

**DELTA CONVEYANCE FINANCE AUTHORITY  
BOARD OF DIRECTORS MEETING**

**REGULAR MEETING**

Thursday, August 16, 2018

11:00 a.m.

Sacramento Public Library, Tsakopoulos Library Galleria  
828 I Street, Sacramento, CA 95814

**Telephone Participation:**

The Metropolitan Water District of Southern California  
700 N. Alameda St, Room 1-401  
Los Angeles CA 90012

**AGENDA**

Assistance will be provided to those requiring accommodations for disabilities in compliance with the Americans with Disabilities Act of 1990. Interested person must request the accommodation at least two working days in advance of the meeting by contacting support staff at (916) 347-0486 or [Istandlee@dcfinanceauthority.org](mailto:Istandlee@dcfinanceauthority.org)

*California Environmental Quality Act (CEQA) Notice: Discretionary actions taken by the Delta Conveyance Finance Authority are in furtherance of financing the design and construction of the California WaterFix project. The Board of Directors of the Finance Authority, acting as a Responsible Agency under CEQA, determined that it has reviewed and considered Lead Agency DWR's Final Environmental Impact Report and Addendum for the California Water Fix Project and adopted DWR's CEQA determinations, and filed Notices of Determination in compliance with CEQA in July 2018.*

- 1. CALL TO ORDER**
- 2. PLEDGE OF ALLEGIANCE**
- 3. ROLL CALL**
- 4. PUBLIC COMMENT**

*Members of the public may address the Authority on matters that are within the Authority's jurisdiction but are not on the agenda today. Speakers are limited to three minutes each. Persons wishing to speak are requested to complete speaker cards. The Board Chair will call individuals to the podium in turn. Speaker comments should be limited to three minutes or as set by the Chair. The law does not permit Board action on, or extended discussion of, any item not on the agenda except under special circumstances. If Board action is requested, the matter may be placed on a future agenda. All comments that require a response will be referred to staff for a reply in writing. The Board may take action on any item of business appearing on the posted agenda.*

- 5. OTHER MATTERS**
  - a. Appointment of Treasurer/Controller
  - b. Discussion of Brown Act and Board Representation

DELTA CONVEYANCE FINANCE AUTHORITY  
BOARD MEETING AGENDA  
August 16, 2018

**6. CONSENT CALENDAR**

*Items on the Consent Calendar are considered to be routine by the Board of Directors and will be enacted by one motion and one vote. There will be no separate discussion of these items unless a director so requests, in which event the item will be removed from the Consent Calendar and considered separately.*

- a. Approval of the minutes from the meeting of July 19, 2018

**7. SCHEDULED ITEMS**

- a. Consider and approve the operating budget for fiscal year ending June 30, 2019 and approve equal assessments to each member agency to fund the 2018/19 budget
- b. Approve Resolution 18-3, adopting a debt management policy
- c. Approve Resolution 18-4, adopting an investment policy

**8. REPORTS AND ANNOUNCEMENTS**

- a. Executive Director Report

**9. FUTURE AGENDA ITEMS**

**10. ADJOURNMENT**

BOARD OF DIRECTORS MEETING

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# MINUTES

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**REGULAR MEETING**  
**Thursday, July 19, 2018**  
**11:00 am**

(Paragraph numbers coincide with agenda item numbers)

**1. CALL TO ORDER**

The first regular meeting of the Delta Conveyance Finance Authority (DC Finance Authority) Board of Directors was called to order in the State Water Contractors' Conference Room, 1121 L Street, Suite 1050, Sacramento, CA 95814, at 11:00 a.m.

**2. PLEDGE OF ALLEGIANCE**

Chairperson Pryor led all present in reciting the Pledge of Allegiance.

**3. ROLL CALL**

Board members in attendance were Paul Sethy, Valerie Pryor, Randy Record, Jeff Davis, and Gary Kremen.

Staff members in attendance were Brian Thomas.

**4. PUBLIC COMMENT**

Chairperson Pryor declared public comment open, limiting speaking time to three minutes, each.

Ms. Barbara Barrigan Parrilla, Restore the Delta, expressed opposition to moving forward on financing the California WaterFix Project based on an unknown water supply, due to lack of modeling of climate change conditions past 2030.

Chairperson Pryor closed the Public Comment.

**5. OTHER MATTERS**

**5.a. Introduction of Board Members**

Chairperson Pryor introduced the DC Finance Authority Board members.

**5.b. Election of Board Officers**

Chairperson Pryor requested nominations for Board President.

Motion:	Nomination of Randy Record for Board President
Move to Approve:	Gary Kremen
Second:	Jeff Davis

## Agenda Item 6a

Yeas: Paul Sethy, Valerie Pryor, Randy Record, Jeff Davis, and Gary Kremen  
Nays: None  
Abstains: None  
Recusals: None  
Absent: None  
Summary: 5 Yeas; 0 Nays; 0 Abstains; 0 Absent. (Motion passed as MO 18-7-01)

Board President Record requested nominations for Board Vice President.

Motion: Nomination of Gary Kremen for Board Vice President  
Move to Approve: Paul Sethy  
Second: Valerie Pryor  
Yeas: Paul Sethy, Valerie Pryor, Randy Record, Jeff Davis, and Gary Kremen  
Nays: None  
Abstains: None  
Recusals: None  
Absent: None  
Summary: 5 Yeas; 0 Nays; 0 Abstains; 0 Absent. (Motion passed as MO 18-7-02)

Board President Record requested nominations for Board Secretary.

Motion: Nomination of Jeff Davis for Board Secretary  
Move to Approve: Randy Record  
Second: Valerie Pryor  
Yeas: Paul Sethy, Valerie Pryor, Randy Record, Jeff Davis, and Gary Kremen  
Nays: None  
Abstains: None  
Recusals: None  
Absent: None  
Summary: 5 Yeas; 0 Nays; 0 Abstains; 0 Absent. (Motion passed as MO 18-7-03)

### 5.c. Adopt Resolution 18-1 designating regular meeting time and place.

Recommendation: Meetings to be held at 11:00 a.m. on the third Thursday of every January, April, July, and October of each year, at 1121 L Street, Suite 1045, Sacramento, CA 95814, unless otherwise modified by the Board.

Board President Record suggested that in lieu of meeting the third Thursday of every January, April, July, and October of each year, consideration should be given to meeting monthly on the third Thursday, to coincide with the Delta Conveyance Design and Construction Authority meetings, as well as to address the amount of work needed to stand up the DC Finance Authority.

Motion: DC Finance Authority Board to meet the third Thursday of each month at 11:00 a.m., at 1121 L Street, Suite 1045,

Sacramento, CA 95814, unless otherwise modified by the Board.

Move to Approve: Jeff Davis  
Second: Gary Kremen  
Yeas: Paul Sethy, Valerie Pryor, Randy Record, Jeff Davis, and Gary Kremen  
Nays: None  
Abstains: None  
Recusals: None  
Absent: None  
Summary: 5 Yeas; 0 Nays; 0 Abstains; 0 Absent. (Motion passed as MO 18-7-04)

**6. CONSENT CALENDAR:**

No Consent Calendar Items

**7. SCHEDULED ITEMS**

7.a. Adopt Resolution 18-2 adopting the CEQA determination for actions related to California Water Fix – that the Board has reviewed and considered the BDCP/California WaterFix environmental documentation and adopts the lead agency’s Findings of Fact, Statement of Overriding Considerations, Mitigation Monitoring and Reporting Program

Recommendation: Adopt the CEQA determination for actions related to California Water Fix – that the Board has reviewed and considered the BDCP/California WaterFix environmental documentation and adopts the lead agency’s Findings of Fact, Statement of Overriding Considerations, Mitigation Monitoring and Reporting Program

Motion: Adopt the CEQA determination for actions pursuant to Joint Exercise of Powers Agreement with the Department of Water Resources – that the Board has reviewed and considered the BDCP/California WaterFix Environmental Impact Report and related documents and adopts the lead agency’s findings, SOC, and MMRP

Move to Approve: Jeff Davis  
Second: Paul Sethy  
Yeas: Paul Sethy, Valerie Pryor, Randy Record, Jeff Davis, and Gary Kremen  
Nays: None  
Abstains: None  
Recusals: None  
Absent: None  
Summary: 5 Yeas; 0 Nays; 0 Abstains; 0 Absent. (Motion passed as MO 18-7-05)

7.b. Authorize execution of professional service agreement with Michael Bell Management Consulting, Inc., for a not-to-exceed amount of \$75,000 to retain the services of Brian Thomas as Interim Executive Director, and authorize Member Contributions for payment of invoices for said services, to be allocated equally among Members

## Agenda Item 6a

Recommendation: Authorize execution of professional service agreement with Michael Bell Management Consulting, Inc., for a not-to-exceed amount of \$75,000 to retain the services of Brian Thomas as Interim Executive Director, and authorize Member Contributions for payment of invoices for said services, to be allocated equally among Members

Board President Record recused himself from this discussion noting he has done business with Mr. Thomas during the past year. Vice President Kremen took the gavel for this action. At the request of Board Member Davis, Mr. Thomas provided background information to the board on his professional experience.

Motion: Authorize execution of professional service agreement with Michael Bell Management Consulting, Inc., for a not-to-exceed amount of \$75,000 to retain the services of Brian Thomas as Interim Executive Director, and authorize Member Contributions for payment of invoices for said services, to be allocated equally among Members

Move to Approve: Davis

Second: Pryor

Yeas: Paul Sethy, Valerie Pryor, Jeff Davis, and Gary Kremen

Nays: None

Abstains: None

Recusals: 1 (Randy Record)

Absent: None

Summary: 4 Yeas; 0 Nays; 0 Abstains; 0 Absent, 1 Recusal. (Motion passed as MO 18-7-06)

7.c. Authorize the Executive Director to negotiate and execute a services agreement with the Metropolitan Water District of Southern California to provide treasury/controller and accounting services in an amount not to exceed \$30,000.

