

# The Metropolitan Water District of Southern California

# Agenda

The mission of the Metropolitan Water District of Southern California is to provide its service area with adequate and reliable supplies of high-quality water to meet present and future needs in an environmentally and economically responsible way.

## **FAIRP Committee**

T. Smith, Chair  
L. Dick, Vice Chair  
D. Alvarez  
J. Armstrong  
R. Atwater  
A. Chacon  
D. De Jesus  
B. Dennstedt  
L. Fong-Sakai  
C. Miller  
M. Petersen  
B. Pressman  
T. Quinn  
K. Seckel

## **Finance, Audit, Insurance, and Real Property Committee - Final - Revised 1**

Meeting with Board of Directors \*

**June 13, 2023**

**8:30 a.m.**

Agendas, live streaming, meeting schedules, and other board materials are available here: <https://mwdh2o.legistar.com/Calendar.aspx>. A listen only phone line is available at 1-877-853-5257; enter meeting ID: 862 4397 5848. Members of the public may present their comments to the Board or a Committee on matters within their jurisdiction as listed on the agenda via in-person or teleconference. To participate via teleconference (833) 548-0276 and enter meeting ID: 815 2066 4276 or click <https://us06web.zoom.us/j/81520664276?pwd=a1RTQWh6V3h3ckFhNmDsUWpKR1c2Zz09>

**Tuesday, June 13, 2023  
Meeting Schedule**

**08:30 a.m. FAIRP  
10:30 a.m. EOP  
12:30 p.m. Break  
01:00 p.m. BOD**

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MWD Headquarters Building • 700 N. Alameda Street • Los Angeles, CA 90012

Teleconference Locations:

3008 W. 82nd Place • Inglewood, CA 90305

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\* The Metropolitan Water District's meeting of this Committee is noticed as a joint committee meeting with the Board of Directors for the purpose of compliance with the Brown Act. Members of the Board who are not assigned to this Committee may participate as members of the Board, whether or not a quorum of the Board is present. In order to preserve the function of the committee as advisory to the Board, members of the Board who are not assigned to this Committee will not vote on matters before this Committee.

1. **Opportunity for members of the public to address the committee on matters within the committee's jurisdiction (As required by Gov. Code Section 54954.3(a))**
2. **SUBCOMMITTEE REPORTS**
  - A. Report from Subcommittee on Audits [21-2185](#)
  - B. Report from Subcommittee on Long-Term Regional Planning Processes and Business Modeling [21-2186](#)

**\*\* CONSENT CALENDAR ITEMS -- ACTION \*\***

3. **CONSENT CALENDAR OTHER ITEMS - ACTION**

- a. Approval of the Minutes of the Finance, Audit, Insurance, and Real Property Committee Meeting for May 9, 2023 (Copies have been submitted to each Director, Any additions, corrections, or omissions) [21-2190](#)

**Attachments:** [06132023 FAIRP 3A \(05092023\) Minutes](#)

#### 4. CONSENT CALENDAR ITEMS - ACTION

- 7-3 Approve up to \$1.894 million to purchase insurance coverage for Metropolitan's Property and Casualty Insurance Program for fiscal year 2023/24; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA. [SUBJECT UPDATED 6/2/23] [21-2287](#)

**Attachments:** [06132023 FAIRP 7-3 B-L](#)  
[06132023 FAIRP 7-3 Presentation](#)

- 7-4 Approve Metropolitan's Statement of Investment Policy for fiscal year 2023/2024, delegate authority to the Treasurer to invest Metropolitan's funds for fiscal year 2023/2024; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA [21-2288](#)

**Attachments:** [06132023 FAIRP 7-4 B-L](#)  
[06132023 FAIRP 7-4 Presentation](#)

- 7-5 Authorize the General Manager to execute six lease/license amendments and two new license agreements for the installation and upgrade of telecommunication equipment and changes in the terms at existing telecommunication sites known as Edom Hill, Vidal Junction, Crossman Peak, Las Vegas Junction, Searchlight, Christmas Tree, and Black Peak, and to commence occupying a new site known as Super Nap, in Southern California, Southern Nevada, and Southern Arizona, as part of Metropolitan's Desert Microwave Project; the proposed action is in furtherance of a project that was previously determined to be exempt from CEQA [21-2290](#)

