



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

Thursday, July 18, 2019  
11:00 a.m.

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

**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 [lindastandlee@dcfinanceauthority.org](mailto:lindastandlee@dcfinanceauthority.org)

**1. CALL TO ORDER**

**2. ROLL CALL**

**3. PLEDGE OF ALLEGIANCE**

**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. None.

**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 May 16, 2019

**7. SCHEDULED ITEMS**

- a. Approve investment policy and delegate authority to the treasurer to invest funds
- b. Review and approve amendments to the bylaws
- c. Update on DCA activities

**8. REPORTS AND ANNOUNCEMENTS**

- a. Executive Director's Report
- b. General Counsel's Report
- c. Treasurer's Report

**9. FUTURE AGENDA ITEMS**

**10. CLOSED SESSION**

- a. Conference with legal counsel pursuant to Government Code section 54956.9, potential litigation: one case.

**11. ADJOURNMENT**

BOARD OF DIRECTORS MEETING

# MINUTES

REGULAR MEETING  
Thursday, May 16, 2019  
11:00 am

(Paragraph numbers coincide with agenda item numbers)

## 1. CALL TO ORDER

The regular meeting of the Delta Conveyance Finance Authority (Finance Authority) Board of Directors was called to order by Secretary Davis at the Sacramento Public Library, Tsakopoulos Library Galleria, 828 I Street, Sacramento, CA, at 11:30 a.m. Secretary Davis noted that Directors Record and Kremen were participating in the meeting via conference call, and therefore all votes would be held via roll call vote.

## 2. PLEDGE OF ALLEGIANCE

Director Cortner led the Pledge of Allegiance.

## 3. ROLL CALL

Board members in attendance were Robert Cheng, Dwayne Chisam, Kathy Cortner, Jeff Davis, Doug Headrick, Mark Krause, Gary Kremen, Valerie Pryor, Randy Record, Paul Sethy, and Matt Stone.

Staff members in attendance were Brian Thomas, June Skillman, and Steve O'Neill.

Director Davis welcomed Director Cheng to the Board, noting it was Director Cheng's first board meeting.

## 4. PUBLIC COMMENT

Secretary Davis declared public comment open, limiting speaking time to three minutes.

Ms. Osha Meserve, Local Agencies of the North Delta, expressed her opinion that the DC Finance Authority did not have the authority to take action given the fact the Department of Water Resources had rescinded its environmental document.

With no additional persons requesting time to speak, Secretary Davis closed public comment.

## 5. OTHER MATTERS

5.a. None.

**6. CONSENT CALENDAR:**

- 6.a. Approval of the minutes from the meeting of February 21, 2019.

Director Stone requested a legal opinion from General Counsel on the ability of the board to take action, given the change in project. General Counsel noted his belief that the board had the authority to take action.

Move to Approve:	Kathy Cortner
Second:	Doug Headrick
Yeas:	Robert Cheng, Dwayne Chisam, Kathy Cortner, Jeff Davis, Doug Headrick, Mark Krause, Gary Kremen, Valerie Pryor, Randy Record, Paul Sethy, and Matt Stone
Nays:	None
Abstains:	None
Recusals:	None
Absent:	None
Summary:	11 Yeas; 0 Nays; 0 Abstains; 0 Absent. (Motion passed as MO 19-5-01)

**7. SCHEDULED ITEMS**

- 7.a. Approval of the 2019/20 proposed budget

Recommendation:	Approve the Proposed 2019/20 Budget to be funded with equal payments of \$50,000 by each of the Delta Conveyance Finance Authority Members and \$46,400 of available reserves.
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Executive Director Brian Thomas provided the staff report to the Board. Mr. Thomas noted that under the JPA agreement, the Board of Directors is required to adopt an annual operating budget. The operating budget is funded in equal shares by each of the Finance Authority's members. The proposed expenditure budget totals \$597,000, with proposed revenues of \$550,600. Revenues consist of payments of \$50,000 from each member, as well as estimated interest earnings of \$600. The difference between revenues and expenditures would be funded from reserves resulting from 2018/19 operations. Mr. Thomas noted that the Executive Committee reviewed the proposed budget at its meeting on May 9, 2019, and recommended approval of the proposed budget for 2019/20. If approved, invoices of \$50,000 per Member would be delivered on August 1, with payments due thirty days later.

Director Cheng queried whether the professional services category included costs for legal services. Mr. Thomas noted that legal services were included in the professional services category.

Move to Approve:	Matt Stone
Second:	Kathy Cortner
Yeas:	Robert Cheng, Dwayne Chisam, Kathy Cortner, Jeff Davis, Doug Headrick, Mark Krause, Gary Kremen, Valerie Pryor, Randy Record, Paul Sethy, and Matt Stone
Nays:	None
Abstains:	None

Recusals:	None
Absent:	None
Summary:	11 Yeas; 0 Nays; 0 Abstains; 0 Absent. (Motion passed as MO 19-5-02)

- 7.b. Consider and authorize the Executive Director to execute an agreement for audit services with Richardson & Company, for an amount not to exceed \$8,800 for fiscal year 2019/20.

Recommendation: Approve the selection of Richardson & Company to serve as auditor for the Delta Conveyance Finance Authority and authorize the Executive Director to negotiate a contract at a not to exceed level of \$8,800 for the fiscal year 2018/19 audit.

Executive Director Brian Thomas provided the staff report to the Board. Mr. Thomas noted that the Finance Authority distributed a request for proposals for Audit services on March 29, 2019 and received four responses. Staff from several Finance Authority members, including Zone 7, Alameda County Water District, Santa Clara Valley Water District and Metropolitan, were consulted regarding the firms and responses. The top two responding firms were Vasquez & Company LLP and Richardson & Company, LLP. Richardson is recommended due to their extensive experience auditing the State Water Project Contract and working with the Contractors. In addition, they have experience with the Central Valley Project, and work with other joint powers agencies and financing authorities, including the California Pollution Control Financing Authority. The fee proposal is reasonable, at a not to exceed \$8,800, based on 100 hours of work.

Director Davis noted that the Executive Committee discussed this matter and was supported Mr. Thomas' recommendation on this matter.

Move to Approve:	Kathy Cortner
Second:	Paul Sethy
Yeas:	Robert Cheng, Dwayne Chisam, Kathy Cortner, Jeff Davis, Doug Headrick, Mark Krause, Gary Kremen, Valerie Pryor, Randy Record, Paul Sethy, and Matt Stone
Nays:	None
Abstains:	None
Recusals:	None
Absent:	None
Summary:	11 Yeas; 0 Nays; 0 Abstains; 0 Absent. (Motion passed as MO 19-5-03)

- 7.c. Report from Kathryn Mallon, Executive Director for the Delta Conveyance Design & Construction Authority

Ms. Mallon introduced herself to the Board. She is a registered California professional engineer, with 30 years of experience in the design and construction of infrastructure projects. She started her position with the DCA in March 2019 and has been working since that date familiarizing herself with the project and supporting DWR. Ms. Mallon noted she wants to work in a transparent, collaborative process with the public as well

as to undertake sufficient engineering work to clearly understand the alternatives and the possible impacts to the community.

**8. REPORTS AND ANNOUNCEMENTS**

**8.a. Executive Director Report**

Mr. Thomas discussed activities he participated in during the last few months, including a review of responses to the request for proposals for audit services, participation in meetings regarding the change in project scope and schedule, as well as attendance at the Water and Wastewater CFO Forum and ACWA's spring meeting. In addition, Mr. Thomas noted that the conflict of interest code was approved by the Fair Political Practices Commission. He also worked with general counsel to respond to two public record act requests.

**8.b. General Counsel Report**

Mr. O'Neill reported on activities which occurred during the last few months. He noted he responded to two public records act requests (Barbara Barrigan-Parrilla, Restore the Delta; and Blaine R. Cox, Damrell, Nelson, Schrimp, Pallios).

**8.c. Treasurer's Report**

Ms. Skillman reported that dues invoices had been issued, with receipt of payment from all but one member.

**9. CLOSED SESSION**

**10. OPEN SESSION AND REPORT OUT OF CLOSED SESSION**

**a. Conference with Legal Counsel: Government Code section 54956.9(d): potential litigation: one case**

Mr. O'Neill noted discussion of one item, with no formal action taken in closed session.

