



# MARIN MUNICIPAL WATER DISTRICT

Posting Date: March 8, 2019

220 Nellen Avenue Corte Madera CA 94925-1169  
www.marinwater.org

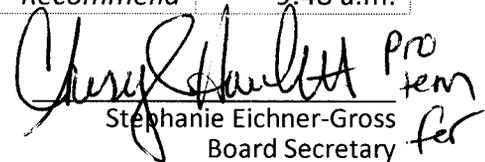
## NOTICE OF SPECIAL MEETING BOARD OF DIRECTORS/FINANCE COMMITTEE\*

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:** Wednesday, March 13, 2019  
**TIME:** 9:30 a.m.  
**LOCATION:** 1) MMWD Board Room, 220 Nellen Ave., Corte Madera, CA 9492  
 \*\* 2) Sierra Nevada Research Institute, UC Merced 4200 N. Lake Rd., Science & Eng. 1, Rm. 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 February 28, 2019 Meeting	Approve	9:37 a.m.
2. Annual Review of Investment Policy No. 33	Information	9:38 a.m.
3. Insurance Broker Compensation Agreement	Recommend	9:48 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 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

**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.*

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.

\* \* \* \* \*

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

Thursday, April 25, 2019, 9:30 a.m.	MMWD Board Room
Thursday, May 23, 2019, 9:30 a.m.	MMWD Board Room



**MARIN MUNICIPAL  
WATER DISTRICT**

**ITEM No.** 1  
**MEETING DATE:** March 13, 2019  
**MEETING:** Board of Directors /  
Finance Committee

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**STAFF REPORT**

**SUBJECT:** Minutes of February 28, 2019 Finance Committee Meeting

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

**RECOMMENDED ACTION:** Approve

**ATTACHMENT:**

1. Minutes of February 28, 2019 Finance Committee Meeting

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

**IN ATTENDANCE:**

**Directors present:** Cynthia Koehler, Jack Gibson, Larry Bragman, Larry Russell, and Armando Quintero (via teleconference)

**Directors absent:** None

**CALL TO ORDER:** Director Koehler called the meeting to order at 9:32 a.m.

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

**PUBLIC EXPRESSION:**

Priscilla Bull spoke about a Marin IJ article alleging MMWD violation of the Brown Act and requested that recordings of meeting be made available to the public.

Larry Minikes spoke about communication and noticing to the public and a need for cameras at meetings.

Mimi Willard supported comments of last speakers concerning public notification and video recordings with closed captioning.

Director Koehler asked Legal Counsel, Mary Casey, if she wanted to respond to the serious accusation of violating the Brown Act. Mary advised that her review showed that the Communications Meeting notice was posted on February 15<sup>th</sup> at 2:50 p.m. for a February 20<sup>th</sup> meeting, and the staff report that was posted indicated that we would be discussing a Draft Prop 218 notice. The Prop 218 notice was not in the packet at the time, but was made available at the meeting. So in terms of posting notice for the Communications meeting of February 20<sup>th</sup>, MMWD was in compliance with the Brown Act.

Paul Premo wanted it noted for the record that he was given a copy of the Draft Prop 218 notice at the end of the Communications Committee meeting on February 20<sup>th</sup> and not prior to.

Director Koehler responded that we should agendize the item, so that a free and open conversation could be had about the subject.

**ITEM 1.** Minutes of the January 24, 2019 meeting were approved.

**ITEM 2. Monthly Financial Update**

The Administrative Services Division Manager/Treasurer (ASDM), Charlie Duggan, presented the financial summary for the month ending January 31, 2019, water revenue was at 66.4% of budget and all other operating revenue was at 62.7% of budget, for total operating revenue of 66.2%. Capital revenue was 22.6%, fire flow revenue was 55.7 %, with the total of all revenue collected being 61% of budget.

Fiscal year to date, actual operating expenses total 57.4% of budget. Total operating and capital expenses combined were 49.5% of the total FY 2019 budgeted expenses.