Recommendation: Authorize the Executive Director to negotiate and execute a services agreement with the Metropolitan Water District of Southern California to provide treasury/controller and accounting services in an amount not to exceed \$30,000.

Executive Director Thomas reviewed the information on this item for the Board. Director Sethy suggested that in the long-term it could be useful to have these services conducted independently by the Finance Authority, rather than relying on one of the members.

Motion: Authorize the Executive Director to negotiate and execute a services agreement with the Metropolitan Water District of Southern California to provide treasury/controller and accounting services in an amount not to exceed \$30,000.

Move to Approve: Davis

Second: Sethy

Yeas: Paul Sethy, Valerie Pryor, Randy Record, Jeff Davis, and Gary Kremen

Nays: None

Abstains: None  
Recusals: None  
Absent: None  
Summary: 5 Yeas; 0 Nays; 0 Abstains; 0 Absent. (Motion passed as MO 18-7-07)

- 7.d. Report on Water Infrastructure Finance and Innovation Act (WIFIA) program and authorize the Executive Director to take actions to develop and submit a Letter of Interest to the U.S. Environmental Protection Agency for assistance under the WIFIA program to assist in financing the California WaterFix

Recommendation: Authorize the Executive Director to take actions to develop and submit a Letter of Interest to the U.S. Environmental Protection Agency for assistance under the WIFIA program to assist in financing the California WaterFix.

Executive Director Thomas provided a presentation and reviewed the information on this item for the Board.

Motion: Authorize the Executive Director to take actions to develop and submit a Letter of Interest to the U.S. Environmental Protection Agency for assistance under the WIFIA program to assist in financing the California WaterFix.

Move to Approve: Kremen

Second: Davis

Yeas: Paul Sethy, Valerie Pryor, Randy Record, Jeff Davis, and Gary Kremen

Nays: None

Abstains: None

Recusals: None

Absent: None

Summary: 5 Yeas; 0 Nays; 0 Abstains; 0 Absent. (Motion passed as MO 18-7-08)

- 7.e. Authorize Executive Director to prepare and file all necessary documents related to the formation of a joint powers authority and to take other steps necessary and convenient limited to the creation of a public agency and that do not have a monetary obligation that exceeds \$5,000.

Recommendation: Authorize Executive Director to prepare and file all necessary documents related to the formation of a joint powers authority and to take other steps necessary and convenient limited to the creation of a public agency and that do not have a monetary obligation that exceeds \$5,000.

Executive Director Thomas reviewed the information on this item for the Board.

Motion: Authorize Executive Director to prepare and file all necessary documents related to the formation of a joint powers authority and to take other steps necessary and convenient limited to the creation of a public agency and

that do not have a monetary obligation that exceeds \$5,000.

Move to Approve: Davis  
Second: Kremen  
Yeas: Paul Sethy, Valerie Pryor, Randy Record, Jeff Davis, and Gary Kremen  
Nays: None  
Abstains: None  
Recusals: None  
Absent: None  
Summary: 5 Yeas; 0 Nays; 0 Abstains; 0 Absent. (Motion passed as MO 18-7-09)

**8. REPORTS AND ANNOUNCEMENTS**

8.a. Executive Director Report

Mr. Thomas discussed with the board the reasons for formation of the DC Finance Authority, anticipated initial work activities, and the next steps. Director Kremen noted that the Board may wish to consider the hiring of an outside Financial Advisor.

**9. FUTURE AGENDA ITEMS:**

Board President Record requested future agenda items be raised at this time, noting that future agenda items should include, Treasurer/Controller, the JPA Structure, and the hiring of an Independent Financial Advisor. Director Sethy requested that the Board look at Executive Committee expansion, specifically looking at northern/southern California balance. Director Kremen requested that diversity be included as part of the DC Finance Authority's hiring process.

**10. ADJOURNMENT:**

Board President Record adjourned the meeting at 10:54 a.m.

Approved:

Move to Approve:  
Second:  
Yeas:  
Nays:  
Abstains:  
Recusals:  
Absent:  
Summary:

Date:



# 2018/19 Budget

# Delta Conveyance Finance Authority

Board Meeting  
August 16, 2018

# Proposed 2018/19 Budget

Item	Object	Proposed Budget
1	Executive Director Compensation	\$175,000
2	Professional Services	235,000
3	Accounting/Treasury Services	30,000
4	Insurance	35,000
5	Travel and Meeting	10,000
6	Materials and Supplies	10,000
7	Contingency	10,000
	<b>Total</b>	<b>\$505,000</b>

# Recommendation

That the Board approve the budget for Fiscal Year ending June 30, 2019 and approve equal assessments to each member agency to fund the 2018/19 budget, and authorize the Interim Executive Director to execute contracts and expenditures of up to \$30,000.

# Delta Conveyance Finance Authority

## Board Memo

Contact: Brian Thomas, Interim Executive Director

**AGENDA DATE: August 16, 2018**

**Item No. 7a**

**Subject: 2018/19 Budget**

### **Executive Summary**

Section 10 of the Joint Powers Agreement (JPA Agreement) states the Board of Directors may adopt an annual budget for administrative expenses, which shall include all expenses not included in any financing issue. These costs would be collected from each of the Finance Authority's members in three invoices, to be paid in September, January and April. Pursuant to the JPA Agreement, administrative costs that are approved by a majority vote of the Board are to be allocated equally among the Finance Authority members. As new members join the Finance Authority, these administrative costs will be reallocated to reflect equal shares among all members. The proposed budget for fiscal year 2018/19 includes potential expenditures for bond counsel, disclosure counsel and municipal advisory services that may or may not be paid from proceeds from a borrowing. The total budget, including disclosure counsel, bond counsel and municipal advisory fees equals \$505,000.

### **Detailed Report**

The proposed budget is shown in Table 1, and totals \$505,000. The budget assumes that the Finance Authority will continue to receive in-kind services from Metropolitan Water District and State Water Contractors for administrative support (e.g., meetings, minutes, agendas, etc.) Each of the major categories are described in more detail as follows.

Executive Director Compensation. This includes dollars for fees and expenses for the executive director, assuming that the existing contract is extended through the end of the fiscal year. If the WIFIA Letter of Interest is successful, this budget would likely be amended to reflect all of the activity associated with completing the application. In addition, should there be a debt issuance, the level of activity would also increase.

Professional Services. This includes expenditures on bond and disclosure counsel, municipal advisors and the cost of retaining a general counsel. It is likely the bulk of bond counsel, disclosure counsel and municipal advisor fees will be paid out of the proceeds of a debt issuance or loan proceeds. But, given the need for work on the financing structure before any financing can be completed, some of the work by these professionals may be done on a time and materials basis. Until the Finance Authority has retained such professional services, these costs would not be included in the initial assessments to each of the Finance Authority members. Once arrangements for bond counsel, disclosure counsel and financial advisor have been made, any necessary changes to the budget and subsequent assessments would be implemented.

The expense for an interim general counsel is included to enable the Finance Authority to retain counsel to represent the Finance Authority and not be reliant on the Delta Conveyance Design Construction Authority or Finance Authority member counsel. Fees for the annual audit are also included as part of the Professional Services line item.

**Table 1. Proposed 2018/19 Budget**

Item	Object	Proposed Budget
1	Executive Director Compensation	\$ 175,000
2	Professional Services	
	General Counsel	75,000
	Bond Counsel (1)	50,000
	Disclosure Counsel (1)	50,000
	Municipal Advisor (1)	50,000
	Audit	10,000
3	Accounting/Treasury Services	30,000
4	Insurance	35,000
5	Travel and Meeting	10,000
6	Materials and Supplies	10,000
7	Contingency	10,000
	<b>Total</b>	<b>\$ 505,000</b>

(1) To be paid out of bond or loan proceeds

Accounting/Treasury Services. This line item accounts for the costs for services from the Metropolitan Water District to provide accounting and treasury services (e.g., banking, check processing, etc.) This is consistent with the Board's action on July 19, 2018.

Insurance. This is an estimate of the premium for liability and directors and officers insurance.

Travel and Meeting. This expenditure reflects the cost of meeting rooms, travel (if any) for board members, and other similar expenses.

Materials and Supplies. Materials and supplies includes basic office materials, supplies and costs for web hosting and other transparency initiatives.

A contingency of \$10,000 has been included in the proposed budget.

**Recommended Action**

That the Board adopt the Proposed Budget for fiscal year 2018/19 and authorize equal assessments for a total of \$355,000 to be paid by each Finance Authority member in three equal installments, with additional assessments if needed up to \$505,000, and that the Board authorize the Interim Executive Director to execute contracts and effectuate expenditures within the approved budget for up to \$30,000 per fiscal year, including the contract for accounting/treasury services with Metropolitan.

# Debt Management Policy Delta Conveyance Finance Authority

Board Meeting  
August 16, 2018

# SB 1029 Amended Code in 2017

- Requires agencies to report proposed debt and certify:
  - Agency has adopted a debt policy
  - The proposed debt is consistent with that policy
- Debt management policy addresses:
  - Uses of debt
  - Types of debt
  - Relationship of debt to capital and operating budgets
  - Policy goals related to issuers planning goals
  - Internal control procedures regarding use of proceeds

# Finance Authority Debt

- Purpose of debt is to help finance WaterFix
  - Issue debt to purchase DWR WaterFix bonds
  - Issue debt to finance capital projects
- Types of debt include:
  - Long-term fixed rate bonds
  - Variable rate bonds
  - Short-term notes and commercial paper
  - Bank loans
  - Refunding bonds



# Policy Recognizes Authority Role

- Purpose. Finance Authority is organized to issue debt on behalf of others to support WaterFix
- Conduit. Finance Authority is a conduit financing agency and may rely on its members' certification regarding things like consistency with capital planning, etc.
- Revenues. Finance Authority revenues will likely be from Installment Purchase/Sale Agreements with its members
- Taxes. Finance Authority has no power to levy taxes
- Laws and Regulations. Finance Authority will comply with all laws and regulations, including disclosure regulations
- Flexibility. Policy is designed to be flexible and can be amended to reflect new markets and changing conditions

# Recommendation

That the Board approve Resolution 18-3, adopting a Debt Management Policy.

