

AGENDA

**INVESTMENT AND FINANCE COMMITTEE MEETING
LEUCADIA WASTEWATER DISTRICT**

July 5, 2022 – 1:30 PM
Via Teleconference

Pursuant to the State of California Executive Order N-29-20, and in the interest of public health, the District is temporarily taking actions to mitigate the COVID-19 pandemic by holding meetings by teleconference. The general public may not attend this meeting at the District's office due to social distancing requirements.

Members of the public attending via teleconference will be provided with an opportunity to comment on each agenda item prior to Committee discussion.

**To join this meeting via Teleconference please dial: (669) 900-6833
Meeting ID: 814 6184 2550 Password: 595270**

1. **Call to Order**
2. **Roll Call**
3. **Public Comment**
4. **New Business**
 - A. Audit Entrance Meeting with Rogers, Anderson, Malody & Scott, LLP.
(Pages 2-5)
 - B. Revised Procurement Policy - Adopt Resolution No. 2376 approving LWD's revised Procurement Policy. (Pages 6-17)
 - C. Revised Investment Policy – Redelegate authority to manage LWD's investment program to the General Manager effective September 1, 2022 through August 31, 2023, adopt Resolution No. 2375 approving LWD's revised Investment Policy, and receive and file the annual review of the policy. (Pages 18-34)
5. **Information Items**

None.
6. **Directors' Comments**
7. **General Manager's Comments**
8. **Adjournment**

MEMORANDUM

Ref: 22-8029

DATE: June 30, 2022
TO: Investment & Finance Committee
FROM: Paul J. Bushee, General Manager
SUBJECT: **Audit Entrance Meeting**



RECOMMENDATION:

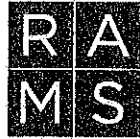
1. This item is for information purposes.

DISCUSSION:

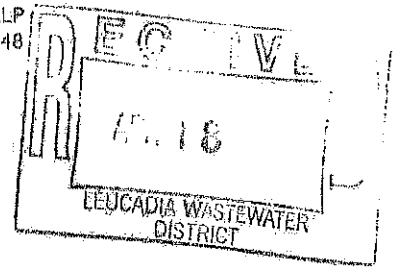
LWD has entered into an agreement with Rogers, Anderson, Malody & Scott, LLP (RAMS) for the purpose of performing financial auditing services for fiscal years 2022 through 2024.

As a practice and part of the auditing process, the IFC typically meets with the District's auditors to discuss the auditing process. Gardenya Duran, Engagement Manager from RAMS, will be at the IFC meeting to present information about the FY22 audit and discuss items that may be of interest to the IFC. Attached is a copy of their letter (Communication with Those Charged with Governance) which was previously delivered to the full Board of Directors.

reg:PJB



ROGERS, ANDERSON, MALODY & SCOTT, LLP
 CERTIFIED PUBLIC ACCOUNTANTS, SINCE 1948



735 E. Carnegie Dr. Suite 100
 San Bernardino, CA 92408
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April 8, 2022

PARTNERS

Terry P. Shea, CPA
 Scott W. Marino, CPA, CGMA
 Leena Shanbhag, CPA, MST, CGMA
 Bradford A. Walebir, CPA, MBA, CGMA
 Jenny W. Liu, CPA, MST
 Brenda L. Odle, CPA, MST (Partner Emeritus)

MANAGERS / STAFF

Gardanya Duran, CPA, CGMA
 Brianna Schultz, CPA, CGMA
 Seong-Hyeon Lee, CPA, MBA
 Evelyn Morentini-Barcena, CPA
 Veronica Hernandez, CPA
 Laura Arvizu, CPA
 Xinlu Zoe Zhang, CPA, MSA
 John Maldonado, CPA, MSA
 Thao Le, CPA, MBA
 Julia Rodriguez Fuentes, CPA, MSA

MEMBERS

American Institute of
 Certified Public Accountants

PCPS The AICPA Alliance
 for CPA Firms

Governmental Audit
 Quality Center

Employee Benefit Plan
 Audit Quality Center

California Society of
 Certified Public Accountants

To the Board of Directors
 Leucadia Wastewater District
 Carlsbad, California

This letter is provided in connection with our engagement to audit the financial statements of the Leucadia Wastewater District (the District) as of and for the year ended June 30, 2022. Professional standards require that we communicate with you certain items including our responsibilities with regard to the financial statement audit, the compliance audit, and the planned scope and timing of our audit, including significant risks we have identified.

Our Responsibilities

As stated in our engagement letter dated April 8, 2022, we are responsible for conducting our audit in accordance with auditing standards generally accepted in the United States of America, and in accordance with *Government Auditing Standards* and the State Controller's *Minimum Audit Requirements for California Special Districts*, for the purpose of forming and expressing an opinion about whether the financial statements that have been prepared by management, with your oversight, are prepared, in all material respects, in accordance with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the California State Controller's Office and State regulations governing special districts. Our audit does not relieve you or management of your respective responsibilities.

Our responsibility as it relates to the supplementary information, is to evaluate its presentation for the purpose of forming and expressing an opinion as to whether the information is fairly stated in all material respects in relation to the financial statements as a whole.

Our responsibility for the required supplementary information included in the document containing the audited financial statements and our report thereon includes only the information identified in our report. We have no responsibility for determining whether the required supplementary information is properly stated.



Our responsibility relating to other information, whether financial or nonfinancial information (other than financial statements and the auditor's report thereon), included in the entity's annual report includes only the information identified in our report. We have no responsibility for determining whether the introductory or statistical information is properly stated. We require that we receive the final version of the annual report (including all the documents that, together, comprise the annual report) in a timely manner prior to the date of the auditor's report, or if that is not possible, as soon as practicable and, in any case, prior to the entity's issuance of such information.

Planned Scope of the Audit

Our audit will include examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. Our audit is designed to provide reasonable, but not absolute, assurance about whether the financial statements as a whole are free of material misstatement, whether due to error, fraudulent financial reporting, misappropriation of assets, or violations of laws or governmental regulations. Because of this concept of reasonable assurance and because we will not examine all transactions, there is a risk that material misstatements may exist and not be detected by us.

Our audit will include obtaining an understanding of the entity and its environment, including its internal control, sufficient to assess the risks of material misstatement of the financial statements and as a basis for designing the nature, timing, and extent of further audit procedures, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. However, we will communicate to you at the conclusion of our audit any material weaknesses or significant deficiencies identified. We will also communicate to you:

- Any violation of laws or regulations that come to our attention;
- Our views relating to qualitative aspects of the entity's significant accounting practices, including accounting policies, accounting estimates, and financial statement disclosures;
- Significant difficulties, if any, encountered during the audit;
- Disagreements with management, if any, encountered during the audit;
- Significant unusual transactions, if any;
- The potential effects of uncorrected misstatements on future-period financial statements; and
- Other significant matters that are relevant to your responsibilities in overseeing the financial reporting process.

