

Orange County Power Authority
Policy Number 018: Investment Policy
Approved: 4/19/2023 | Revised:

Purpose

Orange County Power Authority (“OCPA”) shall invest public funds in such a manner as to comply with state and local laws; ensure prudent money management; provide for daily cash flow requirements; and meet the objectives of the Policy, in priority order of safety, liquidity and return on investment.

Standard of Care

The standard of prudence to be used by investment officials will be the “prudent investor” standard, which states that, “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.”

Scope

This Investment Policy applies to all funds and investment activities and financial assets of OCPA. This Policy does not apply to the investment of bond proceeds, which would be governed by any applicable bond documents.

Objectives

The primary objectives, in priority order, of the investment activities of OCPA are:

With respect to all investments:

1. To be in compliance with all Federal, State and local laws as well as all OCPA policies and procedures.
2. All investments of OCPA shall be undertaken in a manner which seeks the preservation of principal.
3. To remain sufficiently liquid to enable OCPA to meet all operating requirements which might be reasonably anticipated.
4. To maximize return consistent with risk limitations identified herein and prudent investment principles.

With respect to short-term cash management objectives:

1. To accelerate receipt of all funds due to OCPA.
2. To accurately monitor and forecast expenditures and revenues, thus enabling OCPA to invest funds to the fullest extent possible.
3. The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs.

Delegation of Authority

Pursuant to Section 53607, the Board hereby delegates responsibility to manage investment funds to the Treasurer of OCPA. The Treasurer of OCPA is the Chief Financial Officer and all powers or authority granted to the Chief Financial Officer in this Policy are exercised in the capacity of the Treasurer. The Treasurer has authority to appoint Deputy Treasurer(s), as Treasurer deems necessary for prompt and genuine discharge of duties, pursuant to Section 53607.

OCPA may engage the services from one or more external investment advisers, who are registered under the Investment Advisers Act of 1940, to assist in the management of OCPA's investment portfolio in a manner consistent with the OCPA's objectives. External investment advisers may be granted discretion to purchase and sell investment securities in accordance with this Investment Policy.

Ethics and Conflict of Interest

The authorized employees involved in the investment process will refrain from personal business activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial decisions.

Pursuant to OCPA's Conflict of Interest Code, the authorized employees will disclose any financial interests and investment holdings that could affect the performance of OCPA's portfolio or the individual's judgement or decisions regarding OCPA's portfolio.

Authorized Financial Dealers and Institution

The Chief Financial Officer will maintain a list of approved financial institutions authorized to provide investment services to OCPA. These may include "primary" dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule). A determination should be made to ensure that all approved broker/dealer firms, and individuals covering OCPA, are reputable and trustworthy. In addition, the broker/dealer firms should have the ability to meet all of their financial obligations in dealing with OCPA. The firms, and individuals covering OCPA, should be knowledgeable and experienced in Public Agency investing and the investment products involved. No public deposit shall be made except in a qualified public depository as established by the established state laws. All financial institutions and broker/dealers who desire to conduct investment transactions with OCPA must supply the Chief Financial Officer with the following: audited financial statements, proof of registration with the Financial Industry Regulatory Authority, trading resolution, proof of State of California registration, completed broker/dealer questionnaire, certification of having read the OCPA's investment policy and depository contracts.

An annual review of the financial condition and registrations of qualified bidders will be conducted by the Chief Financial Officer. A current audited financial statement is required to be on file for each financial institution and broker/dealer in which OCPA invests.

If OCPA utilizes an investment advisor, the investment advisor may use its own list of authorized broker/dealers to conduct transactions on behalf of OCPA.

Authorized Investments

OCPA is authorized by California Government Code Section 53600 et seq. to invest in the types of securities listed below. A security purchased in accordance with this section shall not have a forward settlement date exceeding 45 days from the time of investment.

Where this section specifies a percentage limitation for a particular security type, that percentage is applicable only on the date of purchase. Credit criteria listed in this section refer to the credit rating at the time the security is purchased. If an investment's credit rating falls below the minimum rating required at the time of purchase, the Chief Financial Officer will perform a timely review and decide whether to sell or hold the investment.

