



# MARIN MUNICIPAL WATER DISTRICT

REVISED

Posting Date: January 24, 2018

220 Nellen Avenue Corte Madera CA 94925-1169

www.marinwater.org

## NOTICE OF SPECIAL MEETING BOARD OF DIRECTORS/FINANCE COMMITTEE\*

Notice is hereby given that a Special Meeting of the Marin Municipal Water District's Board of Directors/Finance Committee will be held as follows:

**MEETING DATE:** Thursday, January 25, 2018

**TIME:** 9:30 a.m.

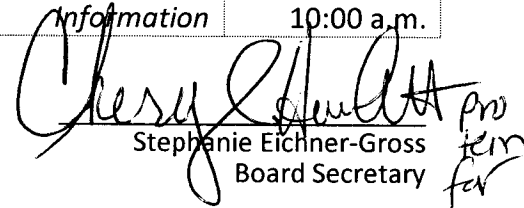
**LOCATION:** 1) MMWD Board Room, 220 Nellen Ave., Corte Madera, CA 94925

\*\*2) 1014 Torney Street, San Francisco, CA 94129 (Director Koehler)

\*\*3) UC Merced, 5200 North Lake Road, Science and Engineering 1, Room 236  
Merced, CA (Director Quintero)

### AGENDA

ITEM	RECOMMENDATION	APPROX. START
<input type="checkbox"/> CALL TO ORDER		9:30 a.m.
<input type="checkbox"/> ADOPT AGENDA		9:31 a.m.
<input type="checkbox"/> PUBLIC EXPRESSION†		9:32 a.m.
<input type="checkbox"/> CALENDAR		
1. Minutes of December 7, 2017 Meeting	Approve	9:37 a.m.
2. Monthly Financial Update	Information	9:38 a.m.
3. Annual Review of Investment Policy No. 33	Recommend	9:48 a.m.
4. District Pension Cost Briefing	Information	10:00 a.m.

  
Stephanie Eichner-Gross  
Board Secretary

**ADA NOTICE AND HEARING IMPAIRED PROVISIONS:** The board room is equipped with sound amplifying units for use by the hearing impaired. The units operate in conjunction with the room's sound system. You may request the personal sound amplifier from the Board Secretary for use during meetings.

In accordance with the Americans with Disabilities Act and California Law, it is the policy of the Marin Municipal Water District to offer its public programs, services, and meetings in a manner that is readily

**MMWD BOARD OF DIRECTORS:** Larry Bragman, Jack Gibson, Cynthia Koehler, Armando Quintero, Larry Russell

*\*The designated chair is Director Koehler and vice chair is Director Gibson. Other board members may attend as they wish.*

*\*\*One or more directors may participate in this meeting via teleconference. The teleconference location(s) is listed above. Members of the public are welcome to attend the meeting at either location.*

*†Anyone wishing to speak on an item other than those listed on this agenda will be recognized at this time. We ask any person wishing to be heard to come to the podium to address the board and state your name and address for the public record. A 3-minute limit is customary; however the committee chair may adjust the actual time allotted to accommodate the number of speakers.*

accessible to everyone, including those with disabilities. If you are disabled and require a copy of a public hearing notice, an agenda, and/or agenda packet in an appropriate alternative format, or if you require other accommodation, please contact Stephanie Eichner-Gross at (415) 945-1448, at least two days in advance of the meeting. Advance notification within this guideline will enable the district to make reasonable arrangements to ensure accessibility.

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**FUTURE BOARD OF DIRECTORS/FINANCE COMMITTEE MEETINGS:**

Thursday, February 22, 2018, 9:30 a.m.	MMWD Board Room
Thursday, March 22, 2018, 9:30 a.m.	MMWD Board Room



**MARIN MUNICIPAL  
WATER DISTRICT**

**ITEM No.** 1  
**MEETING DATE:** January 25, 2018  
**MEETING:** Board of Directors /  
Finance Committee

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**STAFF REPORT**

**SUBJECT:** Minutes of December 7, 2017 Finance Committee Meeting

**SUBMITTED BY:** Cheryl Howlett, Finance Analyst, Administrative Services Division

**RECOMMENDED ACTION:** Approve

**ATTACHMENT:**

1. Minutes of December 7, 2017 Finance Committee Meeting

**MARIN MUNICIPAL WATER DISTRICT  
BOARD OF DIRECTORS / FINANCE COMMITTEE**

**IN ATTENDANCE:**

**Directors present:** Cynthia Koehler, Larry Bragman, Jack Gibson, and Larry Russell

**Directors absent:** Armando Quintero

**CALL TO ORDER:** Director Koehler called the meeting to order at 10:49 a.m.

**ADOPT AGENDA:** By simple motion, the agenda was adopted.

**PUBLIC EXPRESSION:** None

**ITEM 1.** Minutes of October 26, 2017 meeting were approved.

**ITEM 2. Monthly Financial Update**

The Administrative Service Division Manager/Treasurer (ASDM), Charlie Duggan, presented the financial summary for the month ending October 2017.

Fiscal year to date with the month ending October 31, 2017, water revenue was at 44% of budget and all other operating revenue was at 29% of budget, for total operating revenue of 43.4%. Capital revenue was 0.7%, fire flow revenue was 0%, with the total of all revenue collected being 39% of budget.

Fiscal year to date, actual operating expenses total 33.5% of budget. Total operating and capital expenses combined were 29.4% of the total FY 2018 budgeted expenses.

The total unrestricted reserves were \$23.9M, which is 4 months of operating budget with the debt ratio currently projected to be 1.77. There is currently \$38.5M in the capital reserve fund.

A brief discussion ensued pertaining to reserves.

