

Finance & Audit Committee Meeting



YOUR BEST PROTECTION

ACWA JPIA Executive Conference Room
2100 Professional Drive
Roseville, CA 95661

Monday
September 17, 2018
1:00 P.M.

Chairman: Kevin Phillips, Paradise Irrigation District

Vice-chair: Carrie Corder, Cucamonga Valley Water District

Marlene Kelleher – Vista Irrigation District

Suha Kilic, Pebble Beach Community Services District

Dennis Michum, Glenn-Colusa Irrigation District

Steve Ruettgers, Kern County Water Agency

Jim Smith, Wheeler Ridge-Maricopa Water Storage District



FINANCE & AUDIT COMMITTEE MEETING

AGENDA

JPIA Executive Conference Room
2100 Professional Drive, Roseville, CA 95661
(800) 231-5742 - WWW.ACWAJPIA.COM

Monday, September 17, 2018, 1:00 P.M.

WebEx call-in: (855) 749-4750; Access code: 801 566 953; Password: 1234

This meeting shall consist of a simultaneous WebEx teleconference call at the ACWA JPIA, 2100 Professional Drive, Roseville, CA 95661 and the following remote sites:

- Corder – 10440 Ashford Street, Rancho Cucamonga
- Ruettgers – 3200 Rio Mirada Drive, Bakersfield

WELCOME

CALL TO ORDER AND ANNOUNCEMENT OF QUORUM

ANNOUNCEMENT RECORDING OF MEETING This meeting may be recorded to assist in preparation of minutes. Recordings will only be kept 30 days following the meeting, as mandated by the California Brown Act.

EVACUATION PROCEDURES

PUBLIC COMMENT Members of the public will be allowed to address the Finance and Audit Committee on any agenda item prior to the Committee's decision on the item. They will also be allowed to comment on any issues that they wish which may or may not be on the agenda. If anyone present wishes to be heard, please let the Chairman know.

INTRODUCTIONS

ADDITIONS TO OR DELETIONS FROM THE AGENDA

<u>Presenter</u>		<u>Page#</u>
Phillips	I. *Approve the minutes of the meeting of March 19, 2018.	1
All	II. Report on meetings attended on behalf of the JPIA.	
Meacham	III. *Long-term Investment Portfolio update.	5
deBernardi	IV. *Review and make recommendation on the Investment Policy.	6

<u>Presenter</u>		<u>Page#</u>
Sells	V. *Update and review Captive Status Report	24
Phillips	VI. Announce next meeting date: April 1, 2019 (pending Executive Committee approval, September 18, 2018)	25

ADJOURN

*Related items enclosed.

Americans With Disabilities Act – *The JPIA conforms to the protections and prohibitions contained in Section 202 of the Americans with Disabilities Act of 1990 and the Federal Rules and Regulations adopted in implementation thereof. A request for disability-related modification or accommodation, in order to participate in a public meeting of the JPIA, shall be made to: Cece Reynolds, Accountant II, ACWA JPIA, PO Box 619082, Roseville, CA 95661-9082; telephone (916) 786-5742. The JPIA's normal business hours are Monday – Friday, 7:30 a.m. to 4:30 p.m. (Government Code Section 54954.2, subdivision. (a)(1).)*

Written materials relating to an item on this Agenda that are distributed to the JPIA's Finance and Audit Committee within 72 hours before it is to consider the item at its regularly scheduled meeting will be made available for public inspection at ACWA JPIA, 2100 Professional Drive, Roseville, CA 95661-3700; telephone (916) 786-5742. The JPIA's normal business hours are Monday – Friday, 7:30 a.m. to 4:30 p.m.



Unapproved Minutes

Finance & Audit Committee Meeting

ACWA JPIA Executive Conference Room
2100 Professional Drive,
Roseville, CA 95661
(800) 231-5742

March 19, 2018

This meeting consisted of a simultaneous WebEx teleconference call at the ACWA JPIA, 2100 Professional Drive, Roseville, CA 95661 and the following remote sites:

- Corder – 10440 Ashford Street, Rancho Cucamonga
- Ruetters – 3200 Rio Mirada Drive, Bakersfield
- Smith – 3200 Rio Mirada Drive, Bakersfield

MEMBERS PRESENT

Chairman: Tom Scaglione, Vallecitos Water District
Carrie Corder, Cucamonga Valley Water District *(via WebEx)*
Suha Kilic, Pebble Beach Community Services District
Dennis Michum, Glenn-Colusa Irrigation District
Kevin Phillips, Paradise Irrigation District *(joined meeting at 2:35 p.m.)*
Steve Ruetters, Kern County Water Agency *(via WebEx)*
Jim Smith, Wheeler Ridge-Maricopa Water Storage District *(via WebEx)*

MEMBERS ABSENT

None.

STAFF PRESENT

Chief Executive Officer/Secretary: Walter “Andy” Sells
Carol Barake, Risk Management Program Manager
Linda Craun, Administrative Assistant II
David deBernardi, Director of Finance
Robert Greenfield, General Counsel
Cece Reynolds, Accountant II (Recording Secretary)
Patricia Slaven, Director of Human Resources and Administration
Sandra Smith, Employee Benefits Manager
Dan Steele, Lead Accountant
Dianna Sutton, Finance Manager
Karen Thesing, Director of Insurance Services
Bobbette Wells, Executive Assistant to the CEO

OTHERS IN ATTENDANCE

Thomas Cuquet, South Sutter Water District
David Drake, Rincon del Diablo Municipal Water District
E.G. “Jerry” Gladbach, Castaic Lake Water Agency

David Hodgin, Scotts Valley Water District
 W.D. "Bill" Knutson, Yuima Municipal Water District
 Melody McDonald, San Bernardino Valley Water Conservation District
 Gaby Olson, Valley Center Municipal Water District
 Bruce Rupp, Humboldt Bay Municipal Water District (*via WebEx*)
 Kathy Tiegs, Cucamonga Valley Water District
 Kevin Wong, Gilbert Associates, Inc.