Although we are currently in the planning stage of our audit, we have identified the following significant risks during our audit to date that require special audit considerations:

Management's override of internal controls over financial reporting: Management override of internal controls is the intervention by management in handling financial information and making decisions contrary to internal control policy.

Revenue recognition: Management's failure to recognize revenue in accordance with generally accepted accounting principles.

Board of Directors
Leucadia Wastewater District

These significant risks are presumptive in most audits and merit attention by the auditors due to the direct impact over financial reporting and internal control processes.

We expect to begin our audit on May 2, 2022. Scott Manno, CPA, CGMA is the engagement partner and is responsible for supervising the engagement and signing the report or authorizing another individual to sign it.

This information is intended solely for the information and use of the Board of Directors and management of the District and is not intended to be and should not be used by anyone other than these specified parties.


Respectfully,

Rogers, Anderson, Maloney & Scott, LLP.

MEMORANDUM

Ref: 22-8032

DATE: June 30, 2022
TO: Investment and Finance Committee
FROM: Paul J. Bushee, General Manager
SUBJECT: Annual Review of Procurement Policy



RECOMMENDATION:

Staff requests that the Investment and Finance Committee (IFC) recommend that the Board of Directors:

1. Adopt Resolution No. 2376 approving LWD's revised Procurement Policy; and
2. Discuss and take other action, as appropriate.

DISCUSSION:

Tactical Goal: Finance/Financial Policy Reviews/Procurement Policy

The Leucadia Wastewater District (LWD) Procurement Policy was originally adopted by the Board of Directors on March 9, 2005 and was last revised on August 18, 2021. The policy consolidates purchasing requirements under one program and provides a prudent set of controls while maintaining efficiency and flexibility in the procurement process.

Staff recently conducted an annual review of the existing policy. Based on this review, staff recommends replacing the requirement to publish public notices inviting bids, proposals, or qualifications "in a newspaper of general circulation at least 10 days prior to the bid opening date" with a requirement to publish public notices inviting bids "in a relevant professional journal, publication, newspaper of general circulation and/or the District's website at least once, ten (10) days prior to the bid opening date to attract a sufficient number of qualified firms."

There are also some minor administrative changes such as formatting and grammar.

Overall, LWD's Procurement Policy continues to provide prudent purchasing controls and guidelines for the District. In addition, it establishes spending limits that reflect today's costs and provide staff the needed flexibility to purchase goods and services in the most efficient manner possible.

The proposed resolution (Attachment 1) includes a tracked-changes version of the revised Procurement Policy for the IFC's review (Exhibit "A").

reg:PJB

Attachment

RESOLUTION NO. 2376

**A RESOLUTION OF THE BOARD OF DIRECTORS OF THE
LEUCADIA WASTEWATER DISTRICT
ADOPTING A REVISED PROCUREMENT POLICY**

WHEREAS, the Leucadia Wastewater District's (LWD) existing Procurement Policy was adopted on August 18, 2021 to establish a prudent set of controls in the procurement process; and

WHEREAS, it is prudent for LWD to periodically review its Procurement Policy to reflect changes in laws, regulations, and the current costs.

NOW, THEREFORE, it is hereby resolved as follows:

1. The LWD Board of Directors adopts the LWD Procurement Policy attached hereto as Exhibit "A" and directs that it be implemented consistent with all applicable laws and related District policies.
2. This Resolution supersedes and rescinds Resolution No. 2354.

PASSED AND ADOPTED by the Board of Directors at a meeting of the Leucadia Wastewater District held July 13, 2022, by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

Judy Hanson, President

ATTEST:

Paul J. Bushee, Secretary/Manager

(SEAL)

Attachment 1

LEUCADIA WASTEWATER DISTRICT

RESOLUTION NO. 2376

EXHIBIT "A"

LWD PROCUREMENT POLICY



PROCUREMENT POLICY

Ref: 22-80337709

1. Purpose

The purpose of this Policy is to establish the requirements and implement the rules and regulations governing the procurement of all goods and services required by the Leucadia Wastewater District (LWD or District).

2. Related LWD Board of Directors' Policies

- 2.1. Resolution 2289 authorizing the General Manager to purchase up to \$35,000 of goods, materials, supplies, and services at any one time without specific prior Board approval dated September 13, 2017.
- 2.2. LWD's current Conflict of Interest Code.

3. Policy

It is the Policy of the Board of Directors that:

- 3.1. LWD shall procure required goods and services commensurate with acceptable quality at the lowest possible cost.
- 3.2. Appropriate internal financial controls shall be exercised over all procurements.
- 3.3. No procurement shall be authorized unless sufficient funds have been appropriated pursuant to LWD's budgetary processes.
- 3.4. Cooperative purchasing with other public agencies shall be performed whenever such purchases are feasible and in the best interests of LWD.
- 3.5. The General Manager shall determine the necessity of insurance and/or appropriate insurance requirements in consultation with the originating department head and risk management advisors, and, with the advice and concurrence of the LWD General Counsel. If insurance is required, a Certificate of Insurance conforming to such requirements, and any applicable insurance industry standards, must be on file before goods are delivered or services are provided.
- 3.6. The General Manager shall execute and maintain administrative procedures to implement this Policy and to ensure that the procurement of all goods and services are properly documented and that they conform to: this Policy, related internal financial controls, and all applicable administrative procedures.

3.7. The General Manager shall maintain all documentation required by this Policy in accordance with LWD's Records Retention Policy.

3.8. The General Manager may, at his/her discretion, delegate duties under this Policy.

3.9. The Board of Directors may, at its sole discretion, waive all or any part of this Policy.

4. Policy Coverage

This Policy is intended to cover the procurement of the following types of items:

4.1. Goods: An item moveable at the time LWD executes the Purchase Order for its procurement; equipment or supplies specially manufactured for LWD; installation of equipment or supplies specifically for LWD; and utilities such as electricity, natural gas, telecommunications, internet, and water.

4.2. Professional Services: Services that are professional in nature and do not include the physical construction or installation of equipment for the District's infrastructure. -Services in this category include, but may not be limited to, engineering design, architectural services, public information services, financial services, strategic planning services and legal services.

4.3. Construction Services: Services typically associated with the physical construction and/or installation of equipment necessary to improve or replace the District's infrastructure. For the purposes of this policy, landscape services shall follow the procedures associated with this category.

4.4. Other Services: Other Services include all purchases for services not classified as goods, construction services, or professional services, and include janitorial and uniform rental services, but may not be limited to these services.

5. Open Market Procurements for Goods and Other Services (\$10,000 or less) and Professional Services and Construction Services (\$35,000 or less)

The LWD sStaff shall make reasonable efforts to secure goods of suitable quality or, in the case of services, the best qualified consultant or service provider at the lowest possible cost and shall document such procurements as appropriate.

