

## Sacramento Regional County Sanitation District Investment Services Transition Plan

The Sacramento Regional County Sanitation District/Sacramento Area Sewer District Investment Policy (Policy) is designed to guide the investment management program of the Districts in compliance with Government Code, Sections 53600 et seq. (Code). The Policy delegates responsibility for all investment transactions undertaken to the Chief Financial Officer (CFO) of the Districts. The CFO will establish a system of written procedures and internal controls in compliance with this Policy to regulate and monitor all investment activities of the Districts undertaken by designated staff and external investment advisors.

The Districts will continue to deposit all revenue remittances needed for immediate operating, capital, and debt service expenditures into the Pool. Reserve and surplus funds will be transitioned from the Pool to District-directed investments over a period of time in coordination with the Director.

The Districts are looking at an investment strategy with a longer weighted average maturity that would meet District safety and liquidity needs and generally achieve higher investment returns. This will allow the Districts to better align the investment objectives and liquidity needs.

The Districts will contract with an experienced registered investment advisor to assist the CFO in the selection of securities, investment strategies, reporting, and other tasks necessary to comply with the Policy. The cost of administering the Districts' investments is expected to be comparable to the costs incurred by the County Pool.

The Code generally limits agencies to investing in securities that have a remaining term of five years or less at the time of investment. An exception is provided in Section 53601 to accommodate special circumstances where longer maturities would be appropriate. California Government Code Section 53601 reads in part,

“...no investment shall be made in any security, other than a security underlying a repurchase or reverse repurchase agreement or securities lending agreement authorized by this section, that at the time of the investment has a term remaining to maturity in excess of five years, unless the legislative body has granted express authority to make that investment either specifically or as part of an investment program approved by the legislative body no less than three months prior to the investment:”

Regional San has entered into several Clean Water State Revolving Fund (CWSRF) loan agreements necessary to finance the capital costs associated with the EchoWater Project and the SPA Water Recycling Project. These agreements require Regional San to maintain reserves equal to one year of debt service on these loans as long as there are any outstanding balances. These loans amortize over periods up to thirty years; therefore, these reserves are required to be set aside for up to thirty years. Investing these reserves in securities with maturities in excess of five years may provide Regional San with the opportunity to earn higher returns on the invested reserves, thus reducing or eliminating negative arbitrage that is currently being experienced with these reserves in the County Pool. When all of the CWSRF loans are finalized, these reserves are expected to total approximately \$50 million and possibly be required to be held until all the loans are paid off in 2052. Therefore, Regional San is requesting the express authority allowed under Code Section 53601 to invest required CWSRF loan reserves in securities with maturities in excess of five years, but no more than thirty years.

Establishment of an investment advisory committee can enhance accountability and financial transparency by providing periodic reviews of the Districts' investment program. The Committee should meet, at least on an annual basis, to review and evaluate the most recent period investment activity and investment returns. The Committee should also review the current status of all investment funds held by the Districts and review anticipated cash requirements and investment activities for the next period. The Committee should annually review the Investment Policy and any changes made to it. The Policy will then be submitted to the Boards of Directors for reapproval each year.