

MENDOCINO COAST HEALTH CARE DISTRICT (MCHCD)  
INVESTMENT POLICY

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**I. POLICY STATEMENT**

Mendocino Coast Health Care District ("District") is a California Health Care District formed on January 17, 1967 by a vote of the District's constituents for the purpose of constructing a public hospital to serve the people of Mendocino County. The District (aka MCHCD) was created pursuant to the California Health and Safety Code §32000 to address health care needs in the western portion of Mendocino County. The District is bordered on the west by the Pacific Ocean and includes the City of Fort Bragg and the communities of Westport, Cleone, Caspar, Mendocino, Little River, Albion, Comptche, and Elk. It is governed by an elected five-member board of directors.

The two investment funds of the District are: the **"Treasury Fund"** (comprised of short-term U.S. Treasury Bills and long-term U.S. Treasury Notes) and the **"Operations Fund"** (comprised of U.S. Commercial Banks' money market & CD investments and the State of California Local Agency Investment Fund-LAIF deposits).

This Investment Policy ("Policy") will ensure that investments purchased by the two District funds are prudently invested to preserve capital and provide necessary liquidity while maximizing earnings.

Policy Investments may only be made in accordance with the principles of prudent investment management and in accordance with the provisions of the California Constitution Article XI §11 and Government Code §53600 et seq., (the Code), which sets forth the investment parameters for local agencies, including special districts, in California.

This policy conforms to the Code as well as to the customary standards of prudent investment management.

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## II. INVESTMENT POLICY OBJECTIVES

The objectives of the District's Investment Program are, in order of priority:

- Protecting District investments is the District's foremost objective. The District's investments shall be undertaken in a manner that seeks to maximize the preservation of capital in the portfolio and minimize the risk related to capital losses.
- Maintenance of sufficient liquidity to meet cash flow needs.
- Attainment of the maximum yield possible consistent with the first two primary objectives of this Policy.

To achieve these objectives, The District shall consider the following when making a purchase investment:

The District shall mitigate the risk to the principal of invested funds by limiting credit and interest rate risks.

- Credit Risk is the risk of loss due to the failure of a security's issuer or backer.
- Interest Rate Risk is the risk that the market value of the District's portfolio will fall due to an increase in general interest rates.

### 1. Credit Risk

Credit risk will be mitigated by: Limiting investments to only the most creditworthy types of securities defined as "investment grade" by a Nationally Recognized Statistical Rating Organization (NRSRO) including (a). Standard and Poor's Rating Service, (b). Moody's Investors Service and (c). Fitch Ratings.

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## 2. Interest Rate Risk

Interest rate risk will be mitigated by: Structuring the District's portfolio so that securities mature to meet the District's cash requirements for ongoing obligations, thereby avoiding the possible need to sell securities on the open market at a loss prior to their maturity to meet those requirements; and Investing primarily in shorter term securities.

The District's investment portfolio shall be structured in a manner which emphasizes that securities mature at the same time the cash is needed to meet anticipated demands (Static Liquidity). Additionally, since all possible cash demands cannot be anticipated, the portfolio should consist of securities with active secondary markets (Dynamic Liquidity). The maximum percentage of different investment instruments and maturities is described in Appendix A of this Policy.

Yield on the District's investment portfolio is of secondary importance compared to the safety and liquidity objectives described above. Investments are limited to relatively low risk securities with the expectation of earning a fair return relative to the risk being assumed. While it may occasionally be necessary or strategically prudent for the District to sell a security prior to maturity to either meet unanticipated cash needs or to restructure the portfolio, this policy specifically prohibits trading securities for the sole purpose of speculating on the future direction of interest rates.