6. Informal Procurements for Goods and Other Services (\$10,000.01 to \$60,000) and Construction Services (\$35,000.01 to \$60,000)

The following defines an informal procurement for goods:

6.1. Minimum Requirements: -The procurement of goods or services require that sStaff develop a Request for Quote to clarify and standardize the requirements of the procurement. -The Request for Quote shall include, as a minimum:

- An appropriately detailed specification considering the value, availability and technical complexity of the items to be procured,
- A list of at least three (3) possible suppliers, if practicable, and
- The date by which LWD must receive the quote.

- 6.2. Request for Quote Distribution and Evaluation: LWD shall distribute the Request for Quote to at least three (3) suppliers. Staff will evaluate the responses received to determine the best responsive and responsible quote that meets or exceeds the Request for Quote specifications. Although cost is important, it is not the sole basis of the award.
- 6.3. Quote Documentation: Staff will document the quotes received and the results of the evaluation. If less than three (3) quotes were received and evaluated, a brief explanatory statement will be provided.
- 6.4. Award: The General Manager shall award the procurement to the best determined responsive and responsible quote, if the total dollar cost of the procurement is \$35,000 or less. If the total dollar cost of the procurement is \$35,000.01 or more, the purchase must be approved by the Board of Directors.
- 6.5. Delegation of Authority to Award: For the purchase of goods or construction services, the General Manager may delegate the authority to award procurements by administrative procedure specifically identifying such delegates and the dollar limit of each delegate's authority.

Nothing in this policy shall prohibit staff from utilizing a formal bid process if deemed to be in the best interest of the District. If a formal bid process is elected, the procedures in Section 8 below shall be followed.

7. Informal Procurements for Professional Services (Contract from \$35,000.01 to \$60,000):

The following defines an informal procurement for professional services:

7.1. Minimum Requirements.- Staff will develop a Proposal letter to include, as a minimum:

- An appropriately detailed Scope of Work considering the value availability and technical complexity of the services to be procured,
- A list of at least three (3) possible firms, if practicable,
- The date by which LWD must receive the proposal, and
- If the proposed project is not identified and funded in the budget, the Board of Directors shall review and authorize the procurement.

7.2. Evaluation of Proposals.- Staff or a panel of evaluators designated by the General Manager will determine the best qualified proposer based on professional competency and their ability to satisfy the Scope of Work. Whenever possible, dependent on the services required, LWD shall evaluate ~~and document~~ at least three (3) proposals. If less than three (3) proposals were evaluated, a brief explanatory statement will be submitted to the General Manager.

7.3. Negotiations. Staff shall negotiate with the best qualified proposer. If unable to successfully complete such negotiations, negotiate with the remaining proposers, in the order that their proposals are most beneficial to LWD, until negotiations are successfully completed.

7.4. Coordination, Review and Approval. The General Manager will assign staff and, if necessary, LWD Counsel to generate a contract or related documents. All informal procurements for professional services ~~will~~ require a written contract.

- 7.5. Award. The General Manager shall recommend that the Board of Directors award the contract to the best qualified firm with whom LWD successfully completed negotiations. The Board shall award procurements of services with a total dollar cost from \$35,000.01 to \$60,000.
- 7.6. Documentation of Award. The responsible staff member shall establish a Contract File that contains the Proposal documentation per Sections 7.1 through 7.5 of this Policy, signed contract and any additional documents prescribed by administrative procedure.

8. Formal Procurements for Goods, Construction Services, and Other Services (\$60,000.01 and over):

- 8.1. Additional Requirements: Formal Request for Sealed Bids (RFB). In addition to this Policy's requirements for awarding Informal Procurements, the initiating department head shall submit for the General Manager's review and approval an RFB that includes:
- An appropriately detailed specification considering the value, availability and technical complexity of the items to be procured,
 - Proposed procurement schedule.
- 8.2. Supplemental Documents: Formal RFB. Along with the RFB, the initiating department head shall submit for the General Manager's review and approval the following Supplemental Documents:
- A draft Notice Inviting Bids for publication and
 - A suggested list of at least three (3) prospective vendors, if practicable.
- 8.3. Public Notice. ~~Public Notice. Public Notice Inviting Bids for an RFB in a relevant professional journal, publication, newspaper of general circulation and/or the District's website at least once, ten (10) days prior to the bid opening date to attract a sufficient number of qualified firms. For only the formal procurement of goods and other services, if the General Manager determines that publication of an RFB will not enhance the competitiveness of the bid, the General Manager, at his sole discretion, may waive the public notice of the RFB. For example, there is a limited number of vendors and all vendors will be provided with the RFB, then the publication of the RFB can be waived.~~ Public Notice Inviting Bids for an RFB must be published in a newspaper of general circulation at least ten (10) days prior to the bid opening date. For only the formal procurement of goods and other services, if the General Manager determines that publication of an RFB will not enhance the competitiveness of the bid, the General Manager, at his sole discretion, may waive the public notice of the RFB. For example, there is a limited number of vendors and all vendors will be provided with the RFB, then the publication of the RFB can be waived.
- 8.4. Bid Opening. All sealed bids are opened in public and apparent low bidder is identified at the bid opening.
- 8.5. Bid Evaluation. After the bid opening, all bids will be evaluated to ensure compliance with the bid specifications and for acceptable quality to determine the lowest responsive and responsible bidder. All bids and bid information shall be public unless otherwise specified in the bid specifications.

8.6. Award. All sealed bid procurements shall be awarded to the lowest responsive and responsible bidder who meets or exceeds the specifications of the RFB. All formal procurements must be approved by the Board of Directors.

9. Formal Procurements for Professional Services (\$60,000.01 and over)

9.1. Additional Requirements: Formal Request for Proposals (RFP) or Request for Qualifications (RFQ). In addition to this Policy's requirements for awarding Informal Procurements for services, the initiating department head shall submit for the General Manager's review and approval a RFP or RFQ that includes:

- A detailed Scope of Work itemizing the services required,
- Proposed schedule,
- Preliminary criteria upon which proposals-/qualifications shall be evaluated,
- A draft public notice, and,
- A suggested list of prospective consultants to receive the RFP/RFQ.

9.2. General Manager Approval of Proposal Publication. No publication of public notice inviting proposals shall be made unless the General Manager has approved the Formal RFP and Supplemental Documents. If the project is not identified in the budget, the Board of Directors shall review and authorize the procurement.

9.3. Public Notice. ~~Public notice of an RFP / RFQ must be published in a relevant professional journal, publication, newspaper of general circulation and/or the District's website at least once, ten (10) days prior to the proposal / Statement of Qualification (SOQ) due date to attract a sufficient number of qualified firms. Public notice of a RFP / RFQ must be published in a newspaper of general circulation at least ten (10) days prior to the proposal / Statement of Qualification (SOQ) due date.~~

9.4. RFQ Evaluation. If the implementation of the RFQ process is selected to procure services, additional steps are added to the RFP process. The RFQ calls for submission of a Statement of Qualification (SOQ) instead of a proposal. The SOQs are used to establish the professional competency and capability of each firm to perform and satisfy the project's Scope of Work. Once SOQs are received from interested firms, the General Manager will convene a panel consisting of at least three (3) individuals. The panel will evaluate the SOQs received in response to the RFQ to determine those firms that, in the panel's opinion, are best qualified to meet the Scope of Work identified in the RFQ. The panel will identify at least three (3) qualified firms, if appropriate. Once the qualified firms have been determined, only those firms will be invited by the General Manager to submit proposals (RFP) for evaluation.