(Riverside County Assessor Parcel No. 659-260-030, San Bernardino County Assessor Parcel No. 0647-321-20-0000, Mohave County Parcel No. 113-02-003, Clark County Parcel Nos. 190-15-000-001; 243-34-501-019; 259-00-001-001; 176-01-801-043, and La Paz County Parcel No. 311-01-006)

**Attachments:** [06132023 FAIRP 7-5 B-L](#)  
[06132023 FAIRP 7-5 Presentation](#)

- 7-6 Authorize the General Manager to grant a permanent easement to Eastern Municipal Water District for the construction and operation of a pipeline northeast of Diamond Valley Lake in the city of Hemet within Assessor Parcel Numbers 464-250-002, 464-250-003, 454-270-020 and 454-270-032; the General Manager has determined that the proposed action is exempt and not subject to CEQA [21-2291](#)

**Attachments:** [06132023 FAIRP 7-6 B-L](#)  
[06132023 FAIRP 7-6 Presentation](#)

**\*\* END OF CONSENT CALENDAR ITEMS \*\***

**5. OTHER BOARD ITEMS - ACTION**

NONE

**6. BOARD INFORMATION ITEMS**

- 9-2 Introduction of Ordinance No. 152: Determining that the Interests of Metropolitan Require the Use of Revenue Bonds in the Aggregate Principal Amount of \$500 Million to Finance a Portion of Capital Expenditures [21-2289](#)

**Attachments:** [06132023 FAIRP 9-2 B-L](#)

**7. COMMITTEE ITEMS**

- a. Quarterly Investment Activities Report [21-2310](#)  
**Attachments:** [06132023 FAIRP 7a Presentation](#)
- b. Annexation Policies within Metropolitan’s Current Boundaries [21-2324](#)  
**Attachments:** [06132023 FAIRP 7b Presentation](#)

**8. MANAGEMENT REPORTS**

- a. Chief Financial Officer’s Report [21-2187](#)  
**Attachments:** [6132023 FAIRP 8a Presentation](#)
- b. General Auditor's Report [21-2188](#)
- c. Real Property Group Manager's Report [21-2189](#)  
**Attachments:** [06132023 FAIRP 8c Presentation](#)

## **9. FOLLOW-UP ITEMS**

NONE

## **10. FUTURE AGENDA ITEMS**

## **11. ADJOURNMENT**

**NOTE:** This committee reviews items and makes a recommendation for final action to the full Board of Directors. Final action will be taken by the Board of Directors. Committee agendas may be obtained on Metropolitan's Web site <https://mwdh2o.legistar.com/Calendar.aspx>. This committee will not take any final action that is binding on the Board, even when a quorum of the Board is present.

Writings relating to open session agenda items distributed to Directors less than 72 hours prior to a regular meeting are available for public inspection at Metropolitan's Headquarters Building and on Metropolitan's Web site <https://mwdh2o.legistar.com/Calendar.aspx>.

Requests for a disability-related modification or accommodation, including auxiliary aids or services, in order to attend or participate in a meeting should be made to the Board Executive Secretary in advance of the meeting to ensure availability of the requested service or accommodation.

**THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA**

**MINUTES**

**FINANCE, AUDIT, INSURANCE, AND REAL PROPERTY COMMITTEE**

**May 9, 2023**

Chair Smith called the meeting to order at 8:30 a.m.

Members present: Directors Alvarez, Armstrong, Atwater (teleconference posted location), Chacon, De Jesus (teleconference posted location), Dennstedt, Dick, Miller, Pressman (teleconference posted location), and Smith.