### BASIC INVESTMENT STRATEGY

The District shall pursue a "passive" strategy of investment under which investments shall be of "laddered" maturities, facilitating a "buy and hold" process where financial instruments are held until maturity rather than actively bought and sold at various times. An "active" strategy of market timing, sector rotation, indexing to a benchmark and similar strategies are considered inappropriate for the size of the District's portfolio. It is understood that it may

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be appropriate to sell a particular security prior to maturity to meet unanticipated cash needs. Any such transaction will be reported to the Board of Directors at its next regularly scheduled meeting.

The District's investment portfolio shall be structured to provide that sufficient funds from investments are available each month to meet the District's anticipated cash needs. Subject to the objectives stated above, the choice in investment instruments and maturities shall be based upon an analysis of anticipated cash needs, existing and anticipated revenues, interest rate trends and specific market opportunities. No investment may have a maturity of more than five (5) years from its date of purchase without receiving prior Board of Directors approval.

### III. INVESTMENTS

This section of the Investment Policy identifies the types of investments in which the District will invest its idle or surplus funds.

#### STANDARD OF PRUDENCE

The District operates its investment portfolio under the Prudent Investor Standard (California Government Code §53600.3) which states, in essence, 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 District, that a prudent person 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".

This standard shall be applied in the context of managing the overall portfolio. Investment officers, acting in accordance with written procedures and this

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investment policy and exercising the above standard of 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.

### ALLOWABLE INVESTMENTS

Investment of District funds is governed by California Government Code §53600 et seq. See Appendix A for a listing of “Allowable Investments” and specific concentration limits by type of investment.

The District may choose to restrict its permitted investments to a smaller list of securities that more closely fits the District's cash flow needs and requirements for liquidity. If a type of investment is added to California Government Code §53600, it will not be added to the District's listing of Allowable Investments until this policy is amended and approved by the Board of Directors. If a type of investment permitted by the District should be removed from California Government Code §53600, it will be deemed concurrently removed from the District's listing of Allowable Investments, but existing holdings may be held until they mature.

One of the purposes of this Investment Policy is to define what investments are permitted. If a type of security is not specifically authorized by this policy, it is not a permitted investment.

### DIVERSIFICATION

The District will diversify its investments by security type and investment. The District's “interim CFO” will adopt a strategy that combines current market conditions with the District's cash needs to maintain the maximum degree of safety of principal and liquidity throughout market and budgetary cycles. This strategy will include

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diversification by investment type and maturity allocations and will be included in the regular monthly reports to the Board. This strategy will be reviewed monthly and can be changed accordingly.

#### Confirmations

Receipts for confirmation of purchases or sales of authorized securities shall include at a minimum the following information: trade date, settlement date, description of the security, par value, interest rate, price, yield to maturity, District's name, net amount due and third-party custodial information.

#### IV. SAFEKEEPING OF SECURITIES

The District shall utilize the United States Department of the Treasury for the safekeeping of securities that are owned in its Treasury Fund as a part of its investment portfolio.

The District's current custodians for its Operations Fund are: (1) the Offices of the various Commercial Banks for its money market & CD deposits and (2) the California State Treasurer's Office for its LAIF investments.

#### V. STRUCTURE AND RESPONSIBILITIES

This section of the policy defines the overall structure and areas of responsibility within the investment management program.

##### RE: Responsibilities of the interim CFO

The District's interim CFO is charged with responsibility for maintaining custody of all public funds and securities belonging to or under the control of the District, and for the deposit and investment of those funds in accordance

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with principles of sound treasury management, applicable laws, ordinances, and this Investment Policy. This includes establishing written procedures for the operation of the investment program consistent with this policy. The procedures should include reference to safekeeping, master repurchase agreements, wire transfer agreements, banking services contracts and depository agreements. Such procedures shall also include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Board of Directors. However, in accordance with the District's bylaws (Section 4.b.3), the Board Chair will concur with each investment purchase decision, prior to execution. Except as otherwise provided herein, the Board has made a delegation of authority to the interim CFO, Board Chair, and Board Treasurer as set forth in Appendix B.

