

**MINUTES FOR MEETING OF BOARD OF DIRECTORS
OF
SAN BERNARDINO VALLEY CONSERVATION TRUST,
a California Nonprofit Public Benefit Corporation**

Wednesday, October 16, 2024 – 2:00 pm

CALL TO ORDER –2:00 p.m.

ROLL CALL

President John Longville, SBV Water Conservation District
Vice President Richard Corneille, SBV Water Conservation District
Director Jim Earsom, Independent

Milan Mitrovich, SBV Water Conservation District
Angie Quiroga, SBV Water Conservation District
David Cosgrove, SBV Water Conservation District
Bob Stewart, SBV Water Conservation District
Donald Grant, PFM Asset Management

Absent: Paul Kielhold, SBV Municipal Water District

1. PUBLIC PARTICIPATION - None
2. APPROVAL OF MINUTES FROM JULY 17, 2024.

It was moved by Vice President Corneille and seconded by Director Earsom to approve the meeting minutes from January 17, 2024, with the correction on Page 2, Section 5, revising the reference to Mr. Earsom from "Independent Contractor" to "Independent Director." Additionally, On Page 5 of the minutes (Page 7 of the packet), the reference to "Fiscal Year 24/27" should be amended to read "Fiscal Year 24/25". The motion carried 3-0-1, with all Directors present voting in the affirmative.

**President Longville: Yes
Vice President Corneille: Yes
Director Earsom: Yes
Director Kielhold: Absent**

3. PFM INVESTMENT PERFORMANCE REVIEW UPDATE FOR QUARTER ENDED SEPTEMBER 30, 2024

Donald Grant of PFM Asset Management provided a brief update on the third quarter

markets and the economy, highlighting key market values and performance as of September 30th. He then provided an update on the San Bernardino Valley Conservation Trust portfolio as of September 30th, 2024 noting not all underlying data is in yet.

- **Portfolio Performance:**
 - **Market Value:** \$2,694,327.
 - **Quarterly Return for Q3:** 5.58% (benchmark: 6.36%).
 - **Year-to-Date Return:** 12.84% (benchmark: 14.11%).
 - **Annualized Returns:** Since inception in June 2018, the portfolio has returned 8.08% annually (benchmark: 8.39%).
- **Sector Analysis:**
 - The third quarter showed relative underperformance in domestic equity, international equity, and fixed income.
 - Mr. Grant noted that the team is still collecting and analyzing data from the underlying investment managers to better understand the reasons for this underperformance.
- **Portfolio Adjustments:**
 - The team has decided to add exposure to real estate through a public real estate REIT ETF, specifically Cohen & Steers Institutional Realty.
 - This decision reflects the expectation that real estate will perform well in a falling interest rate environment, and the addition of an active manager in the sector aims to capture potential upside.
- **Updated Market Value:**
 - As of October 11th, the market value was \$2,695,449.65.

Vice President Corneille raised a question regarding the benchmark used for the Conservation Trust portfolio and the reasons for its underperformance.

Mr. Grant explained that a blended benchmark is used which is designed to align with the strategic asset allocation targets outlined in the investment policy. The benchmark is comprised of 46% Russell 3000 Index (domestic equity), 24% MSCI All Country World Index (excluding the U.S.) (international equity), and 30% Bloomberg U.S. Aggregate Bond Index (fixed income). The portfolio underperformed its benchmark for the quarter and year-to-date. Most of the underperformance originated from the international equity asset class, particularly among sub-advisors and managers. Due to timing constraints, specific data on individual managers' performance is not yet fully compiled but challenges in the international equity sector were identified as the primary driver. Mr. Grant noted that further analysis would be conducted once all data is available. Dr. Mitrovich reinforced that the timing of quarterly meetings shortly after the end of a quarter creates challenges in obtaining complete data and acknowledged the importance of providing timely updates, especially as the Trust continues to grow and manages significant funds, emphasizing the goal of ensuring the Board has adequate information to ask informed questions.

Vice President Corneille inquired about the frequency of benchmark mix evaluations. Mr. Grant clarified that the benchmark mix is reviewed at least annually during the investment policy statement review. Requests for full presentations were discussed and discussion ensued. Mr. Cosgrove confirmed that the Board would like to schedule a special annual financial status meeting focused solely on financial performance and projections. This special meeting would be aligned with the pre-budget planning period, typically January

to March, to maximize its utility for the upcoming fiscal year (beginning July 1). Mr. Grant advised that data required for a comprehensive financial review is typically available 40-45 days after the end of a quarter. For the calendar year ending December 31, data would be available by mid-February, suggesting early March as an optimal time for an annual financial status meeting. The idea of a focused financial meeting was well received. Staff will coordinate with PFM to finalize the timing and propose adjustments to the meeting schedule.