Members absent: Directors Fong-Sakai, Petersen, Quinn, and Seckel.

Other Members present: Erdman, Faessel, Goldberg, Morris, and Ortega.

Committee Staff present: Beatty, Chapman, Kasaine, Ros, Suzuki, Upadhyay.

**1. OPPORTUNITY FOR MEMBERS OF THE PUBLIC TO ADDRESS THE COMMITTEE ON MATTERS WITHIN THE COMMITTEE'S JURISDICTION**

None

**2. SUBCOMMITTEE REPORTS**

- A. Subject: Report from Subcommittee on Long-Term Regional Planning Processes and Business Modeling

Director Atwater provided an overview of the items discussed at the Subcommittee on Long-Term Regional Planning Processes and Business Modeling on April 25, 2023.

**CONSENT CALENDAR ITEMS — ACTION**

**3. CONSENT CALENDAR OTHER ITEMS – ACTION**

- A. Subject: Approval of the Minutes of the Finance, Audit, Insurance, and Real Property Committee Meeting for April 11, 2023 (Copies have been submitted to each Director, Any additions, corrections, or omissions)

#### 4. CONSENT CALENDAR ITEMS – ACTION

None

Director Miller made a motion, seconded by Director Dennstedt, to approve the consent calendar consisting of item 3A.

The vote was:

Ayes: Directors Alvarez, Armstrong, Atwater, Chacon, De Jesus, Dennstedt, Dick, Miller, and Smith

Noes: None

Abstentions: None

Absent: Directors Fong-Sakai, Petersen, Pressman, Quinn, and Seckel.

The motion for item 3A passed by a vote of 9 ayes, 0 noes, 0 abstain, and 5 absent.

#### END OF CONSENT CALENDAR ITEMS

#### 5. OTHER BOARD ITEMS – ACTION

- 8-6 Subject: Adopt resolution to continue Metropolitan's Water Standby Charge for fiscal year 2023/24; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA
- Presented by: Khanh Phan, Unit Manager-Rates, Charges & Financial Planning
- Motion: Adopt the resolution to continue the Standby Charge for fiscal year 2023/24.

Ms. Kasaine introduced the item and Ms. Khanh presented the committee with a brief overview of the standby charge program, standby charge rates, and Board actions for the readiness-to-serve charge and water standby charge.

The following Directors provided comments or asked questions:

1. Miller
2. Dennstedt
3. Smith
4. Armstrong
5. Dick

Staff responded to Directors' comments and questions.

After completion of the presentation, Director Armstrong made a motion, seconded by Director Miller, to approve item 8-6.

The vote was:

Ayes: Directors Alvarez, Armstrong, Atwater, Chacon, De Jesus, Dennstedt, Dick, Miller, and Smith  
Noes: None  
Abstentions: None  
Absent: Directors Fong-Sakai, Petersen, Pressman, Quinn, and Seckel

The motion for item 8-6 passed by a vote of 9 ayes, 0 noes, 0 abstain, and 5 absent.

## 6. BOARD INFORMATION ITEMS

9-2 Subject: Renewal Status of Metropolitan's Property and Casualty Insurance Program  
Presenter: Drew Boronkay, Unit Manager-Risk Management

Ms. Kasaine introduced the item and Mr. Boronkay presented the committee with an overview of the current Property and Casualty Insurance programs and the cost estimates for this year's insurance renewal.

The following Directors provided comments or asked questions:

1. Dick
2. Erdman
3. Dennstedt
4. Smith
5. Ortega

Staff responded to Directors' comments and questions.

## 7. COMMITTEE ITEMS

a. Subject: Quarterly Financial Report  
Presented by: Adam Benson, Group Manager- Finance

Ms. Kasaine introduced the item and Mr. Benson presented the committee with Metropolitan's quarterly financial report for the period ending March 31, 2023. The report included cumulative water transactions in acre-feet, revenues, and expenses for fiscal year 2022/23. Mr. Benson also reported on reimbursable costs and Operations & Maintenance costs for the Delta Conveyance Project through March 2023.