**RESOLUTION NO. 18-3**

**RESOLUTION OF THE DELTA CONVEYANCE FINANCE AUTHORITY  
ADOPTING THE DEBT MANAGEMENT POLICY**

**BACKGROUND**

In 1981 the California Legislature established the California Debt Advisory Commission as the State's clearinghouse for public debt issuance information and required it to assist state and local agencies with the monitoring, issuance and management of public debt. In 1996 the Legislature changed the name to the California Debt and Investment Advisory Commission (CDIAC) and expanded its mission to cover public investment and to provide information, education and technical assistance on debt issuance and public fund investments to local agencies and public finance professionals. In September 2016 the Legislature enacted Senate Bill 1029 which became effective January 1, 2017, which further amended the CDIAC requirements. In particular, Government Code Section 8855(i) was amended to require that all governmental entities establish a Debt Management Policy ("Debt Policy") if any form of debt is being contemplated or anticipated to be issued by the entity.

Government Code Section 8855(i), as amended by SB 1029, requires:

- CDIAC to track and report on all state and local outstanding debt until fully repaid or redeemed.
- The report of proposed debt include a certification by the issuer that it has adopted local debt policies, which include specified provisions concerning the use of debt and that the contemplated debt issuance is consistent with those local debt policies.

A state or local public agency to submit an annual report for any issue of debt.

The proposed Debt Policy meets all of the requirements of SB 1029, yet preserves flexibility for the Delta Conveyance Finance Authority (Authority) in managing its debt.

Establishing the proposed Debt Management Policy is a necessary part of the Authority's efforts to support the financing of the California WaterFix, and is timely as the Authority recently submitted a letter of interest for a loan under the Water Infrastructure and Innovation Act (WIFIA) program. It is necessary for the Board to consider and adopt a debt management policy that meets the requirements of Government Code section 8855(i), as amended by SB 1029. The Debt Policy presented with this agenda report meets these State Law requirements, while, as noted, also preserves flexibility for the Authority in the management of its debt.

RESOLUTION NO. 18-3  
DEBT MANAGEMENT POLICY

**RESOLUTION**

The Board finds that the attached Debt Management Policy meets the requirements of Government Code section 8855(i), as amended by SB 1029, and complies with Senate Bill 1029 requirements, and adopts this Debt Management Policy to:

1. Ensure the Authority has the flexibility to respond to possible changes in future obligations, revenues, and operating expenses;
2. Ensure that all debt is structured in order to protect both current and future ratepayers and the Authority members and their ratepayers or member entities;
3. Minimize debt service commitments through efficient planning;
4. Achieve the highest practical credit ratings, as applicable; and
5. Ensure the Authority is in compliance with all relevant State and Federal securities laws and other applicable laws and regulations.

The Secretary of the Board of Directors shall certify to the passage and adoption of this Resolution.

\* \* \* \* \*

This Resolution, passed and adopted this \_\_\_\_\_ day of August, 2018, by the following vote:

Ayes: \_\_\_\_\_  
Noes: \_\_\_\_\_  
Absent: \_\_\_\_\_  
Abstain: \_\_\_\_\_

\_\_\_\_\_  
Randy Record, Board President

Attest:

\_\_\_\_\_  
Jeff Davis, Secretary

**Delta Conveyance Finance Authority**

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**Debt Management Policy**

**1. Introduction**

This Debt Policy provides guidelines for debt issuance, management and post issuance related policies and procedures for the Delta Conveyance Finance Authority (Authority). This Debt Policy may be amended by the Board as it deems appropriate from time to time in the prudent management of the debt and financing needs of the Authority.

**2. Purpose**

The purpose of this Debt Policy is to establish guidelines and parameters for the effective governance, management and administration of debt and other financing obligations issued by the Authority. This Debt Policy is intended to improve and direct decision making, assist with the structure of debt issuance, identify policy goals, and demonstrate a commitment to long-term financial planning. Adherence to a debt policy helps to ensure the Authority's debt is issued and managed prudently in order to maintain a sound financial position and credit worthiness. When used in this Debt Policy, "debt" refers to all indebtedness and financing obligations of the Authority.

**3. Debt Policy Objective**

This Debt Policy is intended to comply with the requirements of Senate Bill 1029 (SB 1029), codified as part of Government Code Section 8855(i), effective on January 1, 2017 and shall govern all debt undertaken by the Authority. The primary objectives of the Authority's debt and financing related activities are to:

- A. Ensure the Authority has the flexibility to respond to possible changes in future financing needs on behalf of its members and the California WaterFix;
- B. Ensure that all debt is structured in order to protect both current and future member agencies of the Authority and their ratepayers or member entities;
- C. Minimize debt service commitments through efficient planning and cash management.
- D. Protect the Authority's credit worthiness and achieve the highest practical credit ratings, when applicable; and
- E. Ensure the Authority is in compliance with all relevant State and Federal securities laws.

**4. Acceptable Uses of Debt Proceeds**

The Authority will consider the use of debt financing primarily to facilitate the financing of California WaterFix, and to finance assets and capital projects only if the term of debt shall not exceed the asset or project's useful life and will otherwise comply with Federal tax law requirements. An exception to this long-term driven focus is the issuance of short-term instruments, such as revenue anticipation notes, which are to be used for reasonable cash management purposes, as described below. Bonded debt should not be issued to finance normal operating expenses.

**Delta Conveyance Finance Authority**

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**A. Long-Term Debt.**

- i. Long-term debt may be issued to finance the construction, acquisition, and rehabilitation of capital improvements and facilities, equipment, and land to be owned and/or operated by the Department of Water Resources (DWR), the Authority, or Authority members. In addition, long-term debt may be issued to facilitate the financing of WaterFix through the purchase of bonds issued by DWR. Long-term debt financings may also be used to refinance outstanding debt in order to produce debt service savings or to benefit from debt restructuring.
- ii. The Authority may use long-term debt financings subject to each of the following conditions:
  - (1) The project to be financed has been or will be approved by the Board;
  - (2) The weighted average maturity of the debt (or the portion of the debt allocated to the project) will not exceed the average useful life of the projects or assets to be financed by more than 20%;
  - (3) The Authority estimates that sufficient revenues will be available to service the debt through its maturity; and
  - (4) The Authority determines that the issuance of the debt will comply with the applicable requirements of State and Federal law.

**B. Short-term Debt.**

- i. Short-term debt may be issued to provide financing for the Authority's purchase of bonds issued by DWR to finance WaterFix to the extent that such bonds mirror the debt service of the Authority's bonds. The Authority may also issue short-term debt on behalf of its members to finance construction as requested by the member and approved by the Board.

**C. Financings on Behalf of Other Entities.**

- i. The Authority has been created to issue debt on behalf of other governmental agencies in order to further the public purposes of the Authority's members, primarily as a vehicle to facilitate the financing of California WaterFix.

**5. Standards for Use of Debt Financing**

The Authority recognizes that there are numerous types of financing structures and funding sources available, each with specific benefits, costs, and risks. Prior to the issuance of debt or other financing obligations, the Authority will carefully consider the overall long-term affordability of the proposed debt issuance by conducting an objective analysis of the Authority's and its members' ability to support additional debt service payments.

**6. Types of Debt**

In order to maximize the financial options available to benefit the public, it is the Authority's policy to allow the consideration of issuing all generally accepted types of debt, including, but not exclusive to the following:

**Delta Conveyance Finance Authority**

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A. Revenue Bonds:

- i. Revenue Bonds are limited-liability obligations tied to a specific revenue stream where the projects financed clearly benefit or relate to the enterprise or are otherwise permissible uses of the revenue. The Authority's revenues will generally be realized through installment purchase agreements from its members.

B. Loans:

- i. The Authority is authorized to enter into loans, installment payment obligations, or other similar funding structures (including federal loans such as those offered by the Environmental Protection Agency through its Water Infrastructure and Innovation Act program) secured by a prudent source or sources of repayment.

C. Short-Term Debt

- i. Short-term borrowing, such as commercial paper, Revenue Anticipation Notes (RANS), lines of credit, and short-term notes or "put" bonds will be considered as an interim source of funding in anticipation of long-term borrowing and may be issued to generate funding for to provide interim funding for WaterFix. Such short-term debt is expected to be refunded with long-term debt at the end of construction. The final maturity of the debt issued to finance the project shall be consistent with the useful life of the project.
- ii. Short-term debt may also be used to finance short-lived capital projects such as lease-purchase financing for equipment.

D. Refunding Bonds:

- i. The Authority shall refinance debt pursuant to the authorization that is provided under California law, as market opportunities arise. Refundings may be undertaken in order:
  - (1) To take advantage of lower interest rates and achieve debt service costs savings;
  - (2) To eliminate restrictive or burdensome bond covenants; or
  - (3) To restructure debt to lengthen the duration of repayment, relieve debt service spikes, reduce volatility in interest rates or free up reserve funds.
- ii. Generally, the Authority shall strive to achieve a minimum of 5% net present value savings. The net present value assessment shall factor in all costs, including issuance, escrow, and foregone interest earnings of any contributed funds on hand. Refundings which produce a net present value savings of less than 5% will be considered on a case-by-case basis. Upon the advice of the Executive Director and with the assistance of a financial advisor and bond counsel, the Authority may undertake refundings for other than economic purposes based upon a finding that such a restructuring is in the Authority's overall best financial interest.