WELCOME

Chairman Scaglione welcomed everyone in attendance.

CALL TO ORDER AND ANNOUNCEMENT OF QUORUM

Chairman Scaglione called the meeting to order at 1:00 pm. He announced there was a quorum.

ANNOUNCEMENT RECORDING OF MINUTES

Chairman Scaglione announced that the meeting would be recorded to assist in preparation of minutes. Recordings are only kept 30 days following the meeting, as mandated by the California Brown Act.

PUBLIC COMMENT

Chairman Scaglione noted that, as the agenda stated, members of the public would be allowed to address the Finance & Audit Committee on any agenda item prior to the Committee's decision on that item. Comments on any issues on the agenda, or not on the agenda, were also welcomed. No comments were brought forward.

INTRODUCTIONS

Chairman Scaglione introduced everyone in attendance.

ADDITIONS TO OR DELETIONS FROM THE AGENDA

Chairman Scaglione asked for any additions to, or deletions from, the agenda; none requested.

APPROVAL OF MINUTES

Chairman Scaglione called for approval of the minutes of the November 27, 2017 meeting.

M/S/C (Kilic/Michum) (Corder-Yes; Kilic-Yes; Michum-Yes; Ruettgers-Yes; Smith-Yes; Scaglione-Yes): That the Finance & Audit Committee approve the minutes of the November 27, 2017 meeting, as presented.

MEETINGS ATTENDED ON BEHALF OF THE JPIA

None reported.

AUDIT UPDATE FOR YEAR ENDING SEPTEMBER 30, 2017

Mr. deBernardi relayed that each year, the JPIA provides for an independent audit of the JPIA's financial statements. Mr. deBernardi introduced Kevin Wong, Gilbert

Associates, to review the audit. Gilbert Associates performed the annual audit of the JPIA for the fiscal year of October 1, 2016 through September 30, 2017.

Historically the audit report is presented to the Finance & Audit Committee for review and input at the first meeting of the calendar year.

Mr. Wong presented an addendum to the agenda discussing the importance of communications with those charged with Governance. Mr. Wong praised the level of preparation by management and staff relaying that the JPIA was the most prepared of any previous client. Mr. Wong presented an overview of the audit process and the use of Suralink, a cloud based document exchange tool being utilized to complete the audit.

The JPIA received an unmodified opinion. The drafted opinion stated that the financial statements presented fairly, in all material respects, the financial position of the JPIA as of September 30, 2017, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As in previous years, the JPIA prepared a Comprehensive Annual Financial Report (CAFR) in accordance with the Government Finance Officers Association (GFOA) standards. Management intends to submit this report to the GFOA for review in order to again obtain a Certificate of Achievement for Excellence in Financial Reporting. Consequently, the annual report has additional reports therein to meet these high standards.

The auditors did not recommend any changes to the document and commended staff on the quality of reporting in the document.

Mr. Wong, presented the Audited Financial Statements. The Finance & Audit and Executive Committee members in attendance were given the opportunity to speak to the auditor without staff present. Staff was excused from the meeting at 1:50 p.m. for a confidential discussion.

M/S/C (Kilic/Michum) (Corder-Yes; Kilic-Yes; Michum-Yes; Ruettgers-Yes; Smith-Yes; Scaglione-Yes): That the Finance & Audit Committee approve the Audited Financial Statements for year ending September 30, 2017, and forward to the Executive Committee for approval, with final approval of the Board of Directors at Spring Conference.

PROPOSED OPERATION BUDGET FOR FISCAL YEAR 2018-19

Mr. deBernardi explained in March of each year, a proposed Operating Budget is submitted to the Finance & Audit Committee and then to the Executive Committee for approval. At the May Conference, the proposed Operating Budget is presented for approval to the Board of Directors. The budget covers General & Administrative (G&A) Expenses for the fiscal year ending September 30, 2019.

The most significant changes to the G&A budget for the fiscal year are staff employee benefits, computer equipment, software and office furniture, and external claims administration. Staff employee benefits increase is due to an addition of \$1.1 million for the anticipated change in the net pension obligation for pensions. This anticipated increase is due to a lowering of the CalPERS discount rate. Computer equipment, software, office furniture decrease is due to the JPIA no longer using Castlight software in the Employee Benefits Program.

For external claims administration, the decrease is due to significant taxes related to the Affordable Care Act phasing out.

The overall increase in the Operating Budget is 10.9%. Salaries remain the largest line item in the budget. One additional position is included in the budgeted salaries.

M/S/C (Ruetters/Corder) (Corder-Yes; Kilic-Yes; Michum-Yes; Ruetters-Yes; Smith-Yes; Scaglione-Yes): That the Finance & Audit Committee approve the proposed Operating Budget for the fiscal year ending September 30, 2019, as presented, and forward to the Executive Committee for approval, with final approval from the Board of Directors at Spring Conference.