**11. FUTURE AGENDA ITEMS:**

Secretary Davis requested future agenda items be raised at this time. Executive Director Thomas noted that the Finance Authority may not hold a meeting in June.

**12. ADJOURNMENT:**

Secretary Davis adjourned the meeting at 12:24 p.m.

# Delta Conveyance Finance Authority

## Board Memo

Contact: June Skillman, Treasurer

**AGENDA DATE: July 18, 2019**

**Item No. 7.a**

**Subject: Investment Policy**

### Executive Summary

Staff seeks board approval of the Authority's Statement of Investment Policy (Policy) for fiscal year (FY) 2019/20. Staff also seeks board approval for the delegation of authority to the Treasurer to invest the Authority's funds for FY 2019/20, pursuant to the Government Code of the State of California (California Government Code).

The Policy has been updated to ensure that it complies with the requirements of the California Government Code, provides a balance between investment restrictions and investment flexibility, and expresses the Authority's investment objectives and preferences with clarity and consistency. The Authority's funds are currently invested with the funds of the Metropolitan Water District of Southern California.

### Detailed Report

The Authority's Policy for FY 2019/20 (**Attachment 1**) requires the Treasurer to adhere to the following three criteria:

1. **Safety of Principal.** Investments shall be undertaken which first seek to ensure the preservation of principal in the portfolio. The Treasurer shall ensure each investment transaction is evaluated or cause to have evaluated each potential investment, seeking both quality in issuer and in underlying security or collateral, and shall diversify the portfolio to reduce exposure to loss. Diversification of the portfolio will be used in order to reduce exposure to principal loss.
2. **Liquidity.** Investments shall be made whose maturity date is compatible with cash flow requirements and which will permit easy and rapid conversion into cash without substantial loss of value.
3. **Return on Investment.** Investments shall be undertaken to produce an acceptable rate of return after first considering safety of principal and liquidity and the prudent investor standard.

In accordance with Section 53607 of the California Government Code, the authority to invest public funds granted to the Board may be delegated to the Treasurer for a one-year period. The Board's prior delegation to the Treasurer expires on August 16, 2019. Subject to review, the Board may renew the delegation to the Treasurer annually.

The Policy for FY 2019/20 has been updated. The proposed Policy is included as **Attachment 1**. **Attachment 2** is a redlined document that compares the Policy for FY 2018/19 to the proposed Policy for FY 2019/20. Revisions and updates include the following:

1. The preamble has been updated to clarify that the policy applies to investible funds.
2. Allows for the use of investment managers.
3. Expresses the investment objective.
4. Eligible investments are updated to include Supranationals and Asset-Backed Securities as eligible investments.
5. References to specific rating agencies were deleted; the Policy's credit rating language now indicates credit rating requirements are based on the rating category without modifiers (+, -, or 1, 2, 3 modifiers) and only one rating is needed.
6. The maximum maturity of any investment in the portfolios shall not exceed five (5) years except that the portfolio may be invested in United States Treasury and Federal Agency securities with maturities in excess of five years.

### **Recommended Action**

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**Environmental Impact:** This item is not a project as defined in the California Environmental Quality Act Code of Regulations, Title 14, Chapter 3, Section 15378.

Approve the Investment Policy for FY 2019/20 and the delegation of authority to the Treasurer to invest the Authority's funds for FY 2019/20, pursuant to the Government Code of the state of California (California Government Code).

### **ATTACHMENTS:**

Attachment 1: Investment Policy for FY 2019/20 (clean)

Attachment 2: Investment Policy for FY 2019/20 (redline from FY 2018/19)



## **DELTA CONVEYANCE FINANCE AUTHORITY**

### **Investment Policy**

This Statement of Investment Policy (Policy) outlines the guidelines and practices to be used to manage the Delta Conveyance Finance Authority's (Authority) available cash and investment portfolio. Authority funds not required for immediate cash requirements will be invested in compliance with the California Government Code and this Policy.

#### **1.0 POLICY**

It is the policy of the Board of Directors of the 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. The Treasurer may delegate the day-to-day investment activities to their designee(s) but not the responsibility for the overall investment program.

The Treasurer may also delegate the day-to-day execution of investments to registered investment managers through written agreements. The investment manager(s), in coordination with the Treasurer, will manage on a daily basis the Authority's investment portfolio pursuant to the specific and stated investment objectives of the Authority. The investment manager(s) shall follow this Policy and such other written instructions provided by the Treasurer or their designee(s). The investment manager(s) may be given discretion to acquire and dispose of assets in their designated account, but the investment manager(s) shall not be permitted to have custodial control over the Authority's investment portfolio.

#### **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.

## Agenda Item 7.a (Attachment 1)

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.
- 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 investment portfolio shall be managed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs. The Authority will employ an active management approach that allows for the sale of securities prior to their scheduled maturity dates. Securities may be sold for a variety of reasons, such as to increase yield, lengthen or shorten maturities, to take a profit, or to increase investment quality. In no instance shall an exchange be used for purely speculative purposes. This Policy recognizes that in a diversified portfolio occasional measured losses are inevitable and must be considered within the context of the overall portfolio's structure and expected investment return, with the proviso that adequate diversification and credit analysis have been implemented.

Because the composition of the portfolio fluctuates, depending on market and credit conditions, various appropriate indices selected by the Treasurer will be used to monitor performance.

### 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.

Should a security held in the portfolio be downgraded below the minimum rating criteria specified in this Policy, the Treasurer shall determine a course of action to be taken on a case-by-case basis considering such factors as the reason for the downgrade, prognosis for recovery or further rating downgrades, and the market price of the security. The Treasurer shall note in the monthly report any securities which have been downgraded below Policy requirements and the recommended course of action

### **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 deliverable 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. The Treasurer shall also maintain evidence of the Authority ownership in non-deliverable securities (e.g. LAIF, CAMP, and Time CDs).

### **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.

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 Obligations**

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 Obligations**

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; five percent (5%) with any one issuer
- 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: A-1 or its equivalent or better by a Nationally Recognized Statistical Rating Organization (NRSRO)
- 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; five percent (5%) with any one issuer
- Maximum Maturity of two hundred seventy (270) days
- Maximum Issuer Exposure: Ten percent (10%) limitation on outstanding commercial paper to any one issuer
- Credit requirement: Highest ranking or highest letter and number rating as provided by an NRSRO
- 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 are generally unsecured.

## **Agenda Item 7.a (Attachment 1)**

- Maximum limit: Thirty percent (30%) of the portfolio; five percent (5%) with any one issuer
- 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: A or its equivalent or better by an NRSRO
- 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: A (long-term) or A-1 (short-term) or their equivalents or better by an NRSRO
- 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 or insured by the National Credit Union Administration (NCUA) 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 (or NCUA in the case of credit unions) insured amount of two hundred- fifty thousand (\$250,000)
- Amounts over FDIC or NCUA insured amount must be fully collateralized
- Credit Requirement: For federally-insured or NCUA-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): Rating of A or its equivalent or better by an NRSRO
- Deposits are limited to a state or national bank, savings association or federal association, a state or federal credit union, or a federally insured industrial loan company, located in California

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**

Shares of beneficial interest issued by diversified management companies that are money market funds registered with the SEC.

- Maximum Maturity: N/A
- Maximum limit: Twenty percent (20%) of the portfolio

## **Agenda Item 7.a (Attachment 1)**

- Credit Requirement: Highest ranking by not less than two NRSROs or must retain an investment advisor that meets specified requirements
- The use of money market funds are limited to Government money market funds that provide daily liquidity and seek to maintain a stable Net Asset Value (NAV)
- 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: The then current limit set by LAIF for operating accounts
- Maximum Maturity: N/A
- Credit Requirement: 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: Thirty percent (30%) of the portfolio; five percent (5%) with any one issuer
- Maximum maturity of five (5) years
- Must be issued by State of California, any of the other 49 states, or a California local agency
- Credit Requirement: A (long-term) or A-1 (short-term) or their equivalents or better by an NRSRO

### **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 its equivalent or higher by an NRSRO
- 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
- Maximum maturity: N/A
- Credit Requirement: AAAM or its equivalent or better by an NRSRO.