The current delegation of authority will be provided to all approved financial institutions. They will be notified of any changes to this delegation in a timely fashion and acknowledge receipt.

RE: Responsibilities of the Board of Directors

The Board shall consider and adopt a written Investment Policy. As provided in that policy, the Board shall receive, review, and accept monthly investment reports.

Ethics and Conflict of Interest

- The District shall comply with all California conflict of interest laws, including Government Code section 1090 et seq. and Government Code section 87100 et seq.



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- All District officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution of the investment program, or that could impair their ability to make impartial investment decisions. The District's Conflict of Interest Code shall specify those designated employees and consultants, as well as "Code Filers" who shall complete and file an Annual Statement of Economic Interests (Form 700). These individuals must disclose any material financial interests in financial institutions that conduct business within the District, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the District's investments, as specified in the Conflict-of-Interest Code.

### **VI. REPORTING**

The Interim CFO shall prepare a monthly investment report, including a succinct management summary that provides a clear picture of the status of the current investment portfolio and transactions made. This management summary shall be prepared in a manner that will allow the Board to ascertain whether investment activities during the reporting period have complied with the District's Investment Policy.

The monthly report shall include the following: List of individual securities held at the end of the reporting period showing maturity date, purchase date, par value, cost basis, and interest rate % for each of the District's investments.

### **VII. PERFORMANCE STANDARDS**

The investment portfolio will be managed in accordance with the standards established within this Investment Policy and should obtain a market rate of

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return throughout budgetary and economic cycles. The interim CFO and Board Treasurer will establish and periodically review the District's portfolio benchmarks and performance. A benchmark will be selected that compares with the portfolio composition, structure, and investment strategy at that time.

**VIII. REVIEW OF INVESTMENT POLICY**

This Investment Policy shall be reviewed annually by the Board in accordance with State law to ensure its consistency with respect to the overall objectives of safety, liquidity, and yield. A Statement of Compliance of the District's Investment Policy with California Government Code §53600 et seq. should be approved by the Board annually. Proposed amendments to the policy shall be prepared by the interim CFO and Board Treasurer and forwarded to the Board for its consideration and adoption in a public meeting.

Internal Control and Audit Review: The external auditors shall annually review the investments and general activities associated with the investment program to ensure compliance with this Investment Policy. This review will provide internal control by assuring compliance with policies and procedures established by this Investment Policy.

**IX. DEFINITIONS**

The District's definitions of terms for its invested portfolio:

- Local Agency Investment Fund (LAIF)- a voluntary investment pool that is only available to government entities and certain non-profit organizations in California. The investment pool funds are managed by the California State Treasurer's Office with short-term money market investments.

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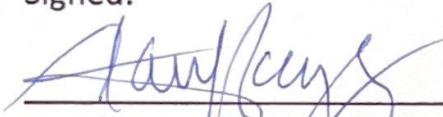
- **United States Treasury Bill (T-bill)-** a Treasury bill is a short-term debt obligation and sold by the U.S. Treasury Department with maturity terms of 4, 8, 13, 17, 26 and 52 weeks. It is a low-risk investment as it is backed by the full faith and credit of the United States Government.
  
- **United States Treasury Note (T-note)-** a Treasury note is a medium-term debt obligation and sold by the United States Treasury Department with maturity terms of 2, 3, 5, 7 and 10 years. It is a low-risk investment as it is backed by the full faith and credit of the United States Government.
  
- **Safety-** in the context of investing public funds, safety relates to preserving the principal of an investment in an investment portfolio. The District addresses the concerns of safety by controlling exposure to risks.
  
- **Risk-** the uncertainty of maintaining the principal and interest associated with an investment due to a variety of factors.
  
- **Prudent Management Standard-** a standard of conduct where a person acts with care, skill, prudence, and diligence when investing, re-investing, purchasing, acquiring, exchanging, selling, and managing funds. The test of whether the standard is being met is if a prudent person acting in such a situation would engage in similar conduct to ensure that investments safeguard principal and maintain liquidity.