CAPTIVE INSURANCE UPDATE

Mr. Sells relayed that the Executive Committee had set a 2018 organizational goal for JPIA staff to research and evaluate the possibility of creating a Captive Insurance Company; staff has begun the process.

A Captive is an insurance company wholly owned by the parent that underwrites the insurance needs of the organization with a separate Board of Directors. The Captive would be domiciled out of state and would follow the requirements of that states insurance department. Establishing a Captive would better utilize assets, provide greater flexibility in managing retentions/limits/market fluctuations, and create a layer of protection for potential adverse State of California actions. Next steps will be to send a request for proposal for a feasibility study, identify structure of board and management, and to create an operational plan.

MISCELLANEOUS

Future Agenda Items

None stated.

Availability for Upcoming Meeting(s):

The next scheduled Finance & Audit Committee meeting is scheduled for September 17, 2018 at 1:00 p.m. No conflicts were noted.

The Finance & Audit Committee meeting adjourned at 2:58 p.m.

ACWA JPIA
Long-term Investment Portfolio Update
September 17, 2018

BACKGROUND

In November 2008, PFM Asset Management, Inc. began managing approximately two-thirds of the JPIA's Investment Portfolio.

CURRENT SITUATION

Sarah Meacham of PFM Asset Management, Inc. will present a summary of the Investment Portfolio that they manage. This presentation will include commentary on the current market and thoughts about managing the investments going forward.

RECOMMENDATION

None, informational only.

ACWA JPIA
Investment Policy Update
September 17, 2018

BACKGROUND

The current investment policy was approved by the Board of Directors in December 2017. The current investment policy was also certified in the spring of 2018 by the California Municipal Treasures Association under their Investment Policy Certification Program.

Every year, per the JPIA Bylaws, the investment policy must be approved by the Board of Directors.

CURRENT SITUATION

After review by staff and the JPIA's investment advisor, there are some proposed changes summarized in an attached memo from PFM. Staff intends to submit the investment policy to the California Municipal Treasurers Investment Policy Certification Program for certification.

RECOMMENDATION

That the Finance & Audit Committee recommends that the Executive Committee approve the changes to the Investment Policy, as presented, and forward for final approval to the Board of Directors.



August 31, 2018

Memorandum

To: David deBernardi, Director of Finance
Association of California Water Agencies Joint Powers Insurance Authority

From: Sarah Meacham, Managing Director
Richard Babbe, Senior Managing Consultant
PFM Asset Management LLC

Re: 2018 Investment Policy Review

We completed our annual review of the Association of California Water Agencies Joint Powers Insurance Authority ("Authority") Investment Policy ("Policy"). As written, the Policy is comprehensive and is in compliance with the California Government Code ("Code") sections that govern the investment of public funds. Furthermore, there have not been any Code changes that would require changes to the Policy.

Although no changes are required, we are recommending the Authority consider various revisions to the Policy that we believe will clarify the policy's requirements and address the CMTA policy review comments. Our recommendations are summarized below by Policy section. In addition, we have attached a marked up version of the Policy to illustrate our recommended changes.

ETHICS AND CONFLICTS OF INTEREST

As suggested by the CMTA review, we recommend the Authority incorporate additional language to this section that will provide for the disclosure of potential conflicts of interest.

PERMISSIBLE INVESTMENTS – Multiple Subsections

As suggested by the CMTA review, we recommend that the Authority incorporate sector limits in each subsection to provide consistency across permitted investment types.

For consistency across the Policy, we recommend the Authority use the abbreviation NRSRO to refer to Nationally Recognized Statistical Rating Organizations after the term is defined in the Policy.

PERMISSIBLE INVESTMENTS – FDIC Insured Deposits

As the collateralization of deposits is addressed in multiple subsections in the Deposit of Funds Article of the Government Code, we recommend for clarity that the Policy refer to the Article in general rather than to one specific subsection.

Although the CMTA review recommended listing a specific collateralization percentage in this section, our recommendation is that, unless it is the Authority's intention to restrict collateral to a specific class, the Authority refer to the Code provision in general to provide the Authority with additional investment flexibility. The Code provides for three classes of collateral with different levels of over collateralization: 105%, 110%, and 150%.



To provide the Authority additional investment flexibility, we recommend that the Authority consider removing the requirement that restricts deposits to FDIC insurance limit. As the Policy requires deposits to be collateralized in excess of FDIC insurance limits, the Authority will retain a high degree of protection against loss even in excess of FDIC insurance limits.

PERMISSIBLE INVESTMENTS – Local Government Investment Pools

As a minor update, we recommend the Authority update the reference to 53601(o) to 53601(q). The Code references were updated several years ago when supranationals were added to the Government Code as a permitted investment.

PERMISSIBLE INVESTMENTS – Repurchase Agreements

As a minor update, we recommend the Authority change the reference to PSA agreements to SIFMA agreements. The PSA was incorporated into SIFMA several years ago.

PERMISSIBLE INVESTMENTS – Bank Deposits

The Code references currently listed in the Policy refer to the State's use of banks and credit unions. As a minor correction, we recommend the Authority change the Code reference to the deposit of funds section (53630 et seq.) that applies to local agencies.

As bank deposits are required by the Government Code to be collateralized, we recommend that the Authority include a specific reference to these requirements in this section.

INVESTMENT POOLS

As recommended in the CMTA review, we recommend that the Authority further clarify the Policy's review requirements for investment pools.

INTERNAL CONTROLS

As recommended in the CMTA review, we recommend that the Authority further clarify the Policy's requirements for internal controls.

