

San Gorgonio Pass Water Agency

DATE: May 24, 2021
TO: Board of Directors
FROM: Lance Eckhart, General Manager
BY: Tom Todd, Jr., Finance Manager
SUBJECT: Investment Management

RECOMMENDATION

Staff recommends that the Board approve the updated Agency Investment Policy, Resolution 2021-07.

Staff recommends that the Board authorize the General Manager to enter into an agreement with PFM Asset Management for investment management, advice, and education.

PREVIOUS CONSIDERATION

The Board reviewed a presentation by PFM and discussed this at the February Finance & Budget Workshop, the March 15, 2021 Board meeting, and the May 3, 2021 Board meeting. Recommendations were made that have been addressed.

BACKGROUND

The Agency has planned for anticipated and continued investment in the State Water Project and local projects/programs. As a result, the Agency has increased its reserves anticipating these future costs. Many public agencies utilize a professional investment firm's services to manage assets to maximize the use of reserves and leverage a broader range of financial management tools available via a professionally managed account. The Agency may consider contracting with a professional investment management service to help maximize returns, utilize a more robust approach to reserve management and provide depth to the Agency's fiscal administration (currently managed by one employee).

ANALYSIS

As previously described, Staff have interviewed and evaluated three investment firms. The Agency auditor, Eden Casareno of Eadie and Payne, was consulted for recommendations for firms to consider and to sit in on firm interviews. Additionally, the Treasurer of the Agency, Mickey Valdivia, has interviewed references for further input.

In all investigations, PFM Asset Management has ranked the highest in each category of consideration. Not only is their depth of staff who concentrate on each investment type superior, their services and interaction with their clients was reported to be excellent.

The Agency Investment Policy has been updated to allow the Agency to contract with PFM Asset Management to act as the Agency's investment advisor. The CAMP agreement has been updated with suggestions from the Board. All of this has been reviewed by Legal Counsel and approved.

FISCAL IMPACT

PFM has a tiered rate structure. For portfolios up to \$25 million, it charges 10 basis points annually. For \$25 million to \$50 million, it charges 8 basis points. For our estimated portfolio of around \$45 million, the charge would average approximately \$40,000 annually.

ACTION

1. Approve the updated Investment Policy, Resolution 2021-07.
2. Authorize the General Manager to enter into an agreement with PFM Asset Management for investment advice, education, and management.

ATTACHMENTS

Updated Investment Policy, Resolution 2021-07
Updated agreement with PFM

RESOLUTION NO. 2021-07

SAN GORGONIO PASS WATER AGENCY INVESTMENT POLICY AND GUIDELINES RESCINDING RESOLUTION #2016-06

BE IT RESOLVED by the Board of Directors of the San Gorgonio Pass Water Agency (Agency) that the following is the policy and guidelines of the Agency for Investment of funds and that adoption of this Resolution 2021-07 does hereby revise and nullify Resolution 2016-06.

INTRODUCTION

It is the policy of the San Gorgonio Pass Water Agency to invest public funds in a manner which will provide maximum security with the highest investment return while meeting the daily cash flow demands of the Agency and conforming to all state and local statutes governing the investment of public funds.

The Agency operates its investment program with many federal, state and self-imposed constraints. **IT DOES NOT SPECULATE; IT DOES NOT DEAL IN FUTURES, OPTIONS, DERIVATIVES, SECURITY LOAN AGREEMENTS, OR MARGIN TRADING.**

PURPOSE

This statement is intended to provide a guideline for the prudent investment of cash not required for immediate expenditure, surplus funds and restricted monies, and to outline a policy for maximizing the efficiency of a cash management system.

PRUDENCE

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.

The prudent-person policy of safety, liquidity, yield, and diversity, in that order, will prevail at all times.

DELEGATION OF AUTHORITY

In accordance with Section 53607 of the Government Code of the State of California, the authority to invest public funds is expressly delegated to the legislative body for subsequent redelegation to the Treasurer.

The Agency has expressly delegated the investment authority of the Agency to the Treasurer and the Assistant Treasurer in Resolution Nos. 1994-09 and 2005-10.

No person may engage in an investment transaction except as provided under the terms of this policy. The Treasurer and Assistant Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinates.

Agency funds not required for immediate expenditure may be invested in compliance with the governing provisions of law and as further limited by the Policy established in this resolution as from time to time amended.

As authorized by the Board, the Agency may contract with an SEC registered investment adviser to assist the Treasurer and Assistant Treasurer with the Agency's investment program. The investment adviser's actions shall be in conformance with this Policy and any written direction provided by the Treasurer and/or Assistant Treasurer. The investment adviser shall never take possession of the Agency's cash or assets.