A recap of the upcoming meeting topics for 2018 will be handed out at the next Finance Committee meeting.

**ADJOURNMENT**

There being no further business, the meeting of December 7, 2017 adjourned at 11:03 a.m.



**STAFF REPORT**

**SUBJECT:** Monthly Financial Update  
**SUBMITTED BY:** Charles Duggan Jr. Administrative Services Division Manager  
Administrative Services Division  
**RECOMMENDED ACTION:** Information

**EXECUTIVE SUMMARY:** The Monthly Financial Update as of December 31, 2017.

**FISCAL IMPACT:** YES \_\_\_\_\_ NO X \_\_\_\_\_ **FISCAL YEAR:** 2017/18 \_\_\_\_\_

**BACKGROUND:**

**Water Sales and Consumption**

**Monthly**

Water sales for the month of December 2017 were \$4,429,950 which is \$200,153 or 4.3% below budget. Compared to the prior year, water sales for December 2017 increased by \$945,536 or 27% above December 2016.

Billed water consumption (in CCFs) for December 2017 was 833,949 CCFs, which is 1,685 CCFs 0.2% below budget. Compared to the prior year, billed water consumption for November 2017 increased 117,025 CCFs or 16%.

Total meter service charges for the month of December 2017 were \$1,807,948 which is \$34,594 or 2% above budget. Compared to the prior year, meter service charges increased by \$157,879 or 9.5%.

The Watershed Fee revenue for the month of December 2017 is \$416,133 or \$2,144 or 0.5% above budget and \$40,858 or 11% above December 2016.

The total water sales and fixed charges (Service and Watershed Fee) for the month of December 2017 was \$6,654,031 or \$163,415 or 2.4% below budget and compared to December 2017, it is an increase of \$1,144,273 or 21%.

**Fiscal Year to Date**

Fiscal year to date, water sales through December 31, 2017 were \$34,336,911, which is \$2,790,104 or 9% above budget. Compared to the same period last year, water sales through December 31, 2017 increased by \$5,779,123 or 20%.

Billed water consumption (in CCFs), through December 31, 2017 was 6,064,855 CCFs, which is 365,635 CCFs or 6.4% above budget. Compared to the same period last year, billed water consumption through December 31, 2017 increased by 585,036 CCFs or 10.7%.

Total water sales and fixed charges (service and Watershed Fee) as of December 31, 2017 was \$45,407,610 when compared to the budget of \$42,494,006 is \$2,913,604 or 7% above budget. The 2017/18 water sales and fixed charges compared to prior fiscal year through December 31, 2016 of \$38,939,322 is an increase of \$6,468,288 or 16.6%.

Estimated sales base on water production for the last twelve months less an estimate of non-revenue water (8.5%) equals 22,272 AF. The net water production assumed in the Cost of Service Analysis for FY2018 was 21,937 acre feet.

### **Budget to Actual Comparison – All Funds**

Attached is the budget to actual comparison for fiscal year 2017/18 as of December 31, 2017. The budget to actual comparison is prepared by fund and includes revenues, expenditures and reserve balances.

As of December 31, 2017 the year to date net increase for the Operating Fund was \$7.5 million.

For the Operating Fund, total revenues as of December 31, 2017 are \$47.3 million or 60.6% of budget. Total operating expenditures of \$39.7 million, not including depreciation and amortization, is 55.3% of budget.

For the Capital and Fire Flow Funds, total revenues are \$3.1 million or 32.3% of budget and spending on capital and fire flow projects at \$11.7 million is 33.9% of budget as of December 31, 2017.

The Watershed Fund as of December 31, 2017 reflects a surplus of \$114,618.

### **Fund Balances**

Per the attached Reserve Balance Summary as of December 31, 2017, unrestricted / undesignated - operating reserves are \$21.5 million after a PayGo transfer of \$6.0 million or 3.6 months of annualized projected operating expenses for 2017/18.

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**STRATEGIC PLAN ALIGNMENT:** The requested action aligns with the district’s Strategic Plan Goal 2: Financial Stewardship - Strategy 2 – ensure activities are transparent and reporting is accurate – Objective 3 – provide monthly reporting.

**REVIEWED BY:** A.S.D. Manager/Treasurer                    [ X ] NA [ ]  
                          General Counsel                                    [ X ] NA [ ]  
                          General Manager    [ X ] NA [ ]

**ATTACHMENTS:**

1. Total Water Sales and Fixed Charges & Fees 2016/17 – 2017/18
2. Billed Water Consumption in CCFs FY 2009/10 – 2017/18
3. Budget to Actual Comparison for 2017/18 as of December 31, 2017
4. Reserve Balance Summary as of December 31, 2017
5. Watershed Fund & Non-Rate Based Revenue as of December 31, 2017
6. CIP Budget to Actual Comparison for 2017/18 as of December 31, 2017

