

**SAN BERNARDINO VALLEY WATER CONSERVATION DISTRICT
MINUTES OF THE FINANCE & ADMINISTRATION COMMITTEE MEETING**

February 29, 2016
1:30 P.M.

Chairperson McDonald called the Finance & Administration Committee Meeting to order at 1:35 p.m.

FINANCE & ADMINISTRATION COMMITTEE MEMBERS PRESENT:

Melody McDonald, Chairperson
David E. Raley, Director

FINANCE & ADMINISTRATION COMMITTEE MEMBERS ABSENT:

None

STAFF PRESENT:

Daniel Cozad, General Manager
Angie Quiroga, Administrative Services Specialist

GUESTS PRESENT:

Lesley Murphy, PFM Asset Management LLC
Sarah Meacham, PFM Asset Management LLC

1. PUBLIC PARTICIPATION

Chairperson McDonald announced this as the time for any persons present, who so desire, to make an oral presentation to the Committee. Hearing none, the meeting continued with published agenda items.

2. ADDITIONS/DELETIONS TO AGENDA

There were no additions or deletions to the agenda.

3. APPROVAL OF MEETING MINUTES FROM JANUARY 20, 2016 AND FEBRUARY 3, 2016

It was moved by Director Raley and seconded by Chairperson McDonald to approve the minutes of the January 20, 2016 and the February 3, 2016 Finance & Administration Committee meetings. The motion carried with all members present voting in the affirmative.

Director Raley: Yes

Chairperson McDonald: Yes

4. REVIEW THE DRAFT REVISED STATEMENT OF INVESTMENT POLICY ANALYSIS- PFM ASSET MANAGEMENT

Daniel Cozad stated PFM Asset Management (PFM) will lead the discussion on investments looking for the Committee's commentary, thoughts, questions, and ultimately a recommendation for the Board of Directors. Lesley Murphy of PFM provided a handout: Discussion of Investment of Reserve Funds. She stated PFM has fine-tuned their recommendations that were discussed with the Board at the February 10th

Board meeting. Cash needs for operation and future projects were itemized in order to determine investable cash of just under \$7.5 million. Mr. Cozad clarified that the \$5 million prepaid royalty from Robertson's Ready Mix is highly unlikely to be recalled before the Wash Plan is approved but as insurance, he will speak with Doug Headrick of San Bernardino Valley Municipal Water District regarding a potential letter of credit as back up. He briefly explained the breakdown of District cash needs noting a Wash Plan draw category was added to provide advancement of funds for implementation of the Wash Plan. Ms. Murphy continued her presentation by providing current balances of District funds in Citizen's Business Bank, LAIF and Cal TRUST. Funds formerly moved from LAIF to Cal TRUST Medium-Term fund have been beneficial financially to the District. However, since Cal TRUST does not provide safety of principal and unrealized losses have recovered some since December's rate increases, she believes now may be a good time to move funds out of Cal TRUST. She noted LAIF provides daily liquidity but the maturity is long for this type of investment. An updated list of NAV, yield and average maturity rates for current investments were provided along with projected annual earnings of \$69,000. PFM is suggesting other investment options to provide safety of principal but aren't so costly to implement that they would cut into earnings.

The three other investment options PFM recommends are: insured Certificates of Deposit (CD's) that have guaranteed earnings, are FDIC or NCUA (National Credit Union Association) insured, and have relatively low to no out-of-pocket fees but are limited to 30% of agency's funds for CD placement services and \$250,000 per banking institution; general banking deposits in which the institution provides adequate collateral per government code and a contract is signed between the institution and the District; CAMP (California Asset Management Program) which is a money-market like fund that works like LAIF but provides a weighted average maturity rate (≤ 60 days) that is much shorter. A projected earnings table was provided using the suggested alternative investments options in which safety of principal and ample liquidity was imperative and projected annual earnings were relatively the same as the District's current investments. Ms. Murphy cautioned, with CD placement services, to be clear on what the average yield will be on the total investment.