The following Directors provided comments or asked questions:

1. Ortega
2. Dick

3. Smith
4. Pressman
5. Miller
6. Erdman

Staff responded to Directors' comments and questions.

## **8. MANAGEMENT REPORTS**

- a. Subject: Chief Financial Officer's report  
No report given.
- b. Subject: General Auditor's Report

Mr. Suzuki updated the committee on audit plan status, completion of revisions on the General Auditor's report format and content, completion of procedures on follow-up audits, and continued revisions being made to the General Auditor's risk assessment process.

The following Director provided comments or asked questions:

1. Ortega

Staff responded to the Director's comments and questions.

- c. Subject: Real Property Group Manager's Report

Mr. Chapman updated the committee on the desert employees' hosted copper basin fish out, wildflower bloom at Diamond Valley Lake, updates to the committee room microphones, and acknowledgement of a staff birthday.

## **9. FOLLOW-UP ITEMS**

Director Erdman requested to see reserve balance trends for the last five to ten years.

## **10. FUTURE AGENDA ITEMS**

Director Dennstedt requested a workshop to discuss water sales, fixed costs versus variables, reserve balances, reserve balance offsets, and how these factors blend into the budget.

## **11. ADJOURNMENT**

The next meeting will be held on June 13, 2023.



Meeting adjourned at 9:41 a.m.

Timothy Smith  
Chair



● **Board of Directors**

***Finance, Audit, Insurance, and Real Property Committee***

6/13/2023 Board Meeting

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7-3

**Subject**

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Approve up to \$1.894 million to purchase insurance coverage for Metropolitan’s Property and Casualty Insurance Program for fiscal year 2023/24; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA

**Executive Summary**

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The Property and Casualty Insurance Policy premiums for fiscal year (FY) 2023/24 will increase by up to \$179,000 or approximately 10.4 percent from about \$1.715 million for the current fiscal year, to approximately \$1.894 million if Metropolitan maintains the same coverage limits and retentions. The cost increase results from the insurance market pricing in a confluence of conditions and trends, including catastrophic storm and wildfire losses, the continued economic fallout of post pandemic supply chain issues, and significant inflation. In addition, a trend of more frequent and expensive liability settlements against municipalities due in part to rising social and political unrest continues to pressure the general liability market. Finally, rising medical costs contribute to rising settlement costs and higher premiums across multiple lines of coverage.

The following insurance coverages within the Property and Casualty Insurance Program will be expiring on June 30, 2023:

1. \$75 million general liability coverage in excess of a \$25 million self-insured retention.
2. \$60 million fiduciary and employee benefits liability coverage in excess of a \$25 million self-insured retention.
3. \$65 million public officials, directors, and officer’s liability coverage in excess of a \$25 million self-insured retention.
4. \$5 million crime coverage for exposures such as fraud, theft, faithful performance, and employee dishonesty in excess of a \$150,000 deductible.
5. \$25 million aircraft liability coverage; \$10 million Unmanned Aerial Vehicle (UAV) liability coverage; and aircraft hull coverage up to the planes’ assessed values.
6. Statutory workers’ compensation, and \$1 million employer’s liability coverage, in excess of a \$5 million self-insured retention; and statutory coverage for Washington, D.C. employees.
7. Property damage coverage up to the stated property value, with a \$25 million policy limit.