**Total Water Sales and Fixed Charges & Fees  
Fiscal Years 2016/17 - 2017/18**

Month	Fixed Charges											
	Water Sales			Service Charges			Watershed Fee			Total Water Sales and Fixed Charges		
	16/17 Actual	17/18 Budget	17/18 Actual	16/17 Actual	17/18 Budget	17/18 Actual	16/17 Actual	17/18 Budget	17/18 Actual	16/17 Actual	17/18 Budget	17/18 Actual
July	4,401,041	\$ 4,708,000	\$ 4,513,602	\$ 1,161,533	\$ 1,161,533	\$1,154,510	\$ 273,160	\$ 273,160	\$270,839	\$ 5,835,735	\$ 6,142,693	\$5,938,951
August	6,848,959	7,318,800	\$ 7,709,444	1,646,966	1,646,966	\$1,647,579	374,621	374,621	\$374,558	8,870,546	9,340,387	\$9,731,581
September	4,811,047	4,844,452	\$ 5,232,798	1,163,372	1,252,588	\$1,233,287	271,731	303,197	\$300,784	6,246,150	6,400,237	\$6,766,869
October	6,077,399	6,219,933	\$ 8,193,111	1,651,989	1,775,408	\$1,839,349	375,744	414,491	\$421,814	8,105,133	8,409,832	\$10,454,274
November	2,934,928	3,825,519	\$ 4,258,007	1,164,161	1,253,431	\$1,297,261	272,912	304,461	\$306,636	4,372,000	5,383,411	\$5,861,904
December	3,484,414	4,630,103	4,429,950	1,650,069	1,773,354	\$1,807,948	375,275	413,989	\$416,133	5,509,758	6,817,446	\$6,654,031
January	1,890,864	2,268,410		1,159,405	1,248,343		272,640	304,169		3,322,909	3,820,922	
February	2,920,167	3,408,017		1,632,681	1,754,748		372,335	410,843		4,925,184	5,573,609	
March	1,678,940	2,065,365		1,175,082	1,265,118		275,329	307,046		3,129,351	3,637,529	
April	2,716,029	3,706,568		1,640,133	1,762,722		373,440	412,025		4,729,603	5,881,316	
May	2,203,606	3,085,596		1,163,089	1,252,285		273,512	305,102		3,640,207	4,642,983	
June	5,068,180	6,133,484		1,643,177	1,765,979		373,899	412,516		7,085,256	8,311,979	
<b>TOTAL</b>	<b>\$45,035,574</b>	<b>\$52,214,248</b>	<b>\$34,336,911</b>	<b>\$16,851,658</b>	<b>\$17,912,475</b>	<b>\$8,979,935</b>	<b>\$3,884,599</b>	<b>\$4,235,621</b>	<b>\$2,090,765</b>	<b>\$65,771,831</b>	<b>\$74,362,344</b>	<b>\$45,407,610</b>

Original Budget-to-Actual Basis      6.86%  
 Actual-to-Actual Basis                      16.61%  
 % of total budget received                 61.06%



**Billed Water Consumption In CCF's  
Fiscal Year 2009/10 - 2017/18**

<u>Month</u>	<u>09/10 Actual</u>	<u>10/11 Actual</u>	<u>11/12 Actual</u>	<u>12/13 Actual</u>	<u>13/14 Actual</u>	<u>14/15 Actual</u>	<u>15/16 Actual</u>	<u>16/17 Actual</u>	<u>17/18 Budget</u>	<u>17/18 Actual</u>	<u>Monthly Budget Variance</u>	<u>Actual to Actual % Change</u>
July	958,254	857,071	806,534	940,774	960,503	857,599	709,164	817,152	820,881	841,088	2.46%	2.93%
August	1,524,804	1,505,682	1,373,824	1,552,514	1,483,888	1,387,986	1,141,147	1,312,021	1,322,457	1,396,443	5.59%	6.43%
September	1,016,214	1,005,679	947,293	1,016,379	977,353	859,553	773,020	844,640	854,244	882,952	3.36%	4.54%
October	1,374,363	1,431,554	1,326,605	1,377,982	1,400,285	1,209,902	1,125,237	1,205,260	1,221,597	1,367,665	11.96%	13.47%
November	687,783	709,313	690,404	691,037	840,947	633,520	649,016	583,819	644,407	742,758	15.26%	27.22%
December	825,217	777,015	865,208	832,615	1,059,733	864,257	842,995	716,927	835,634	833,949	-0.20%	16.32%
January	491,259	466,489	522,634	437,843	584,601	463,934	431,637	396,528	445,197			
February	698,386	707,803	809,417	731,899	869,459	719,107	631,478	606,381	673,617			
March	394,481	417,369	469,932	458,940	453,943	456,655	362,406	368,448	407,977			
April	707,372	714,398	730,127	878,103	708,756	832,060	639,191	598,740	709,999			
May	528,781	575,547	551,643	721,094	569,555	600,821	464,956	475,565	529,241			
June	<u>1,044,386</u>	<u>1,118,447</u>	<u>1,215,077</u>	<u>1,377,068</u>	<u>1,150,742</u>	<u>1,020,910</u>	<u>1,079,197</u>	<u>1,052,513</u>	<u>1,090,071</u>			
<b>TOTAL</b>	<b><u>10,251,300</u></b>	<b><u>10,286,367</u></b>	<b><u>10,308,698</u></b>	<b><u>11,016,248</u></b>	<b><u>11,059,765</u></b>	<b><u>9,906,304</u></b>	<b><u>8,849,444</u></b>	<b><u>8,977,994</u></b>	<b><u>9,555,322</u></b>	<b><u>6,064,855</u></b>		
			<b>Budget-to-Actual Basis</b>		<b><u>6.42%</u></b>							
			<b>Actual-to-Actual Basis</b>		<b><u>10.68%</u></b>							
			<b>% of total budget</b>		<b><u>63.47%</u></b>							

**Marin Municipal Water District**  
**Budget to Actual Comparison for 2017/18 - All Funds**  
**Actual as of December 31, 2017**  
**Unaudited**