Mr. Grant delivered the Financial Performance Update. He stated the third quarter performance review showed the starting market value was \$2.5 million, debt outflows of \$2,445, return on investment of \$142,000, with the ending market value of \$2.69 million. The asset allocation remains close to strategic targets to mitigate volatility. Real estate has been added to the portfolio. The team continues to prioritize maintaining strategic targets during periods of market uncertainty. Vice President Corneille inquired about how real estate falls into the benchmark. Mr. Grant advised that real estate would be considered a tactical asset allocation. Within the Investment Policy statement, there is a percentage to “Other Growth” however that percentage is zero. There is no strategic allocation to real estate so you won’t see it on the benchmark but you will see it within your portfolio.

4. FINANCIAL STATUS UPDATE

Ms. Quiroga directed the Board to Package Page 10 and provided an overview of the financial status for the quarter. She stated as of the last meeting, SP Deerfield owed \$3,942.41. This payment has since been received. The District made its first Promissory Note payment for fiscal year 2023-24, totaling \$91,000. A payment of \$2,175 was made to Mike Romich for bioservices under the BLM Fuels Management Grant. Under our investments with US Bank, accrued income, interests and dividends were \$8,522, unrealized gains from July-September were \$131,757.89, realized gains were just over \$2,000. Expenses included US Bank fees of \$875.00 and PFM advisory fees of \$1,569.52, at approximately 0.4% of the balance. Our accounts receivable remains the same. Under liabilities, habitat management implementation costs for July-September are \$64,430 increasing total due to the District to \$1,097,759. Total liabilities including unearned mitigation credits is \$1,264,163.

Under our mitigation agreements, work completed for the S-P Deerfield project totaled \$14,491. We are awaiting a \$25,000 payment to cover this and future expenses. No new updates for Highland-Fifth Orange Partners. Just 15 minutes of staff time was charged against their deposit. Work completed on the SBCTA mitigation agreement includes staff time costs of \$3,320 and legal fees of \$851. Reimbursement to the District due for these agreements is \$16,988.41.

A motion was made by Director Earsom and seconded by President Longville to approve the Financial Status Update for the quarter as presented. The motion carried 3-0-1 with all Directors present voting in the affirmative.

**President Longville: Yes
Vice President Corneille: Yes
Director Earsom: Yes
Director Kielhold: Absent**

5. BUREAU OF RECLAMATION GRANT

Mr. Mitrovich provided information on the award of the Bureau of Reclamation's WaterSMART Applied Science Grant, as detailed in the meeting packet. He stated the federal award of \$361,117 is designated to support the San Bernardino Valley Water Conservation District in achieving the grant's objectives. The Trust will serve as a vehicle for managing the grant, similar to its role in administering the Bureau of Land Management Fuels Management Grant. Leveraging its nonprofit status, the Trust will receive and distribute the grant funds to the District and the subcontractor, CSU Sacramento, without retaining any funds for itself while overseeing their administration. This project, initiated by the District, benefits from the Trust's efficient structure, which ensures compliance and effective fund distribution in alignment with Federal award requirements. Mr. Cosgrove provided additional details on the WaterSMART Grant Administration. The District was the original applicant for the grant, which supports work related to the basin. Due to Federal funding processes and the pre-existing account of the Trust with the grant-awarding authority, the Federal Government requested that the Trust function as the awardee to ensure seamless processing and avoid jeopardizing the funding. While the District initiated the grant application, the Trust was designated as the recipient to facilitate compliance and administration.

Staff recommended the Board approve the following three action items to ensure the successful administration and execution of the grant project.

1. **Trust as the Awardee:** Approve designating the Trust as the grant recipient, meeting the requirements outlined in the agreement provided in the packet.
2. **Grant Agreement:** Approve the agreement attached to the meeting packet to formalize the Trust's role.
3. **Subaward Agreement:** Authorize Executive Director Milan to enter into a subaward agreement with Sacramento State.

A motion was made by Vice President Corneille and seconded by President Longville to approve the three actions as recommended by staff. The motion carried 3-0-1 with all Directors present voting in the affirmative.

**President Longville: Yes
Vice President: Yes
Director Earsom: Yes
Director Kielhold: Absent**

6. BUREAU OF LAND MANAGEMENT FUELS MANAGEMENT GRANT

Dr. Mitrovich provided an update on Federal grants, highlighting two key awards: the Bureau of Reclamation Integrated Santa Ana River Model grant for \$361,117 (August 2024 award date, two-year term 2024–2026) and the Bureau of Land Management Fuels Management grant for \$819,500 (2023 award date, five-year term 2023–2028). The Trust serves as the vehicle for managing these funds, leveraging its nonprofit status to ensure compliance and effective execution while collaborating with the District and partners. The Bureau of Reclamation grant focuses on integrated water resource management, while the Bureau of Land Management grant supports wildfire fuels management, species conservation, and land enhancement projects in partnership with BLM.