SAFEKEEPING/CUSTODY

As recommended in the CMTA review, we recommend that the Authority specify in the Policy the requirement for a written custody agreement. Consistent with the intent of the Policy, we recommend that the provision only apply to deliverable securities.

REVIEW OF INVESTMENT PORTFOLIO

As recommended in the CMTA review, we recommend that the Authority clarify the Policy's requirements for periodically reviewing the investment portfolio.

Please let us know if you have any questions or if you would like to discuss further.

**ASSOCIATION OF CALIFORNIA WATER AGENCIES
JOINT POWERS INSURANCE AUTHORITY**

INVESTMENT POLICY

Revised: 09/2017 - Approved: 11/2017

INVESTMENT POLICY

OBJECTIVE

The objectives of the Investment Policy of the Association of California Water Agencies Joint Powers Insurance Authority (JPIA or Authority) are as follows, in order of priority.

- (1) Safeguard the principal of the funds under its control by maintaining an appropriate risk level.
- (2) Meet the liquidity needs of the Authority.
- (3) Achieve an optimum rate of return (defined as income plus realized and unrealized capital gains and losses) on available assets (not required for current operating needs), commensurate with an appropriate level of risk.

SCOPE

Except for funds held in the JPIA's working bank accounts used for the daily operations and any retirement funds held in a trust, it is intended that this policy cover investment funds and activities of the Authority.

DELEGATION OF AUTHORITY

Section 53600, et seq. of the Government Code provide legal authorization and reporting requirements for the investment of funds of local agencies when applicable. All investments of the JPIA shall conform to the restrictions of these laws. In accordance with Section 53607 the authority to invest or reinvest the funds of the Authority is delegated to the Treasurer of the JPIA for a one-year period. Each year the Authority's Board of Directors meets at the ACWA Spring and Fall Conference and therein delegates its authority to invest funds to the Authority's Treasurer, who shall thereafter assume full responsibility for those transactions until the delegation of authority is revoked or expires.

PRUDENCE

All participants in the investment process shall recognize that the investment portfolio is subject to the prudent investor standard as set forth by California Government Code and to public review and evaluation and shall seek to act responsibly as fiduciaries of the public trust. The prudent investor standard states 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 Authority, that a prudent person acting 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 Authority.

ETHICS AND CONFLICTS OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial decisions. [Employees and investment officials shall disclose to the Chief Executive Officer any material financial interests in financial institutions that conduct business within their jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the Authority.](#)

PERMISSIBLE INVESTMENTS

An appropriate risk level shall be maintained by primarily purchasing securities that are of high quality, liquid, and marketable. See table on page 6 for further limits.

The classes of investments that most adequately meet the criteria for purchases are listed as follows.

1. United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest.

[There is no limit as to the amount of the Authority's investment portfolio that may be invested in this category.](#)

2. Federal agency or United States government-sponsored enterprise 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.

[There is no limit as to the amount of the Authority's investment portfolio that may be invested in this category.](#) No more than 50% of the Authority's investment portfolio may be invested in any one federal agency.

3. Registered state warrants or treasury notes or bonds of this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of the state. Obligations eligible for investment under this subdivision must be rated in a rating category "A" or its equivalent or better by a Nationally Recognized Statistical Rating Organization (NRSRO).

[There is no limit as to the amount of the Authority's investment portfolio that may be invested in this category.](#)

4. Registered treasury notes or bonds of any of the other 49 states in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 states, in addition to California. Obligations eligible for investment under this subdivision must be rated in a rating category "A" or its equivalent or better by a NRSRO.

[There is no limit as to the amount of the Authority's investment portfolio that may be invested in this category.](#)

5. Bonds, notes, warrants, or other evidences of indebtedness of a local agency within this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency. Obligations eligible for investment under this subdivision must be rated in a rating category "A" or its equivalent or better by a NRSRO.

There is no limit as to the amount of the Authority's investment portfolio that may be invested in this category.

6. Bankers' Acceptances issued by domestic or foreign banks, which are eligible for purchase by the Federal Reserve System, the short-term paper of which is rated in the highest rating category as provided for by a NRSRO.

Purchases of Bankers' Acceptances may not exceed 180 days maturity or 20% of the Authority's investment portfolio.

7. Commercial paper rated in the highest letter and number rating as provided for by an ~~nationally recognized statistical rating organization~~ (NRSRO). The entity that issues the commercial paper shall meet all of the conditions in either paragraph (a) or (b):
 - a. The entity meets the following criteria:
 - (i) Is organized and operating in the United States as a general corporation.
 - (ii) Has total assets in excess of five hundred million dollars (\$500,000,000).
 - (iii) Has debt other than commercial paper that, if any, is rated in a rating category "A," its equivalent or higher by an NRSRO ~~nationally recognized statistical rating organization~~.
 - b. The entity meets the following criteria:
 - (i) Is organized within the United States as a special purpose corporation, trust, or limited liability company.
 - (ii) Has program wide credit enhancements including, but not limited to, overcollateralization, letters of credit, or surety bond.
 - (iii) Has commercial paper that is rated in a rating category "A-1" or higher, or the equivalent, by an NRSRO ~~nationally recognized statistical rating organization~~ (NRSRO).

Purchases of eligible commercial paper may not exceed 270 days maturity and may not represent more than 10% of the outstanding paper of an issuing corporation.

Purchases of commercial paper may not exceed 25% of the Authority's investment portfolio.