The Authority may from time to time find that other forms of debt would be beneficial to further its public purposes and may approve such debt without an amendment of this Debt Policy.

## **Delta Conveyance Finance Authority**

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Debt shall be issued as fixed rate debt unless the Authority makes a specific determination as to why a variable rate issue would be beneficial to the Authority and its members, and the specific form of a short-term line or letter of credit, variable rate demand obligation, commercial paper or note is recommended by the Authority's financial advisor and approved by the Board.

### **7. Relationship to Capital Improvement Program and Operating Budget**

The Authority intends to issue debt for the purposes stated in this Debt Policy and the decision to incur new indebtedness should be integrated with the Delta Conveyance Design and Construction Authority (DCA) and DWR's capital budget and construction cash flows associated with California WaterFix. Prior to issuance of debt, a reliable revenue source shall be identified to secure repayment of the debt and the Authority will include such debt service payments in its financing budget.

### **8. Policy Goals Related to Planning Goals and Objectives**

- A. In following this Debt Policy, the Authority shall pursue the following policy goals:
- i. The Authority is committed to financial planning, maintaining appropriate reserves levels and employing prudent practices in governance, management and budget administration;
  - ii. It is a policy goal of the Authority to protect its members and member ratepayers or constituents by utilizing effective financing methods and techniques so as to obtain the highest practical credit ratings and the lowest practical borrowing costs;
  - iii. The Authority will comply with applicable state and federal law as it pertains to the maximum term of debt and the procedures for levying and imposing any related assessments, rates and charges; and
  - iv. When refinancing debt, it shall be the policy goal of the Authority to achieve, whenever possible and subject to any overriding non-financial policy, minimum aggregate net present value debt service savings of at least 5% of the refunded principal amount.

### **9. Internal Control Procedures**

When issuing debt, in addition to complying with the terms of this Debt Policy, the Authority shall comply with any other applicable policies regarding initial bond disclosure, continuing disclosure, post-issuance compliance, and investment of bond proceeds.

The Authority will periodically review the requirements of and will remain in compliance with the following:

- i. Federal securities law, including any continuing disclosure undertakings under SEC Rule 15c2-12;
- ii. Any federal tax compliance requirements, including without limitation arbitrage and rebate compliance, related to any prior bond issues;
- iii. The Authority's investment policies and the bond indenture as they relate to the investment and use of bond proceeds; and



## **Delta Conveyance Finance Authority**

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- iv. Government Code section 8855(k) and the annual reporting requirements therein.

The Authority shall be vigilant in using bond proceeds in accordance with the stated purpose at the time that such debt was issued.

### **10. Amendment and Waivers of Debt Policy**

This Debt Policy will be reviewed and amended from time to time as appropriate subject to Board approval.

There will be circumstances from time to time when strict adherence to a provision of this Debt Policy is not possible or not in the best interest of the Authority, DWR or the Authority's members. If the Executive Director and the Authority's bond counsel and independent municipal advisor have determined that a waiver of one or more provisions of this Debt Policy should be considered by the Board, it will prepare an analysis for the Board describing the rationale for the waiver. Upon a majority of the weighted votes (based on Financial Commitments) of the Board, one or more provisions of this Debt Policy may be waived for a debt financing.

The failure of a debt financing to comply with one or more provisions of this Debt Policy shall in no way affect the validity of any debt issued by the Authority in accordance with applicable laws.

### **11. SB 1029 Compliance**

SB 1029, signed by Governor Brown on September 12, 2016, and enacted as Chapter 307, Statutes of 2016, requires issuers to adopt debt policies addressing each of the five items below:

- A. The purposes for which the debt proceeds may be used.
  - i. Section 4 (Acceptable Uses of Debt Proceeds) addresses the purposes for which debt proceeds may be used.
- B. The types of debt that may be issued.
  - i. Section 6 (Types of Debt) provides information regarding the types of debt that may be issued.
- C. The relationship of the debt to, and integration with, the issuer's capital improvement program or budget, if applicable.
  - i. Section 7 (Relationship to Capital Improvement Program and Operating Budget) provides information regarding the relationship between the Authority's debt and Capital Improvement Program and annual Operating Budget.
  - ii. In addition, the Authority may rely upon the members on whose behalf it is issuing debt to certify the relationship of the debt to its Capital Improvement Program and Operating Budget.
- D. Policy goals related to the issuer's planning goals and objectives.
  - i. Section 3 (Debt Policy Objective) and Section 8 (Policy Goals Related to Planning Goals and Objectives) address some of the Authority's policy goals and how this Debt Policy has implemented them.

**Delta Conveyance Finance Authority**

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- ii. In addition, the Authority may rely upon the members on whose behalf it is issuing debt to meet this requirement.
- E. The internal control procedures that the issuer has implemented, or will implement, to ensure that the proceeds of the proposed debt issuance will be directed to the intended use.
  - i. The Authority may rely on DWR, the DCA and its members to certify that they have implemented procedures to ensure that proceeds of the proposed debt issuance will be directed to its intended purpose.

Debt Management Policy

Adopted on \_\_\_\_\_, 2018

# Investment Policy

# Delta Conveyance Finance Authority

Board Meeting  
August 16, 2018

# Investment Policy

- Provides guideline for:
  - Types of investments
  - Credit quality and limits on investments
  - Institutions that can provide services
- Investment Policy is based on three principles:
  - Safety of principal
  - Liquidity
  - Yield

# Consistent with State Guidelines

- Recognize that there will not be a lot of money to invest immediately
- Investment options include:
  - Treasury and Federal Agency debt
  - Corporate notes
  - Bankers acceptances
  - Commercial paper
  - State and local government debt
  - Repurchase agreements
  - LAIF/CAMP
  - Money market funds
  - Certificates of deposit (insured)

# Recommendation

That the Board approve Resolution 8-4, adopting an Investment Policy.

RESOLUTION NO. 18-4

RESOLUTION OF THE DELTA CONVEYANCE FINANCE AUTHORITY  
ADOPTING THE INVESTMENT POLICY

BACKGROUND

The authority to invest Delta Conveyance Finance Authority (Authority) public funds has been delegated to the Authority's Treasurer. An Investment Policy provides guidelines for the prudent investment of surplus cash, reserves, trust funds, bond proceeds and restricted monies held by the Finance Authority. The Investment Policy complies with California Government Code Section 53600 et. seq., which provides permitted investments for local agencies.

RESOLUTION

The Board finds that pursuant to section 53600, et. seq., of the Government Code of the State of California, the authority to invest Authority public funds has been delegated to the Authority's Treasurer, and adopts the attached Investment Policy to:

1. Safeguard the principal of the funds under the Treasurer's control when investing public funds,
2. Maintain liquidity as required by the Authority, and
3. Meet an objective of receiving a return on investment of surplus cash, reserves, trust funds, bond proceeds and restricted monies held by the Authority.

The Secretary of the Board of Directors shall certify to the passage and adoption of this Resolution.

\* \* \* \* \*

This Resolution, passed and adopted this \_\_\_\_\_ day of August, 2018, by the following vote:

Ayes: \_\_\_\_\_  
 Noes: \_\_\_\_\_  
 Absent: \_\_\_\_\_  
 Abstain: \_\_\_\_\_

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Randy Record, Board President

Attest:

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Jeff Davis, Secretary

**DELTA CONVEYANCE FINANCE AUTHORITY**

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**Investment Policy**

This policy is intended to provide guidelines for the prudent investment of surplus cash, reserves, trust funds, bond proceeds and restricted monies.

**1.0 POLICY**

It is the policy of the Board of Directors of the Delta Conveyance Finance Authority (“Authority”) to invest public funds in a manner which conforms to the three fundamental criteria in order of importance, as listed:

- Safety of Principal
- Liquidity
- Return on Investment, or Yield

**2.0 INVESTMENT AUTHORITY**

In accordance with Section 53600, et. seq., of the Government Code of the State of California, the authority to invest Authority public funds has been delegated to the Authority’s Treasurer.

**3.0 DELEGATION OF AUTHORITY**

Responsibility for the investment program is specifically delegated by the Board to the Board-appointed Treasurer or, if no such appointment has been made, to the Executive Director, hereafter referred to as Treasurer who will establish procedures for the investment program, consistent with this Investment Policy. The Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities, including procedures to execute investment transactions in the absence of the Treasurer.

**4.0 STATEMENT OF OBJECTIVES**

Per Section 53600.5 of the California Government Code, the primary objective of the Treasurer shall be to safeguard the principal of the funds under his or her control when investing public funds. The secondary objective will be to maintain liquidity as required by the Authority and the third objective is to obtain a return on investment of these funds.

In order of priority, the three fundamental criteria shall be followed in the investment of funds:

- 4.1 Safety of Principal** – Investments shall be undertaken in a manner which first seeks to ensure the preservation of principal in the portfolio. Each investment transaction shall be entered only after taking into consideration the quality of the issuer, the underlying security or collateral, and diversification of the portfolio. Cash flow analysis will be conducted and utilized to avoid the need to sell securities prior to maturity. The Authority shall seek to preserve principal by mitigating both credit and market risk.



## DELTA CONVEYANCE FINANCE AUTHORITY

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**4.2 Liquidity** – Every effort shall be made to ensure that the Authority's portfolio is sufficiently liquid to meet current and anticipated operating requirements. Cash flow analysis should be performed on an ongoing basis. Investments shall be made to ensure maturities are compatible with anticipated cash flow requirements.

**4.3 Return on Investment, or Yield** – Investments shall be undertaken to produce an investment return consistent with the primary objectives of Safety of Principal and Liquidity, and the Prudent Investor Standard.

The Treasurer shall have an overall investment objective of holding investments to maturity and not investing with the objective of actively trading or trading for speculative purposes. However, the Treasurer may, from time to time, swap or sell securities in order to reposition securities to current coupon issues, maintain proper asset allocation limits, or to realize profits from market value appreciation.