9.5. Proposal Evaluation. Pursuant to the criteria established for that RFP and any additional criteria necessary and appropriate to advance the best interests of the LWD, the General Manager or a panel of evaluators selected by the General Manager shall review each proposal and may interview each firm to determine an ordinal ranking of the proposing firms. The ordinal ranking will be primarily based on the professional competency of the firms.

9.6. Negotiation. The General Manager or his/her designee shall enter into negotiations with the top ranked firm to establish the contract price and fees. If a fair price cannot be reached with the top ranked firm, then that firm shall be eliminated from consideration and negotiations shall be initiated with the next highest ranked firm.

9.7. Award. All formal procurements for services must be approved by the Board of Directors.

10. Competitive Negotiations

10.1. Competitive negotiations may be used for the procurement of highly technical goods or services. Under competitive negotiations cost will be a significant factor, but not the only deciding factor. The General Manager may authorize competitive negotiations when:

- The goods or services are such that suitable technical or performance specifications are not readily available.
- District does not possess the professional expertise necessary to develop suitable technical or performance specifications.
- Proposals for the purchase goods or services would be more advantageous to District.

10.2. In the case of competitive negotiations, the initiating department head shall obtain the General Manager's authorization to proceed under this section using such open market, informal or formal, procedures as the General Manager shall, at his sole discretion deem necessary.

10.3. The use of competitive negotiations is not intended to be used for the purpose of avoiding the Formal RFB or Formal RFP requirements as set forth in this policy

11. Exceptions:

The following exceptions shall apply to the foregoing bidding procedures. When an exception applies, supplies, equipment and/or services may be purchased following whatever procedures are determined necessary under the circumstances as determined by the General Manager, at his or her discretion.

11.1. Sole Source Procurement

A. In certain instances, goods and services are obtainable from only one vendor due to unique circumstances. These circumstances include:

- The good or service is of such a unique, proprietary or technical nature that it is only manufactured or provided by a single vendor; and/or
- The good or service must match or be compatible with other goods or services, currently in use by LWD, obtained from a certain vendor. In this instance, it must be demonstrated that the matching or compatible good or service can only be supplied by this same vendor, and/or
- When a vendor or firm possesses unique knowledge of LWD; and/or
- Continuing Services. Where a vendor or firm has satisfactorily completed one phase in the development of a project and the General Manager, or as may be required by this Policy, the Board of Directors, determines that it is in the best interest to retain this vendor or firm for a subsequent phase of work

B. All sole source purchases for goods over \$10,000 require a written justification to the General Manager or his/her designated representative; and all sole source procurements over \$35,000 require a written justification to the Board of Directors.

C. Sole source procurements shall comply with all award threshold requirements set forth in this Policy.

D. Complex or Unique Items

- In the event that the supplies and/or equipment sought to be purchased are unique and/or complex, such that it is unlikely that there would be more than one bidder.
- It is unlikely that there would be any economic benefit to the public to be gained from bidding, the General Manager, at his or her discretion may authorize direct negotiations in lieu of bidding.
- An explanation to the Board of Directors is required justifying the procurement of critical or unique items for procurement awards requiring Board of Director's approval.

11.2. Emergency

If an emergency arises and there is insufficient time to comply with the above applicable procurement procedures, an exception shall apply. An emergency situation may be determined by the General Manager if there is no time to convene a Board meeting. In the case of an emergency, the General Manager can authorize procurement(s) that exceeds his designated threshold in order to resolve the situation. The General Manager will inform the Board members of the emergency procurement as soon as possible. If the General Manager determines an emergency existed and authorizes a procurement(s) exceeding his/her approval authority, then a staff report shall be provided to the Board of Directors at its next regular meeting.

12. **Alternative or Conditional Requirements:**

12.1. Bid Security. Bidder's security may be prescribed in the public notice inviting bids at LWD's sole discretion. ~~Unsuccessful Bidders shall be entitled to have their return of bid security returned; except that~~ a successful bidder shall forfeit his/her bid security upon the bidder's refusal or failure to execute a contract within ten (10) days after the Notice of Award has been mailed.

12.2. Rejection of Bids/Proposals. The General Manager or Board of Directors, at their discretion, may reject any and all bids or proposals/SOQs and proceed pursuant to this Policy.

12.3. Performance Bond. LWD shall retain unilateral authority to require a performance bond before entering a contract. The amount of such a bond shall be set as determined reasonably necessary to protect the best interests of LWD. If LWD requires a performance bond, the form and amount of the bond shall be described in the public notice inviting bids or proposals.

12.4. Governing Law. Nothing in this policy is intended nor shall be deemed to supersede any applicable State or Federal laws.

13. **Definitions:**

Bidder: A person or firm submitting an offer to LWD in response to a Request for Bids.

Bid Security: The deposit of cash, certified check, cashier's check, bank draft, money order, or bid bond submitted with a bid and serving to guarantee to the owner that the bidder, if awarded the contract, will execute such contract in accordance with the bidding requirements and the contract documents.

Continuing Services: When a vendor or firm has satisfactorily completed one phase in the development of a project, that vendor or firm may be retained for a subsequent phase of work if their continued service is determined to be in the best interest of the District.

Construction Services: Services typically associated with the physical construction and/or installation of equipment necessary to improve or replace the District's infrastructure. For the purposes of this policy, landscape services shall follow the procedures associated with this category.

Formal Procurement of Goods and Services: Procurement of goods or services resulting in total payments greater than \$60,000.

Goods: An item moveable at the time LWD executes the Purchase Order for its procurement; equipment or supplies specially manufactured for LWD; installation of equipment or supplies specifically for LWD; and utilities such as electricity, natural gas, telecommunications, internet, and water.

Informal Procurement of Goods: Purchase of goods resulting in total payments of \$10,000.01 to \$60,000.

Informal Procurement of Services: Procurement of services resulting in contract Not-to-Exceed (NTE) amounts between \$35,000.01 and \$60,000.

Open Market Procurement of Goods: Purchase of goods resulting in total payments by the LWD of \$10,000 or less.

Open Market Procurement of Professional and Construction Services: Procurement of services resulting in contract Not-to-Exceed (NTE) amount of up to \$35,000.

Other Services: Other Services include all purchases for services not classified as goods, construction services, or professional services, and include janitorial and uniform rental services.