**Attachment 1** compares the current coverage and premium costs to those proposed for FY 2023/24

**Details**

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**Background**

**Self-Insured Retention and Excess Limits** – For all coverages, staff reviews the self-insured retention levels and excess coverage limits to ensure that coverage is adequate, premium costs are controlled, and to take advantage of market changes that create opportunities to increase coverage limits and decrease premiums or self-insured retention levels. This process is completed with the services of actuarial consultants, Metropolitan’s insurance broker, staff review, and comparisons with other like agencies. To limit the expected premium cost increases for

excess general liability coverage (catastrophic coverage for claims exceeding Metropolitan's \$25 million self-insured retention), we obtained additional premium quotes for the first policy layer of this coverage with self-insured retentions of \$35 million and \$50 million, versus our current 25 million retention level. For FY 2023/24, the premium cost with the carrier (AEGIS) would be \$825,440 for the first layer of excess general liability coverage, with limits of \$35 million over the \$25 million self-insured retention. The option to purchase this first layer of coverage with a \$35 million self-insured retention would be \$752,500, a savings of \$72,960 versus keeping the self-insured retention at \$25 million. Raising the retention to achieve this cost savings would increase the total exposure in the retention by \$10 million, or 40%, compared with the current levels. The second option of increasing the retention level to \$50 million would net an estimated savings of \$225,460 versus the current retention level. There may be additional savings in both scenarios of up to five percent (up to about \$20,000) from EIM if we were to select a higher self-insured retention level, but that is not yet a firm quote. Even with the additional \$20,000 in possible savings, it is not cost-effective considering the risk reward of increasing the liability exposure by 100 percent resulting from doubling the self-insured retention from \$25 million to \$50 million. Both options, one very slightly and the second more materially economical, both significantly increase liability exposure.

In addition, at either of these higher self-insured retention levels, the first policy layer provided by AEGIS can only offer a single aggregate instead of its customary double aggregate. The current coverage is \$35 million per claim with a \$70 million (double the per claim amount) aggregate. The aggregate is the total capacity of all claims in case there are multiple claims. This means that for all claims above the retention, there is a capacity of only the \$35 million limit, and not the usual \$70 million. There is a consequence of that change to coverage benefits from our second excess carrier Energy Insurance Mutual (EIM). Currently, EIM extends coverage below the \$60 million attachment point (\$25 self-insured retention plus \$35 million AEGIS coverage) if the first layer of coverage from AEGIS is exhausted. From the perspective of both protecting Metropolitan and obtaining value for funds expended, we cannot recommend either option, but will present the \$35 million retention level change as an option.

To contrast the value of our current retention level, Metropolitan also received a quote for the first layer of coverage with a self-insured retention of \$15 million compared with our present \$25 million level. That would increase premium costs from \$825,440 to \$2.1 million for that coverage. The nearly tripling of costs to reduce the retention by \$10 million, compared with the insignificant cost savings to raise the retention by \$10 million or even \$25 million reflect that the current retention and coverage is cost-effective and appropriate for Metropolitan's current risk profile.

In addition to the usual coverage review such as that described above, staff may investigate other coverage options, such as cyber liability and earthquake insurance, which we have been evaluating over the last couple of years. Due to notable price increases for existing coverages, the operational investment and activities to enhance cyber defenses, and the continuation of the Metropolitan Headquarters Building earthquake retrofit project, it was not timely to pursue those coverage options in recent years. Because of the dramatic rise in cyber-attacks worldwide, and the increasing threat, we have likewise upped our efforts to investigate initiating cyber liability coverage during the past few years. For the FY2022/23 renewal, we sought pricing of a cyber liability policy that would include coverage for business interruption, data loss, system failure, cyber extortion, and other features for up to a premium of \$200,000. We were not able to obtain a policy within the allocated budget amount that met our parameters, but we will continue to seek viable coverage options.

While all coverage limits and retentions are reviewed to maintain appropriate protection at cost-effective rates, historically, there have been more changes to Metropolitan's self-insured retention and excess coverage limits for the workers' compensation policies than the other coverages during the last several years due to global events and medical cost trends. Because of the difficult insurance market where coverage has become less available and prices continue to rise, we are not recommending changes to the existing coverage portfolio retentions and limits. Each of the different lines of insurance coverage is described below.