Revenues and Expenditures	2017/18 Ajusted Budget	Actual as of December 31, 2017	% of Budget
<b>Revenues:</b>			
<i>Water Sales and Service Charge:</i>			
Water Sales	\$ 52,214,248	\$ 34,336,958	65.8%
Service Charge	17,912,475	8,979,924	50.1%
Watershed Management Fee	4,235,621	2,090,727	49.4%
Total Water Sales and Service Charge	<u>74,362,344</u>	<u>45,407,610</u>	61.1%
<i>Other Revenues:</i>			
Rents and Royalties	700,000	316,296	45.2%
Grants	250,000	114,835	45.9%
Watershed Rents and Royalties	910,000	461,056	50.7%
Watershed Payments	400,000	148,012	37.0%
Late Payment and Special Read Charges	360,000	182,559	50.7%
Interest	250,000	450,341	180.1%
Miscellaneous	697,000	174,744	25.1%
Total Other Revenues	<u>3,567,000</u>	<u>1,847,843</u>	51.8%
<b>Total Operating Revenues</b>	<u>77,929,344</u>	<u>47,255,452</u>	<b>60.6%</b>
<b>Expenditures:</b>			
Personnel services	41,827,074	24,269,134	58.0%
Materials and supplies	2,402,899	1,117,258	46.5%
Operations	6,316,462	1,849,331	29.3%
Water conservation rebate program	499,500	66,999	13.4%
Electrical power	3,868,063	2,134,311	55.2%
Water purchased	6,363,399	3,247,093	51.0%
Insurance, including claims	1,250,000	892,689	71.4%
General and administrative	3,198,009	1,867,948	58.4%
Debt service - interest and principal	9,421,976	5,113,845	54.3%
Overhead cost allocated to capital	<u>(3,327,320)</u>	<u>(832,268)</u>	25.0%
<b>Total Expenditures and Capital Purchases</b>	<u>71,820,062</u>	<u>39,726,338</u>	<b>55.3%</b>
<b>Net Operating Fund Increase(Decrease)</b>	<u>\$ 6,109,282</u>	<u>\$ 7,529,114</u>	
<b>Operating Reserves</b>			
<b>Opening Reserves</b>	\$ 20,077,803	\$ 20,077,803	
Net Operating Fund Increase(Decrease)	6,109,282	7,529,114	
Less Transfer to Capital - PayGo		(6,000,000)	
Less Transfer to Capital	-	(250,000)	
Accrual adjustments	-	144,823	
<b>Ending Reserves</b>	<u>\$ 26,187,085</u>	<u>\$ 21,501,740</u>	

## Capital and Fire Flow Funds

Revenues and Expenditures	2017/18 Ajusted Budget	Actual as of December 31, 2017	% of Budget
<b>Revenues:</b>			
Connection Charges	\$ 1,865,000	\$ 384,622	20.6%
Interest Income	15,000	1,663	11.1%
<b>Contributed Capital:</b>			
Fire Flow	4,500,000	2,504,279	55.7%
Connection Fees and Grants	3,166,000	190,778	6.0%
<b>Total Revenues and Contributed Capital</b>	<u>9,546,000</u>	<u>3,081,342</u>	32.3%
<b>Capital Expenditures:</b>			
Capital Projects - District	27,671,000	9,851,459	35.6%
Capital Projects - Fire Flow	4,500,000	1,247,888	27.7%
Capital equipment purchases	2,200,000	568,589	25.8%
<b>Total Capital and Fire Flow Expenditures</b>	<u>34,371,000</u>	<u>11,667,936</u>	33.9%
<b>Net Capital and Fire Flow Fund Increase(Decrease)</b>	<u>\$ (24,825,000)</u>	<u>\$ (8,586,594)</u>	34.6%
<b>Capital Reserves</b>			
<b>Capital Fund</b>			
<b>Opening Reserves</b>	\$ 1,610,857	\$ 1,610,857	
Net Capital Fund Increase(Decrease)	(22,640,000)	(9,276,059)	
Capital equipment purchases charged from Operating Fund		(568,589)	
Proceeds from 2017 Bond Issuance	42,000,000	42,000,000	
Accrual adjustments	-	2,635,101	
Add Transfer from Operating	-	250,000	
Add Transfer from Operating - PayGo	-	6,000,000	
<b>Ending Reserves</b>	<u>\$ 20,970,857</u>	<u>\$ 42,651,310</u>	
<b>Fire Flow Fund</b>			
<b>Opening Reserves</b>	\$ 426,571	\$ 426,571	
Net Fire Flow Fund Increase(Decrease)	2,315,000	1,256,391	
Accrual adjustments	-	2,590	
<b>Ending Reserves</b>	<u>\$ 2,741,571</u>	<u>\$ 1,685,552</u>	

## Reserve Balance Summary

	Actual			Projected
	6/30/2015	6/30/2016	6/30/2017	12/31/2017
Restricted	\$ 9,501,989	\$ 9,327,468	\$ 7,723,634	\$ 3,355,734
Board Designated	11,491,220	9,441,758	9,847,168	9,847,168
Watershed Fund	-		35,425	114,618
Rate Stabilization Fund	5,900,000	5,700,000	8,000,000	8,000,000
Fire Flow Fund	1,939,529	656,839	426,571	1,685,552
Capital (including bond proceeds)	30,044,160	18,974,590	1,610,857	42,651,310
<b>Unrestricted/undesignated -</b>	<b>19,959,569</b>	<b>16,947,253</b>	<b>20,077,803</b>	<b>21,501,740</b>
<b>Operating</b>				
<b>Total</b>	<b><u>\$ 78,836,467</u></b>	<b><u>\$ 61,047,907</u></b>	<b><u>\$ 47,721,458</u></b>	<b><u>\$ 87,156,122</u></b>
<b>Months Reserve Urestricted -</b>				
<b>Operating to Annualized Actual</b>	<b>3.93</b>	<b>3.34</b>	<b>4.09</b>	<b>3.59</b>
<b>Expenditure</b>				
<b>Debt Coverage Ratio</b>	<b>1.28</b>	<b>1.25</b>	<b>1.50</b>	<b>1.75</b>