### **10.13 Supranationals**

Securities issued or unconditionally guaranteed by the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), or Inter-American Development Bank (IADB) and eligible for purchase and sale within the United States.

- Maximum allocation: Thirty percent (30%) of the portfolio
- Maximum maturity: Five (5) years
- Credit requirement: AA or its equivalent or better by an NRSRO.

### **10.14 Asset-Backed Securities**

A mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate, or consumer receivable-backed bond.

- Maximum allocation: Twenty percent (20%) of the portfolio; five percent (5%) with any one issuer
- Maximum maturity: Five (5) years
- Credit requirement: AA or its equivalent or better by an NRSRO.

## **11.0 CREDIT RATING**

Credit rating requirements for eligible securities in this Policy specify the minimum credit rating category required at purchase without regard to +, -, or 1, 2, 3 modifiers, if any. The security, at the time of purchase, may not be rated below the minimum credit requirement by any of the NRSROs that rate the security.

## **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**

For investments not purchased directly from the issuer, the Treasurer shall select only brokers/dealers who are licensed and in good standing with the California Department of Securities, the Securities and Exchange Commission, the Financial Industry Regulatory Authority (FINRA) or other applicable self-regulatory organizations. Before engaging in investment transactions with a broker/dealer, the Treasurer shall obtain a signed verification form that attests the individual has reviewed the Authority's Policy, and intends to present only those investment recommendations and transactions to the Authority that is appropriate under the terms and conditions of the Policy.

The Authority's external investment manager(s) may be granted discretion to purchase and sell investment securities in accordance with this Policy. Investment managers may also use their own list

of internally-approved issuers, broker-dealers and other financial firms, so long as such managers are registered under the Investment Advisers Act of 1940.

**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.

**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.



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

**BANKERS' ACCEPTANCE (BA):** A draft or bill or 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.

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**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.

**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 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.

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**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 agency 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 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 agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.

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**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.

**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.

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**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.

**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

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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 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

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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".

**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.

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**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 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

## Investment Policy

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

This Statement of Investment Policy (Policy) outlines the guidelines and practices to be used to manage the Delta Conveyance Finance Authority's (Authority) available cash and investment portfolio. Authority funds not required for immediate cash requirements will be invested in compliance with the California Government Code and this Policy.

### 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. The Treasurer may delegate the day-to-day investment activities to their designee(s) but not the responsibility for the overall investment program.

The Treasurer may also delegate the day-to-day execution of investments to registered investment managers through written agreements. The investment manager(s), in coordination with the Treasurer, will manage on a daily basis the Authority's investment portfolio pursuant to the specific and stated investment objectives of the Authority. The investment manager(s) shall follow this Policy and such other written instructions provided by the Treasurer or their designee(s). The investment manager(s) may be given discretion to acquire and dispose of assets in their designated account, but the investment manager(s) shall not be permitted to have custodial control over the Authority's investment portfolio.

### 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.
- 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~~

~~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~~The investment portfolio shall be managed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs. The Authority will employ an active management approach that allows for the sale of securities prior to their scheduled maturity dates. Securities may be sold for a variety of reasons, such as to increase yield, lengthen or shorten maturities, to take a profit, or to increase investment quality. In no instance shall an exchange be used for purely speculative purposes. This Policy recognizes that in a diversified portfolio occasional measured losses are inevitable and must be considered within the context of the overall portfolio's structure and expected investment return, with the proviso that adequate diversification and credit analysis have been implemented.

Because the composition of the portfolio fluctuates, depending on market and credit conditions, various appropriate indices selected by the Treasurer will be used to monitor performance.

## 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.

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.~~ Policy, the Treasurer shall determine a course of action to be taken on a case-by-case basis considering such factors as the reason for the downgrade, prognosis for recovery or further rating downgrades, and the market price of the security. The Treasurer shall note in the monthly report any securities which have been downgraded below Policy requirements and the recommended course of action

~~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 deliverable 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. The Treasurer shall also maintain evidence of the Authority ownership in non-deliverable securities (e.g. LAIF, CAMP, and Time CDs).

## 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~~investments
- ii) Portfolio diversification requirements including proportional limits on investment types, maximum maturity, and minimum credit rating criteria.

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~~Obligations**

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~~Obligations**

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; five percent (5%) with any one issuer
- 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, P1A-1 or F1~~its equivalent 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.~~a Nationally Recognized Statistical Rating Organization (NRSRO)
- 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; five percent (5%) with any one issuer
- Maximum Maturity of two hundred seventy (270) days
- Maximum Issuer Exposure: Ten percent (10%) limitation on outstanding commercial paper to any one issuer
- Credit requirement: ~~Ratings of A1, P1~~Highest ranking or F1~~or better by two of the three nationally recognized~~highest letter and number rating agencies: ~~S&P, Moody's, or Fitch, respectively. No rating may be lower than any of the rating listed above.~~as provided by an NRSRO
- 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; five percent (5%) with any one issuer
- 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~~its equivalent 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.~~an NRSRO
- 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)~~A (long-term) or A-1 (short-term) or their equivalents or better by an NRSRO
- 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 or insured by the National Credit Union Administration (NCUA) 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 (or NCUA in the case of credit unions) insured amount of two hundred- fifty thousand (\$250,000)
- Amounts over FDIC or NCUA insured amount must be fully collateralized
- Credit Requirement: For federally-insured or NCUA-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~~Rating of ~~A-, A2, or A~~its equivalent or better by ~~two of the three nationally-recognized-rating-agencies: S&P, Moody's, or Fitch, respectively~~an NRSRO
- Deposits are limited to a state or national bank, savings association or federal association, a state or federal credit union, or a federally insured industrial loan company, located in California

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.~~

Shares of beneficial interest issued by diversified management companies that are money market funds registered with the SEC.

- Maximum Maturity: N/A
- Maximum limit: Twenty percent (20%) of the portfolio
- ~~Rating~~Credit Requirement: ~~Top~~Highest ranking ~~or highest letter and numerical rating provided by at least~~not less than two ~~nationally recognized statistical rating organizations~~NRSROs or must retain an investment advisor that meets specified requirements
- ~~Daily~~The use of money market funds are limited to Government money market funds that provide daily liquidity and seek to maintain a stable 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~~The then current limit set by LAIF for operating accounts
- Maximum Maturity: N/A
- Credit Requirement: 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~~Thirty percent (~~40~~30%) of the portfolio; five percent (5%) with any one issuer
- Maximum maturity of five (5) years
- Must be issued by State of California, any of the other 49 states, or a California local agency
- Credit Requirement: ~~A+/A1/ (long-term) or A+ rating-1 (short-term) or their equivalents or better~~ by Standard & Poor's/Moody's/Fitch Ratings an NRSRO

### 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 its equivalent; or higher by an NRSRO
- 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~~
- Maximum maturity: N/A
- Credit Requirement: AAAM or its equivalent or better by an NRSRO.

### 10.13 Supranationals

Securities issued or unconditionally guaranteed by the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), or Inter-American Development Bank (IADB) and eligible for purchase and sale within the United States.

- Maximum allocation: Thirty percent (30%) of the portfolio
- Maximum maturity: Five (5) years



- Credit requirement: AA or its equivalent or better by an NRSRO.

#### **10.14 Asset-Backed Securities**

A mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate, or consumer receivable-backed bond.

- Maximum allocation: Twenty percent (20%) of the portfolio; five percent (5%) with any one issuer
- Maximum maturity: Five (5) years
- Credit requirement: AA or its equivalent or better by an NRSRO.

