

**TULARE LOCAL HEALTH CARE DISTRICT  
(Tulare District HealthCare System) (TDHS)**

**POLICY/GUIDELINE MANUAL**

FROM: Administration

SUBJECT: Investment Guidelines

**Purpose**

To govern the management of surplus monies and provide the required reserves and cash flow. To assure adherence to regulatory requirements.

**Policy**

The guidelines governing these surplus monies shall be in compliance with Sections 53600-53683 of the Government Code.

**Objectives**

This policy provides guidelines for the management of Tulare Local Health Care District's Investment portfolio. It is essential that these assets be invested in a high quality portfolio which encompasses:

1. Safety of principal in relationship to the guidelines and market conditions.
2. Meet liquidity needs.
3. Delivers good yield in relationship to the guidelines and market condition.

**Liquidity Requirements**

The investment portfolio should be constructed so that it can fund the cash requirements of the cash flow forecast. Generally, these liquidity requirements should be met by matching maturities of investments to the cash flow requirement of the District rather than rely on being able to sell securities.

If a circumstance dictates, the cash flow forecast and its associated liquidity requirements may be modified at the discretion of the Chief Executive Officer or Chief Financial Officer, provided that such modifications do not conflict with the other objectives and requirements of the policy.

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Effective Date: 7/24/03

(11) Fiscal & Business  
General:  
Investment Guidelines  
11-1013

**Approved:**

Board of Directors: 7/23/03

**TULARE LOCAL HEALTH CARE DISTRICT  
(Tulare District HealthCare System) (TDHS)**

**POLICY/GUIDELINE MANUAL**

The District may use the Local Agency Investment Fund (LAIF) offered by the Treasurer of the State of California when it is beneficial to do so. This fund consists of a diversified pool of safe investments providing one-day liquidity at competitive rates.

Investment Guidelines:

1. The guidelines governing these surplus monies shall be in compliance with Sections 53600-5360X of the Government Code. The District's Finance Committee must approve all investments with maturities greater than six years.
2. The Neutral average life of the portfolio shall be between 2 and 4 years.
3. The maximum maturity shall not exceed six (6) years except in certain circumstances as approved by the District Finance Committee or Board of Directors.
4. State law provides that no more than 60% of the portfolio is to be invested in securities maturing beyond five years.
5. Safety shall always be the primary consideration in structuring the portfolio. Safety considerations include market risk, credit risk, and the safekeeping of securities. The following guidelines shall be followed:
  - Market Risk - The risk of loss of principal due to changes in market conditions. Generally, this is a function of the maturity of the security, with longer-term maturity being the most subject to price volatility.
  - Credit Risk - The risk that the institution backing the security held will default. Emphasis will always be on securities of high quality. Holdings are subject to the following limitations:
    - A. Quality credits "A" or better are to be utilized in the portfolio as rated by Moodys, S&P, or A.M. Best, as applicable. If, after acquisition, an investment rating should be downgraded below "A", the investment will be liquidated as soon as possible without surrender charges.
    - B. Money Market Securities: A-1/P-1/Mig.1 by Moodys and S&P.
6. A broadly diversified portfolio will be maintained with the object of obtaining the highest return with minimal risk to the security of the principal.
7. Realization of capital gains and losses shall be viewed solely in terms of investment merits.

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**POLICY/GUIDELINE MANUAL**

8. Eligible investments (see Exhibit A )
- A. Corporate obligations may have maturities no greater than five (5) years and with an “A” or better rating. No more than 30% of the total assets may be invested in this sector.
  - B. Permitted types of international investments may be made only with firms that are licensed in California.
  - C. Mortgage-backed securities are to be managed subject to the following:
    - Shall be limited to no more than 20% of total assets.
    - Primary mortgage –backed investment emphasis is to be in the issues of the Government National Mortgage Association, the Federal Home Loan Corporation and the Federal National Mortgage Corporation.
    - The maturity span or average life of Government or Government Agency mortgage-backed securities cannot be Calculated or even properly estimated. As an alternative constraint, the duration (a measure of price volatility) of each issue will be no greater at the time of purchase than that of the current ten-year U.S. Treasury Note.
  - D. Annuities with six (6) years or less maturities with an “A” or better rated company.
  - E. Guaranteed Income Certificates with maturities of five (5) years or less with an “A” or better rated company.
  - F. Commercial paper with an “A” or better rated company organized and operated within the United State and have total assets in excess of \$1,500,000,000. No more than 40% of the total assets may be invested in this sector and must not exceed 180-day maturity.
9. Performance measurement – The benchmarks for the portfolio shall be the Lipper Short-Term 1-3 years U.S. Government Fund.
- Lipper Short Term (1-3 Years) U.S Government Fund – invests at least 65% in securities issued or guaranteed by the U.S. Government, its agencies or instrumentality’s with average maturities of 3 years or less.

10. Prohibited Investments (see attached code):

**TULARE LOCAL HEALTH CARE DISTRICT  
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**POLICY/GUIDELINE MANUAL**

The District will not invest in any investments outlined in the Government Code Section 53601.6 as prohibited. The Finance Committee (Investment Committee) or the Board of Directors must approve exceptions to the above restrictions.

Questions concerning any aspect of this policy/guideline should be referred to Administration.

This policy/guideline replaces and supersedes all previous policies/guidelines and is effective immediately.

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**Exhibit A  
Example of Eligible Investments**

**Eligible Investments – Taxable**

U.S. Treasury Bills

U.S. Treasury Notes

U.S. Federal Agencies

Guaranteed Income Certificates

Commercial Paper

- U.S. Corporations
- Foreign Corporations
- Custody

Certificates of Deposit/Bankers' Acceptances/Time Deposits

- Obligations of U.S. Banks
- Obligations of foreign banks
- U.S. London

Corporate or Eurobond Obligations

Repurchase Agreements

Floating Rate/Notes

Mortgage-backed Securities

Asset-backed Securities

Single Premium Annuities

**Tax-Exempt Investments**

- Municipal Bonds
- Municipal Notes
- Municipal Put Securities
- Municipal Commercial Paper/Floaters

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Disposition: Copy and Distribution – Debra Campbell

Comments: Send 200 copies of Memo with list of policies approved by Board of Directors to HR for payroll distribution

Date Completed: 7/25/03

**Policy # 11-1013**