The Treasurer may sell securities in order to protect the overall quality of the portfolio under the following circumstances:

- i. To raise cash to meet unanticipated cash-flow requirements
- ii. To swap old securities for current coupon securities
- iii. To maintain portfolio allocation limits
- iv. To avoid further erosion and loss of investment principal due to deterioration in credit-worthiness, as well as to respond to rapidly changing interest rate environments

### 5.0 SCOPE

The Investment Policy applies to all available funds of the Authority with the exception of proceeds of notes, bonds or similar external financings which would be invested pursuant to bond indentures or State of California Government Code Section 53600, et. seq., as applicable.

### 6.0 PRUDENT INVESTOR STANDARD

All investments and evaluation of such investments shall be made with the Prudent Investor Standard as set forth in the California Government Code, Sections 53600.3 and 27000.3, which is defined as a standard of conduct whereby any person authorized to make investment decisions on behalf of the Authority acts 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 with the aim to safeguard principal and meet the liquidity needs of the Authority.

### 7.0 PORTFOLIO ADJUSTMENTS

Portfolio percentage limitations for each category of investment are applicable only at the date of purchase. Should an investment percentage be exceeded due to instances such as the fluctuation in overall portfolio size, or market valuation changes, the Treasurer is not required to sell the affected securities.

## DELTA CONVEYANCE FINANCE AUTHORITY

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Should a security held in the portfolio be downgraded below the minimum rating criteria specified in this Investment Policy, the Treasurer shall sell such security in a manner designed to minimize losses. If the security is downgraded to a level that is less than investment grade, the Treasurer shall perform a credit analysis of such security to determine whether hold or sell the security. The Treasurer may elect to sell the security immediately to minimize losses in the event that an orderly disposition with minimal losses cannot be achieved. If the security matures within sixty (60) days of the rating decline, the Treasurer may choose not to sell the affected security.

The Treasurer shall note in a quarterly report securities which have been downgraded below investment grade and the status of disposition.

### 8.0 SAFEKEEPING AND CUSTODY

All securities transactions entered into by the Authority shall be conducted on a delivery-versus-payment (DVP) basis pursuant to a custodial safekeeping agreement. All securities owned by the Authority shall be held in safekeeping by an independent custodian designated by the Treasurer. Financial institutions providing safekeeping services shall provide reports or receipts which verify securities held in safekeeping.

### 9.0 REPORTING

The Treasurer shall submit a quarterly report within 30 days following the end of the quarter covered by the report to the Authority Board of Directors pursuant to California Government Code Section 53646 (b)(1). The report shall at a minimum provide information on compliance to this policy and on the composition of the portfolio for each fund with:

- Types of investment
- Issuer
- Maturity dates
- Par and dollar amount
- Market values including source of the valuation
- Rates of Interest
- Expected yields to maturity

In addition, the quarterly report shall also include a statement denoting the ability to meet the Authority's expenditure requirements for the next six (6) months.

### 10.0 INVESTMENT GUIDELINES AND ELIGIBLE SECURITIES

Section 53600, et seq., of the Government Code of the State of California prescribes the statutory requirement relating to investments by local treasurers, providing guidance on:

- i. Allowable Investments
- ii. Portfolio diversification requirements including proportional limits on investment types, maximum maturity, and minimum credit rating criteria.

## DELTA CONVEYANCE FINANCE AUTHORITY

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The maximum maturity of any investment in the portfolios shall not exceed five (5) years except when specifically authorized by the Authority Board of Directors through resolution. When practical, the Treasurer shall solicit more than one quotation on each trade for the purpose of awarding investment trades on a competitive basis. The Authority will conform to the legal provisions set forth in the Government Code with further and more specific requirements about allowable investments and restrictions as detailed below:

### 10.1 US Treasury Bonds, Bills and Notes

Bills, notes and bonds issued by the U.S. Treasury which are direct obligations of the federal government.

- Maximum limit: 100% of the portfolio
- Maximum maturity of five (5) years
- Credit Requirement: N.A.

### 10.2 Federal Agency Bonds and Notes

Notes and bonds of federal agencies, government-sponsored enterprises and international institutions. Not all are direct obligations of the U. S. Treasury but may involve federal sponsorship and/or guarantees, in some instances.

- Maximum limit: 100% of the portfolio
- Maximum maturity of five (5) years
- Credit Requirement: N.A.

### 10.3 Banker's Acceptances

Bills of exchange or time drafts drawn on and accepted by a commercial bank, typically created from a letter of credit issued in a foreign trade transaction.

- Maximum limit: forty percent (40%) of the portfolio
- Issued by banks with total deposits of over one billion dollars (\$1,000,000,000)
- Maximum maturity of one-hundred eighty (180) days
- Twenty-five percent (25%) limitation to any one issuer
- Credit requirement: Ratings of A1, P1 or F1 or better by two of the three nationally-recognized rating agencies: S&P, Moody's, or Fitch, respectively. No rating may be lower than any of the rating listed above.
- Issued by banks from offices in the USA.

### 10.4 Commercial Paper

Commercial paper is defined as short-term, unsecured promissory notes issued by financial and non-financial companies to raise short-term cash. Financial companies issue commercial paper to support their consumer and/or business lending; non-financial companies issue for operating funds.

- Maximum limit: Twenty-five percent (25%) of the portfolio
- Maximum Maturity of two hundred seventy (270) days
- Maximum Issuer Exposure: Ten percent (10%) limitation on outstanding commercial paper to any one issuer

## DELTA CONVEYANCE FINANCE AUTHORITY

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- Credit requirement: Ratings of A1, P1 or FI or better by two of the three nationally-recognized rating agencies: S&P, Moody's, or Fitch, respectively. No rating may be lower than any of the rating listed above.
- Limited to paper issued by corporations organized and operating in the U.S. with total assets in excess of five hundred million (\$500,000,000), and having "A" or higher ratings for the issuer's debt, other than commercial paper, if any, as provided by national recognized rating agency.

### 10.5 Medium Term Corporate Notes

Corporate Bonds, Corporate Notes and Deposit Notes. Issuers are banks and bank holding companies, thrifts, finance companies, insurance companies and industrial corporations. These debt obligations that are generally unsecured.

- Maximum limit: Thirty percent (30%) of the portfolio
- Maximum maturity of five (5) years
- Maximum Issuer Exposure: No more than 5% of the portfolio shall be invested in any single issuer
- Credit Requirement: Must be rated A3, A- or AA or better by two of the three nationally-recognized rating agencies: S&P, Moody's, or Fitch, respectively. No rating may be lower than any of the ratings listed above.
- Eligibility: Limited to corporations organized and operating within the United States or depository institutions licensed by the United States or any State and operating within the United States.

### 10.6 Negotiable Certificates of Deposit

Issued by commercial banks and thrifts, and foreign banks (Yankee CD's).

- Maximum limit: Thirty percent (30%) of the portfolio, with five percent (5%) per issuer
- Maximum maturity of five (5) years
- Credit Requirement: Rated A, A2 or A (S&P, Moody's or Fitch, respectively)
- Issued by banks with total deposits of one billion dollars (\$1,000,000,000) or more

### 10.7 Certificates of Time Deposit

Time deposits, which are non-negotiable, are issued most commonly by commercial banks, savings and loans and credit unions with federal deposit insurance available for amounts up to two hundred-fifty thousand (\$250,000).

- Maximum limit: Thirty percent (30%) of the portfolio for all deposits
- Maximum maturity five (5) years
- On uncollateralized deposits, limited to FDIC insured amount of two hundred- fifty thousand (\$250,000)
- Amounts over FDIC insured amount must be fully collateralized
- Credit Requirement: For federally-insured deposits of two hundred-fifty thousand (\$250,000) or less, no minimum credit rating required. For deposits over two hundred-fifty thousand (\$250,000): Ratings of A, A2,

## DELTA CONVEYANCE FINANCE AUTHORITY

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or A or better by two of the three nationally-recognized rating agencies: S&P, Moody's, or Fitch, respectively.

Pursuant to Government Code 53637, the Authority is prohibited from investing in certificate of deposits of a state or federal credit union if a member of the legislative body or decision-making authority serves on the board of directors or committee.

### **10.8 Money Market Mutual Funds**

Regulated by the SEC, these funds operate under strict maturity and diversification guidelines. These funds have no federal guarantee but are viewed as a very safe short-term cash investment.

- Maximum Maturity: N/A
- Maximum limit: Twenty percent (20%) of the portfolio
- Rating Requirement: Top ranking or highest letter and numerical rating provided by at least two nationally recognized statistical rating organizations
- Daily liquidity
- Net Asset Value (NAV) requirement: one dollar (\$1.00)
- Funds must be invested in securities and obligations permitted under the California Government Code

### **10.9 State of California, Local Agency Investment Fund (LAIF).**

LAIF is a pooled investment fund overseen by the State Treasurer, which operates like a money market fund, but is for the exclusive benefit of governmental entities within the state. The maximum investment amount currently authorized by Local Agency Investment Fund (LAIF) is sixty-five million (\$65 million), which is subject to change. The LAIF is in trust in the custody of the State of California Treasurer. The Authority's right to withdraw its deposited monies from LAIF is not contingent upon the State's failure to adopt a State Budget.

- Maximum limit: 100% of the portfolio
- Maximum Maturity: N/A

### **10.10 Municipal Bonds and Notes**

Municipal obligations issued by a municipality within the State of California and any other of the states in the union. This may include bonds, notes, warrants, or other evidences of indebtedness of a local agency within the state.

- Maximum limit: Forty percent (40%) of the portfolio
- Maximum maturity of five (5) years
- Must be issued by State of California or California local agency
- Credit Requirement: A+/A1/A+ rating by Standard & Poor's/Moody's/Fitch Ratings

## DELTA CONVEYANCE FINANCE AUTHORITY

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### 10.11 Repurchase Agreement

A repurchase agreement is a purchase of authorized securities with terms including a written agreement by the seller to repurchase the securities on a future date and price.