**Marin Municipal Water District  
Watershed & Other Non Rate Based Revenue and Expenditures  
Actual as of December 31, 2017  
Unaudited**

<b>Revenues and Expenditures</b>	<b>2017/18 Budget</b>	<b>Actual as of December 31,</b>	<b>% of Budget</b>
<b>Watershed Revenues</b>			
Watershed Management Fee	\$ 4,235,621	\$ 2,090,774	49.4%
Rent and Leases	910,000	461,056	50.7%
Permits, Parking and Passes	400,000	139,374	34.8%
Grants	-	-	
Other	-	5,403	
<b>Total Watershed Revenues</b>	<u>5,545,621</u>	<u>2,696,607</u>	48.6%
<b>Expenditures - Operating and Capital</b>			
Operating	5,996,709	2,595,312	43.3%
Capital equipment purchases	<u>147,947</u>	<u>22,102</u>	14.9%
<b>Total Expenditures and Capital Purchases</b>	<u>6,144,656</u>	<u>2,617,414</u>	42.6%
<b>Surplus (Deficit)</b>	<b>(599,035)</b>	<b>79,194</b>	-13.2%
Transfer from Operating Fund	<u>599,035</u>	<u>-</u>	
<b>Net Surplus (Deficit)</b>	<u>\$ -</u>	<u>\$ 79,194</u>	
<b>Other Non-Water Revenue</b>			
Rent and Leases - Non Watershed		<u>316,296</u>	
<b>Total Non Rate Based Other Revenues</b>		<u>316,296</u>	
<b>Discount Program for Low Income &amp; Medically Disabled</b>			
Low Income - Fee waived		113,052	
Medically Disabled - Fee waived		<u>52,701</u>	
		<u>165,753</u>	
<b>Net Surplus (Deficit)</b>		<u>150,543</u>	

**Marin Municipal Water District  
Budget to Actual Comparison for 2017/18 - Capital Fund  
Actual as of December 31, 2017  
Unaudited**

<b>CIP Projects</b>	<b>FY2017/18 Adopted Budget</b>	<b>Capital Projects YTD Actual Expenditures As of 12/31/17</b>
<b>District Pipeline Replacement / Improvement</b>	<b>\$ 6,800,000</b>	<b>\$ 3,069,943</b>
<b>Replacements - Tank Maintenance &amp; Replacement</b>	<b>\$ 2,400,000</b>	<b>\$ 527,340</b>
<b>Replacements - Treatment Plant Facilities</b>	<b>\$ 3,930,000</b>	<b>\$ 2,316,740</b>
<b>Replacements - Dam/Pump/Control System/Meters</b>	<b>\$ 4,300,000</b>	<b>\$ 1,369,868</b>
<b>Fire Chief's Fund</b>	<b>\$ 150,000</b>	<b>\$ -</b>
<b>System Improvements</b>	<b>\$ 1,545,000</b>	<b>\$ 42,245</b>
<b>Watershed Capital Improvement Projects</b>	<b>\$ 4,310,000</b>	<b>\$ 801,777</b>
<b>Grant Projects</b>	<b>\$ 3,941,000</b>	<b>\$ 1,359,069</b>
<b>Subdivision Projects</b>	<b>1,550,000</b>	<b>\$ 19,473</b>
<b>Other CIP Projects</b>	<b>\$ 940,000</b>	<b>\$ 345,004</b>
<b>Fire Flow Replacement</b>	<b>\$ 4,500,000</b>	<b>\$ 1,247,888</b>
<b>Total Capital Projects</b>	<b>\$ 34,366,000</b>	<b>\$ 11,099,347</b>



**STAFF REPORT**

**SUBJECT:** Annual Review of Investment Policy No. 33

**SUBMITTED BY:** Charles Duggan Jr., Administrative Services Division Manager/Treasurer  
Administrative Services Division

**RECOMMENDED ACTION:** Approve and Adopt Board Policy No. 33

**EXECUTIVE SUMMARY:** Investment Policy No. 33 is updated periodically to conform to the California government codes, §53601 through §53609. Staff reviewed the codes and made only administrative changes to the delegation of authority to reflect the organizational changes. Staff requests that the Board review and approve the investment policy of the District. Attached is Board Policy #33 - Investment Policy, and changes are underlined.

**FISCAL IMPACT:** YES ..... **No**  ..... **FISCAL YEAR:** 2017/18 .....

**FISCAL IMPACT NARRATIVE:** No fiscal impact.

**BACKGROUND:** The District’s investment policy does not eliminate all risk, but it strives to reduce the overall risk exposure. The investment policy defines allowable investments by type of security, type of issuer, dollar amount, overall percentage of portfolio and maturity. We practice a buy and hold” strategy of investing and generally do not sell securities prior to maturity. Situations where we would sell prior to maturity are: 1) to meet current cash flow needs; 2) if an opportunity to swap from one investment to another does not impede our current cash flow needs and enhances our overall investments and 3) to minimize losses due to a downgrade of a security below investment grade (Ba1 or BB+ rating or lower).

Staff periodically review the California Government Codes, §53601 through §53609 and update the District’s Investment Policy accordingly. Staff made administrative changes to the policy to reflect the organizational changes in Administrative Services Division. Staff is requesting the Board approve these changes in the District’s Investment Policy. Attached is Board Policy #33 - Investment Policy and the changes are underline.

**STRATEGIC PLAN ALIGNMENT:** The requested action aligns with the district’s Strategic Plan Goal 2 (Financial Stewardship – We will prudently manage the public resources entrusted to us), Strategy 1 (Ensure financial planning is sufficient to address MMWD needs and risks) and Objective 1 (Develop a long range finance plan to support the strategic review, including potential new sources of revenue and policies related to debt financing, investment, reserves

and other post-employment benefit fund).