Performance Bond: A written guaranty from a third party guarantor (usually a bank or an insurance company) submitted to the District by a contractor ~~on winning the bid~~ awarded a contract. A performance bond ensures payment of a sum (not exceeding a stated maximum) of money in case the contractor fails in the full performance of the contract.

Proposer: A person or firm submitting an offer to LWD in response to a Request for Proposals.

Scope of Work: A description of services required by LWD that a proposer must demonstrate the capability to provide as a prerequisite to LWD's consideration of their proposal.

Sealed Bids: A bid submitted in a sealed envelope to prevent disclosure of its content prior to the established public opening.

Professional Services: Services that are professional in nature and do not include the physical construction or/or installation of equipment for the District's infrastructure. -Services in this category include, but not limited to, engineering design, architectural services, public information services, financial services, strategic planning services and legal services. -Other similar services would also be part of this category.

Sole Source Procurement: Procurement instances when the goods and/or services are obtainable from only one vendor due to unique circumstances, specifications, qualifications or continuance of service.

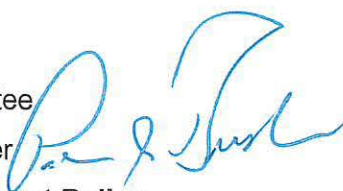
Specification: A description of the goods required by LWD that a bidder must satisfy precisely or through functional equivalency as a prerequisite to LWD's consideration of their bid.

Vendor/Firm/Consultant: An entity which is capable of or is interested in providing goods or services to LWD, or has been awarded a procurement agreement by LWD.

MEMORANDUM

Ref: 22-8030

DATE: June 30, 2022
TO: Investment and Finance Committee
FROM: Paul J. Bushee, General Manager
SUBJECT: Annual Review of LWD Investment Policy



RECOMMENDATION:

Staff requests that the Investment and Finance Committee (IFC) recommend that the Board of Directors:

1. Adopt Resolution No. 2375 amending LWD's Investment Policy and re-delegating authority to manage LWD's investment program to the General Manager effective September 1, 2022 through August 31, 2023.
2. Discuss and take other action, as appropriate.

DISCUSSION:

Tactical Goal: Finance/Financial Policy Reviews/Investment Policy

The Board of Directors last amended Leucadia Wastewater District's (LWD) Investment Policy in July 2021.

The LWD Investment Policy establishes guidelines to ensure investments are in compliance with California governmental code. It also establishes the types of investment vehicles LWD can use, defines the target rate of return on investments, and the maximum percentages of investments in any one vehicle. Additionally, the Investment Policy and California Government Code section 53607 requires that the Board of Directors delegate authority to manage the Investment Program. In the past, this authority has been delegated to the General Manager.

The Investment Policy calls for an annual review by the Board of Directors. Staff recently reviewed the Policy to determine if any amendments are warranted, and staff recommends the following two changes to the investment policy:

Recommended Change No. 1:

Section 8.2 "Permitted investments" currently does not include registered treasury notes or bonds of any of the other 49 states outside of California (Other 49 States Debt). This type of investment is permissible under the California government code and would be an additional option to consider when diversifying the LWD's investment portfolio. There are assets available for investment and it is common for other governmental organizations to invest in these asset classes.

Recommended Change No. 2:

Section 8.2 "Permitted investments" lists Repurchase Agreements as a permissible investment type. While these investments are allowable under the California government code and provide

LWD with another option for diversification, the complexities and limitations are such that staff has no intention to invest in these types of assets. Therefore, we recommend removing this investment type from the LWD Investment Policy.

There are also some minor administrative changes such as formatting and grammar.

CONCLUSION:

Proposed Resolution No. 2375 with the Amended Investment Policy is provided for your review (Attachment 1). The Amended Investment Policy is shown in strike-out format for your convenience. Staff will provide a brief overview of the policy at the upcoming meeting.

For these reasons, staff requests that the IFC recommend that the Board of Directors adopt Resolution No. 2375.

reg:PJB

Attachment

RESOLUTION NO. 2375

**A RESOLUTION OF THE BOARD OF DIRECTORS
OF LEUCADIA WASTEWATER DISTRICT
AMENDING THE INVESTMENT POLICY**

WHEREAS, the Board of Directors of Leucadia Wastewater District (LWD) approved Resolution No. 2351 on July 14, 2021 adopting the District's Amended Investment Policy; and

WHEREAS, the Policy requires an annual review by the Board of Directors; and

WHEREAS, the Board of Directors desire to modify the Investment Policy;

NOW, THEREFORE, the Board of Directors of Leucadia Wastewater District does hereby resolve as follows:

1. Resolution No. 2351 is rescinded.
2. Approves the Amended Investment Policy attached hereto as Exhibit "A".
3. Delegates the authority to invest or reinvest funds, or to sell or exchange securities so purchased, to the General Manager from September 1, 2022 through August 31, 2023.

PASSED AND ADOPTED by the Board of Directors at a meeting of the Leucadia Wastewater District held July 13, 2022 by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

Judy Hanson, President

ATTEST:

Paul J. Bushee, Secretary/Manager

(SEAL)

LEUCADIA WASTEWATER DISTRICT

RESOLUTION NO. 2375

EXHIBIT "A"

LWD INVESTMENT POLICY



LEUCADIA WASTEWATER DISTRICT INVESTMENT POLICY

Ref: 212-76698031

1.0 Purpose

This investment policy is intended to establish guidelines for the prudent management and investment of the Leucadia Wastewater District's available funds in conformance with California Government Code requirements governing the investment of public funds. -It is also intended that the Board of Directors review this policy annually.

The District shall invest public funds in a manner which will meet the objectives of this investment policy in priority order of Safety, Liquidity, and Return on Investment, while meeting the daily cash flow demands of the District.

2.0 Scope

The District's cash management system is designed to accurately monitor and forecast expenditures and revenues, enabling the District to invest funds to the fullest extent possible. All funds will be invested with the intent of maximizing Safety, Liquidity, and Return on Investment. This investment policy applies to all financial assets of the District, which are accounted for as cash and investments in the District's Annual Comprehensive Annual Financial Report, with the exception of the following funds:

- A. The District's other post-employment benefits trust fund,
- B. Deferred compensation assets held in trust for the benefit of participating employees, and
- C. The proceeds of any debt issued by the District which are invested in accordance with provisions of the applicable debt documents.

3.0 Prudence

The District operates its pool of cash investments under the *Prudent Investor Standard*, Government Code Section 53600.3, which states:

"When investing, reinvesting, purchasing, acquiring, exchanging, selling or managing public funds, a trustee shall act with care, skill, prudence and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law."

Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion

and appropriate action is taken to control adverse developments.

The District may invest in a variety of vehicles provided the investment is allowable under current legislation of the State of California, permitted by this policy and complies with the aforementioned Prudent Investor Standard.

4.0 Objective

As specified in California Government Code Section 53600.5, the primary objectives, in priority order, of the District's investment activities shall be:

4.1 Safety: Safety of principal is the foremost objective of the investment program. Investments of the District shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, the District will diversify its investments by investing funds among independent financial institutions offering a variety of securities with independent returns.

