

Attachment AG
SMUD 2005 Investment Policy

RESOLUTION NO. 05-02-01

**BE IT RESOLVED BY THE BOARD OF DIRECTORS
OF THE SACRAMENTO MUNICIPAL UTILITY DISTRICT:**

That this Board hereby approves Board member compensation for services rendered at the request of the Board (pursuant to Resolution 02-12-14) for the period of January 16, 2005, through January 31, 2005.

Adopted: February 3, 2005

INTRODUCED BY DIRECTOR DAVIS				
SECONDED BY DIRECTOR POSNER				
DIRECTOR	AYE	NO	ABSTAIN	ABSENT
PATTERSON	X			
SHIROMA	X			
POSNER	X			
SLATON	X			
KEAT	X			
CARR	X			
DAVIS	X			

**INVESTMENT POLICY
SACRAMENTO MUNICIPAL UTILITY DISTRICT
2005**

SCOPE

The Investment Policy applies to the investment activities of the Sacramento Municipal Utility District and three joint powers authorities; the Central Valley Financing Authority, the Sacramento Cogeneration Authority and the Sacramento Power Authority (the JPA's). It also guides investment activity for the Transmission Agency of Northern California (TANC), for which the District provides treasury services. This policy applies to all JPA and District funds including but not limited to:

Commingled Funds:
Unrestricted Funds
Debt Service Funds
Debt Service Reserve Funds
Rate Stabilization Funds
Nuclear Decommissioning Funds
Federal Arbitrage Rebate Funds

OBJECTIVES

SAFETY: Safety of principal is the foremost objective of the District's investment policies and practices. It is the responsibility of the Treasurer and the Treasurer's designees (hereinafter referred to as investment officers) to ensure that all investments are made in accordance with existing laws, this Investment Policy, and established departmental procedures. The investment officers are the Treasurer and the Assistant Treasurers and Senior Financial Analysts working in the Treasury Department.

LIQUIDITY: Adequate cash or cash equivalent to meet all payment requirements will be maintained. This objective will be accomplished primarily by matching the maturity dates of investments with planned disbursements and by maintaining adequate levels of liquid securities to meet unforeseen disbursement requirements. The cash forecast prepared by Treasury Department staff will serve as the primary source of identifying expected cash flows.

EARNINGS: Investment officers will seek to maximize returns on the financial assets of the District within the parameters of existing legislation and of this Investment Policy after incorporating the objectives of safety and liquidity.

SAFEKEEPING

All investment securities purchased by the District shall be held in safekeeping by the District or by an institution designated by the District. Investments held by the safekeeper are reconciled monthly by the Accounting Department. Payment for securities should normally be "Delivery Versus Payment". This is accomplished via the District's third party clearing agent.

SALE OF SECURITIES PRIOR TO MATURITY

Securities may be sold prior to maturity to meet District cash needs, to realize profits, or to shift into alternative investments (i.e. swapping one investment for another). Swaps may be transacted to improve yield, or alter the mix of maturities, instruments, or issuers in the portfolio.

Losses on the sale of securities are acceptable under certain circumstances. For example, where the reinvested proceeds from the sale will provide income with greater present value than that of the instrument sold; where credit deterioration or decreasing market value is a concern; or when funds are needed to meet District cash requirements. In all cases, the investment official will act in accordance with the prudent person clause.

PORTFOLIO RISK MANAGEMENT

It is the responsibility of the District's investment officers to anticipate and develop appropriate safeguards to address various types of investment related risks. Examples are as follows:

Risks

Credit risk

Market exposure

Regional exposure

Sovereign risk

Counterparty risk

Safeguards

- Credit analysis
- Credit rating agencies
- Minimum rating levels
- Diversification of issuers
- Government regulations

- Diversification of maturities, security type, industry segments

- Analysis of regional and industry trends

- Analysis of international and political trends
- Diversified foreign investments

- Approved and licensed dealers
- Appropriate documentation
- Collateralization, when appropriate

AUTHORIZED INVESTMENTS

The following is a list of the currently approved securities, the relevant authority(ies), and any applicable restrictions. In accordance with California Government Code Section 53601, where this policy specifies a percentage limitation for a particular security type, that percentage is applicable only at the date of purchase.

The following table also applies to the three JPA's, subject to the following overall Indenture guidelines: Their Operating Funds cannot be invested beyond one year and their Maintenance Reserve, Working Capital, Rebate, Overhaul and Distribution Funds cannot be invested beyond five years.

Security Type	Authority	Restrictions
SMUD Bonds	MUD Act & Calif. Govt. Code	No Limit. Not authorized JPA Investment.
U.S. Treasuries	MUD Act & Calif. Govt. Code	No Limit
State of California (bonds, notes, warrants)	MUD Act & Calif. Govt. Code	No Limit
California Local Agency (bonds,(including JPA bonds), notes, warrants)	MUD Act & Calif. Govt. Code	No Limit. JPA Bond Fund (Debt Service, Redemption and Capitalized Interest Accounts) not authorized.
Federal Agency Securities (i.e. FNMA, FHLB, Freddie Mac, Sallie Mae, Farm Credit, TVA, World Bank, etc.)	MUD Act & Calif. Govt. Code	No Limit. The authorized listing of participating Agencies varies from JPA to JPA.
Bankers Acceptances	MUD Act	<ul style="list-style-type: none"> ▪ Max of 40% of total portfolio ▪ Banks with total assets of \$1 billion or more ▪ 180-day maximum maturity ▪ Max of 30% of total portfolio with any one commercial bank ▪ JPA Bond Fund and Debt Service Reserve Funds not authorized.
Commercial Paper	California Govt. Code	<ul style="list-style-type: none"> ▪ 25% of total portfolio ▪ 270-day maximum maturity ▪ Max of 10% of outstanding C/P of any single issuer ▪ Max of 10% of total District portfolio in any single issuer ▪ JPA Bond Fund and Debt Service Reserve Funds not authorized. <p>PLUS ALL OF EITHER OF FOLLOWING:</p> <p style="text-align: center;">EITHER</p> <ul style="list-style-type: none"> ▪ U.S. based GENERAL corporation; minimum assets of \$500 million; Credit rating of A-1 (or higher or equiv.); Other senior debt of the issuer if any, must be rated A or better <p style="text-align: center;">OR</p> <ul style="list-style-type: none"> ▪ U.S. special purpose corporation, trust or limited liability company; Has program wide credit enhancements (incl. over collateralization, L.C. or surety bond), C/P must be A-1 (or higher or equiv.)