party safekeeping by a Federal Reserve member financial institution designated as the District's custodian bank. The District shall approve one or more banks to provide safekeeping and custodial services for the District. To be eligible for designation, a bank shall meet the criteria described in the Selection of Depository and Custodial Banks Section of this Investment Policy. The District shall execute a written Safekeeping Agreement with each custodian bank, prior to utilizing that bank's safekeeping services.

Custodian banks will be selected on the basis of their ability to provide services for the District's account and the competitive pricing of their safekeeping related services.

It is the intent of the District that all purchased securities be perfected in the name of the District. Sufficient evidence to title shall be consistent with modern investment, banking, and commercial practices.

All investment securities purchased by the District will be delivered by book entry and will be held in third-party safekeeping by a District approved custodian bank, its correspondent bank or the Depository Trust Company (DTC).

All fed wireable book entry securities owned by the District shall be evidenced by a safekeeping receipt, issued to the District by the custodian bank stating that the securities are held in the Federal Reserve system in a “customer account” for the custodian bank which names the District as “customer.”

All non-fed wireable securities shall be held by the custodian bank’s correspondent bank or the bank’s participant account with the Depository Trust Company (DTC) and the custodian bank shall issue a safekeeping receipt to the District evidencing that the securities are held by the correspondent bank or the DTC for the District.

#### Reporting Requirements

The Director of Finance and Administration shall cause to be prepared for the District Treasurer and any other Board member who may request said report a monthly investment report listing the investments held by the District and their current market values. The report shall include a summary of investment earnings and performance results during the period.

The District has established reporting and accounting standards for callable U.S. Treasury and Instrumentality securities. Callable securities may be retired at the issuer’s option prior to the stated final maturity. All securities holdings reports shall disclose the final maturity as well as the next call date of each callable security held. For callable securities which are purchased “priced to the call date” and have an overwhelming probability of being called on the next call date, the weighted average maturity as well as yield shall be calculated using the next call date.

#### Performance Review

The Director of Finance and Administration shall cause to be presented to the District Board , at least quarterly, a review of the portfolio’s adherence to appropriate risk levels and a comparison between the portfolio’s total return and the established investment objectives and goals.

The District Board of Director’s shall periodically establish a benchmark yield for the District’s investments. Considerations for establishing the benchmark yield shall include the current yield on Colorado Local Government Investment Pools and the average yield on the 3-month U.S. Treasury Bill. When comparing the performance of the District’s portfolio, all fees and expenses involved with managing the portfolio should be included in the computation of the portfolio’s rate of return.

#### Policy Revisions

This Investment Policy will be reviewed annually by the District Board of Directors and may be amended by the Board of Directors as conditions warrant. The data contained in the Annexes to this document may be updated by the Director of Finance and Administration as necessary, provided the changes in no way affect the substance or intent of this Investment Policy.

## **Annex I Authorized**

### **Personnel**

The following District personnel are authorized to conduct investment transactions on behalf of the Centennial Water and Sanitation District. The maximum dollar amount authorized for funds transfer between authorized district accounts is provided for each position.

> \$10,000,000	General Manager or Treasurer of the District
Up to \$10,000,000	Director, Finance and Administration
Up to \$ 5,000,000	Revenue and Asset Manager
Up to \$ 5,000,000	Financial Reporting Analyst



## ANNEX II

### District Annex to PSA Master Repurchase Agreement

The Centennial Water and Sanitation District has adopted the PSA Master Repurchase Agreement. The following Annex has also been adopted and is to become a part of the PSA Master Repurchase Agreement to be used for all Repurchase Agreement transactions entered into by the District:

### Supplemental Terms and Conditions

#### **Addition to Section 3. Initiation; Confirmation; Termination**

(d) The parties agree that for any transaction hereunder which is "terminable on demand", the Repurchase Date shall be the earlier of the demand or the 364th day following the Purchase Date and that any transaction not otherwise terminated shall terminate on the 364th day following the Purchase Date, or in the event the 364th day is not a Business Day (as hereinafter defined), on the last Business Day preceding the 364th day.

#### **Addition to Section 4. Margin Maintenance**

(g) Seller and Buyer hereby agree that the established percentage referred to as the Seller's Margin Amount shall be equal to at least 102% of the Purchase Price. Purchased Securities must be transferred to Buyer if such Purchased Securities are U.S. Treasury Bills, Notes, or Bonds or the following federal instrumentality coupon or discount securities: Federal National Mortgage Association (FNMA), Federal Farm Credit Bank (FFCB), Federal Home Loan Bank (FHLB), or Federal Home Loan Mortgage Corporation (FHLMC).

(h) Unless otherwise specifically agreed to by the Buyer, Seller will be required to transfer Purchased Securities which are U.S. Treasury Bills, Notes, or Bonds, or the following federal instrumentality coupon or discount or securities: Federal National Mortgage Association (FNMA), Federal Farm Credit Bank (FFCB), Federal Home Loan Bank (FHLB), or Federal Home Loan Mortgage Corporation (FHLMC), and all such Purchased Securities shall have maturity dates of ten (10) years or less from the Purchase Date. Furthermore, all Purchased Securities must be wireable, utilizing the book entry system of the Federal Reserve Bank, unless otherwise specifically agreed to by the Buyer.