4.2 Liquidity: The District's investment portfolio will remain sufficiently liquid to enable the District to meet all operating requirements that might reasonably be anticipated. These liquid funds shall be, at a minimum, an amount equal to the Districts Operating Reserve as defined by the Districts Reserve Policy, and shall be in cash or cash equivalents.

4.3 Return on Investments: The District's investment portfolio shall be designed with the objective of attaining a market average rate of return throughout budgetary and economic cycles, commensurate with the District's investment risk constraints identified in the investment policy and the cash flow characteristics of the portfolio.

5.0 Delegation of Authority

Authority to manage the District's investment program is derived from the Board of Directors. Management responsibility for the investment program is hereby delegated to the General Manager for a one-year period as permitted under California Government Code section 53607. Subject to review, the Board of Directors may renew the delegation of the authority pursuant to this section each year. The General Manager, through approval of this investment policy, has established written procedures for the operation of the investment program. No person may engage in an investment transaction except as provided under the terms of this policy and other procedures consistent with this policy that may be established by the General Manager. The General Manager shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.- As authorized by the Board of Directors, an SEC-registered investment advisor may be utilized to assist with the District's investment program under the direction of the General Manager. -The investment advisor shall follow this investment policy and such other written instructions as are provided.

6.0 Ethics and Conflicts of Interests

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment policy and program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the General Manager any material financial interests in financial institutions that conduct business within this jurisdiction, and they shall further disclose any large personal financial/ investment positions that could be related to the performance of the District's portfolio. The General Manager shall make a like disclosure to the Board of Directors. Employees and officers shall

subordinate their personal investment transactions to those of the District, particularly with regard to the time of purchases and sales. All bond issue participants, including but not limited to, underwriters, bond-counsel, financial advisors, brokers and dealers will disclose any fee sharing arrangements or fee splitting to the District's General Manager prior to the execution of any transaction. See District's Conflict of Interest Code for additional disclosures and requirements.

7.0 Authorized Financial Dealers and Institutions

The General Manager shall maintain a list of financial dealers and institutions authorized for investment transactions. -Direct investments made by the District in LAIF, CAMP and the San Diego County pool are exempt from these requirements. -Before adding a financial institution to the approved list, the General Manager shall review the entity's credit worthiness, credit characteristics, and financial history. Annually, financial dealers and institutions doing business with the District shall submit their most recent report on financial condition and certified that they have read the District's Investment Policy. -Securities dealers utilized by the District must be members of a federally regulated securities exchange. -Public deposits shall be made only in a qualified public depository as established by state laws.

For investment transactions initiated through an investment manager, the investment manager may use their own list of approved broker/dealers and financial institutions, which it will maintain and review periodically.

8.0 Authorized and Suitable Investments

8.1 All investments shall be made in accordance with Sections 53600 *et seq.* of the Government Code of California and described within the Investment Policy. In the event an apparent discrepancy is found between this policy and the Government Code, the more restrictive parameters will take precedence. -To the extent possible, the District will attempt to match its investments with anticipated cash flow requirements. The maximum maturity of individual investments shall not exceed the limits set forth below or in the California Government Code. (See authorized investment chart under section 11). Where no maturity limit is stated, no investment shall exceed a maturity of five years from the date of purchase unless the Board of Directors has granted express authority to make that investment either specifically or as a part of an investment program approved by the Board of Directors no less than three months prior to the investment.

8.2 Permitted investments under the Investment Policy are listed below. Concentration limits are found in section 11.

U.S. Treasury Instruments. -United States Treasury notes, bonds, bills or certificates of indebtedness, or those for which the full faith and credit of the United States is pledged for payment of principal and interest. (Code section 53601(b))

Federal Agency and Instrumentality 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. (Code section 53601(f))

State of California and Local Debt. -Bonds, notes, warrants, or other evidences of indebtedness of any local agency within this state including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a

department, board, agency, or authority of the local agency. -Purchases are limited to securities rated at least "A-," or equivalent, by a Nationally Recognized Statistical Rating Organization ("NRSRO"). (Code sections 53601(c) & (e))

Other 49 States Debt. Registered treasury notes or bonds of any of the other 49 states in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 states, in addition to California. Purchases are limited to securities rated at least "A-," or equivalent, by a Nationally Recognized Statistical Rating Organization ("NRSRO"). (Code section 53601(d))

Bonds issued by Leucadia Wastewater District. -Bonds issued by the District, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled or operated by the District or by a department, board, agency or authority of the District, if and in the manner which it is permitted by their governing documents-. (Code section 53601(a))

Medium-Term Notes. -Medium-term corporate notes, defined as all corporate and depository institution securities with a maximum remaining maturity of five years or less, issued by 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. -Purchases are limited to securities rated at least "A-," or its equivalent, by an n NRSRO. (Code section 53601(k))

Bankers Acceptances. -Purchases of bankers acceptances may not exceed 180 days' maturity. Purchases are limited to issuers with senior debt ratings of at least "A-," or its equivalent, by an n NRSRO. (Code section 53601(qq))

Commercial Paper. -The entity that issues the commercial paper shall have met either of the following criteria: (1) The corporation shall be organized and operating within the United States, shall have total assets in excess of five hundred million dollars (\$500,000,000), and shall issue has debt, other than commercial paper, if any, that the other debt is rated "A" or higher by an n NRSRO; or (2) The corporation shall be organized within the United States as a special purpose corporation, trust, or limited liability company; has program wide credit enhancements including, but not limited to, over-collateralization, letters of credit, or surety bond; has commercial paper that is rated "A-1" or higher, or the equivalent, by an n NRSRO.- Eligible commercial paper may-shall not exceed 270 days' maturity, nor represent more than 10 percent of the outstanding paper of an issuing corporation. (Code section 53601(h))

Bank Deposits. -FDIC insured or collateralized bank deposits, including, without limitation, savings accounts, and market rate accounts in financial institutions located in California. -No deposit of public funds shall be made except in a qualified public depository as established by state laws and the requirements of the California Government Code. -Bank deposits are required to be collateralized as specified under the California Government Code Section 53630 et. seq. -The General Manager may waive collateral for any portion that is covered by federal deposit insurance.- The District shall have a signed agreement with any depository accepting District funds per California Government Code Section 53649. (Code sections 53630 et seq.)

Placement Service Deposits.- Deposits placed through a deposit placement service in accordance with California Government Code Section 53601.8 and 53635.8. -The full

amount of the principal and the interest that may be accrued during the maximum term of each deposit shall at all times be insured by federal deposit insurance. (Code section 53635.8)

Bank Certificates of Deposit - FDIC/NCUA Insured.

FDIC or NCUA insured certificates of deposit issued by a nationally or state-chartered bank, a state or federal association, a state or federal credit union, or by a state license branch of a foreign bank. This category includes certificates of deposit purchased through a broker/dealer. (Code sections 53630 et seq.)