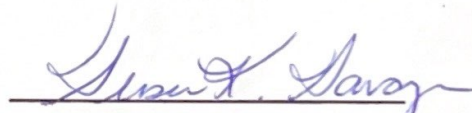
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**X. ADOPTION OF POLICY**

This Policy, dated April 9, 2024 was duly adopted by the Board of Directors of the Mendocino Coast Health Care District at a Board meeting on the ~~9<sup>th</sup>~~<sup>10<sup>th</sup></sup> day of April, 2024.

Signed:

  
\_\_\_\_\_  
Paul Garza Jr., Chair  
MCHCD Board Member

  
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Susan Savage, Secretary  
MCHCD Board Member

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**APPENDIX A**

**Allowable Investments- See Pages 14, 15, 16 & 17**

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The District will consider the credit ratings of Moody's, Standard and Poor's, and Fitch in determining eligibility specific to the investment policy. The District's Treasurer and its Strategic Advisor will determine the specific securities selected are consistent with the objectives of the Investment Policy.

#	Type of Investment	Other Restrictions
1.	United States Treasury notes, bonds, bills, or certificates of indebtedness or those for which the full faith and credit of the United States are pledged for the payment of principal and interest.	Maximum Maturity: 5 years Maximum % of Portfolio: 100%
2.	Registered state warrants or notes or bonds of the State of California.	Maximum % of Portfolio: 30% Minimum Quality: ST: A1 or equivalent by any NRSRO LT: AA or equivalent by any NRSRO Maximum Maturity: 5 years
3.	Bonds, notes, warrants, or other evidences of indebtedness of any local agency within the State of California.	Maximum % of Portfolio: 30% Minimum Quality: ST: A1 or equivalent by any NRSRO LT: AA or equivalent by any NRSRO Maximum Maturity: 5 years
4.	Federal agency or United States government-sponsored enterprise ("GSE") 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.	Maximum Total Callables: 25% Maximum Maturity: 5 years
5.	Bill of exchanges or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers' acceptances.	Maximum % of Portfolio: 40% Maximum Per Issuer: 30% Maximum Maturity: 180 days Minimum Quality: ST: A1 or equivalent by any NRSRO
6.	Commercial Paper	Maximum % of Portfolio: 40% Maximum Outstanding CP of Issuer: 10% Maximum Per Issuer: 5% Maximum Maturity: 270 days Minimum Quality: ST: A1 or equivalent by any NRSRO  Must meet all of the criteria of 1 or of 2: 1a. Must be organized and operating in the US as a general corporation 1b. Has total assets greater than \$500 million 1c. Has debt other than CP, if any, that is rated A or higher by any NRSRO

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#	Type of Investment	Other Restrictions
		2a. Must be organized within the US as a special purpose corporation, trust, or LLC 2b. Has program wide enhancements (over collateralization, letter of credit, etc.) 2c. Has CP that is rated A1 or higher by an NRSRO
7.	Negotiable certificates of deposits issued by a nationally or state-chartered bank or a state or federal savings and loan association or by a state-licensed branch of a foreign bank.	Maximum Per Issuer: 10% Minimum Quality: ST: A1 or equivalent by any NRSRO Maximum Maturity: 5 years
8.	Time Certificates of Deposit.	The District may invest in non-negotiable time deposits collateralized in accordance with the California Government Code, in those banks and savings and loan associations which meet the requirements for investment in negotiable certificates of deposit.
9.	Repurchase Agreements.	Max Maturity: 90 days Repo Agreement must be covered under a Master Repurchase Agreement Must be a Tri-Party Repo Collateral must be at all times: <ul style="list-style-type: none"> <li>- secured with obligations of the US and Federal agencies (MV of 102% at all times)</li> <li>- valued daily internally or externally</li> </ul> The District shall obtain 1 <sup>st</sup> lien and security interest in all collateral  Repurchase agreements shall be executed through Primary Broker-Dealers.
10.	Reverse Repurchase Agreements or Securities Lending Agreements.	May be utilized only when all conditions are met: <ol style="list-style-type: none"> <li>1. Security to be sold has been owned and fully paid for at least 30 days prior to sale</li> <li>2. Maximum % of Portfolio: 20%</li> <li>3. Maximum Maturity: 92 days</li> <li>4. Funds from a Reverse Repo or Securities Lending agreement shall not be used to purchase a security that has a maturity of greater than 92 days from the settlement of the sale</li> <li>5. Counterparty Minimum Rating: A or equivalent by any NRSRO</li> </ol>
11.	Medium-term notes issued by corporations organized and operating within the United States, or by depository institutions licensed by the United	Maximum % of Portfolio: 30% Maximum Per Issuer: 5% Minimum Quality: A or equivalent by all NRSRO's Maximum Maturity: 5 years