U.S. Treasury Obligations

United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest.

U.S. Agency Obligations

Federal agency 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.

Municipal Obligations

Registered state warrants or treasury notes or bonds of California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of California.

Registered treasury notes or bonds of any of the other 49 states in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 states, in addition to California.

Bonds, notes, warrants or other evidence of indebtedness of a local agency within California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency.

Bonds issued by OCPA, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by OCPA or by a department, board, agency, or authority of OCPA.

OCPA is prohibited from investing in any debt issued by member agencies of OCPA who are parties to the OCPA Joint Powers Agreement.

Deposits at Bank(s)

FDIC insured or fully collateralized demand deposit accounts, savings accounts, market rate accounts, time certificates of deposits ("TCDs") and other types of bank deposits in financial

institutions located in California. The amount on deposit in any financial institution shall not exceed the shareholder's equity. To be eligible to receive OCPA's deposits, the financial institution must have received a minimum overall satisfactory rating, under the Community Redevelopment Act, for meeting the credit needs of California Communities in its most recent evaluation. Bank deposits are required to be collateralized as specified under Government Code Section 53630 et seq. The Chief Financial Officer, at his/her discretion, may waive the collateralization requirements for any portion that is covered by federal deposit insurance. OCPA shall have a signed agreement with any depository accepting OCPA's funds per Government Code Section 53649. The maturity of TCDs may not exceed 5 years in maturity. There is no limit on the percentage of the portfolio that may be invested in bank deposits. However, a maximum of 50 percent of the portfolio may be invested in TCDs.

Banks eligible to receive deposits will be federally or state chartered and will conform to Government Code 53635.2.

Placement Service Deposits

Bank deposits placed with a private sector entity that assists in the placement of deposits with eligible financial institutions located in the United States. The full amount of the principal and the interest that may be accrued during the maximum term of each deposit shall at all times be insured by federal deposit insurance. Placement Deposits shall meet all of the requirements of Government Code Section 53601.8. Purchases of placement service deposits may not exceed 50% of OCPA's investment portfolio.

Local Agency Investment Fund (LAIF)

Funds may be invested in the Local Agency Investment Fund ("LAIF"). The LAIF was established by the California State Treasurer for the benefit of local agencies.

Commercial Paper

Commercial paper of "prime" quality of the highest ranking or of the highest letter and number rating as provided for by a nationally recognized statistical rating organization ("NRSRO"). The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (1) or (2):

- (1) The entity meets the following criteria: (A) Is organized and operating in the United States as a general corporation. (B) Has total assets in excess of five hundred million dollars (\$500,000,000). (C) Has debt other than commercial paper, if any, that is rated in a rating category of "A" or its equivalent or higher by an NRSRO.
- (2) The entity meets the following criteria: (A) Is organized within the United States as a special purpose corporation, trust, or limited liability company. (B) Has program wide credit enhancements including, but not limited to, overcollateralization, letters of credit, or a surety bond. (C) Has commercial paper that is rated "A-1" or higher, or the equivalent, by an NRSRO.

Eligible commercial paper shall have a maximum maturity of 270 days or less. Purchases of eligible commercial paper shall not exceed 40% of OCPA's funds.

Medium Term Notes

Defined as all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations 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. Notes eligible for investment under this subdivision shall be rated in a rating category of “A” or better by an NRSRO. Purchases of medium-term notes shall not exceed 30% of OCPA’s funds.

Negotiable Certificates of Deposits

Negotiable certificates of deposit issued by a nationally or state-chartered bank, a savings association or a federal association (as defined by Section 5102 of the California State Code), a state or federal credit union, or by a federally licensed or state-licensed branch of a foreign bank. Purchases of negotiable certificates of deposits shall not exceed 30% of the OCPA’s funds.

Mortgage Pass-Through and Asset-Backed Securities

A mortgage pass-through security, collateralized mortgage obligation, mortgaged backed or other pay-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate or consumer receivable backed bond. Securities eligible for investment under this subdivision shall be rated in a rating category of “AA” or its equivalent or better by an NRSRO and have a maximum remaining maturity of five years or less. Purchase of securities authorized by this subdivision shall not exceed 20% of OCPA’s funds.