The total unrestricted reserves were \$28.1M, which is 4.4 months of operating budget. There is currently \$24.6M in the capital reserve fund.

Director Bragman asked if the Watershed Fund had a surplus of \$379,025. Charlie confirmed, and advised that \$114,000 of the \$379,025 was a carryover from the prior year. The \$379,025 is non-water rate revenue collected from rents, leases, parking passes, etc..., and is used to offset low-income and medically disabled discount programs as reflected in the staff report on page 9.

**ITEM 3. Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ending June 30, 2018**

The Administrative Services Division Manager/Treasurer (ASDM), Charlie Duggan advised that the CAFR is the audit of MMWD financials for fiscal year 2018 (through the end of June 30, 2018) and that the auditors gave us an unqualified opinion, which means there is nothing material to report and that our financial records are being presented fairly and accurately. MMWD has received a certificate of excellence in financial reporting from GFOA since FY2014 and will be submitting the CAFR for FY2018 for an award also.

**ITEM 4. DRAFT 2019 Updated COSA and DRAFT Prop 218 Notice**

The Administrative Services Division Manager/Treasurer (ASDM), Charlie Duggan, reviewed items and question from the board regarding the Updated COSA and FY2020 & FY2021 Operating & Capital Budget from previous committee and board meetings. One of the items was a requested breakdown of the fringe benefit costs in the budget, which includes CalPERS, Other Post-Employment Benefits (OPEB), Healthcare, Payroll Taxes, Worker's Compensation Premium, Unemployment, Life & Disability Insurance and minimal Miscellaneous other expenses (uniforms, safety shoes, etc...).

The directors also asked for clarification on the annual Vegetation & Wildlife and Watershed Maintenance budget reductions, which due to new accounting rules, are actually a reallocation of costs from the operating budget to the capital budget for maintenance and an overall increase to the programs from the current fiscal year. However, there is reduction for temporary/seasonal help of 2 positions, totaling \$25,000. A discussion and public comments ensued.

Discount and the proposed Super Saver programs were reviewed.

A brief overview of the increasing costs to manage the utility and the watershed were discussed and impacts of those increasing costs in developing rates and fees, which were reiterated. When developing the FY2020 & FY2021 Operating and Capital Budget considerations were given to cost increases outside of our control, vegetation & watershed programs, infrastructure maintenance and revenue sufficiency to deliver safe reliable water at a reasonable cost. With costs rising the current revenues would not support these operations. The updated COSA was discussed in terms of developing a financial and revenue plan to support district operations and programs. A presentation of current and proposed rates and fees was made. A typical single family residential customer with a 5/8" meter using the average of 17ccfs per bi-monthly billing would see a cost increase \$5.42 bi-monthly or \$2.71 per month. When the proposed Capital Maintenance Fee (CMF) is added in at an annual cost of \$163.50 per year (for 5/8" meter), the monthly cost increase, including water usage, service and watershed fee is \$16.33 per household. Comparisons were made with other water agencies for capital improvement

**\*\* DRAFT \*\*** MINUTES OF FEBRUARY 28, 2019 MMWD BOARD FINANCE COMMITTEE MEETING  
costs and water rates and services. A historical rate comparison was also displayed showing water rates from 1990 to present and what they would be if they were raised annually by Bay Area CPI and AWWA National Rates. A discussion ensued pertaining to rising costs for chemicals, water purchases and other uncontrollable expenses.

A newly revised draft Prop 218 notice was discussed and further changes to the design and content were suggested. The General Manager, Ben Horenstein, advised that changes would be made and another revision of the Prop 218 notice would be brought back to the board meeting on March 5<sup>th</sup> for authorizing the mailing.

Several members from the community spoke with regard to the Prop 218 notice, the rate structure and revenue, and timing of the notice. Attached to the minutes is a statement read by Katherine Wing. The recording of this meeting was made available to members of the community upon request.

### **ADJOURNMENT**

There being no further business, the meeting of February 28, 2019 adjourned at 11:32 a.m.