### **11.0 CREDIT RATING**

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

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

~~Please see Rating Description table herein, category required at purchase without regard to +, -, or 1, 2, 3 modifiers, if any. The security, at the time of purchase, may not be rated below the minimum credit requirement by any of the NRSROs that rate the security.~~

### **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**

~~InvestmentsFor 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~~
- ~~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, shall select only brokers and financial institutions/dealers who are licensed and in good standing 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 the California Department of Securities, the Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule) and which provide: proof of, the 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 or other applicable self-regulatory organizations. Before engaging in investment transactions with a broker/dealer, the Treasurer shall obtain a signed verification form that attests the individual has reviewed the Authority's Policy, and intends to present only those investment recommendations and transactions to the Authority or to any candidate for these offices that is appropriate under the terms and conditions of the Policy.~~

~~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.~~

~~The Authority's external investment manager(s) may be granted discretion to purchase and sell investment securities in accordance with this Policy. Investment managers may also use their own list of internally-approved issuers, broker-dealers and other financial firms, so long as such managers are registered under the Investment Advisers Act of 1940.~~

## 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.

## 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.

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

<b>Authorized Investments</b>	<b>Maximum % Holdings</b>	<b>Purchase Restrictions</b>	<b>Maximum Maturity</b>	<b>Credit Quality</b>
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</i>  <i>"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>

Authorized Investments	Maximum % Holdings	Purchase Restrictions	Maximum Maturity	Credit Quality
State of California, Local Agency Investment Fund ("LAIF")	100%	None	N/A	<del>Subject to California Government Code Section 16429.1 limitations</del>
Municipal Bonds & Notes	40%	State of California or California agencies	5 Years	<del>A+/A1/A+ rating by Standard &amp; Poor's/Moody's/Fitch Ratings</del>
Repurchase Agreements ("REPO")	20%	Limited to primary dealers or financial institutions rated "A" or better by Moody's	270 days	<del>Fully collateralized (min 102% of funds borrowed with daily mark to market) with US Government or federal agency securities with maximum 5-year maturities</del>
California Asset Management Program ("CAMP")	10%	N/A	Daily Liquidity	<del>Highest short term rating by S&amp;P, Moody's and/or Fitch</del>

RATING DESCRIPTION TABLE

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

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~~agency 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.~~

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

**BANKERS' ACCEPTANCE (BA):** A draft or bill or 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.

**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 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 [Authorityagency](#) 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 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 [Authorityagency](#) 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.

**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~~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.

**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 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.

## Agenda Item 7.a (Attachment 2)

**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".

**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 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.

**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.

**RESOLUTION NO. 19-01**

**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 and practices to be used to effectively manage the Authority's available cash and investment portfolio. Authority funds not required for immediate cash requirements will be invested in compliance with the California Government Code and the Policy.

**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 July, 2019, by the following vote:

Ayes: \_\_\_\_\_

Noes: \_\_\_\_\_

Absent: \_\_\_\_\_

Abstain: \_\_\_\_\_

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

Attest:

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



# Investment Policy

## Delta Conveyance Finance Authority

Board Meeting

July 18, 2019

# 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
- Proposed changes:
  - Added a Preamble to clarify when applicable
  - Allow for use of investment managers
  - Express the investment objective
  - Add investments in Supranationals and Asset-Backed Securities
  - Allow use of any one Nationally Recognized Statistical Rating Organization, without modifiers, for credit minimums
  - Clarify that the maximum Maturity of any investment is 5 years, except for US Treasuries and Federal Agency securities
- Conforms to California Government Code

# Recommendation

That the Board approve Resolution 19-01, approving an Investment Policy for FY 2019/20 and delegate authority to the Treasurer invest the Authority's funds for FY 2019/20.

# Delta Conveyance Finance Authority

## Board Memo

Contact: Steven O'Neill, General Counsel

**AGENDA DATE: July 18, 2019**

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**Item No. 7.b**

**Subject: Bylaws**

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### Executive Summary

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Staff recommends amendments to the Bylaws for the Delta Conveyance Finance Authority (Authority) to include certain procedural guidelines in the conducting of the Authority's public meetings. The proposed amendments are intended to provide a distillation of the most commonly used principles and procedures derived from Robert's Rules of Order and to document the procedures to be used by the board during its meetings.

### Detailed Report

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Robert's Rules of Order are commonly referred to by many agencies for guidance in the conducting of public meetings, but can be cumbersome when conducting a public agency's board meeting. A simplified version of the rules of parliamentary procedure furthers the goals of encouraging discussion and facilitating decision making by the board. The proposed amendments set forth procedures for processing action items, adopting resolutions, and the processing and precedence of motions.

In particular, the amendment includes:

- a. The process for action items
- b. Description of motions and resolutions
- c. The precedence and processing of motions, amended motions, etc., and
- d. The division of motions

As noted above, these amendments would document the conduct of board meetings to assist in the future and help ensure efficient board operations.

### Recommended Action

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**Environmental Impact:** This item is not a project as defined in the California Environmental Quality Act Code of Regulations, Title 14, Chapter 3, Section 15378.

Approve the amendments to the Bylaws for the Authority to include certain procedural guidelines in the conducting of the Authority's public meetings.

### ATTACHMENTS:

Attachment 1: Amended Bylaws

**BYLAWS OF THE**  
**DELTA CONVEYANCE FINANCE AUTHORITY**

**Adopted November 15, 2018**

**Effective November 15, 2018**

**Amended July 18<sup>5</sup>, 2019**

## ARTICLE 1. THE AUTHORITY

1.1 **Name.** The name of this joint powers authority is the Delta Conveyance Finance Authority (hereinafter referred to as the "Authority").

## ARTICLE 2. DEFINITIONS

### 2.1 **Definitions.**

2.1.1 **Agreement** shall mean the "Joint Powers Agreement by and among the Alameda County Flood Control Water Conservation District, Zone 7, the Alameda County Water District, the Metropolitan Water District of Southern California, the San Geronio Pass Water Agency, and the Santa Clara Valley Water District, effective as of July 3, 2018, among the signatory parties thereto, as such agreement may be amended from time to time, to form a Joint Powers Authority to cooperate with the California Department of Water Resources ("DWR") and the Delta Conveyance Design and Construction Joint Powers Authority ("DCA") to support financing of the California WaterFix ("Conveyance Project") for the purpose of conveying water from the Sacramento River north of the Sacramento-San Joaquin Delta ("Delta") directly to the existing State Water Project ("SWP") and Central Valley Project ("CVP") pumping plants located south of the Delta.

2.1.2 **Board or Board of Directors** shall mean the governing body of the Authority as described in Section 5.1 herein.

2.1.3 **Brown Act** shall mean Chapter 9 of Part 1 of Division 2 of Title 5 of the California Government Code commencing with Section 54950, or with any successor provision.

2.1.4 **Bylaws** shall mean the bylaws of the Delta Conveyance Finance Authority, contained herein.

2.1.5 **Director** shall mean a member of the Board of Directors, as defined herein.

2.1.6 **Joint Exercise of Powers Act** shall mean Chapter 5 of Division 7 of Title 1 of the California Government Code commencing with section 6500, or with any successor provision.

2.1.7 **Members** shall mean all the public entities as defined in Section 2(n) of the Agreement.

2.2 **Conflict Between Bylaws and Agreement.** Unless specifically defined in these Bylaws, all defined terms shall have the same meaning ascribed to them in the Agreement. If any term of these Bylaws conflicts with any term of the Agreement, the Agreement terms shall prevail, and these Bylaws shall be amended to eliminate such conflict of terms. Unless the context or reference to the Agreement requires otherwise, the general provisions, rules of construction and applicable statutory definitions will govern the interpretation of these Bylaws.

## ARTICLE 3. PURPOSE AND LIMITATIONS

3.1 **Purpose.** The Authority was formed with the purpose and intent of serving as an issuer of bonds for the benefit of a Member or Members in implementing the Conveyance Project in the public interest and to take other actions related to the financing of the planning,

development, acquisition, construction, improvement, management, maintenance or operation of the Conveyance Project.

3.2 **Forming Statute; Limitations.** The Authority is created as a joint powers authority pursuant to the provisions of the Government Code of the State of California relating to the joint exercise of powers per Government Code sections 6500, et seq. On or before July 3, 2018, the Members each approved the Agreement. The Authority is a public entity separate from the Members to the Agreement and has statewide jurisdiction in order to accomplish the public interest goals and benefits of the Conveyance Project. Pursuant to Government Code sections 6584 et seq. or as otherwise authorized by law, the Authority may exercise those common powers, and all independent, complete and/or supplementary powers necessary or appropriate to finance the Conveyance Project consistent with Section 6 of the Agreement.