8. Medium-term notes, defined as all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Medium-term corporate notes shall be rated in a rating category "A", its equivalent, or better by an NRSRO ~~nationally recognized statistical rating service~~.

Purchase of medium-term corporate notes may not exceed 30% of the Authority's investment portfolio.

9. Negotiable certificates of deposit or deposit notes issued by a nationally or state-chartered bank or a state or federal savings and loan association or by a federally- or state-licensed branch of a foreign bank; provided that the senior debt obligations of the issuing institution are rated in a rating category "A", its equivalent, or better by an NRSRO ~~nationally recognized statistical rating service.~~

Purchase of negotiable certificates of deposit may not exceed 30% of the Authority's investment portfolio.

10. FDIC insured or fully collateralized time certificates of deposit (Time CDs) in financial institutions located in California, including U.S. branches of foreign banks licensed to do business in California. All time deposits must be collateralized in as specified under Government Code Section 53630 et seq. The Treasurer, at their discretion, may waive the collateralization requirements for any portion that is covered by federal deposit insurance ~~accordance with California Government Code section 53561.~~

~~No more than the FDIC-insured amount may be invested in the Time CDs of one financial institution.~~

11. Local Government Investment Pools (LGIP). Shares of beneficial interest issued by a joint powers authority organized pursuant to Government Code Section 6509.7 that invests in the securities and obligations authorized in subdivisions (a) to (e) of Government Code Section 53601, inclusive. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible under this section, the joint powers authority issuing the shares shall have retained an investment adviser that meets all of the following criteria:
 - a. The adviser is registered or exempt from registration with the Securities and Exchange Commission.
 - b. The adviser has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (e) Government Code Section 53601, inclusive.
 - c. The adviser has assets under management in excess of five hundred million dollars (\$500,000,000).

The purchase price of shares shall not exceed 50% of the investment portfolio of the Authority.

12. State of California's Local Agency Investment Fund (LAIF). Investment in LAIF may not exceed the lesser of the limit established by LAIF or 50% of the portfolio and should be reviewed periodically. (Government Code § 16429.1)
13. Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1,

et seq.). To be eligible for investment pursuant to this subdivision these companies shall either: (1) attain the highest ranking letter or numerical rating provided by not less than two of the three largest nationally recognized rating services or (2) have an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years of experience managing money market mutual funds and with assets under management in excess of \$500,000,000.

The purchase price of shares shall not exceed 20% of the investment portfolio of the Authority.

14. Repurchase Agreements used solely as short-term investments not to exceed 92 days.

The Authority may enter into Repurchase Agreements with primary dealers in U.S. Government securities who are eligible to transact business with, and who report to, the Federal Reserve Bank of New York.

The following collateral restrictions will be observed: Only U.S. Treasury securities or Federal Agency securities, as described in this section, will be acceptable collateral. All securities underlying Repurchase Agreements must be delivered to the Authority's custodian bank versus payment or be handled under a properly executed tri-party repurchase agreement. The total market value of all collateral for each Repurchase Agreement must equal or exceed, 102% of the total dollar value of the money invested by the Authority for the term of the investment. For any Repurchase Agreement with a term of more than one day, the value of the underlying securities must be reviewed at least weekly. Since the market value of the underlying securities is subject to daily market fluctuations, the investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102% no later than the next business day.

Market value must be calculated each time there is a substitution of collateral.

The Authority or its trustee shall have a perfected first security interest under the Uniform Commercial Code in all securities subject to Repurchase Agreement.

The Authority will have properly executed ~~a Public Securities Association (PSA)~~SIFMA agreement with each counter party with which it enters into Repurchase Agreements.

Purchases of repurchase agreements shall not exceed 20% of the investment portfolio of the Authority.

15. Supranationals. United States 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), with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated "AAA", its equivalent, or better by an NRSRO.

Purchases of supranationals shall not exceed 20% of the investment portfolio of the Authority.

16. Asset-Backed Securities. Mortgage pass-through securities, collateralized mortgage obligations, mortgage-backed or other pay-through bonds, equipment lease-backed certificates, consumer receivable pass-through certificates, or consumer receivable-backed bonds of a maximum of five years' maturity. Securities eligible for investment under this subdivision shall be issued by an issuer rated in a rating category "A," its equivalent, or higher rating for the issuer's debt as provided and rated in a rating category "AA" or its equivalent or better by at least one NRSRO.

Purchase of securities authorized by this subdivision may not exceed 20% of the Authority's total portfolio.

The JPIA shall also have the option of depositing funds with banks ~~(Government Code § 16500-16510)~~, savings and loans, and credit unions (Government Code § 53620 et seq. 16600-16609) as a means to complement the investment program when appropriate. The financial institutions shall have received an overall rating of not less than "satisfactory" in its most recent evaluation by the appropriate federal financial supervisory agency of its record of meeting the credit needs of California's communities as required by (Government Code § 53635.2). All bank deposits must be collateralized as specified under Government Code Section 53630 et seq. The Treasurer, at their discretion, may waive the collateralization requirements for any portion that is covered by federal deposit insurance.

LIMITATIONS/DIVERSIFICATION

Below is a table summarizing the maximum percentage and minimum credit quality required for each permissible investment type. Percent limitations shown are based on book value at time of purchase. Percentages may change after purchase as a result of withdrawals from the portfolio. Credit quality refers to the credit rating at the time the security is purchased. If an investment's credit rating falls below the minimum rating, the Treasurer will perform a timely review and decide whether to sell or hold the investment.