*Katherine Wing*

Comments of Katherine Wing on behalf of the Marin Chapter of the California Native Plant Society

MMWD Finance Committee Meeting February 28, 2019

Good morning. I am Katherine Wing, a resident of Kentfield, speaking on behalf of the Marin Chapter of the California Native Plant Society.

We recognize the challenges the board faces in balancing the operating budget, while providing for capital needs and debt service.

1. We strongly support maintaining the number of permanent Watershed staff at 2018 levels and fully funding watershed stewardship. Enforcement of the district's watershed regulations by rangers and sheriffs is essential for ensuring water quality. In addition, protection is much less expensive than restoration of damage to botanical and wildlife resources caused by underfunding the watershed division.
2. It is vitally important to approve the BFFIP (Biodiversity Fire and Fuels Integrated Plan) and to meet each annual spending targets for BFFIP. Failure to meet targets for vegetation management will worsen the spread of invasive plants on watershed lands, put public safety in jeopardy, and expose the district to liability. Reaching the target by 2030 would be too little too late. The least expensive way to accomplish this is to continue to employ the existing number of Watershed aides and to fully support MMWD's superb volunteer program.

Thank you for this opportunity to speak.



**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:** Information only

**EXECUTIVE SUMMARY:**  
Staff reviewed the California government codes, §53601 through §53609 and recommends no changes. Attached is Board Policy #33 - Investment Policy for your information.

**FISCAL IMPACT:** YES ..... No X ..... **FISCAL YEAR:** 2018/19 .....

**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 recommends no changes to the policy. Attached is Board Policy #33 - Investment Policy for your information.

**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).

**REVIEWED BY:** Administrative Services Div. Manager [ X] NA [ ]  
General Counsel [ ] NA [X]

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  
Revised 1-25-18  
Reviewed 3-13-19

### **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.

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 .....	\$65,000,000 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.



**STAFF REPORT**

**SUBJECT:** Insurance Broker Compensation Agreement

**SUBMITTED BY:** Charles Duggan Jr., A.S. Division Manager/Treasurer

**RECOMMENDED ACTION:** For review and referral to the board with the Finance Committee’s recommendation for the General Manager to execute, once legal review is complete, the Insurance Brokerage Service Agreement with Alliant Insurance Services Inc. for Fiscal Years 2019/20 through 2021/22 with an option to extend the term for two additional years.

**EXECUTIVE SUMMARY:** The district’s current insurance brokerage agreement with Arthur J. Gallagher & Co. Insurance Brokers of California, Inc. expired on March 2, 2019. On February 8, 2019 the district mailed out request for proposals to 6 (six) insurance brokerage firms and received two proposals; Arthur J. Gallagher & Co. and Alliant Insurance Services. Both firms have reputable qualifications and experiences. However, Alliant Insurance Services’ proposal offered a lower service fee of \$65,000 annually for three years for the same level of services. A savings of approximately \$10,000 per year from the other proposal. Staff recommends that the Board authorize the General Manager to execute a three year agreement for the district’s annual insurance brokerage services with Alliant Insurance Services Inc. once legal review has been completed.

**FISCAL IMPACT:** YES X NO \_\_\_\_\_

**FISCAL YEAR:** 2019/20 – 2021/22

**EXPENDITURES**

Budgeted Amount	\$ 65,000 annually
Budget Augmentation Requested	\$
	\$
	\$
<b>TOTAL EXPENDITURES</b>	<b>\$ 65,000 annually</b>

**FUNDING SOURCES**

Operating Fund	\$ 65,000 annually
Capital Fund	\$
Other	\$
Operating Reserves	\$
<b>TOTAL SOURCES</b>	<b>\$ 65,000 annually</b>

**FISCAL IMPACT NARRATIVE:**

The amount of \$65,000 for each Fiscal Year 2019/20 and 2020/21 is included in the proposed Interdepartmental operating budget under insurance premiums. For fiscal year 2021/22 the amount will be included in the operating budget request in the next budget cycle for 2021/22 and 2022/23.

**BACKGROUND:**

Alliant Insurance Services Inc. (Alliant) is a full service insurance brokerage and risk advisory firm and one of the nation’s leading brokers for public entities with specific experience in the municipal utility sector.