#### ARTICLE 4. OFFICES

4.1 **Principal Office and Board Meeting Location.** The principal office for the transaction of the activities and affairs of the Authority ("Principal Office") is located at 1121 L Street, Suite 1045, Sacramento, CA 95814. The Board meeting location shall be held within the County of Sacramento, unless otherwise changed by the Board.

4.2 **Other Offices.** The Board may at any time establish branch or subordinate offices at any place or places, within or without the Authority's jurisdictional boundaries, where the Authority may conduct its activities.

4.3 **Amendment.** The Board may change the Principal Office, Board Meeting Location and other offices from one location to another pursuant to Article 6 of these Bylaws. This Section may be amended to state the new location.

#### ARTICLE 5. DIRECTORS AND OFFICERS

5.1 **Governing Board.** The Authority shall be governed by a Board of Directors. The Board shall ensure that the Board operates in a manner that is fully compliant with the Brown Act, the Joint Exercise of Powers Act, the Agreement, and all other applicable legal requirements.

5.1.1 **Directors.** Pursuant to Section 10(a) of the Agreement, the Board shall be initially composed of one director representing each Member. The governing body of each Member shall determine, in its sole discretion and pursuant to its own procedures and authorities, the person appointed to serve on the Board to represent the Member. Directors shall be appointed prior to the initial meeting or within 30 days of an entity becoming a Member and shall serve without terms and at the pleasure of the governing bodies that appointed them.

5.1.2 **Alternate Directors.** The governing board of the Member may designate an Alternate Director to act in place of its appointed Director during his or her absence. The designation of an Alternate Director shall be made in writing and shall provide such written designation to the Authority's Secretary as soon as feasible.

5.1.3 **Policies.** The Board shall adopt procedures, rules and policies for the Authority as appropriate and necessary.



(a) The Board shall adopt a code of ethics for all Directors, Officers and employees of the Authority, whether elected or appointed, paid or unpaid.

(b) The Board shall develop and adopt a conflict of interest code for the Authority compliant with California law. Pursuant to Government Code Section 1090, Directors, Officers and employees of the Authority shall not have an interest in any contract made by the Authority.

(c) The Board shall adopt an investment policy for the Authority.

(d) The Board shall adopt a debt management policy.

(e) The Board shall establish a reimbursement policy under which a Director or others may receive actual, reasonable and necessary reimbursement for travel, meals, lodging, registration and similar expenses incurred on Authority business.

5.2 **Officers.** Pursuant to Section 13 of the Agreement, the officers of the Board shall consist of a President, Vice President, Secretary and Treasurer/Controller (each an "Officer"). The President, Vice President and Secretary must be members of the Board. The President, or if absent, the Vice President, shall preside at all Board meetings. In the absence of the President and Vice President, the Secretary shall chair the meeting. The President shall have the power to enforce meeting decorum and rules of order and to exercise such other powers and duties as may from time to time be assigned to the President. The Vice President, or in the Vice President's absence, the Secretary shall perform the duties of the President in the absence or inability to act of the President. The President and/or Vice President shall exercise and perform such other powers and duties as may be assigned by the Board. The Vice President shall perform the Secretary's duties if the Secretary is absent.

5.2.1 **Appointment.** The President, Vice President, Secretary and Treasurer/Controller shall be chosen at the initial meeting or as soon as practical thereafter. Each year thereafter, the Board shall elect a President, Vice President and Secretary at its first meeting of each calendar year. At each such meeting, the Board shall appoint a Treasurer/Controller, who may be a Director, an employee of a Member, or a director of a Member. Officers may serve for multiple consecutive terms.

5.2.2 **Resignation.** An Officer may resign at any time by giving written notice to the Board. Any resignation takes effect at the date of the receipt of that notice or at any later time specified in that notice. Unless otherwise specified in that notice, the acceptance of the resignation is not necessary to make it effective.

5.2.3 **Vacancies.** If the office of any Officer appointed pursuant to this Article becomes vacant at any time for any reason, such vacancy shall be filled at the next regular meeting of the Board held after such vacancy occurs.

5.3 **Treasurer/Controller.** Pursuant to Section 13(b) of the Agreement and Government Code Sections 6505.5 and 6505.6, the Board shall appoint a qualified person to act as the Treasurer/Controller for the Authority. The Board may contract with a Member for provision of the services described in this Section 5.3 by a Member's employee or to assist an Authority Director appointed as Treasurer/Controller pursuant to an agreement between the Member and the Authority.

5.3.1 The Treasurer/Controller is designated as the treasurer and controller for the Authority and shall be the depository and shall have responsibility for the depositing and custody of all funds held by the Authority from any source.

5.3.2 The Treasurer/Controller shall possess the powers of, and shall perform those functions required by provisions of applicable law, including those duties described in the Agreement, and which may be prescribed by the Board or these Bylaws.

5.3.3 Pursuant to Section 17 of the Agreement and applicable law, all funds of the Authority shall be strictly and separately accounted for and regular reports shall be rendered of all receipts and disbursements at least quarterly during the fiscal year. The Treasurer shall provide strict accountability of said funds in accordance with Government Code sections 6505 and 6505.5 and all other applicable provisions of law, including any amendments thereto.

5.4 **Secretary.** The Board shall appoint a Secretary who shall have the following duties and powers and may perform such other duties as may be prescribed by the Board. The Secretary must be a Member of the Board; however, the Board may contract with a Member's employee or receive support from other related entity (e.g., State Water Contractors Inc.) to assist an Authority Director appointed as Secretary.

5.4.1 The Secretary shall give, or cause to be given, notice of all meetings of the Board and committees of the Authority required by the Bylaws and applicable law to be given.

5.4.2 The Secretary shall keep or cause to be kept, at the Principal Office or such other place as the Board may direct, a record of summary minutes of all meetings and actions of Directors, Alternate Directors and committees of the Authority, with the time and place of meeting, whether the meeting was regular or special, how any special meeting was authorized, the notice provided for the meeting, the names of those present at such meetings, and the votes, actions and proceedings of such meetings.

5.5 **Contracts for Services.** Any Member's employee(s) providing services for the benefit of the Authority pursuant to an agreement between the Member and the Authority, including, but not limited to, accounting and treasury management services for the Board under Section 5.3 above of these Bylaws and Section 17 of the Agreement, shall serve as an independent contractor of the Authority, shall remain a common law employee of the respective Member for all purposes, and shall act solely at the direction of the governing body of the respective Member or management employee(s) under the exclusive control of the governing body of the respective Member. The fee for services provided by the Authority to a Member for such services shall be the subject of an agreement between the applicable Member and the Authority.

5.6 **Increasing Members.** Additional proposed Members may join the Authority in accordance with Section 15 of the Agreement.

## ARTICLE 6. MEETINGS AND BOARD ACTION

6.1 **Regular Meetings.** The Board shall meet at least once per year, or more frequently if the Board deems it necessary, for the purpose of conducting Authority business. Such regular meetings shall be at 11:00 a.m. on the third Thursday of the months of January through December. The Board shall adopt a schedule of regular meetings at the beginning of

each fiscal year. All actions related to the issuance of debt shall take place at a regularly scheduled meeting.

6.2 **Special Meetings.** Special meetings of the Board may be called by the President or by a majority of all Directors, and shall be conducted pursuant to California Government Code section 54956. The call and notice shall specify the time and place of the special meeting and the business to be transacted or discussed. No other business shall be considered at a special meeting.

6.3 **Emergency Meetings.** Emergency meetings of the Board shall be conducted pursuant to California Government Code section 54956.5 and may be called by the President or by a majority of Directors.

6.4 **Open Meetings.** All regular, special and emergency meetings of the Board shall comply with the Brown Act.

6.5 **Closed Sessions.** The Board shall comply in all respects with closed session requirements and procedures of the Brown Act.

6.6 **Agenda.** The Executive Director shall prepare the agenda for all meetings of the Board in accordance with the Brown Act, and regular meeting agendas shall be posted 72 hours before each meeting in compliance with said Act.