<b>REVIEWED BY:</b>	Finance Manager	[ X ]	NA [ ]
	General Counsel	[ X ]	NA [ ]
	General Manager	[ X ]	NA [ ]

**ATTACHMENTS:**

1. Board Policy No. 33 Investment Policy





# MARIN MUNICIPAL WATER DISTRICT

## BOARD POLICY No. 33

**DATE:** Reviewed 1-7-09  
Reviewed 1-6-10  
Revised 1-5-11  
Revised 1-5-12  
Revised 1-23-13  
Revised 2-7-17  
Reviewed 1-25-18

### **SUBJECT: INVESTMENT POLICY**

#### **I. Introduction**

The purpose of this document is to identify various policies and procedures that enhance opportunities for a prudent and systematic investment policy and to organize and formalize investment-related activities.

The investment policies and practices of the Marin Municipal Water District ("District") are based on State law and prudent money management. All funds will be invested in accordance with the District's Investment Policy and the authority governing investments for local agencies as set forth in the California Government Code, §53601 through §53659.

#### **II. Scope**

It is intended that this policy cover all funds and investment activities of the District, except investments governed by employment retirement funds and bond documents. The provisions of relevant bond documents will restrict the investment of bond proceeds.

#### **III. 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 standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. All persons investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds shall act with care, skill, prudence and diligence under the circumstances then prevailing 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 District.

#### IV. Objectives

The primary objectives, in priority order, of the District's investment activities shall be:

1. **Safety.** Safety of principal is the foremost objective of the investment program. The District's investments shall be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio. The District shall seek to preserve principal by mitigating the two types of risk: credit risk and market risk.
2. **Liquidity.** The District's investment portfolio will remain sufficiently liquid to enable the District to meet its cash flow requirements.
3. **Return on Investment.** The District's investment portfolio shall be designed with the objective of attaining a market rate of return on its investments consistent with the constraints imposed by its safety objective and cash flow considerations.
4. **Public Trust.** All participants in the investment process shall act as custodians of the public trust. Investment officials shall recognize that the investment portfolio is subject to public review and evaluation. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust.

It is the District's intent at time of purchase, to hold all investments until maturity to ensure the return of all invested principal dollars.

#### V. Delegation of Authority

The management and oversight responsibility for the investment program is hereby delegated to the ASD (Administrative Services Division) Manager/Treasurer who shall monitor and review all investments for consistency with this investment policy. This delegation of authority shall remain in place until revoked by the Board of Directors. The ASD Manager/Treasurer may delegate the day-to-day operations of investing to his/her designee(s), but not the responsibility for the overall investment program. No person may engage in an investment transaction except as provided under the limits of this policy.

#### VI. Ethics and Conflict of Interest

Officers and employees involved in the investment process shall refrain from personal business activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial decisions.

## **VII. Selection of Financial Institutions and Broker/Dealers**

The ASD Manager/Treasurer shall maintain a list of authorized broker/dealers and financial institutions which are approved for investment purposes in the State of California, and who have proof of National Association of Security Dealers certification. It shall be the policy of the District to purchase securities only from authorized institutions or firms. All authorized firms must also provide certification that they have received and read the District's Investment Policy.

## **VIII. Permitted Investment Instruments**

1. Direct obligations for which the full faith and credit of the United States Government is pledged for the payment of principal and interest.
2. Obligations issued by Agencies or Instrumentalities of the United States Government.
3. Repurchase Agreements used solely as short-term investments not to exceed 90 days.
  - a. The following collateral restrictions will be observed: Only United States Treasury securities or Federal Agency securities will be acceptable collateral. All securities underlying Repurchase Agreements must be delivered to the District's custodian bank vs. payment. The market value of securities that underlay a Repurchase Agreement shall be valued at 102 percent or greater of the funds borrowed against those securities and the value shall be reviewed on a regular basis and adjusted no less than quarterly. Collateral shall not include strips, zero-coupon instruments or instruments with maturities in excess of five years. The right of substitution will be granted, provided that permissible collateral is maintained.
4. Banker's Acceptances issued by domestic or foreign banks, which are eligible for purchase by the Federal Reserve System, the short-term paper of which is rated in the highest category by Moody's Investors Services or by Standard & Poor's Corporation.
  - a. Purchases of Banker's Acceptances may not exceed 180 days maturity or 40 percent of the District's surplus money. However, no more than 30% or \$2,000,000 of the District's surplus funds, whichever is less, may be invested in the Banker's Acceptance of any one commercial bank.

5. Commercial paper issued by an entity meeting the following conditions in Option 1 or Option 2 below:

**Option 1:**

1. Is organized and operating in the United States as a general corporation and has total assets in excess of \$500 million.
2. Has debt other than commercial paper, if any, that is rated “A” or higher by a nationally recognized rating agency.

**Option 2:**

1. Is organized within the United States as a special purpose corporation, trust or limited liability company.
  2. Has program-wide credit enhancements including, but not limited to, over-collateralization, letters of credit or surety bond.
  3. Has commercial paper that is rated “A-1” or higher by a nationally recognized rating agency.
- a. Purchases of eligible commercial paper may not exceed 270 days to maturity nor represent more than 10 percent or \$1,000,000 from an issuing corporation, whichever is less.
  - b. Purchases of commercial paper may not exceed 15 percent of the District's surplus money that may be invested.
6. Medium term corporate notes issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Medium term corporate notes shall, at the time the note is purchased, be rated as follows:
- |                   |   |
|-------------------|---|
| a. 1 year or less | A rating by two major rating agencies         |
| 1 - 2 years       | AA rating by at least one major rating agency |
| 2 - 4 years       | AA rating by two major rating agencies        |
| 4 - 5 years       | AAA rating by two major rating agencies       |
- b. Investments will be limited to a maximum of 30 percent of the District's portfolio.