The average life of the total portfolio at any time shall not exceed four years. The maximum maturity for all investments, unless otherwise noted, is 5 years. U.S. Treasuries and Federal Agencies with maturities longer than 5 years may be purchased for specific purposes with the prior approval by the Executive Committee at least 90 days in advance of the purchase.

No more than 5% of the portfolio will be invested in any one issuer excluding U.S. Treasuries, Federal Agencies, supranationals, and investment pools (LAIF, LGIPs, and money market funds).

INVESTMENT TYPE	% OF INVESTMENT PORTFOLIO	% OF ISSUER REGARDLESS OF SECTOR	MAXIMUM MATURITY	MINIMUM RATING CATEGORY
US TREASURY	100%	100%	5 YEARS	
FEDERAL AGENCY	100%	50%	5 YEARS	
CALIFORNIA STATE OBLIGATIONS	100%	5%	5 YEARS	A
CALIFORNIA LOCAL GOVERNMENT OBLIGATIONS	100%	5%	5 YEARS	A
OTHER STATE OBLIGATIONS	100%	5%	5 YEARS	A
BANKERS' ACCEPTANCES	20%	5%	180 DAYS	Highest by NRSRO
COMMERCIAL PAPER	25%	5%	270 DAYS	Highest by NRSRO
MEDIUM TERM NOTES	30%	5%	5 YEARS	A
NEGOTIABLE CD'S	30%	5%	5 YEARS	A
TIME CDS	30%	FDIC/NCUA LIMITS	5 YEARS	BANKS/S&I/CU INSURED
LGIP	50%	N/A	-	AAAm
LAIF	50%	N/A	DAILY	N/A
MONEY MARKET FUNDS	20%	20%	-	TREASURY/ AGENCY ONLY
REPURCHASE AGREEMENTS	20%	20%	92 DAYS	Primary Dealer
SUPRANATIONALS	20%	20%	5 YEARS	AAA
ASSET-BACKED SECURITIES	20%	5%	5 YEARS	AA

INVESTMENT POOLS

Prior to investing in any pooled investment program and at least ~~The Authority shall perform an~~ annually thereafter, the Authority shall perform a review of the investment policy and portfolio of any investment pools in which the Authority invests, including LAIF and LGIPs. In addition, the Treasurer shall maintain on file a copy of the pool's current disclosure document describing the program.

PROHIBITED INVESTMENTS

The Authority shall not invest in inverse floaters, range notes, mortgage derived interest-only strips, or in any security that could result in zero earnings accrual if held to maturity, and any investment not expressly authorized in the Government Code.

The Authority is prohibited from investing in securities unless specifically permitted by this Investment Policy.

TRADING

The Authority shall not make investments for the purpose of trading or speculation as the dominant criterion such as anticipation of appreciation of capital value through changes in market rates.

BORROWING

Any borrowing in the amount of one hundred thousand dollars or more shall be considered and deliberated as a separate item of business on the agenda of the JPIA's Executive Committee. Borrowing does not include bank overdrafts.

INTERNAL CONTROLS

The Treasurer shall establish and maintain a system of internal controls designed to ensure that the assets of the Authority are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgment by management. The internal controls should include references to safekeeping, master repo agreements, wire transfer agreements, banking service contracts, collateral/depository agreements, and other investment related activities as applicable.

Accordingly, the Treasurer shall establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with policies and procedures.

COLLATERALIZATION

Collateralization for repurchase agreements and non-negotiable Certificates of Deposit shall be required in accordance with state law.

SAFEKEEPING/CUSTODY

Investment securities are to be purchased when possible in book-entry form in the Authority's name. All deliverable securities owned by the Authority shall be held in safekeeping by a third party bank trust department acting as agent for the Authority under the terms of a written custody agreement executed by the bank and the Authority. ~~Investments shall be held in safekeeping at the designated third-party financial institution where the Authority has established a safekeeping account.~~ All investment transactions require the bank to provide a safekeeping receipt or acknowledgment generated from the trade. All security transactions, including collateral for repurchase agreements, entered into by the Authority shall be conducted on a delivery-versus-payment (DVP) basis. The safekeeping institution is required to provide a listing all securities held in safekeeping with current market data and other information on a monthly basis.

The Executive Committee authorized Term and non-negotiable instruments, such as certificates of deposit, to be held by the Treasurer, or in safekeeping as the Treasurer deems appropriate.

PERFORMANCE STANDARDS

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs of the Authority. The Authority shall establish a performance benchmark. Benchmarks may change over time based on changes in market conditions, investment preferences, or cash flow requirements.

AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

If an investment advisor is authorized to initiate investment transactions on the Authority's behalf, the investment advisor may use its own list of approved broker/dealers and financial institutions for investment purposes. The investment advisor's approved list must be made available to Authority upon request.

For any investment transactions conducted by the Treasurer, a list will be maintained of approved security broker/dealers selected by creditworthiness (e.g., a minimum capital requirement of \$10,000,000 and at least five years of operation). These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule).

All broker/dealers who desire to become qualified for investment transactions must supply the following as appropriate:

- Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines
- Proof of Financial Industry Regulatory Authority (FINRA) certification (not applicable to Certificate of Deposit counterparties)
- Proof of state registration
- Completed broker/dealer questionnaire (not applicable to Certificate of Deposit counterparties)
- Certification of having read and understood and agreeing to comply with the Authority's investment policy.
- Evidence of adequate insurance coverage.