6.7 **Quorum.** A majority of the Board of Directors shall constitute a quorum in order to conduct business. Alternate Directors attending meetings shall not be counted as part of any meeting quorum unless such Alternate Director is formally representing an absent Director. In the absence of a quorum, no Board business may be transacted except the adjournment of a meeting by the remaining Directors. A Director shall be deemed present for the determination of a quorum if the Director is present at the meeting in person or if he or she participates in the meeting telephonically as provided by the Brown Act. In the absence of a quorum, those Directors present may remain after the adjournment of a meeting and receive public comment and/or informational items, but may not take any Board action or otherwise hold a Board meeting.

6.8 **Voting.** Voting shall be conducted pursuant to Section 12 of the Agreement. Each Director present at a meeting shall have one vote in any decision regarding administrative, managerial, and ministerial actions. As provided in Section 12(f) of the Agreement, for all other matters except the addition of new Members, the termination of the Agreement, and any action which would cause the breach its agreements related to the issuance of Bonds, each Director shall have the number of votes equal to 1,000 multiplied by its Financial Commitment Amount as defined in Section 20) of the Agreement. A unanimous vote of all directors is required to approve the addition of new Members, terminate the Agreement or approve any action that would cause the Authority to breach its obligations related to the issuance of Bonds. Less than a majorit-y may make a motion for adjournment-

6.9 **Action.** Action by the Board on all resolutions and ordinances shall be recorded in writing, signed by the President, and attested to by the Secretary. All other actions of the Board shall be by motion recorded in written minutes.

6.10 **Adjournments and Adjourned Meetings.** The Board may adjourn any regular, adjourned regular, special or adjourned special meeting to a time and place specified by the

Board in accordance with applicable law. If less than a majority is present at a meeting, a majority of those members of the Board present may adjourn the meeting from time to time.

## **ARTICLE 7. RULES OF ORDER**

**7.1 Process for Action Items.** Consideration of Action Items shall follow the following process:

(a) Announcement by the Presiding Officer. The Presiding Officer shall announce the item under consideration by reference to its listing on the agenda.

(b) Staff Report. Responsible Staff members shall present a report of staff regarding the action item.

(c) Questions of Staff. Members of the Board may ask questions of staff to clarify the report.

(d) Debate. Before or after any initial motion on any item by any member of the Board, the members of the Board may debate the item, make comments relevant to the item, respond to any questions related to the item and ask questions of staff related to the item.

(e) Motions. Any member of the Board may initiate an item for formal consideration by the Board by making a motion. A member of the Board may make an independent motion, may make a motion to implement staff recommendation, or may request assistance from the General Counsel as to the form of a proposed motion. Upon making of the motion, a second member of the Board may second the motion. A duly offered and seconded motion shall be restated by the Presiding Officer or General Counsel.

(f) Vote. Unless withdrawn, the Board shall vote upon the motion.

**7.2 Resolutions.** A resolution is a formal document that records an action of the Board. Resolutions are considered by the Board upon motion and proper second. Resolutions are sometimes required by law or may be recommended by the General Counsel to record an action of the Board which is considered of particular importance. Resolutions shall be presented using the Authority's standard format. They shall be reviewed and approved by the General Counsel prior to any presentation to the Board according to rules and procedures approved by the Board

**7.3 Correct Legal Document.** Upon occasion, resolutions are submitted in longhand or in draft form with on-the-spot amendments. These preliminary papers may be re-typed in final form; such re-draft, when signed and attested, becomes the original and proper document to be retained in the files.

**7.4 Processing of Motions.** A motion shall be considered pending before the Board following a motion and second by the members Board.

**7.5 Division of Question.** If the item contains two or more divisible propositions, the Presiding Officer may divide the question and require a vote on each portion of the question.

**7.6 Precedence of Motions.** . Once a motion is pending before the Board, no other motion on the matter shall be entertained except those listed below. These motions have precedence in the order listed:

(a) Amendments. A motion to amend the motion may be entertained only with the consent of the member who originally made the motion and, if the motion has been seconded, by the member who seconded the motion. ~~An amendment modifying the intention of a motion may be considered, but an amendment relating to a different matter or an amendment that would alter the original motion so that it relates to a substantially different matter shall not be considered.~~ Motions to amend a motion shall be voted upon first, then the main motion, whether or not amended, shall be voted upon. In lieu of voting upon a motion to amend, the member who made the original motion may withdraw the original motion and restate a motion on the same subject with the consent of the member who seconded the motion. Any motion that has been validly amended or validly withdrawn and restated as provided in this section shall then be voted upon.

(b) Motion to Call the Question. A Motion to call the question is to close debate on the main motion. If the motion to call the question fails, debate is reopened; if the motion to call the question passes, then a vote on the main motion is in order.

(c) Withdrawing a Motion. A motion may be withdrawn only by the member who made the motion with the consent of the member who seconded the motion. A withdrawn motion does not appear in the minutes.

## ARTICLE 8. ADMINISTRATION AND STAFFING

8.1 **Staffing and Administrative Principles.** The Board may hire an Executive Director and a General Counsel, as described below. By way of agreement with the subject Member and the Board, the Authority may also utilize the services of staff of one or more of the Members, as appropriate.

8.2 **Executive Director.** The Board may appoint an Executive Director under whose general supervision and control the activities of the Authority shall be conducted (the "Executive Director") and who shall be compensated for his/her services as determined by the Board.

8.2.1 The Executive Director may be a Member entity staff member, or a contract Executive Director retained by the Board and shall serve at the pleasure of the Board and continue in his/her capacity until he/she resigns or is terminated by the Board.

8.2.2 The Executive Director shall be the chief administrative officer of the Authority and shall have overall responsibility for the day-to-day operations and administration of the Authority.

8.2.3 The Executive Director may retain other contractors or Member services, to the extent such services are approved and funded in the budget.

8.2.4 Under policy direction from the Board of Directors, the Executive Director shall be responsible for, among other duties as may be assigned by the Board, the following duties:

(a) Developing the annual operating budget and other budgets required under the Agreement and contracting for services that will allow the Authority to fulfill all of its obligations under the Agreement, including contracts for bond counsel, disclosure counsel, and municipal advisor. .

- (b) Retaining investment banking and other banking services.
- (c) Executing contracts, deeds and other documents and instruments as authorized by the Board, subject to any Board policy on spending and signature authority.
- (d) Exercising general supervision over all property belonging to the Authority.
- (e) Exercising responsibility for purchases of all supplies, materials, and equipment of the Authority.
- (f) Coordinating Board and committee meetings and public participation opportunities associated therewith, and in coordination with the Authority's General Counsel, ensuring the Authority operates in a manner consistent with all legal requirements imposed by law on California public agencies.
- (g) Ensuring that the requirements of the Joint Exercise of Powers Act (Cal. Gov. Code, § 6500 et seq.) are satisfied.
- (h) Developing disclosure practices, procedures and policies.
- (i) Representing the Authority at meetings with federal and state agencies, rating agencies, investor meetings, meetings with State Water Contractors and other water agencies, and other similar meetings and events.
- j) Exercising such other powers and duties as may be prescribed by the Board or these Bylaws.
- (k) Carrying out the direction of the Board.

8.3 **Administration.** Authority administration may be accomplished through the appointment of the Executive Director through contract or professional services agreement, and/or through a collaborative staffing model in which the professional and technical staff of the Members shall work together to provide staff leadership, management and administration of the Authority

8.4 **General Counsel.** The Board may appoint General Counsel to provide legal counsel and representation for the Board and the Authority ("General Counsel").

8.4.1 General Counsel shall give advice or written opinions as needed, and shall prepare proposed resolutions, ordinances, rules, contracts and other legal documents as requested by the Board or Executive Director. General Counsel shall attend meetings of the Board and shall attend to all legal actions that involve the Authority or are of interest to the Authority. The Board shall set the compensation of the General Counsel.

8.4.2 General Counsel shall, when deemed appropriate or called upon, seek the advice and consultation of the legal counsels, and possibly employees, as necessary, from Members of the Authority on legal issues facing the Authority; in such an instance, the communications shall be confidential and protected to the fullest extent possible under the law and said communications shall not in any way preclude staff or legal counsels from fulfilling their duties and obligations to their Member, including representation in any dispute or action.