Alliant will act as our risk management advisor, consultant, and insurance broker with respect to the following lines of insurance:

- a. Property
- b. Casualty
- c. Surety
- d. Boiler and Machinery Auto Physical Damage
- e. Excess Public Liability Insurance (EPLI)
- f. Excess Workers Compensation
- g. Crime and Miscellaneous Insurance (Drones and Cyber)

The District will also utilize Alliant’s legal and contract support services to review the district’s insurance requirements and other language on construction, materials and service agreements to minimize risk exposures for the district.

Brokerage fees are set for the three fiscal years from 2019/20 to 2021/22 at \$65,000 and the District will have an option to extend the agreement for two additional years at an annual fee of \$67,250 for fiscal years 2022/23 and 2023/24. Alliant’s proposal also includes that any commission fees earned over the broker fee be either returned to the District or used to cover other unanticipated risk management services.

Staff recommends the Board to authorize the General Manager to execute the three year agreement with Alliant Insurance Services Inc. once legal review has been completed.

**STRATEGIC PLAN ALIGNMENT:** The requested action aligns with the district’s Strategic Plan Goal 2: Financial Stewardship – Strategy 1 ensure financial planning is sufficient to address MMWD needs and risks and Strategy 4 – ensure cost-effective and efficient business processes.

<b>REVIEWED BY:</b>	A.S.Division Manager/Treasurer	<input checked="" type="checkbox"/> NA <input type="checkbox"/>
	General Counsel	<input checked="" type="checkbox"/> NA <input type="checkbox"/>
	General Manager	<input checked="" type="checkbox"/> NA <input type="checkbox"/>

**ATTACHMENTS:**

1. Brokerage of Record Fee Proposal - Alliant Insurance Services Inc.

## BROKER OF RECORD FEE PROPOSAL

*Firm:* Alliant Insurance Services, Inc.

Services	2019-20	2020-21	2021-22	2022-23	2023-24
<b>Account Supervision</b>	Included	Included	Included	Included	Included
<b>Risk Management Services</b>	Included	Included	Included	Included	Included
<b>Technical Services</b>	Included	Included	Included	Included	Included
<ul style="list-style-type: none"> <li>• Liability Loss Control Consultation, including contract review and advisement on insurance and indemnification requirements.</li> <li>• Review and update the District standard insurance and indemnification language annually.</li> <li>• Workers' Compensation</li> <li>• Loss Control Consultation</li> <li>• Financial Consultation</li> </ul>					
<b>Claims Management</b>	Included	Included	Included	Included	Included
<ul style="list-style-type: none"> <li>• Claim Consultation and support</li> <li>• Claim Audit Service</li> </ul>					
<b>Insurance Marketing</b>	\$65,000	\$65,000	\$65,000	\$67,250	\$67,250
<ul style="list-style-type: none"> <li>• Casualty Insurance</li> <li>• Property</li> <li>• Boiler &amp; Machinery</li> <li>• Workers' Comp</li> <li>• Crime</li> <li>• Miscellaneous Insurance</li> </ul>					
<b>Other Services Not Listed</b>	**	**	**	**	**
<b>* Proposed Cost Per Year</b>	\$65,000 *	\$65,000 *	\$65,000 *	\$67,250 *	\$67,250 *

## BROKER OF RECORD FEE PROPOSAL

- \* Includes all fees, i.e., staff support, secretarial, clerical, work processing, etc. A contract fee for the authorized years of the contract will be negotiated and approved before the contract is awarded as a flat annual fee and will be paid through the insurance commissions. Any commission funds over the negotiated broker fee will be held in an account with the selected broker and/or returned to the District (at the District's discretion) and will be used to cover urgent or unanticipated risk management services.
- \*\* There may be additional charges for Alliant Risk Control and Appraisal Services assuming the District did not participate in an Alliant program where certain costs are paid for or subsidized by the program. We have included our Risk Control Consulting Fee Schedule in **Appendix B**.