ETHICS AND CONFLICTS OF INTEREST

Officers and employees involved in the investment process shall not engage in any personal business activity which could conflict with the proper execution of the Agency's investment program, or which could impair their ability to make impartial investment decisions. Employees and officers shall subordinate their personal investment transactions to those of the Agency, particularly with regard to the time of purchases and sales.

COMPUTATION OF INTEREST

Pursuant to Government Code Section 53645, interest shall be computed and paid by the depository as follows:

- A. For active deposits upon which interest is payable, interest shall be computed on the average daily balance for the calendar quarter.
- B. For inactive deposits, interest shall be computed on a 360-day basis

ACCEPTABLE INVESTMENT INSTRUMENTS

The Agency investment portfolio is limited to investments as specified below:

- 1. State of California Local Agency Fund (LAIF).
- 2. United States Treasury Instruments not to exceed two (2) years, purchased directly from the Federal Reserve Bank.
- 3. Certificates of Deposit (CDs), purchased through a major and reputable bank chartered in the United States, not to exceed thirty-six months. These must be insured by either of the following methods: 1) the aggregate value of CDs purchased from an individual institution may not exceed current FDIC limits, or 2) the aggregate value of CDs purchased must be collateralized to 110% of the invested amount. The Agency may not use a placement service provider to place deposits. The total of CDs purchased by the Agency may not exceed 30% of the Agency portfolio.

4. Repurchase agreements through a bank specifically for interest-bearing checking accounts.
5. Medium-Term Notes of a maximum of five years maturity issued by corporations organized and operating within the United States or any state. Notes eligible for investment shall be rated in a rating category of "A" or its equivalent or better by a nationally recognized rating service. No more than 30% of the market value of the portfolio may be invested in Medium-Term Notes.
6. Bond, notes, debentures, or any other obligations of, or securities issued by, any federal government agency, instrumentality, or government-sponsored enterprise.
7. Municipal Bonds. The Agency may invest in bonds issued by a state or local government agency, 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.
8. Money market mutual funds regulated by the Securities and Exchange Commission whose portfolios consist only of dollar-denominated securities.
9. Shares of beneficial interest issued by the Investment Trust of California (CalTRUST), authorized pursuant to California Government Code Section 53601(p).

Under Government Code Section 16429.1, a local agency having money in its treasury not required for immediate needs may remit the money to the Treasurer of the State of California for deposit in the Local Agency Investment Fund (LAIF).

The Board shall authorize in advance the purchase of any new authorized investment, except for purposes of cash management. For purposes of this policy, cash management is defined as a transfer out of the checking account to a liquid interest bearing account or a transfer into the checking account for purposes of paying a current bill.

AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The Agency shall transact business only with banks and registered investment securities dealers. The dealers shall be either primary dealers authorized to buy and sell government securities in direct dealings with the Federal Reserve Bank of New York, or regional dealers, qualifying under the Securities and Exchange Commission Rule 15c3-1. The Treasurer shall approve all dealers the Agency does business with. The Finance Manager shall send a copy of the current Investment Policy to all dealers approved to do business with the Agency. Signed Dealer/Broker Confirmation Certificates shall be kept on file documenting the dealer/broker/s understanding of the Agency's investment policy.

Notwithstanding any other provisions of this Policy, If the Agency has contracted with an investment adviser to provide investment services, the investment adviser may use their own list of approved issuers, brokers/dealers and financial

institution to conduct transactions on the Agency's behalf. All transactions shall be conducted on Delivery versus Payment basis through the Agency's designated custodian.

COMPLIANCE AND CONFLICT

All investments made by the Agency shall be in full compliance with the California Government Code that is in force at the time the investment is made. If there is a conflict between this policy and the California Government Code, the California Government Code shall prevail.

BE IT RESOLVED that the investment policy shall be reviewed by the Finance and Budget Committee annually, and as frequently as necessary, to enable the Treasurer and Assistant Treasurer to respond to changing market conditions; and

BE IT FURTHER RESOLVED that each quarter the Treasurer and Assistant Treasurer shall furnish the Board of Directors a detailed listing of the current investments. Pursuant to Government Code Section 53646, the Treasurer and Assistant Treasurer may also render a statement showing the amount of accrued interest for each investment for the preceding quarter if so required by the Board of Directors.

I certify that the foregoing is a true, full and correct copy of Resolution #2021-07 adopted by the Board of Directors of the San Geronio Pass Water Agency at a regular meeting of the board of directors held on May 24, 2021.

Lance E. Eckhart
Secretary of the Board