## ARTICLE 9. COMMITTEES

9.1 **Executive Committee.** Pursuant to Section 11 of the Agreement, the Board shall establish an Executive Committee. The Executive Committee shall consist of the President, Vice President and Secretary of the Board, and shall serve at the pleasure of the Board. The Board may appoint additional Members by majority vote, provided that the Executive Committee does not exceed five members. The Executive Committee is delegated authority to manage the administration of the affairs, property and business of the Authority, and shall carry out other responsibilities as delegated by the Board. The Executive Committee shall hold at least one meeting quarterly. The Executive Committee shall establish the date, time and place upon which such regular meetings will take place, and will provide notice to each member of the Authority. The Executive Committee shall recommend a budget to the Board.

9.1.1 **Specific Committees.** The Board may appoint project specific committees (Specific Committees) to manage specific projects, such as bond issues or other activities. Specific committee membership and appointments shall be at the Board's sole discretion. Likewise, the Board shall have the sole discretion to remove or admonish any member, or members, of any specific committee at any time. The Board may, at its sole discretion, appoint an alternate member to any specific committee. Each specific committee shall include Directors that have voting interest in the project. The Board may delegate such powers and authority to specific committees as the Board may determine by motion, resolution or ordinance. Each committee shall be run by a committee chair that is appointed by the Board President, subject to the approval of the Board.

9.1.2 **Standing Committees.** The Board may appoint Standing committees as needed.

9.1.3 **Conduct.** All standing and specific committee meetings shall be noticed, held, and conducted in accordance with the provisions of the Brown Act. The Board shall appoint the respective committee chairs in consultation with the committee members and the Board may further establish rules of conduct for said committees. Each standing or specific committee may establish a time and place for regular meetings and may call special meetings in the same manner as the Board. Standing and specific committee meeting minutes shall be recorded and upon approval shall be distributed to the Board.

9.1.4 **Direction.** In establishing a standing or specific committee, the Board shall provide direction to the committee regarding its tasks, expected duration for completion of its tasks, and a summary of the resources, including consultant support, available to the committee in performing its tasks.

9.2 **Other Committees.** The President of the Board and the Board itself each has authority to establish ad hoc, technical or other committees, as appropriate.

## ARTICLE 10. POWERS

The powers of the Authority shall be as set forth in Section 6 of the Agreement and in Government Code sections 6584 et seq. or as otherwise authorized by law, necessary or appropriate to accomplish the purposes of the Authority.

## ARTICLE 11. FINANCES

11.1 **Fiscal Year.** The fiscal year for the Authority shall begin on July 1st and end June 30th, unless the Board decides otherwise.

11.2 **Budget.** The Authority shall operate pursuant to a general operating budget and other Authority budgets adopted in accordance with the Agreement. The Authority shall endeavor to operate each year pursuant to an annually balanced operating budget so that projected annual expenses do not exceed projected annual revenues.

11.3 **Operating Budget and Expenditures.** The Board shall adopt an annual operating budget before the beginning of a fiscal year or any other date established by the Board, as required to conduct its business in a manner consistent with the purposes of the Authority. Unless otherwise required by the Agreement or California law, the Treasurer shall draw checks or warrants or make payments by other means for claims or disbursements not within an applicable budget only upon the approval of the Board. The Authority may invest any money in the treasury that is not required for its immediate necessities pursuant to Government Code section 6509.5 in the same manner, and upon the same conditions, as any local agency may do pursuant to Government Code section 53635.

11.4 **Funding for the Authority.** Funding for the Authority shall be in accordance with Section 14 of the Agreement.

11.5 **Alternative Funding Sources.** The Authority may, by a Board vote, seek funding from other alternative sources, including but not limited to state and federal grants or loans, including WIFIA loans, and the issuance of bonds.

## ARTICLE 12. DEBTS AND LIABILITIES

Except as may be specifically provided for in the Agreement and/or California Government Code Section 895.2 as amended or supplemented, the debts, liabilities and obligations of the Authority are not and will not be the debts, liabilities or obligations of any or all of the Members. However, nothing in this Article or in the Agreement prevents, or impairs the ability of, a Member or Members, from agreeing, in a separate agreement, to be jointly and/or severally liable, in whole or in part, for any debt, obligation or liability of the Authority, including but not limited to, any bond or other debt instrument issued by the Authority.

## ARTICLE 13. RECORDS

13.1 **Availability.** A copy of the Authority's Bylaws and the Agreement shall be kept at the Authority's Principal Office, as set forth in Section 4.1 above of these Bylaws, and shall be open to inspection by the public at all reasonable times during office hours.

13.2 **Inspection.** Unless otherwise restricted by law, any Member and any Director may inspect any record of the Authority, including but not limited to the accounting books and records and minutes of the proceedings of the Board and committees of the Board, at any reasonable time. A designated representative of the Member may make any inspection and copying under this Section and the right of inspection includes the right to copy. As directed and permitted by law, Authority records shall be open to inspection by the public.



**ARTICLE 14. AMENDMENT AND REVIEW**

14.1 **Amendment.** These Bylaws may be amended from time to time by resolution of the Board.

14.2 **Review.** The Bylaws of the Authority may be amended, added to, or repealed by a 2/3 majority vote of the Board of Directors at any meeting of the Board, provided notice of the proposed change or changes is given in the notice of regular or special meeting and such change is allowed by the Agreement. In the event that a conflict exists between a provision in the Bylaws and a provision in the Agreement, the provision in the Agreement shall govern.

**CERTIFICATE OF ADOPTION**

I, the undersigned , certify that I am the duly appointed and authorized Executive Director of the DELTA CONVEYANCE FINANCE AUTHORITY, a California joint powers authority, and the above stated Bylaws, consisting of 11 pages, are the Bylaws of this Authority as approved by the Board of Directors on 15th day of November, 2018, to be effective as of November 15 2018.

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Brian Thomas, Executive Director

# Delta Conveyance Finance Authority

## Board Memo

Contact: Brian Thomas, Executive Director

**AGENDA DATE: July 18, 2019**

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**Item No. 8.a**

**Subject: Executive Director's Report**

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### Executive Summary

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As reported in May, we did not anticipate much activity over the following few months as the administration developed its approach to the single tunnel project. Activities during the past two months included meetings with staff from the Delta Conveyance Design and Construction Authority, Metropolitan, DWR and the State Water Contractors. In addition, the DCFA retained Richardson and Company to conduct the annual audit.

### Activities

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**Administration.** The engagement letter with Richardson and Co. was executed, and the initial meetings/calls with Richardson, MWD and the DCFA were conducted. The audit is expected to conclude at the end of September or early October. The investment policy was updated and will be presented to the board for approval. In addition, revisions to the bylaws were prepared and will also be presented to the board for consideration in July.

Attached is a table of actions approved by the board through June 30, 2019.

**Meetings.** I participated in discussions and meetings with investment bankers, DWR, the DCA, Metropolitan and other state water project contractors regarding next steps in the project. As we have noted, there will not be any financing activity over the next year or two as DWR progresses through the environmental and permitting process for the changed project.

### Future Activities

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Work will continue with the members, the DCA, DWR and the state water project contractors to address the changes in the project scope and its impact on the Finance Authority's role.

### Recommended Action

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Information only.

## DELTA CONVEYANCE FINANCE AUTHORITY

**Completed Actions as of:**

**June 30, 2019**

Action	Date
Adopted 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	7/19/2018
Approved agreement with Metropolitan to provide treasury and accounting services	7/19/2018
Approved submittal of WIFIA Letter of Interest	7/19/2018
Approved execution of agreement with Michael Bell Consulting to retain the services of Brian Thomas as Interim Executive Director	7/19/2018
Approved Fiscal Year 2018/19 Operating Budget	8/16/2018
Approved Debt Management Policy	8/16/2018
Approved Investment Policy	8/16/2018
Approved Bylaws	11/15/2018
Approved extension of contract with Michael Bell Management Consulting for the services of Brian Thomas as Executive Director through December 31, 2019	12/14/2018
Adopted Conflict of Interest Code	12/28/2018
Approved Reimbursement Policy	1/17/2019
Approved execution of agreement with Oliverez Madruga Lemieux O'Neill to serve as general counsel	1/17/2019
Approved execution of agreement with Norton Rose Fulbright to serve as bond counsel	2/21/2019
Approved execution of agreement with Stradling Yocca Carlson & Rauth to serve as disclosure counsel	2/21/2019
Approved Fiscal Year 2019/20 Operating Budget and annual membership fees	5/16/2019
Approved execution of agreement with Richardson & Co. to provide external audit services	5/16/2019

# Delta Conveyance Finance Authority

## Board Memo

Contact: June Skillman, Treasurer

**AGENDA DATE: July 18, 2019**

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**Item No. 8.c**

**Subject: Treasurer's Report, Year Ended June 30, 2019**

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### **Executive Summary**

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For the twelve months ended June 2019, receipts totaled \$401,900, consisting of contributions from eleven member agencies and interest receipts. Disbursements totaled \$175,870 during the twelve months ended June 2019. The cash balance in the DCFA Trust at June 30, 2019 was \$226,030.