7. Federal Deposit Insurance Company (FDIC) insured or fully collateralized time certificates of deposit in financial institutions located in California, including United States branches of foreign banks licensed to do business in California. The maximum maturity of a time deposit shall not exceed 180 days. All time deposits must be collateralized in accordance with California Government Code §53651 and §53652, either at 150 percent by promissory notes secured by first mortgages and first trust deeds upon improved residential property in California eligible under Section 53651(m) or 110 percent by eligible marketable securities listed in subsections (a) through (l), (n) and (o) of §53651, or 105% of letters of credit issued by the Federal Home Loan Bank of San Francisco per subsection (p) of §53651.
8. Negotiable certificates of deposit or deposit notes issued by a nationally or State chartered bank or a State or Federal savings and loan association or by a Federally licensed or State licensed branch of a foreign bank; provided that the senior debt obligations of the issuing institution are rated "AA" or better by Moody's or Standard & Poor's.
  - a. Purchase of negotiable certificates of deposit may not exceed 20 percent of the District's surplus money.
9. State of California's Local Agency Investment Fund. Investment in LAIF may not exceed \$65 million per account.
10. Shares of beneficial interest issued by diversified management companies (Money Market Mutual Funds) investing in the securities and obligations authorized by sections (a) through (l) of California Government Code §53601. To be eligible for investment pursuant to this subdivision these companies shall either: (1) attain the highest ranking letter or numerical rating provided by not less than two of the three largest nationally recognized rating services; or (2) have an investment advisor registered with the Securities and Exchange Commission with not less than five years experience investing in securities and obligations authorized by California Government Code §53601 and with assets under management in excess of \$500,000,000.
  - b. The purchase price of shares shall not exceed 10 percent of the District's surplus money and no more than 10 percent invested in shares of any one mutual fund.
11. Registered state warrants or treasury notes or bonds of California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled or operated by the state or by a department, board, agency, or authority of California.

12. Bonds, notes or warrants or other evidences of indebtedness of a local agency within the state of California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled or operated by the by the local agency, or by a department, board, agency, or authority of the local agency of California.

The following summary of maximum percentage limits, by instrument, are established for the District's total investment portfolio:

<u>Investment Type</u>	<u>Percentage</u>
Repurchase Agreements.....	0 to 10%
Local Agency Investment Fund .....	\$50,000,000 per account
U.S. Treasury Bonds/Notes/Bills .....	0 to 100%
U.S. Government Agency Obligations.....	0 to 100%
Banker's Acceptances .....	0 to 40%
Commercial Paper.....	0 to 15%
Negotiable Certificates of Deposit .....	0 to 20%
Time Certificates of Deposit .....	0 to 20%
Medium Term Corporate Notes.....	0 to 30%
Registered State Warrants or Local Agency Indebtedness .....	0 to 20%

**IX. Safekeeping of Securities and Internal Controls**

To protect against fraud, embezzlement or losses caused by collapse of an individual securities dealer, all securities owned by the District shall be held by an independent third party safekeeping institution, acting as agent for the District under the terms of a custody agreement or PSA agreement (repurchase agreement collateral). All trades executed by a dealer will settle on a delivery vs. payment ("DVP") basis to ensure that securities are deposited in the District safekeeping institution prior to the release of funds.

The safekeeping institution shall annually provide a copy of its most recent report on internal controls – Service Organization Control Reports (formerly 70, or SAS 70) prepared in accordance with the Statement on Standards for Attestation Engagements (SSAE) No. 16 (effective June 15, 2011).

Securities held in custody for the District shall be monitored by the ASD Manager/Treasurer to verify investment holdings.

Management shall establish a system of internal controls, which shall be documented in writing and reviewed with the independent auditor. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the District.

**X. Maximum Maturity**

Investment maturities shall be based on a review of cash flow forecasts. Maturities will be scheduled to permit the District to meet all projected obligations.

The maximum maturity will not exceed five years.

**XI. Ineligible Investments**

Security types which are prohibited include, but are not limited to:

- (a) "Complex" derivative structures such as range notes, dual index notes, inverse floaters, leveraged or de-leveraged floating rate notes, or any other complex variable rate or structured note.
- (b) Interest only strips that are derived from a pool of mortgages, or any security that could result in zero interest accrual if held to maturity.
- (c) Reverse Repurchase Agreements.

**XII. Portfolio Adjustments**

Portfolio percentage limitations for each investment category are applicable only at the date of purchase. Should an investment percentage limitation be exceeded due to an incident such as a fluctuation in portfolio size, the ASD Manager/Treasurer is not required to sell the affected securities.

Should a security held in the portfolio be downgraded below the minimum criteria included in this Investment Policy, a determination will be made by the ASD Manager/Treasurer whether to sell the investment. Any sale of an investment due to a downgrade will be done in a manner to minimize losses on sale of such

If a security is downgraded to a level that is less than investment grade (rating less than Ba1 or BB+), the ASD Manager/Treasurer shall sell such affected security immediately. If the immediate liquidation of the security is not in the best interest of the District, the ASD Manager/Treasurer, in consultation with an ad hoc committee made up of the General Manager and the Finance Committee President, may dispose of the security in an orderly and prudent manner considering the circumstances, under terms and conditions approved by the ad hoc committee.

The description and amounts of any securities downgraded below the District investment criteria are to be included in the monthly investment report.