The California Credit Union (CCU), part of the National Credit Union Deposit Program, offered a little higher yield than presented for a collateralized money-market deposit account that offers daily liquidity. She recommended Mr. Cozad look into this offer further. Sarah Meacham of PFM is comfortable with advising the CCU. Brief discussion ensued. The projected earnings provided are slightly below the District's current earnings. Ms. Meacham stated as rates rise however, these numbers should grow especially for LAIF and CAMP. We are in a rate rising environment and to protect principal these investments will do that and provide a similar yield. Director Raley stated we need to consider the total costs to avoid loss of principal and prefers a blend of investments leaving some funds in Cal Trust. Ms. Meacham stated there is a lot of potential risk of principal with Cal Trust (mutual fund style of investment) and does not recommend that for her clients. CAMP is more like a money-market fund: a handout was provided. She prefers individual investments but stated it is up to the client with what they feel comfortable investing in. Director Raley suggested Freddie Mac or Fannie Mae investments. Ms. Meacham explained a custodian would be required and the fixed fees would be too high for investments of our size. The District's current bank may offer a free safe-keeping account to hold securities however costs would still be incurred and the potential higher yield would be offset by these costs. Ms. Meacham explained the steps necessary to execute the alternative investment strategy. Mr. Cozad informed committee members the District's investment policy would need to be changed prior to the movement of

any funds. Ms. Meacham stated PFM will not be the money managers for the District but they are willing to provide the District with a yearly update on District investments since they will be involved with the Wash Plan endowment and if the District decides to invest in CAMP.

Ms. Murphy provided two handouts: Investment Policy Discussion and a draft Statement of Investment Policy. She reminded committee members PFM had an investment policy review project with the Board on February 10th which gave them a bigger picture of the investment options available to a public agency. They are looking to develop a working version of the investment policy to take to the Board for final approval. All recommended investment policy components (p. 23 of handout) were incorporated and all authorized and suitable investments that are permitted per CA Government Code (Code) were added into the policy providing the District many options for current and future investments. A maximum allocation table was provided per sector, per Code comparing maximum allowable allocations vs. current and PFM recommended allocations and sectors. PFM recommends lowering the maximum allocation of municipals from 100% (Code) to 30% due to their lesser liquidity levels and trading rates as treasuries and agencies and adding a credit rating restriction. Ms. Meacham reminded the committee that just because the policy is being expanded does not mean the District has to buy into all of the provided investment options. It just provides the District options for when they do make sense and it better meets today's codes and best practices for investment policies. Ms. Murphy continued discussion of the maximum allocation table with the Bankers' Acceptances sector. These investments are not widely used but are authorized per government code. PFM believes they should be included in the District's policy but suggests 30% maximum vs. 40% allowed to keep them consistent with other credit sensitive instruments and require a minimum credit rating of A-1. Commercial paper is another sector PFM suggests should be added to the policy. Their recommendation is in line with Code noting credit ratings on average are lower but there are still investment opportunities.

Director Raley questioned item 5. Delegation of Authority in the draft policy. Mr. Cozad stated this is the current policy. Chairperson McDonald added the new policy just expands the areas where the General Manager can invest. Director Raley requested the language be adjusted to limit investment changes without Board knowledge. Mr. Cozad suggested PFM add language such as "significant changes in strategies should be briefed to the Finance and Administrative Committee and the committee should consider Board approval, if necessary" to the policy. The committee agreed.

Ms. Meacham continued the presentation pointing out areas where PFM suggests being more conservative than Code such as in placement CD's and bank deposits. Language was built into the policy specifically about these and all other investment types that they feel are important and appropriate for the District to use. Code doesn't have issuer limits but PFM lists recommended limits especially for those investments that are credit based. A list of credit quality requirements was also provided per sector. A final maturity restriction of 5 years was recommended for bank deposits due to their illiquidity which is above code standards. Limiting time deposit investments to 50% maximum of portfolio is recommended due to their illiquidity as well. Ms. Meacham touched on the additional sections of the policy noting they would like to edit Section 15. 'Performance Strategies slightly prior to final policy to include a yield benchmark'. Mr. Cozad encouraged the Committee to include in their motion recommendation of the HCP Plan endowment fund investment policy as well which encompasses what was discussed in January. This policy will go to our Board and the Trust's Board of Directors.

It was moved by Director Raley and seconded by Chairperson McDonald to forward the updated District's Investment Policy with discussed PFM Management's changes to the Board and the HCP Plan Endowment Fund Investment Policy with their recommendation. The motion carried with all members present voting in the affirmative.

Director Raley: Yes

Chairperson McDonald: Yes

5. ADJOURN

It was moved by Director Raley and seconded by Chairperson McDonald to adjourn. The motion carried with all members present voting in the affirmative.

Director Raley: Yes

Chairperson McDonald: Yes

There being no further business, the meeting adjourned at 3:02 p.m.