Attached is a schedule of Budget versus Actual through June 30, 2019.

### **Detailed Report**

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See attached Statements

### **Recommended Action**

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For information only

### **ATTACHMENTS:**

Attachment 1: DCFA FY 2019 Twelve Months Financial Statements and Budget versus Actual

DELTA CONVEYANCE FINANCE AUTHORITY

Balance Sheet  
As of June 30, 2019

Assets:		
Cash	\$	226,030
Interest receivable		947
		<hr/>
Total assets	\$	226,977
		<hr/> <hr/>
Net position	\$	226,977
		<hr/> <hr/>

## DELTA CONVEYANCE FINANCE AUTHORITY

## Statement of Cash Receipts and Disbursements

	Quarter Ended Jun '19	Year to Date Jul '18 - Jun '19
Receipts:		
Contributions from member agencies	\$ 106,667	\$ 400,000
Interest receipts	1,081	1,900
Total receipts	<u>107,748</u>	<u>401,900</u>
Disbursements:		
Executive director	34,228	109,170
Insurance premiums	—	11,943
Treasury and accounting	—	30,000
Meeting expenses	900	2,100
Professional services	13,535	22,657
Total disbursements	<u>48,663</u>	<u>175,870</u>
Net change in cash	59,085	226,030
Cash at July 1, 2018	—	—
Cash at April 1, 2019	<u>166,945</u>	<u>—</u>
Cash at June 30, 2019	<u>\$ 226,030</u>	<u>\$ 226,030</u>

## DELTA CONVEYANCE FINANCE AUTHORITY

## Profit &amp; Loss

	Quarter Ended Jun '19	Year to Date Jul '18 - Jun '19
Revenues		
Contributions from member agencies	\$ 106,667	\$ 400,000
Interest income	1,765	2,847
Total Revenues	108,432	402,847
Expenses		
Executive director	21,596	109,170
Insurance premiums	—	11,943
Treasury and accounting	—	30,000
Meeting expenses	900	2,100
Professional services	13,535	22,657
Total Expenses	36,031	175,870
Net Profit	\$ 72,401	\$ 226,977



**DELTA CONVEYANCE FINANCE AUTHORITY**

**Agenda Item 8.c (Attachment 1)**

Schedule of Invoices Paid  
for the Twelve Months Ended June 30, 2019

	<u>Vendor</u>	<u>Invoice #</u>	<u>Invoice Date</u>	<u>Payment Date</u>	<u>Period of Expense</u>	<u>Amount</u>	<u>Disbursement Category</u>
1	Sacramento Public Library Authority	3118	9/25/2018	10/11/2018	2/21/19-5/16/19	\$ 900	Meeting expenses
2	Alliant Insurance Services	947564	10/25/2018	10/31/2018	10/24/18-10/24/19	11,943	Insurance premiums
3	Michael Bell Management Consulting	425	10/26/2018	11/9/2018	7/17/18-9/30/18	21,344	Executive director
4	Michael Bell Management Consulting	430	11/30/2018	10/31/1904	10/1/18-10/31/18	13,147	Executive director
5	Keogh Multimedia	INV113018	11/30/2018	12/11/2018	9/18/18-11/30/18	125	Professional services
6	Michael Bell Management Consulting	433	12/16/2018	12/20/2018	11/1/18-11/30/18	17,210	Executive director
7	Sacramento Public Library Authority	3203	12/18/2018	12/20/2018	7/18/2019	300	Meeting expenses
8	Metropolitan Water District of Southern California	45477	12/17/2018	12/21/2018	7/19/18-10/31/18	15,000	Treasury and accounting
9	Keogh Multimedia	INV020119	2/1/2019	2/7/2019	12/1/18-1/31/19	1,225	Professional services
10	Michael Bell Management Consulting	440	1/31/2019	2/7/2019	12/1/18-12/31/18	12,158	Executive director
11	Michael Bell Management Consulting	443	2/12/2019	2/19/2019	1/1/19-1/31/19	11,083	Executive director
12	Metropolitan Water District of Southern California	45618	2/15/2019	3/1/2019	11/1/18-2/28/19	15,000	Treasury and accounting
13	Olivarez Madruga Lemieux O'Neill, LLP (OMLO)	6284	2/28/2019	3/19/2019	2/5/19-2/21/19	7,772	Professional services
14	Michael Bell Management Consulting	448	3/20/2019	4/2/2019	2/1/19-2/28/19	12,631	Executive director
15	Olivarez Madruga Lemieux O'Neill, LLP (OMLO)	6609	3/31/2019	4/15/2019	3/1/19-3/31/19	3,915	Professional services
16	Sacramento Public Library Authority	3288	4/17/2019	4/25/2019	9/19/19-10/17/19	450	Meeting expenses
17	Sacramento Public Library Authority	3296	4/18/2019	4/25/2019	1/16/20-2/20/20	450	Meeting expenses
18	Michael Bell Management Consulting	449	4/20/2019	4/25/2019	3/1/19-3/31/19	10,890	Executive director
19	Keogh Multimedia	INV051019DCFA	5/10/2019	5/16/2019	2/1/19-4/30/19	363	Professional services
20	Olivarez Madruga Lemieux O'Neill, LLP (OMLO)	6893	4/30/2019	5/16/2019	4/1/19-4/30/19	2,170	Professional services
21	Stradling Yocca Carlson & Rauth	354297-0000	5/23/2019	6/3/2019	3/21/19-3/22/19	1,920	Professional services
22	Michael Bell Management Consulting	454	5/27/2019	6/3/2019	4/1/19-4/30/19	10,707	Executive director
23	Olivarez Madruga Lemieux O'Neill, LLP (OMLO)	7220	5/31/2019	6/17/2019	5/1/19-5/31/19	5,167	Professional services
						<u>\$ 175,870</u>	
						Executive director	\$ 109,170
						Insurance premiums	11,943
						Treasury and accounting	30,000
						Meeting expenses	2,100
						Professional services	22,657
						<u>\$ 175,870</u>	

\*Totals may not foot due to rounding.

**DELTA CONVEYANCE FINANCE AUTHORITY**

**Budget versus Actual**

**FY 2018/19**

<b>Item</b>	<b>Actual Through June 30, 2019</b>	<b>Budget FY 2018/19</b>	<b>Budget Remaining</b>	<b>% of Budget Used</b>
<b>Executive Director</b>	<b>\$109,170</b>	<b>\$175,000</b>	<b>\$65,830</b>	<b>62.4%</b>
<b>Professional Services</b>	<b>\$22,657</b>	<b>\$235,000</b>	<b>\$212,343</b>	<b>9.6%</b>
<b>Accounting/Treasury Services</b>	<b>\$30,000</b>	<b>\$30,000</b>	<b>\$0</b>	<b>100.0%</b>
<b>Insurance</b>	<b>\$11,943</b>	<b>\$35,000</b>	<b>\$23,057</b>	<b>39.8%</b>
<b>Travel and Meetings</b>	<b>\$2,100</b>	<b>\$10,000</b>	<b>\$7,900</b>	<b>21.0%</b>
<b>Materials and Supplies</b>	<b>\$0</b>	<b>\$10,000</b>	<b>\$10,000</b>	<b>0.0%</b>
<b>Contingency</b>	<b>\$0</b>	<b>\$55,000</b>	<b>\$55,000</b>	<b>0.0%</b>
<b>Total</b>	<b>\$226,030</b>	<b>\$550,000</b>	<b>\$323,970</b>	<b>41.1%</b>