An annual review of the financial condition and registration of all qualified financial institutions and broker/dealers will be conducted.

For all investment transactions, the Authority or its investment advisor shall seek a minimum of three bids/offers from brokers and dealers on the Authority's or investment advisor's list of approved broker/dealers.

ADVISORS

The JPIA's Executive Committee shall pre-approve investment advisors given the authority to manage all or part of the JPIA investment portfolio prior to establishing a relationship.

REPORTING/REVIEW

The Treasurer shall render a monthly list of investment transactions to the Chief Executive Officer, the JPIA's Executive, and Finance & Audit Committees as required by the California Government Code §53607 when investment authority has been delegated by the Executive Committee. The Treasurer shall render a quarterly report incorporating the following:

- (1) For each investment, the report will describe the type of investment, issuer, date of maturity, par and dollar amount invested, yield to maturity, credit quality, duration and current market value as of the date of the report. Any managed funds shall be described in the quarterly report.
- (2) The quarterly report shall state compliance of the portfolio to the statement of the investment policy, or manner in which the portfolio is not in compliance.
- (3) The quarterly report shall include a statement denoting the ability of the Authority to meet its expenditure requirements for the next six months, or provide an explanation as why sufficient money shall, or shall not, be available.

The Treasurer shall review the Authority's portfolio for compliance at least annually. The Treasurer shall establish procedures to report to the Finance Committee incidences of noncompliance through the review of the portfolio.

REVIEW OF INVESTMENT PORTFOLIO NON-COMPLIANCE ISSUES

It is the intent of the JPIA that the Policy will be followed at all times. Because some securities may not comply with this Investment Policy's requirements subsequent to the date of purchase, the Treasurer shall at least annually review the portfolio to identify those securities that do not comply. If a non-compliance issue has been identified it shall be taken to the JPIA's Finance or Executive Committee at the next scheduled meeting. The Committee will determine if any action is needed. Investments or securities found not to be in compliance with this Investment Policy do not necessarily require immediate action.

INVESTMENT POLICY ADOPTION

The Treasurer shall render annually a statement of investment policy to the JPIA's Executive Committee for consideration and approval.

Glossary

Asset-backed securities (ABS) are securities whose income payments and hence value is derived from and collateralized (or "backed") by a specified pool of underlying assets which are receivables. Pooling the assets into financial instruments allows them to be sold to general investors, a process called securitization, and allows the risk of investing in the underlying assets to be diversified because each security will represent a fraction of the total value of the diverse pool of underlying assets. The pools of underlying assets can comprise common payments credit cards, auto loans, mortgage loans, and other types of assets. Interest and principal is paid to investors from borrowers who are paying down their debt.

Bankers' Acceptances are short-term credit arrangements to enable businesses to obtain funds to finance commercial transactions. They are time drafts drawn on a bank by an exporter or importer to obtain funds to pay for specific merchandise. By its acceptance, the bank becomes primarily liable for the payment of the draft at maturity. An acceptance is a high-grade negotiable instrument.

Broker-Dealer is a person or a firm who can act as a broker or a dealer depending on the transaction. A broker brings buyers and sellers together for a commission. They do not take a position. A dealer acts as a principal in all transactions, buying and selling for his own account.

Certificates Of Deposit

1. **Negotiable Certificates of Deposit** are large-denomination CDs issued in \$1 million increments. These securities have average trades in the secondary market of \$5 million to \$10 million. They are issued at face value and typically pay interest at maturity, if maturing in less than 12 months. CDs that mature beyond this range pay interest semi-annually. Negotiable CDs are issued by U.S. banks (domestic CDs), U.S. branches of foreign banks (Yankee CDs), and thrifts. There is an active secondary market for negotiable domestic and Yankee CDs. However, the negotiable thrift CD secondary market is limited. Yields on CDs exceed those on U.S. treasuries and agencies of similar maturities. This higher yield compensates the investor for accepting the risk of reduced liquidity and the risk that the issuing bank might fail. State law does not require the collateralization of negotiable CDs.
2. **Non-negotiable Certificates of Deposit** are time deposits with financial institutions that earn interest at a specified rate for a specified term. Liquidation of the CD prior to maturity incurs a penalty. There is no secondary market for those instruments, therefore, they are not liquid. They are classified as public deposits and financial institutions are required to collateralize them. Collateral may be waived for the portion of the deposits that are covered by FDIC insurance.

Collateral is securities, evidence of deposits, or other property that a borrower pledges to secure repayment of a loan. It also refers to securities pledged by a bank to secure deposits. In California, repurchase agreements, reverse repurchase agreements, and public deposits must be collateralized.

Commercial Paper is a short term, unsecured, promissory note issued by a corporation to raise working capital.

Delivery versus Payment (DVP) is a settlement system in which the transfer of securities and associated payment occur simultaneously. This ensures that the final transfer of the security occurs, if and only if, the final transfer of the associated payment (or other assets) occurs.

Federal Agency Obligations are issued by U.S. Government Agencies or Government Sponsored Enterprises (GSE). Although they were created or sponsored by the U.S. Government, most Agencies and GSEs are not guaranteed by the United States Government. Examples of these securities are notes, bonds, bills and discount notes issued by Fannie Mae (FNMA), Freddie Mac (FHLMC), the Federal Home Loan Bank system (FHLB), and Federal Farm Credit Bank (FFCB). The Agency market is a very large and liquid market, with billions traded every day.