- Maximum limit: Twenty percent (20%) of the portfolio
- Maximum maturity of two hundred seventy (270) days
- Master Repurchase Agreement must be on file
- Limited to primary dealers or financial institutions rated “A” or better by Moody’s or equivalent.
- Fully collateralized at market value of at least one hundred two percent (102%) with US government or federal agency securities

### 10.12 California Asset Management Program (CAMP)

- Maximum limit: Ten percent (10%) of the portfolio
- Rated highest short term rating by largest nationally recognized rating services

## 11.0 CREDIT RATING

Credit rating requirements for eligible securities as specified in this policy shall mean alpha numeric designations assigned by the following rating agencies:

- Moody’s Investors Service
- Standard & Poor’s Rating Services
- Fitch IBCA, Inc.
- Thompson Bank Watch

Please see Rating Description table herein, below.

## 12.0 MONITORING SAFETY AND LIQUIDITY

The Treasurer shall monitor on an ongoing basis investments for exposure to risk and credit deterioration to ensure primary objectives of safety of principal and liquidity are adhered to. Such matters shall be reported to the Authority Board of Directors as part of the Treasurer’s quarterly and/or annual report.

## 13.0 ADMINISTRATION

The Treasurer may, at any time, establish more restrictive requirements for securities approved for investment as deemed appropriate in this Investment Policy. These restrictions may include, but are not limited to, higher credit ratings, lower percentage limits by security type or issuer, shorter maturities and additional collateral requirements for collateralized investments.

## 14.0 PURCHASING ENTITIES

Investments not purchased directly from the issuer will be purchased from institutions licensed by the State of California as a broker/dealer, including:

- National or California State Chartered Banks
- Federal or California Chartered Savings Institutions

## DELTA CONVEYANCE FINANCE AUTHORITY

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- Brokerage firms designated as a primary government dealer by the Federal Reserve Bank
- Member of a federally-regulated securities exchange
- Institutions licensed by the State of California as a broker/dealer
- Federal or state savings institutions or associations as defined in Finance Code Section 5102

The Treasurer or designee will maintain a current and eligible list of reputable primary and regional dealers, brokers and financial institutions with whom securities trading and placement of funds are authorized. A strong capital base credit worthiness, and, where applicable, a broker/dealer staff experienced in transactions with California local governments are the primary criteria for inclusion on the Authority's approved list.

Approved dealers and brokers shall be limited to primary dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule) and which provide: proof of Financial Industry Regulatory Authority (FINRA) certification; proof of California State registration; and a completed agency broker/dealer questionnaire. In addition, prior to approval and for every two years thereafter, approved dealers and brokers must provide: an audited financial statement; certification of receipt, review of and willingness to comply with the current Investment Policy; and certification of compliance with Rule G-37 of the Municipal Securities Rulemaking Board regarding limitations on political contributions to the Board of Directors of the Authority or to any candidate for these offices.

The Treasurer may remove a firm from the approved list at any time due to: any failure to comply with any of the above criteria; any failure to successfully execute a transaction; any change in broker/dealer staff; or any other action, event or failure to act which, in the sole discretion of the Treasurer is materially adverse to the best interests of the Authority.

### **15.0 INVESTMENT SECURITY**

To ensure a high degree of internal control, the Authority shall comply with the following;

- All securities purchased from dealers and brokers shall be held in safekeeping by the Authority's custodial bank, a national bank, a State chartered bank or trust company, established for this purpose as someone other than the selling party of the security. Securities purchased will be covered by a trust or safekeeping receipt in a manner that establishes the Authority's ownership. All transactions completed on a delivery versus pay basis (DVP).
- All trade confirmation shall be received directly and reviewed for conformity to the original transaction by an individual other than the person originating the transaction. All trade confirmation must be an original; copies of confirmations are not allowed. Any discrepancies will be brought to the attention of the Treasurer.

**DELTA CONVEYANCE FINANCE AUTHORITY**

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**16.0 FUND WIRE PROCEDURES**

Payment for securities purchased from broker dealers that are ineligible for safekeeping will be made through the Authority's custodial bank. Funds will only be transferred subsequent but immediately following the custodial bank's acknowledgement that they are prepared to make settlement on the terms and conditions specified by the Authority. Payment for securities purchased from bank investment departments that will be safely kept with the trust department of the bank will be made immediately upon confirmation of the trade.

**17.0 PERFORMANCE REVIEW AND INTERNAL CONTROL**

The Treasurer or designee shall maintain a system of internal controls designed to ensure compliance with the Investment Policy and to prevent losses due to fraud, employee error, and misrepresentations by third parties or unanticipated changes in financial markets. The internal control includes; the activities of any subordinate officials acting on behalf of the Authority. Procedures should include references to individuals authorized to execute transactions or transfers, safekeeping agreements, repurchase agreements, wire transfer agreements, collateral/depository agreements and banking services contracts, as appropriate. As part of the annual audit, the Authority's external auditor will perform a review of investment transactions to verify compliance with policies and procedures.

**18.0 ETHICS AND CONFLICT OF INTEREST**

All officers and employees involved in the investment process shall refrain from engaging in any personal business activity which could conflict with proper execution of investments subject to this Policy. Any material financial interests in financial institutions which do business with the Authority should be disclosed to the Executive Director of the Authority. All individuals involved in the investment process are required to report all gifts and income in accordance with California State Law.



**DELTA CONVEYANCE FINANCE AUTHORITY**

**SUMMARY TABLE OF  
INVESTMENT GUIDELINES AND ELIGIBLE SECURITIES**

Authorized Investments	Maximum % Holdings	Purchase Restrictions	Maximum Maturity	Credit Quality
US Treasury Bonds, Bills and Notes	100%	N/A	5 Years	N/A
Federal Agency Bonds & Notes	100%	N/A	5 Years	<i>Full backing by the federal government of the United States of America</i>
Bankers Acceptance	40%	25% limitation to a single issuer	180 days	<i>"A-1/P-1" rated by S&amp;P and Moody's or equivalent for domestic banks</i>
Commercial Paper	25%	10% limitation to single issuer	270 days	<i>"A-1/P-1" rated by S&amp;P and Moody's or equivalent "AA" rated by S&amp;P or equivalent for US branch of foreign banks</i>
Medium Term Corporate Notes	30%	5% limitation to a single issuer. Limited to US licensed and operating corporations	5 years	<i>"A3" rated by at least one nationally recognized rating service</i>
Negotiable CD	30%	National or state chartered bank, S&L, or branch of foreign bank	5 years	<i>"A" rated by one or more nationally rated credit rating agencies</i>
Certificates of Time Deposit	30%	See California Government Code Section 53637	5 Years	<i>Limit to FDIC Insured amount \$250,000, Fully collateralized on amounts over the insured amount in accordance with California Government Code</i>
Money Market Mutual Funds	20%	Must maintain constant NAV of \$1.00	Daily Liquidity	<i>Top ranking or highest letter and numerical by 2 of the 3 nationally recognized rating services</i>
				<i>Fund must be invested in securities and obligation permitted under Government Code</i>
State of California, Local Agency Investment Fund ("LAIF")	100%	None	N/A	<i>Subject to California Government Code Section 16429.1 limitations</i>
Municipal Bonds & Notes	40%	State of California or California agencies	5 Years	<i>A+/A1/A+ rating by Standard &amp; Poor's/Moody's/Fitch Ratings</i>
Repurchase Agreements ("REPO")	20%	Limited to primary dealers or financial institutions rated "A" or better by Moody's	270 days	<i>Fully collateralized (min 102% of funds borrowed with daily mark to market) with US Government or federal agency securities with maximum 5 year maturities</i>
California Asset Management Program ("CAMP")	10%	N/A	Daily Liquidity	<i>Highest short term rating by S&amp;P, Moody's and/or Fitch</i>

**DELTA CONVEYANCE FINANCE AUTHORITY**

**RATING DESCRIPTION TABLE**

<b>Long Term Debt Ratings</b>			
<b>Credit Quality</b>	<b>Moody's</b>	<b>S&amp;P</b>	<b>Fitch</b>
<b>Strongest Quality</b>	Aaa	AAA	AAA
<b>Strong Quality</b>	Aa1/Aa2/Aa3	AA+/AA/AA-	AA
<b>Good Quality</b>	A1/A2/A3	A+/A/A-	A
<b>Medium Quality</b>	Baa1/Baa2/Baa3	BBB+/BBB/BBB-	BBB
<b>Speculative</b>	Ba1/Ba2/Ba3	BB+/BB/BB-	BB
<b>Low</b>	B1/B2/B3	B+/B/B-	B
<b>Poor</b>	Caa	CCC+	CCC
<b>Highly Speculative</b>	Ca/C	CCC/CCC-/CC	CC
<b>Short Debt Ratings</b>			
<b>Credit Quality</b>	<b>Moody's</b>	<b>S&amp;P</b>	<b>Fitch</b>
<b>Strongest Quality</b>	P-1	A-1+	F1
<b>Strong Quality</b>		A-1	
<b>Good Quality</b>	P-2	A-2	F2
<b>Medium Quality</b>	P-3	A-3	F3

Note: Investment Grade ratings applies to securities with at least a medium credit quality or higher by one of the nationally recognize rating organization, anything below the medium credit quality is non-investment grade.

**DELTA CONVEYANCE FINANCE AUTHORITY**

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**EXHIBIT A GLOSSARY**

**Accretion:** Adjustment of the difference between the prices of a bond bought at an original discount and the par value of the bond.