Negotiable Certificates of Deposit.

Negotiable certificates of deposit issued by a nationally or state-chartered bank, a state or federal ~~association~~credit union, or by a state-licensed branch of a foreign bank. Uninsured purchases are limited to institutions that have a rating of at least "A", "A-1", or its equivalent, by an NRSRO. (Code section 53601(i))

~~Repurchase Agreements. — Repurchase agreements are to be used solely as short-term investments not to exceed 30 days. The District may enter into repurchase agreements with financial institutions rated "A" or better by two NRSROs. Counterparties should also have (i) a short-term credit rating of at least "A-1" or equivalent, by a NRSRO; (ii) minimum assets and capitalized size of \$25 billion in assets and \$350 million in capital; (iii) five (5) years of acceptable audited financial results; and (iv) a strong reputation among market participants.~~

~~The following collateral restrictions will be observed: Only U.S. Treasury securities or Federal Agency securities will be acceptable collateral. All securities underlying repurchase agreements must be delivered to the District's custodian bank versus payment or be handled under a properly executed tri-party repurchase agreement. The total market value of all collateral for each repurchase agreement must equal or exceed 102 percent of total dollar value of the money invested by the District for the term of the investment. Since the market value underlying securities is subject to daily market fluctuations, the investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102 percent no later than the next business day. For any repurchase agreement with a term of more than one day, the value of the underlying securities must be reviewed on an on-going basis according to market conditions. Market value must be calculated each time there is a substitution of collateral.~~

~~The District or its trustee shall have a perfected first security interest under the Uniform Commercial Code in all securities subject to repurchase agreement. The District shall have properly executed a master repurchase agreement with each counterparty with which it enters into repurchase agreements. (Code section 53601(j))~~

Money Market Funds. —Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1 and following). The company shall have met either of the following criteria: -(A) Attained the highest ranking or the highest letter and numerical rating provided by not less than two NRSROs; or; -(B) ~~R~~etained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than 5 years' experience managing money market mutual funds with assets under management in excess of five hundred million dollars (\$500,000,000).

(Code section 53601(l))

State of California Local Agency Investment Fund (LAIF). LAIF is a special fund in the California State Treasury and an investment alternative for California's local governments and special districts created and governed pursuant to California Government Code Section 16429.1 et seq. and managed by the State Treasurer's Office. ~~A maximum of 75% of the portfolio may be invested in this category, however, t~~The amount invested may not exceed the current maximum amount allowed by LAIF. If the District has funds invested in LAIF, the District shall maintain on file LAIF's current investment policy and its requirements for participation, including limitations on deposits or withdrawals. (Code section 16429.1 et seq.)

California Asset Management Program (CAMP) Pool. -California Asset Management Trust is a California common law trust established pursuant to Title 1, Division 7, Chapter 5 of the Government Code of the State of California. -If the District has funds invested in CAMP, the District shall maintain on file CAMP's disclosure statement listing its investment policy and its requirements for participation, including limitations on deposits or withdrawals. Code section 53601(p))

San Diego County Treasurer's Pooled Money Fund. This is a local government investment pool managed by the San Diego County Treasurer-Tax Collector. If the District has funds invested in San Diego County Pool, the District shall maintain on file the San Diego County Treasurer's Pooled Money Fund Investment Policy and its requirements for participation, including limitations on deposits or withdrawals. (Code section 53684)

9.0 Investment Pools/Money Market Mutual Funds

Investment pools include LAIF, county pooled investment funds, and shares of beneficial interest (mutual funds and money market funds), and joint powers authority pools. A thorough investigation of the pool/fund is required prior to investing, and monitoring is required on a continual basis. District staff will periodically perform due diligence analysis of the pool/fund based on a standardized questionnaire developed to address investment policy and practices. The investigation will include review of the following items: 1) Eligible investments; 2) Investment policy and/or investment objectives; 3) Interest calculation, distribution, and treatment of gains/losses; 4) Securities safeguarding and pricing and program audits; 5) Schedule of receiving statements and portfolio listings; 6) Fees; 7) Utilization of reserves/retained earnings; and 8) Eligibility for bond proceeds.

10.0 Safekeeping and Custody

Securities will be held by a third-party custodian designated by the General Manager and evidenced by safekeeping receipts with a written custodial agreement. The securities will be held directly in the name of the District as beneficiary. -The only exception to the foregoing shall be: (i) bank deposits, (ii) placement service certificates of deposit, (iii) LAIF, CAMP and the San Diego County Treasurer's Pool, and (iv) money market mutual funds, since these investments are not deliverable. Evidence of each of these investments will be provided monthly by these institutions and held by the District.

11.0 Diversification

The District will diversify its investments by security type, institution, and maturities to prevent incurring unreasonable or avoidable risks regarding specific security types, individual financial institutions or maturity segments.

District funds may be invested in accordance with the following table, which summarizes the allowable allocation of investments by percentage of total funds invested. -Percentage holding limits listed below apply at the time the security is purchased. -No more than 5% of the total portfolio is to be invested in securities of any single issuer, excluding US Treasuries, Federal Agencies, Bank Deposits, Money Market Funds, and Pools.

Allowable Allocation of Investments

Authorized Investment	Govt. Code	Max %	Max Maturity
US Treasury Instruments	53601(b)	100%	5 years*
Federal Agency and Instrumentality Securities	53601(f)	75%	5 years*
State of California and Local Debt	53601(c)&(e)	10%	5 years*
<u>Other 49 States Debt</u>	<u>53601(d)</u>	<u>10%</u>	<u>5 years*</u>
Bonds Issued by Leucadia Wastewater District	53601(a)	10%	5 years*
Medium-Term Corporate Notes	53601(k)	25%	5 years
Bankers Acceptances	53601(g)	10%	180 days
Commercial Paper	53601(h)	10%	270 days
Bank Deposits	53630 et seq.	30%	5 years*
Placement Service Deposits	53635.8	20%	5 years*
Bank Certificates of Deposit – Insured	53630 et seq.	30%	5 years*
Negotiable Certificates of Deposit - Uninsured	53601(i)	10%	5 years*
Repurchase Agreements	53601(j)	10%	30 days
Money Market Funds	53601(l)	20%	n/a
State of California Local Agency Investment Pool (LAIF)	16429.1 et seq.	75%	n/a
California Asset Management Program (CAMP)	53601(p)	75%	n/a
San Diego County Treasurer’s Pooled Money Fund (SD Pool)	53684	75%	n/a

* This investment may exceed a maturity of five years if approved by the Board of Directors prior to investment (See 8.1)

12.0 Internal Control

The General Manager has established a system of internal controls to ensure compliance with the Investment Policy of the District and the California Government Code. The internal control procedures include, but are not limited to, segregation of duties in the different phases of an investment transaction, monthly reconciliation of the investment report to the general ledger, and annual policy compliance reviews. An independent audit is conducted by the District’s outside external auditors, which includes a compliance review of the District’s investment activities to the District’s policy, the California Government Code, and Government Accounting Standard Board (GASB) requirements regarding investment disclosures.