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#	Type of Investment	Other Restrictions
	States or any state and operating within the United States.	
12.	<b>Mutual Funds/Money Market Mutual Funds:</b> Shares of beneficial interest issued by diversified management companies investing in the securities and obligations as authorized by the State of California Code 53601 and 53630 et seq.	<b>Maximum % of Portfolio: 20%</b> <b>Maximum Per Mutual Fund: 10% / Maximum Per Money Market Mutual Fund: 20%</b> Purchase price may not include any commissions charged by these companies.  <b>Companies must have either:</b> <ul style="list-style-type: none"> <li>- the highest ranking or the highest letter and numerical rating provided by not less than two of the nationally recognized rating services;</li> <li>- retained an investment advisor registered or exempt with the Securities and Exchange Commission, with no less than five years of experience investing with assets under management in excess of five hundred million dollars (\$500,000,000) in A) Bond Funds: the securities and obligations authorized by State Code 53601 a-k and m-q; or B) Money Market Mutual Funds.</li> </ul>
13.	State of California Local Agency Investment fund (LAIF).	Maximum investment in LAIF accounts are dependent upon limits established under the Local Agency Investment Fund guidelines.
14.	Mortgage and Asset Backed Securities.	<b>Maximum % of Portfolio: 20%</b>  <b>Minimum Quality: MBS: AA or equivalent by any NRSRO</b>  <b>Minimum Quality: ABS: AA or equivalent by any NRSRO</b>  <b>Maximum Maturity: 5 years</b>  <b>Must be fixed rate.</b>  <b>MBS: Pass-Through securities:</b> <ul style="list-style-type: none"> <li>- Limited to Government Agency or Government Sponsored issuers</li> <li>- Planned Amortization Classes (PAC) CMOs only</li> </ul> <b>ABS:</b> <ul style="list-style-type: none"> <li>- Publicly offered, generic credit card and automobile receivables only.</li> <li>- Deal size must be at least \$250 million</li> </ul>



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#	Type of Investment	Other Restrictions
		- Tranche size must be at least \$25 million
15.	Supranational Securities: US dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), or Inter-American Development Bank (IADB) eligible for purchase and sale within the US.	Maximum % of Portfolio: 30% Maximum Per Issuer: 10% Minimum Quality: AA or equivalent by any NRSRO Maximum Maturity: 5 years.

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**APPENDIX B**

**Delegation of Authority**

The following named individuals are hereby designated authority to act as authorized agents of the Mendocino Coast Health Care District to purchase investments in accordance with the District's Investment Policy dated April 9, 2024:

- Paul Garza Jr., Board Chair
- Sara Spring, Board Treasurer
- Wayne Allen, Interim CFO

The designation shall remain valid until December 31, 2024 unless rescinded or superseded.

Executed this 9<sup>th</sup> day of April, 2024.

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Susan Savage  
MCHCD Board Secretary