Supranational Obligations

United States 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, with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated in a rating category of “AA” or better by an NRSRO and shall not exceed 30% of OCPA’s funds.

Joint Power Authority Pool

Shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7 that invests in the securities and obligations authorized in subdivisions (a) to (r), inclusive, of Government Code 53601. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible under this section, the joint powers authority issuing the shares shall have retained an investment adviser that meets all of the following criteria:

- (1) The adviser is registered or exempt from registration with the Securities and Exchange Commission.
- (2) The adviser has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (q), inclusive, of Government Code 53601.
- (3) The adviser has assets under management in excess of five hundred million dollars (\$500,000,000).

Money Market Funds

Shares of beneficial interest issued by diversified management companies that are Money Market Funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940. These funds must either have attained the highest rating/ranking by at least two NRSROs or have retained an investment advisor registered with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of five hundred million dollars (\$500,000,000).

Investments in this category will not exceed 20% of OCPA's funds and no more than 10% may be invested in any one money market fund.

Hedging Program

Staff may examine and recommend to the Board an investment strategy that is consistent with this policy, and which will hedge against revenue loss due to high PCIA or increased prices of natural gas commodity.

Reporting Requirements

The Chief Financial Officer will provide a year-to-date investment summary within the Quarterly Treasurer's Report to the Board of Directors. The summary will show the type of investment, the average balance of funds invested, and average annual percentage yield.

Investment Pools/Mutual Funds

A thorough investigation of the pool/fund is required prior to investing, and on a regular basis. Best efforts will be made to acquire the following information:

1. A description of eligible investment securities, and a written statement of investment policy and objectives.
2. A description of interest calculations and how it is distributed, and how gains and losses are treated.
3. A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited.
4. A description of who may invest in the program, how often, what size deposit and withdrawal are allowed.
5. A schedule for receiving statements and portfolio listings.
6. Are reserves, retained earnings, etc. utilized by the pool/fund?
7. A fee schedule, and when and how is it assessed.
8. Is the pool/fund eligible for bond proceeds and/or will it accept such proceeds?

Collateralization

Collateralization will be required on certificates of deposit. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 110% of market value for certificates of deposit.

Collateral will always be held by an independent third party with whom OCPA has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the entity and retained. The right of collateral substitution is granted.

Maturity Limit

Investments will generally not exceed a term of five years unless a shorter maturity is designated herein. To the extent possible, OCPA will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, OCPA will not directly invest in securities maturing more than 5 years from the date of purchase (to the extent permitted under the Government Code) unless the Board of Directors has provided approval at least three months prior to the investment. For purposes of compliance with this section, an investment's term or remaining maturity shall be measured from the settlement date to final maturity. Reserve funds may be invested in securities exceeding 5 years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of the funds.

Internal Control

The Chief Financial Officer is responsible for establishing and maintaining an internal control structure designed to provide reasonable assurance that the assets of OCPA are protected from loss, theft, or misuse.

The Chief Financial Officer or his/her designee shall arrange for an annual audit by an external CPA firm in compliance with the requirements of state law and generally accepted accounting principles as pronounced by the Governmental Accounting Standards Board. As part of the audit, investment transactions will be tested. The annual audit will be an integral part, but not the sole part of management's program of monitoring internal controls.

Safekeeping and Custody

All security transactions, entered into by OCPA shall be conducted on a delivery-versus-payment basis. Securities will be held by a third-party custodian and evidenced by safekeeping receipts.

Performance Standards

OCPA's portfolio shall be structured to achieve a market-average rate of return through various economic cycles, commensurate with the investment risk constraints and the cash flow needs. Investment performance will be calculated on a gross basis before fees and expenses and tracked monthly for internal use and monitoring.

Policy Review

The Investment Policy will be reviewed annually. Any changes to the Investment Policy will be submitted to the Board of Directors for approval.