**Agencies:** Federal agency securities and/or Government-sponsored enterprises (GSEs), also known as U.S. Government instrumentalities. Securities issued by Government National Mortgage Association (GNMA) are considered true Authority securities, backed by the full faith and credit of the U.S. Government. GSEs are financial intermediaries established by the federal government to fund loans to certain groups of borrowers, for example homeowners, farmers and students and are privately owned corporations with a public purpose. The most common GSEs are Federal Farm Credit System Banks, Federal Home Loan Banks, Federal Home Loan Mortgage Association, and Federal National Mortgage Association.

**Amortization:** Accounting procedure that gradually reduces the cost value of a limited life or intangible asset through periodic charges to income. For fixed assets, the term used is "depreciation". It is common practice to amortize any premium over par value paid in the purchase of preferred stock or bond investments.

**Appreciation:** Increase in the value of an asset such as a stock bond, commodity or real estate.

**Asked Price:** The price a broker/dealer offers to sell securities.

**Asset Backed:** A type of security that is secured by receivables, such as credit card and auto loans. These securities typically pay principal and interest monthly.

**Bankers' Acceptance (BA):** A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer. This money market instrument is used to finance international trade.

**Basis Point:** One-hundredth of one percent (i.e., 0.01%).

**Benchmark:** A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investment.

**Bid Price:** The price a broker/dealer offers to purchase securities.

**Bond:** A financial obligation for which the issuers promises to pay the bondholder a specified stream of future cash flows, including periodic interest payments and a principal repayment.

**Book Value:** The value at which a debt security is shown on the holder's balance sheet. Book value is acquisition cost less amortization of premium or accretion of discount.

**BROKER:** A broker acts as an intermediary between a buyer and seller for a commission and does not trade for his/her own risk and account or inventory.

**DELTA CONVEYANCE FINANCE AUTHORITY**

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**Callable Securities:** A security that can be redeemed by the issuer before the scheduled maturity date.

**Cash Equivalents (CE):** Highly liquid and safe instruments or investments that can be converted into cash immediately. Examples include bank accounts, money market funds, and Treasury bills.

**Cash Flow:** An analysis of all changes that affect the cash account during a specified period.

**Certificate Of Deposit (CD):** A time deposit with a specific maturity evidenced by a certificate. Large-denomination CD's are typically negotiable.

**Collateral:** Securities, evidence of deposit or other property which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

**Collateralized Mortgage Obligation (CMO):** A type of mortgage-backed security that creates separate pools of pass-through rates for different classes of bondholders with varying maturities, called tranches. The repayments from the pool of pass-through securities are used to retire the bonds in the order specified by the bonds' prospectus.

**Commercial Paper:** Short-term, unsecured, negotiable promissory notes of corporations.

**Corporate Note:** Debt instrument issued by a private corporation.

**Coupon:** The annual rate at which a bond pays interest.

**Credit Ratings:** A grade given to a debt instrument that indicates its credit quality. Private independent rating services such as Standard & Poor's, Moody's and Fitch provide these

**Credit Risk:** The risk that an obligation will not be paid and a loss will result due to a failure of the issuer of a security.

**CUSIP:** Stands for Committee on Uniform Securities Identification Procedures. A CUSIP number identifies most securities, including: stocks of all registered U.S. and Canadian companies, and U.S. government and municipal bonds. The CUSIP system—owned by the American Bankers Association and operated by Standard & Poor's—facilitates the clearing and settlement process of securities. The number consists of nine characters (including letters and numbers) that uniquely identify a company or issuer and the type of security.

**Current Yield:** The annual interest on an investment divided by the current market value. Since the calculation relies on the current market value rather than the investor's

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cost, current yield is unrelated to the actual return the investor will earn if the security is held to maturity.

**Custodian:** A bank or other financial institution that keeps custody of stock certificates and other assets.

**Dealer:** A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his/her own risk and account or inventory.

**Debentures:** A bond secured only by the general credit of the issuers.

**Delivery Versus Payment (DVP):** Delivery of securities with a simultaneous exchange of money for the securities.

**Derivatives:** A financial instrument that is based on, or derived from, some underlying asset, reference date, or index.

**Direct Issuer:** Issuer markets its own paper directly to the investor without use of an intermediary.

**Discount:** The difference between the cost of a security and its value at maturity when quoted at lower than face value.

**Diversification:** Dividing investment funds among a variety of securities offering independent returns and risk profiles.

**Duration:** A measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security. This calculation is based on three variables: term to maturity, coupon rate, and yield to maturity. Duration measures the price sensitivity of a bond to changes in interest rates.

**Face Value:** The principal amount owed on a debt instrument. It is the amount on which interest is computed and represents the amount that the issuer promises to pay at maturity.

**Fair Value:** The amount at which a security could be exchanged between willing parties, other than in a forced or liquidation sale. If a market price is available, the fair value is equal to the market value.

**Fannie Mae:** Trade name for the Federal National Mortgage Association (FNMA), a U.S. Government sponsored enterprise.

**Federal Deposit Insurance Corporation (FDIC):** A federal Authority that provides insurance on bank deposits, guaranteeing deposits to a set limit per account, currently \$250,000.

**Federal Farm Credit Bank (FFCB):** Government-sponsored enterprise that consolidates the financing activities of the Federal Land Banks, the Federal

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Intermediate Credit Banks and the Banks for Cooperatives. Its securities do not carry direct U.S. government guarantees.

**Federal Funds Rate:** The rate of interest at which Federal funds are traded. This rate is considered to be the most sensitive indicator of the direction of interest rates, as it is currently pegged by the Federal Reserve through open-market operations.

**Federal Government Agency Securities:** Federal Authority 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.

**Federal Home Loan Banks (FHLB):** Government sponsored enterprise (currently made up of 12 regional banks) that regulates and lends funds and provides correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. Although the banks operate under federal charter with government supervision, the securities are not guaranteed by the U. S. Government.

**Federal Home Loan Mortgage Corporation (FHLMC):** Government sponsored enterprise that helps maintain the availability of mortgage credit for residential housing. FHLMC finances these operations by marketing guaranteed mortgage certificates and mortgage participation certificates. Its discount notes and bonds do not carry direct U.S. government guarantees.

**Federal National Mortgage Association (FNMA):** Government sponsored enterprise that is the largest single provider of residential mortgage funds in the United States. FNMA is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted.

**Federal Open Market Committee (FOMC):** A committee of the Federal Reserve Board, which establishes monetary policy and executes it through temporary and permanent changes to the supply of bank reserves.

**Federal Reserve System:** The central bank of the U.S. which consists of a seven member Board of Governors, 12 regional banks and about 5,700 commercial banks that are members.

**Fed Wire:** A wire transmission service established by the Federal Reserve Bank to facilitate the transfer of funds through debits and credits of funds between participants within the Fed system.

**Freddie Mac:** Trade name for the Federal Home Loan Mortgage Corporation (FHLMC), a U.S. government sponsored enterprise.

**Ginnie Mae:** Trade name for the Government National Mortgage Association (GNMA), a direct obligation bearing the full faith and credit of the U.S. Government.

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**Government Accounting Standards Board (GASB):** A standard-setting body, associated with the Financial Accounting Foundation, which prescribes standard accounting practices for governmental units.

**Guaranteed Investment Contracts (GICS):** An agreement acknowledging receipt of funds, for deposit, specifying terms for withdrawal, and guaranteeing a rate of interest to be paid.

**Interest Rate:** The annual yield earned on an investment, expressed as a percentage.

**Interest Rate Risk:** The risk of gain or loss in market values of securities due to changes in interest-rate levels. For example, rising interest rates will cause the market value of portfolio securities to decline.

**Investment Agreements:** A contract providing for the lending of issuer funds to a financial institution which agrees to repay the funds with interest under predetermined specifications.

**Investment Grade (Long Term Ratings):** The minimum, high quality ratings for long term debt such as corporate notes. Investment Grade ratings are as follows: A3 (Moody's), A- (S&P), and A- (Fitch).

**Investment Portfolio:** A collection of securities held by a bank, individual, institution or government Authority for investment purposes.

**Liquidity:** A liquid asset is one that can be converted easily and rapidly into cash with minimum risk of principal.

**Local Agency Investment Fund (LAIF):** An investment pool sponsored by the State of California and administered/managed by the State Treasurer. Local government units, with consent of the governing body of that agency, may voluntarily deposit surplus funds for the purpose of investment. Interest earned is distributed by the State Controller to the participating governmental agencies on a quarterly basis.

**Local Agency Investment Pool:** A pooled investment vehicle sponsored by a local agency or a group of local agencies for use by other local agencies.

**Market Risk:** The risk that the value of securities will fluctuate with changes in overall market conditions or interest rates. Systematic risk of a security that is common to all securities of the same general class (stocks, bonds, notes, money market instruments) and cannot be eliminated by diversification (which may be used to eliminate non-systematic risk).

**Market Value:** The price at which a security is currently being sold in the market. See **Fair Value**.

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**Master Repurchase Agreement:** A written contract covering all future transactions between the parties to repurchase agreements and reverse repurchase agreements that establish each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

**Maturity:** The date that the principal or stated value of a debt instrument becomes due and payable.

**Medium-Term Corporate Notes (MTNs):** Unsecured, investment-grade senior debt securities of major corporations which are sold in relatively small amounts either on a continuous or an intermittent basis. MTNs are highly flexible debt instruments that can be structured to respond to market opportunities or to investor preferences.

**Modified Duration:** The percent change in price for a 100 basis point change in yields. This is a measure of a portfolio's or security's exposure to market risk.

**Money Market:** The market in which short term debt instruments (Treasury Bills, Discount Notes, Commercial Paper, Banker's Acceptances and Negotiable Certificates of Deposit) are issued and traded.

**Mortgaged Backed Securities:** A type of security that is secured by a mortgage or collection of mortgages. These securities typically pay principal and interest monthly.