### **XIII. Reporting Requirements**

The ASD Manager/Treasurer shall render to the District Board a monthly investment report which shall include, at a minimum the following information for each individual investment:

Type of investment instrument (i.e., Treasury Bill, medium term note)

- Issuer name (i.e., General Electric)
- Purchase date (settlement date)
- Maturity date
- Par value
- Purchase price
- Current market value and the source of the valuation (quarterly)
- Overall portfolio yield based on cost

The monthly report also shall (i) state compliance of the portfolio to the statement of investment policy, or manner in which the portfolio is not in compliance, (ii) include a description of any of the District's funds, investments or programs that are under the management of contracted parties, including lending programs, (iii) description of investments downgraded below the District's investment criteria or below investment grade and hold or sell status and (iv) include a statement denoting the ability of the District to meet its expenditure requirements for the next six months, or provide an explanation as to why sufficient money shall, or may, not be available.

This monthly report shall be submitted within 30 days following the end of the month.

The ASD Manager/Treasurer shall annually render to the Board a statement of investment policy, which the Board shall consider at a public meeting.



## GLOSSARY OF TERMS

**Bankers Acceptances.** Are negotiable time drafts or bills of exchange drawn on and accepted by a commercial bank. Acceptance of the draft obligates the bank to pay the bearer the face amount of the draft at maturity. In addition to the guarantee by the accepting bank, the transaction is identified with a specific commodity. The sale of the underlying goods will generate the funds necessary to liquidate the indebtedness. Banker's Acceptances are usually created to finance the import and export of goods, the shipment of goods within the United States and the storage of readily marketable staple commodities. Banker's Acceptances are sold at a discount from par and the amount and maturity date are fixed. Bankers Acceptances have the backing of both the bank and the pledged commodities with no known principal loss in over 70 years. State law permits agencies to invest 40 percent of a portfolio and 30 percent with a single issuer in Bankers' Acceptances with a maximum maturity of 180 days.

**Certificate of Deposit.** A deposit insured up to \$250,000 by the FDIC, or collateralized at a minimum of 110 percent by the financial institution if over \$250,000, at a set rate for a specified period of time.

**Collateral.** Securities, evidence of deposit or pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposit of public moneys.

**Corporate Medium Term Notes.** Are unsecured promissory notes issued by corporations operating within the United States. The notes are in the one-to-five year maturity range. Notes must have at least an "A" rating by a nationally recognized rating service. State law permits agencies to invest 30 percent of the total portfolio and 10 percent with a single issuer in corporate medium term notes with a maximum maturity of 5 years.

**Commercial Paper.** Is an unsecured promissory note of industrial corporations, utilities and bank holding companies having assets in excess of \$500 million and an "A" or higher rating for the issuer's debentures. Interest is discounted from par and calculated using the actual number of days on a 360-day year. The notes are in bearer form, mature from one to 180 days and generally start at \$100,000. There is a secondary market for commercial paper and an investor may sell them prior to maturity. Commercial paper is backed by unused lines of credit from major banks. State Code permits agencies to invest 25 percent and 10 percent with a single issuer in commercial paper with a maximum maturity of 270 days.

**Credit Risk.** Defined, as the risk of loss due to failure of the issuer of a security shall be mitigated by investing in investment grade securities and by diversifying the investment portfolio so that the failure of any one issuer does not unduly harm the District's capital base and cash flow.

**Current Yield.** The interest paid on an investment expressed as a percentage of the current price of the security.

**Custody.** A banking service that provides safekeeping for the individual securities in a customer's investment portfolio under a written agreement which also calls for the bank to collect and pay out income, to buy, sell, receive and deliver securities when ordered to do so by the principal.

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

**Fannie Mae.** Trade name for the Federal National Mortgage Association (FNMA), a United States sponsored corporation.

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

**Federal Deposit Insurance Corporation (FDIC).** Insurance provided to customers of a subscribing bank that guarantees deposits to a set limit (currently \$250,000) per account.

**Freddie Mac.** Trade name for the Federal Home Loan Mortgage Corporation (FHLMC), a United States sponsored corporation.

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

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

**Liquidity.** Refers to the ability to rapidly convert an investment into cash.

**Local Agency Investment Fund (LAIF) Demand Deposit.** Established by the State to enable financial managers to place idle funds in a pool for investment. Each agency is currently limited by LAIF to an investment of \$50 million plus any bond proceeds.

**Market Risk.** Defined as market value fluctuations due to overall changes in the general level of interest rates, shall be mitigated by limiting the maximum maturity of any one security to five years, structuring the portfolio based on historic and current cash flow analysis eliminating the need to sell securities prior to maturity and avoiding the purchase of long-term securities for the sole purpose of short-term speculation.

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

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

**Portfolio.** Collection of securities held by an investor.

**Purchase Date.** The date in which a security is purchased for settlement on that or a later date.

**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 or the current income return.

**Repurchase Agreement (REPO).** Contractual arrangement between a financial institution or dealer and an investor. The investor puts up their funds for a certain number of days at a stated yield. In return, they take title to a given block of securities as collateral. At maturity, the securities are repurchased and the funds are repaid with interest.

**Reverse Repurchase Agreement (Reverse REPO).** A transaction where the seller (District) agrees to buy back from the buyer (bank) the securities at an agreed upon price after a stated period of time.

**Sallie Mae.** Trade name for the Student Loan Marketing Association (SLMA), a United States sponsored corporation.

**Treasury Bills (T-Bills).** United States Treasury Bills which are short-term, direct obligations of the United States Government issued with original maturities of 13 weeks, 26 weeks and 52 weeks; sold in minimum amounts of \$10,000 in multiples of \$5,000 above the minimum. Issued in book entry form only. T-bills are sold on a discount basis.

**United States Government Agencies.** Instruments issued by various United States Government Agencies most of which are secured only by the credit worthiness of the particular agency.