13.0 Performance Standards

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs.

The District's investment strategy is passive. Given this strategy, the General Manager has selected LAIF as the benchmark to determine whether market yields are being achieved. -The General Manager shall review the selected benchmark on an annual basis.

14.0 Reporting

The General Manager shall submit to each member of the Board of Directors, on a monthly basis, an investment summary, describing the types of investment transactions, investments held by category, original costs, and average rates of return in accordance with Government Code Section 53607. -In addition, the General Manager shall prepare a quarterly investment report in accordance with Government Code Section 53646 (b) (1). The report shall include a complete description of the portfolio; the type of investments, the issuers, maturity dates, interest rates, par values, cost and the current market values of each component of the portfolio. The report must also include a certification that (1) all investment actions executed since the last report have been made in full compliance with the Investment Policy, and (2) the District will meet its expenditure obligations for the next six months, or provide an explanation as to why money shall, or may, not be available. The General Manager shall maintain a complete and timely record of all investment transactions.

15.0 Review of Investment Portfolio and Credit Rating Changes

The securities held by the District must be in compliance with Section 8.0 Authorized and Suitable investments at the time of purchase. Because some securities may not comply with Section 8.0 subsequent to the date of purchase, the General Manager shall at least monthly review the portfolio to identify those securities that do not comply. In the event a major and critical incidence of noncompliance with this policy is identified through the review of the portfolio, the General Manager shall notify the Board of the change. -The course of action to be followed will then be decided on a case-by-case basis, considering such factors as the reason for the rate drop, prognosis for recovery or further rate drops, and the market price of the security.

16.0 Investment Policy Adoption

The District's Investment Policy, and any modifications to the policy, shall be adopted by resolution of the Board of Directors. The policy shall be reviewed annually by the Investment and Finance Committee and the Board of Directors. The Board of Directors must approve any modifications made thereto.

17.0 Glossary of Terms

AGENCIES: Federal agency securities and/or Government-sponsored enterprises.

ASKED: The price at which securities are offered.

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.

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 investments.

BID: The price offered by a buyer of securities. (When you are selling securities, you ask for a bid.) See Offer.

BROKER: A broker brings buyers and sellers together and receives a commission for services rendered.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a Certificate. Negotiable Certificates of Deposit are usually large denomination CDs that can be transferred, sold, bought, or exchanged in the secondary market.

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.

~~COMPREHENSIVE~~ ANNUAL COMPREHENSIVE FINANCIAL REPORT (CAFR): The official annual report of the (entity). It includes five combined statements for each individual fund and account group prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed Statistical Section.

COUPON: (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for its own account.

DEBENTURE: A bond secured only by the general credit of the issuer.

DELIVERY VERSUS PAYMENT: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

DERIVATIVES: (1) Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or (2) financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

DISCOUNT: The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

DISCOUNT SECURITIES: Non-interest-bearing money market instruments that are issued at a discount and redeemed at maturity for full face value (e.g., U.S. Treasury Bills.)

DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent returns.

DURATION: A measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years. Rising interest

rates mean falling bond prices, while declining interest rates mean rising bond prices.

FEDERAL CREDIT AGENCIES: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., S&L's, small business firms, students, farmers, farm cooperatives, and exporters.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, currently up to \$250,000 per entity.

FEDERAL FUNDS RATE: The rate of interest at which Fede funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

FEDERAL HOME LOAN BANKS (FHLB): Government sponsored wholesale banks (currently 12 regional banks), which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to provide liquidity to the housing related assets of its members who must purchase stock in their district Bank.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, 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. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

FEDERAL OPEN MARKET COMMITTEE (FOMC): Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

FEDERAL RESERVE SYSTEM: The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., 12 regional banks and ~~numerous about 5,700~~ commercial banks that are members of the system.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae): Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the FHA, VA or FHA mortgages. The term "pass-throughs" is often used to describe Ginnie Maes.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and a reasonable size transaction can be ~~done-executed~~ at those quotes.

LOCAL AGENCY INVESTMENT FUND (LAIF): The Local Agency Investment Fund is a voluntary

investment alternative for California's local governments and special districts authorized by the California Government Code. The LAIF is managed by the State Treasurer's Office with oversight by the Local Agency Investment Advisory Board. All securities in LAIF are purchased under the authority of Government Code Sections 16430 and 16480.8.

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

~~**MASTER REPURCHASE AGREEMENT:** A written contract covering all future transactions between the parties to repurchase—reverse repurchase agreements that establishes 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 upon which the principal or stated value of an investment becomes due and payable.

MONEY MARKET: The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

NATIONAL CREDIT UNION ADMINISTRATION (NCUA): A federal agency that insures credit union deposits, currently up to \$250,000 per entity.

OFFER: The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See Asked and Bid.

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.

PLACEMENT SERVICE DEPOSITS: Deposits at a commercial bank, savings bank, savings and loan association, or credit union that uses a private sector entity that assists in the placement of deposits.

PORTFOLIO: Collection of securities held by an investor.

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. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.

PRUDENT PERSON RULE: An investment standard. In some states the law requires that a fiduciary, such as a trustee, ~~may~~ invest money only in a list of securities selected by the custody state—the so-called legal list. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

QUALIFIED PUBLIC DEPOSITORIES: A financial institution which does not claim exemption from

the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond the current income return.

~~**REPURCHASE AGREEMENT (REPO):** A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security “buyer” in effect lends the “seller” money for the period of the agreement, and the terms of the agreement are structured to compensate him for this.~~

~~**REVERSE REPURCHASE AGREEMENT (REVERSE REPO):** A reverse repurchase agreement (reverse repo) involves an investor borrowing cash from a financial institution in exchange for securities. The investor agrees to repurchase the securities at a specified date for the same cash value plus an agreed upon interest rate. Although the transaction is similar to a repo, the purpose of entering into a reverse repo is quite different. While a repo is a straightforward investment of public funds, the reverse repo is a borrowing.~~

SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank’s vaults for protection.

SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.

SECURITIES & EXCHANGE COMMISSION: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SEC RULE 15(C)3-1: See Uniform Net Capital Rule.

STRUCTURED NOTES: Notes issued by Government Sponsored Enterprises (FHLB, FNMA, SLMA, etc.) and Corporations, which have imbedded options (e.g., call features, step-up coupons, floating rate coupons, derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

TREASURY BILLS: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

TREASURY BONDS: Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than 10 years.

TREASURY NOTES: Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to 10 years.

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.

YIELD: The rate of annual income return on an investment, expressed as a percentage. (a) **INCOME YIELD** is obtained by dividing the current dollar income by the current market price for the security. (b) **NET YIELD** or **YIELD TO MATURITY** is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.