Dr. Mitrovich emphasized the Trust's role in successfully securing and managing federal funds, noting that \$704,000 of the BLM grant has already been allocated, providing financial security through year four of the five-year term. Approximately \$150,000 has been spent to date, aligning with anticipated project milestones. Future flexibility allows for potential additional funding based on performance and agency relationships.

The District is working to establish the infrastructure to manage similar grants independently by 2025. Until then, the Trust remains essential for federal fund administration. A \$400,000 grant application for reimbursement of prior projects is still pending, and readiness for its management is under consideration.

Director Longville inquired about project implementation. Dr. Mitrovich clarified that the work is primarily conducted through contracted services, with modest reimbursement for District staff time. The partnership with BLM involves shared learning and mutual support for managing the Wash, addressing fire risks, and enhancing habitats for threatened species. The collaborative effort includes innovative approaches such as sand reception and redistribution and mechanical scraping. The project exemplifies an effective partnership between federal and local entities.

7. FIFTH BOARD POSITION AND SAN MANUEL BAND OF MISSION INDIANS

Dr. Mitrovich provided an update on discussions regarding the potential expansion of the Board to include a fifth member, specifically a representative from the San Manuel Band of Mission Indians. While the agenda initially included a request for Board approval to proceed, recent conversations with San Manuel representatives indicated they are not currently in a position to move forward with this due to capacity constraints. Dr. Mitrovich emphasized that this is not a time-sensitive matter and highlighted the mutual respect and appreciation for the strong relationship between the Trust, the District, and San Manuel. He affirmed that the relationship continues to strengthen and expressed his support for expanding the Board when San Manuel is ready to engage formally.

Vice President Corneille inquired about San Manuel's readiness, to which Mr. Cosgrove explained that capacity constraints, including limited staffing resources and numerous organizational commitments, are the primary factors. Director Longville and others expressed strong support for the initiative, noting that no formal motion is required at this time, as it remains an update.

8. INTEREST SHARING AGREEMENT WITH SAN BERNADINO VALLEY WATER CONSERVATION DISTRICT

Mr. Cosgrove presented Agenda Item 8, requesting the Board's approval of the Interest Sharing Agreement between the Trust and the San Bernardino Valley Water Conservation District. He provided background information. In 2017, when the Trust was formed, an Administrative Services Agreement was established between the Trust and the District. Since the Trust does not have independent staff, the agreement allowed the Trust to utilize District staff on a reimbursable basis at the District's hourly rates. Additionally, the Trust was required to repay the District for issuance costs—expenses incurred by the District to secure the Wash Plan permits. These costs were to be repaid as the Trust collected proportional shares from participants applying for certificates of inclusion.

Originally, the agreement envisioned regular invoicing and 30-day repayment terms. However, as permitting for the Wash Plan became more protracted, staff determined it was more practical for the Trust to hold the funds, given that it could earn higher interest rates than the District. This arrangement, while reflected transparently in financial reports, had not been formalized. In early 2024, the District requested repayment, and the Trust responded by paying \$1.125 million in principal and an additional \$160,466.23 in March to cover the interest the District would have earned on the principal, ensuring the District was made whole. The Trust, by earning higher interest rates, retained an additional \$58,418 in interest, benefiting its financial position. The proposed Interest Sharing Agreement formalizes these past transactions and establishes a mechanism to repeat this process in the future, should a similar need arise.

A motion was made by Director Earsom and seconded by Vice President Corneille to approve and authorize the Board President to execute the Interest Sharing Agreement between the San Bernadino Trust and the San Bernadino Valley Water Conservation District, ratifying and formalizing the entities' prior informal agreement re the forbearance by the District on behalf of the Trust which will permit payment to the District of an equivalent amount of interest the District would otherwise have realized from the average return on District investments over that time period and permit the Trust to retain any interest above this amount, upon mutual agreement by District and Trust. In addition, the Interest Sharing Agreement ratifies prior practice by both the Trust and District consistent with this arrangement. The motion carried 3-0-1 with all Directors present voting in the affirmative.

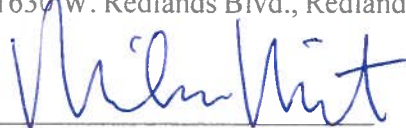
**President Longville: Yes
Vice President Corneille: Yes
Director Earsom: Yes
Director Kielhold: Absent**

9. ADJOURN MEETING –3:01 pm.

A motion was made by Director Earsom and seconded by President Longville to adjourn the meeting. The motion carried 3-0-1 with all Directors present voting in the affirmative.

**Director Longville: Yes
Director Earson: Yes
Director Corneille: Yes
Director Kielhold: Absent**

The next Conservation Trust Board of Director's meeting will be held on Wednesday, January 15, 2025, at 2:00 pm at 1630 W. Redlands Blvd., Redlands, CA, via teleconference and Zoom.



Milan Mitrovich
Executive Officer/Secretary