**Municipal Bonds:** Debt obligations issued by states and local governments and their agencies, including cities, counties, government retirement plans, school Agencies, state universities, sewer agency, municipally owned utilities and authorities running bridges, airports and other transportation facilities

**Mutual Fund:** An entity that pools money and can invest in a variety of securities which are specifically defined in the fund's prospectus.

**Negotiable Certificate Of Deposit:** A large denomination certificate of deposit which can be sold in the open market prior to maturity.

**Net Portfolio Yield:** Calculation in which the 365-day basis equals the annualized percentage of the sum of all Net Earnings during the period divided by the sum of all Average Daily Portfolio Balances.

**Nationally Recognized Rating Organization (NRSRO):** is a credit rating agency that issues credit ratings that the U.S Securities and Exchange Commission permits other financial firms to use for certain regulatory purposes.

**Open Market Operations:** Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit: Sales



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have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

**Par Value:** The amount of principal which must be paid at maturity. Also referred to as the face amount of a bond. See **Face Value**.

**Portfolio:** The collection of securities held by an individual or institution.

**Premium:** The difference between the par value of a bond and the cost of the bond, when the cost is above par.

**Primary Dealer:** A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. These dealers are authorized to buy and sell government securities in direct dealing with the Federal Reserve Bank of New York in its execution of market operations to carry out U.S. monetary policy. Such dealers must be qualified in terms of reputation, capacity, and adequacy of staff and facilities.

**Prime (Short Term Rating):** High quality ratings for short term debt such as commercial paper. Prime ratings are as follows: P1 (Moody's), A1 (S&P), and F1 (Fitch).

**Principal:** The face value or par value of a debt instrument, or the amount of capital invested in a given security.

**Private Placements:** Securities that do not have to be registered with the Securities and Exchange Commission because they are offered to a limited number of sophisticated investors.

**Prospectus:** A legal document that must be provided to any prospective purchaser of a new securities offering registered with the Securities and Exchange Commission that typically includes information on the issuer, the issuer's business, the proposed use of proceeds, the experience of the issuer's management, and certain certified financial statements (also known as an "official statement").

**Prudent Investor Standard:** A standard of conduct for fiduciaries. Investments shall be made with judgment and care--under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

**Public Deposit:** A bank that is qualified under California law to accept a deposit of public funds.

**Purchase Date:** The date in which a security is purchased for settlement on that or a later date. Also known as the "trade date".

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**Rate Of Return:** 1) The yield which can be attained on a security based on its purchase price or its current market price. 2) Income earned on an investment, expressed as a percentage of the cost of the investment.

**Realized Gain (Or Loss):** Gain or loss resulting from the sale or disposal of a security.

**Regional Dealer:** A financial intermediary that buys and sells securities for the benefit of its customers without maintaining substantial inventories of securities and that is not a primary dealer.

**Repurchase Agreement (RP or Repo):** A transaction in which a counterparty or the holder of securities (e.g. investment dealer) sells these securities to an investor (e.g. the Authority) with a simultaneous agreement to repurchase them at a fixed date. The security "buyer" (e.g. the Authority) in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate the "buyer" for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money that is, increasing bank reserves.

**Reverse Repurchase Agreement (Reverse Repo):** The opposite of a repurchase agreement. A reverse repo is a transaction in which the Authority sells securities to a counterparty (e.g. investment dealer) and agrees to repurchase the securities from the counterparty at a fixed date. The counterparty in effect lends the seller (e.g. the Authority) money for the period of the agreement with terms of the agreement structured to compensate the buyer.

**Risk:** Degree of uncertainty of return on an asset.

**Safekeeping:** A service which banks offer to clients for a fee, where physical securities are held in the bank's vault for protection and book-entry securities are on record with the Federal Reserve Bank or Depository Trust Company in the bank's name for the benefit of the client. As agent for the client, the safekeeping bank settles securities transactions, collects coupon payments, and redeems securities at maturity or on the call date, if called.

**Securities And Exchange Commission (SEC):** Authority created by Congress to protect investors in securities transactions by administering securities legislation.

**Secondary Market:** A market for the repurchase and resale of outstanding issues following the initial distribution.

**Securities:** Investment instruments such as notes, bonds, stocks, money market instruments and other instruments of indebtedness or equity.

**Settlement Date:** The date on which a trade is cleared by delivery of securities against funds.

**Spread:** The difference between two figures or percentages. It may be the difference between the bid (price at which a prospective buyer offers to pay) and asked (price at

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which an owner offers to sell) prices of a quote, or between the amount paid when bought and the amount received when sold.

**Structured Note:** A complex, fixed income instrument, which pays interest, based on a formula tied to other interest rates, commodities or indices. Examples include “inverse floating rate” notes which have coupons that increase when other interest rates are falling, and which fall when other interest rates are rising and “dual index floaters”, which pay interest based on the relationship between two other interest rates, for example, the yield on the ten-year Treasury note minus the Libor rate. Issuers of such notes lock in a reduced cost of borrowing by purchasing interest rate swap agreements.

**Supranationals:** are international institutions that provide development financing, advisory services and/or financial services to their member countries to achieve the overall goal of improving living standards through sustainable economic growth. The Government Code allows local agencies to purchase the United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank.

**Time Deposit:** A deposit with a California bank or savings and loan association for a specific amount and with a specific maturity date and interest rate. Deposits of up to \$250,000 are insured by FDIC. Deposits over \$250,000 are collateralized above the insurance with either government securities (at 110% of par value), first trust deeds (at 150% of par value), or letters of credit (at 105% of par value).

**Total Rate Of Return:** A measure of a portfolio’s performance over time. It is the internal rate of return which equates the beginning value of the portfolio with the ending value, and includes interest earnings and realized and unrealized gains and losses on the portfolio. For bonds held to maturity, total return is the yield to maturity.

**Trustee Or Trust Company Or Trust Department Of A Bank:** A financial institution with trust powers which acts in a fiduciary capacity for the benefit of the bondholders in enforcing the terms of the bond contract.

**Underwriter:** A dealer which purchases a new issue of municipal securities for resale.

**Uniform Net Capital Rule:** Securities and Exchange Commission requirement that member firms as well as nonmember broker/dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

**U.S. Government Agency Securities:** Securities issued by U.S. government agencies, most of which are secured only by the credit worthiness of the particular agency. See **Agencies**.

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**U.S. Treasury Obligations:** Securities issued by the U.S. Treasury and backed by the full faith and credit of the United States. Treasuries are the benchmark for interest rates on all other securities in the U.S. The Treasury issues both discounted securities and fixed coupon notes and bonds. The income from Treasury securities is exempt from state and local, but not federal, taxes.

**Treasury Bills:** Securities issued at a discount with initial maturities of one year or less. The Treasury currently issues three-month and six-month Treasury bills at regular weekly auctions. It also issues very short-term “cash management” bills as needed to smooth out cash flows.

**Treasury Notes:** Intermediate-term coupon-bearing securities with initial maturities of one year to ten years.

**Treasury Bond:** Long-term coupon-bearing securities with initial maturities of ten years or longer.

**Unrealized Gain (Or Loss):** Gain or loss that has not become actual. It becomes a realized gain (or loss) when the security in which there is a gain or loss is actually sold. See **Realized Gain (Or Loss)**.

**Volatility:** Characteristic of a security, commodity or market to rise or fall sharply in price within a short-term period.

**Weighted Average Maturity:** The average maturity of all the securities that comprise a portfolio that is typically expressed in days or years.

**Yield:** The annual rate of return on an investment expressed as a percentage of the investment. See **Current Yield; Yield To Maturity**.

**Yield Curve:** Graph showing the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity.

**Yield To Maturity:** Concept used to determine the rate of return if an investment is held to maturity. It takes into account purchase price, redemption value, time to maturity, coupon yield, and the time between interest payments. It is the rate of income return on an investment, minus any premium or plus any discount, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond, expressed as a percentage.

# Delta Conveyance Finance Authority

## Board Memo

Contact: Brian Thomas, Interim Executive Director

**AGENDA DATE: August 16, 2018**

**Item No. 8a**

**Subject: Executive Director's Report**

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### **Executive Summary**

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The bulk of activities over the past month were associated with administrative and ministerial actions needed to establish the Delta Conveyance Finance Authority (Authority). In addition, significant efforts went into finalizing the Letter of Interest for a WIFIA loan, as well as meetings with State Water Project Contractors regarding the financing approach.

### **Detailed Report**

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**Administration.** The Authority filed its formation documents with the Secretary of State and Controller. In addition, the Authority received its Employee Identification Number and DUNS (Data Universal Numbering System) number from Dunn & Bradstreet, a requirement for any federal funding. The required CEQA notices and filings were also made in the respective counties. In addition, the Authority is proceeding with getting insurance quotes and finalizing the agreement with Metropolitan to provide treasury and accounting services. Lastly, the Authority provided a copy of the WIFIA Letter of Interest to the Sacramento News and Review.

**WIFIA Loan.** The Authority finalized the WIFIA Letter of Interest and successfully submitted it on July 27, 2018. The WIFIA Letter of Interest included almost 200,000 pages of attachments (public documents, including environmental review material, descriptions of the project, etc.) The review period is generally around 90 days.

**Meetings.** I participated in a number of discussions and meetings with contractors and attorneys regarding the financing structure, participation in the Authority, and other issues associated with financing WaterFix. These discussions are ongoing and necessary to ensure that the necessary documents and actions are in place to enable the Authority to proceed with borrowings. These meetings and discussions were important to hear challenges and opportunities presented by the Authority and the developing finance structure.

**Future Activities.** Over the next two months, we will be preparing and distributing RFQ/RFPs for professional services, including general counsel, bond and disclosure counsel, municipal advisor, and auditing services. All such contracts would need to be approved by the board. In addition, we will be preparing bylaws and other policies and procedures (e.g., expenditure authorization and approvals, etc.)

### **Recommended Action**

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Informational