#### **Addition to Section 6. Security Interest**

All Transactions entered into by the Buyer with approved counterparties are deemed to be purchases and sales of securities and are not loans.

#### **Addition to Section 8. Segregation of Purchased Securities**

All Purchased Securities must be transferred to Buyer by Seller on a delivery versus payment (DVP) basis, and in no case may Purchased Securities remain in the custody of the Seller or its agent.

Strike boxed paragraph titled "Required Disclosure for Transactions in Which the Seller Retains Custody of the Purchased Securities".

#### **Addition to Section 9. Substitution**

(c) In the case of any Transaction for which the Repurchase Date is other than the business day immediately following the Purchase Date and with respect to which Seller does not have any existing right to substitute substantially the same Securities for the Purchased Securities, Seller shall have the right, subject to the proviso to this sentence, upon notice to Buyer, which notice shall be given at or prior to 10:00 a.m. (New York time) on such business day, to substitute substantially the same Securities for any Purchased Securities; provided, however, that Buyer may elect, by the close of business on the business day notice is received, or by the close of the next business day if notice is given after 10:00 a.m. (New York time) on such day, not to accept such substitution. In the event

such substitution is accepted by Buyer, such substitution shall be made by Seller's transfer to Buyer of such other Securities and Buyer's transfer to Seller to such Purchased Securities, and after substitution, the substituted Securities shall be deemed to be Purchased Securities. In the event Buyer elects not to accept such substitution, Buyer shall offer Seller the right to terminate the Transaction.

(d) In the event Seller exercises its right to substitute or terminate under sub-paragraph (c), Seller shall be obligated to pay to Buyer, by the close of the business day of such substitution or termination, as the case may be, an amount equal to (A) Buyer's actual cost (including all fees, expenses and commissions) of (i) entering into replacement transactions; (ii) entering into or terminating hedge transactions; and/or (iii) terminating transactions or substituting securities in like transactions with third parties in connection with or as a result of such substitution or termination, and (B) to the extent Buyer determines not to enter replacement transactions, the loss incurred by Buyer directly arising or resulting from such substitution or termination. The foregoing amounts shall be solely determined and calculated by Buyer in good faith.

(e) Securities substituted by the Seller to the Buyer will be of the same type as the Purchased Securities for which they are substituted, i.e.: U.S. Treasury Securities will be substituted for U.S. Treasury Securities.

**Definitions.**

For purposes of the Agreement and this Annex I, the following terms shall have the following meanings:

- (a) "Margin Notice Deadline", means 10:00 a.m. New York time.
- (b) "Close of Business in the relevant market" shall mean that time of each business day after which the Fedwire no longer settles transactions.
- (c) "Business Day" or "business day", with respect to any Transaction hereunder means: a day on which regular trading may occur in the principal market for the Purchased Securities subject to such Transaction.

**Additional Representations.**

In addition to the representations and warranties set forth in Paragraph 10 of the Agreement, (a) Seller represents and warrants to Buyer that, with respect to each Transaction, it will have the right to transfer the Purchased Securities (including any substituted or Additional Purchased Securities) to Buyer in accordance with the terms of the Agreement and that, upon such transfer, such Securities will be free and clear of any prior lien, claim, security interest or other encumbrance on the Purchase Date, and (b) Buyer represents and warrants to Seller that, with respect to each Transaction, it will have the right to transfer the Purchased Securities (after adjustment for any substituted or Additional Purchased Securities) to Seller in accordance with the terms of the Agreement and that, upon such transfer, such Securities will be free and clear of any prior lien, claim, security interest or other encumbrance on the Repurchase Date.

Centennial Water and Sanitation District	Counterparty
By: _____	By: _____
Title: _____	Title: _____
Date: _____	Date: _____

## **Annex III**

### **Broker/Dealers Authorized for Repurchase Agreement Transactions**

The following broker/dealers are authorized to conduct Repurchase Agreement transactions with the Centennial Water and Sanitation and have executed Master Repurchase Agreements with the District:

Repurchase Agreements not yet in place.

## **Annex IV**

### **Approved Depository and Custodial Banks**

The following banks are approved to provide Depository and Custodial banking services for the Centennial Water and Sanitation District:

Wells Fargo Institutional Retirement and Trust

Annex V  
**Approved Broker/Dealers**

1. The District has engaged the services of PFM Asset Management LLC (“PFMAM”), a professional investment advisory firm to assist in the management of the District’s portfolio. As such PFMAM may purchase and sell investment securities in accordance with this Policy and may utilize its own approved list of broker/dealers. Such approved broker/dealer list shall comply with the Broker/Dealer Criteria listed under Selection of Broker/Dealers.

Lists and internal files to be maintained: (not as Annex items)

- District approved Master Repurchase Agreement(s).
- List of approved Local Government Investment Pools.
- List of approved Money Market Mutual Funds.
- Most recent Broker/Dealer Information Forms for approved broker/dealers.