Issuer means any corporation, governmental unit, or financial institution that borrows money through the sale of securities.

Liquidity refers to the ease and speed with which an asset can be converted into cash without loss of value. In the money market, a security is said to be liquid if the difference between the bid and asked prices is narrow and reasonably sized trades can be done at those quotes.

Local Agency Investment Fund (LAIF) is a special fund in the State Treasury that local agencies may use to deposit funds for investment. There is no minimum investment period and the minimum transaction is \$5,000, in multiples of \$1,000 above that, with a maximum of \$50 million for any California public agency. It offers high liquidity because deposits can be converted to cash in twenty-four hours and no interest is lost. All interest is distributed to those agencies participating on a proportionate share determined by the amounts deposited and the length of time they are deposited. Interest is paid quarterly via direct deposit to the agency's LAIF account. The State keeps an amount for reasonable costs of making the investments, not to exceed one-quarter of one per cent of the earnings.

Local Government Investment Pool (LGIP) is a collection of funds from various governmental entities invested in a common portfolio. Each investor earns interest proportional to their investment in the overall pool.

Market Value is the price at which a security is trading and could presumably be purchased or sold.

Maturity is the date upon which the principal or stated value of an investment becomes due and payable.

Medium-Term Notes are debt obligations issued by corporations and banks, usually in the form of unsecured promissory notes. These are negotiable instruments that can be bought and sold in a large and active secondary market. For the purposes of California Government Code, the term “Medium Term” refers to a maximum remaining maturity of five years or less. They can be issued with fixed or floating-rate coupons, and with or without early call features, although the vast majority are fixed-rate and non-callable. Corporate notes have greater risk than Treasuries or Agencies because they rely on the ability of the issuer to make payment of principal and interest.

Money Market Fund is a type of safe investment comprising a variety of short-term securities with high quality and high liquidity. The fund provides interest to shareholders and must maintain a stable net asset value (NAV) of \$1 per share.

Municipal Obligations are debt instruments issued by a state or local government unit or public agency. The vast majority of municipals are exempt from state and federal income tax, although some non-qualified issues are taxable.

Principal describes the original cost of a security. It represents the amount of capital or money that the investor pays for the investment.

Repurchase Agreements are short-term investment transactions. Banks buy temporarily idle funds from a customer by selling him U.S. Government or other securities with a contractual agreement to repurchase the same securities on a future date at an agreed upon interest rate. Repurchase Agreements are typically for one to ten days in maturity. The customer receives interest from the bank. The interest rate reflects both the prevailing demand for Federal Funds and the maturity of the Repo. Repurchase Agreements must be collateralized.

Supranationals are United States 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), with maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States.

U.S. Treasury Issues are direct obligations of the United States Government. They are highly liquid and are considered the safest investment security. U.S. Treasury issues include:

1. **Treasury Bills** that are non-interest-bearing discount securities issued by the U.S. Treasury to finance the national debt. Bills are currently issued in one, three, six, and twelve month maturities.

2. **Treasury Notes** that have original maturities of one to ten years.
3. **Treasury Bonds** that have original maturities of greater than 10 years.

Yield to Maturity is the rate of income return on an investment, minus any premium above par or plus any discount with the adjustment spread over the period from the date of the purchase to the date of maturity of the bond.

ACWA JPIA
Captive Status Report
September 17, 2018

BACKGROUND

The Executive Committee set an Organizational Goal for 2017/18 for staff to “Research and evaluate possibility of creating a Captive Insurance Company.

CURRENT SITUATION

Informational presentations were made at the Fall 2017 and Spring 2018 ACWA conferences. The anticipated process moving forward is:

1. Concept introduced to Board of Directors ACWA Conferences
2. Periodic updates to membership
3. Make regional presentations before the Fall 2018 conference
4. Present resolution to Board of Directors at 2018 Fall Conference
5. Finalize Business Plan and required documentation
6. Secure required professionals
7. Begin implementation October 1, 2019

A Request for Proposal was sent out in March, and Bickmore & Associates was selected to do a Feasibility Study. It is expected the feasibility study will be the bases of the final business plan.

Representatives from Bickmore will be at September Executive Committee meeting to present the highlights of the draft study.

RECOMMENDATION

None, informational only.

JPIA MEETING & CONFERENCE CALENDAR – 2018

MEETING DATES	BOARD OF DIRECTORS	EXECUTIVE	PERSONNEL	FINANCE & AUDIT	PROGRAMS				RISK MGMT
					Emp. Benefits	Liability	Property	Work Comp	
JAN 18			11:00 AM ONTARIO						
JAN 30		1:00 PM					10:00 AM		
MAR 5		10:30 AM							
MAR 19				1:00 PM					3:00 PM
MAR 20		8:30 AM							
APR 4					10:00 AM				
MAY 7	1:30 PM	10:15 AM						8:30 AM	
MAY 8	ACWA CONFERENCE MAY 8 TO 11 – SACRAMENTO								
MAY 30			11:00 AM JPIA						
JUN 4		11:00 AM							
JUL 9		1:00 PM			9:00 AM				
CAJPA CONFERENCE SEPTEMBER 12 TO 14 – SOUTH LAKE TAHOE CA									
SEP 17				1:00 PM		3:00 PM			
SEP 18		8:30 AM							
NOV 26	1:30 PM	8:30 AM							
NOV 27	ACWA CONFERENCE NOVEMBER 27 TO NOVEMBER 30 – SAN DIEGO								