**General Liability** – The two layers of excess general liability, and public officials, directors, and officer's liability (D&O) policies provide catastrophic coverage for claims exceeding Metropolitan's \$25 million self-insured retention level, make up the largest portion of Metropolitan's casualty and specialty insurance premium budget. The projected cost of these coverages in the aggregate will increase by about 13.3 percent, from \$1,374,559 in FY 2022/23, to \$1,558,684 for FY 2023/24. The quotes this year do not yet include the disclosure

of the likely continuity credit (a dividend or rebate for good aggregate claims experience, and remaining with the insurer), which last year lowered the cost of the excess general liability by just over \$25,000. Within the aggregate, the premium cost for the two layers of D&O coverage in FY 2022/23 was \$320,068, after the initial cost of \$346,075 was also reduced by a continuity credit of \$26,007. For FY 2023/24, the projected premium cost, without inclusion of a continuity credit, will be \$350,812, an increase of \$30,744, or about 9.6 percent.

**Fiduciary Liability** – In FY 2019/20, Metropolitan added coverage to include the deferred compensation program to its existing fiduciary coverage for the first \$35 million layer of coverage. Metropolitan also carries a second layer of excess coverage with \$40 million in limits. For FY 2022/23, the premium cost for the two layers of coverage was \$94,990. For FY 2023/24, the premium cost will increase by about 2.1 percent to \$96,989.

**Workers' Compensation** – Excess workers' compensation insurance protects Metropolitan against the financial exposure of workplace injury and illness claims. This coverage is designed to handle an individual's catastrophic injury, or, for example, an event such as multiple injuries occurring at the Metropolitan Headquarters Building due to a major disaster. Metropolitan is self-insured for the first \$5 million in losses, after which the excess coverage with statutory limits goes into effect. Metropolitan also carries a separate first dollar (no deductible) policy to cover employees based in Washington, D.C. Over the last 15 years, Metropolitan has actively adjusted its self-insured retention and coverage limit in reaction to changes in the insurance market in order to maintain cost-efficient and adequate coverage. To control sky-rocketing premium costs during the early 2000s that resulted from the 9/11 terrorist attacks and other global events, Metropolitan incrementally increased the self-insured retention to its current level of \$5 million. Since FY 2011/12, premium costs have leveled, and occasionally even declined. Consequently, Metropolitan took advantage of the premium rate reduction and increased the coverage limit from \$25 million to \$50 million.

In 2015, Metropolitan was again able to take advantage of coverage capacity and market rate changes and obtained statutory excess coverage without increasing costs over the previous year. A stable claims history and claims experience has also contributed to Metropolitan's enhancement of coverage without increasing costs. Metropolitan typically has had an excellent claims history, and its claims experience rating or "Ex Mod," which assesses an organization's claims performance based on payroll and claims history versus other California businesses in the industry. For FY 2022/23, the score decreased from 1.33 to .94. For context, a score below the benchmark of 1.00 trends positive; a score above 1.00 trends more negative. While referenced here to reflect the claims history, the "Ex Mod" is not a weighted factor in the cost of obtaining excess workers' compensation coverage for Metropolitan.

The total premium costs for FY 2023/24 for the excess workers' compensation policy, and the first dollar policy for Washington D.C. employees will increase by about 6.1 percent, from \$121,727 in FY 2022/23 to \$129,117. Within that total amount, the premium for the first dollar policy for Washington, D.C. employees will decrease slightly, from \$1,296 to \$1,173.

**Property Insurance** – In order to have obtained reimbursement of over \$500,000 from the Federal Emergency Management Agency for damage resulting from the 2009 fall season fires, Metropolitan maintains a property damage insurance policy to cover the area damaged in that fire. The policy cost \$5,193 in FY 2022/23, and will rise by as much as 40 percent to a projected amount of \$7,271 For FY 2023/24. Though a small dollar amount, the projected large percentage increase is due to the past three years' historic catastrophic wildfire seasons, and the continuing exposure going forward.

**Specialty Coverages** – Metropolitan also carries aircraft liability and hull coverage, crime, travel accident, and special contingency policies to complete its insurance portfolio. The aircraft liability and hull policies provide \$25 million aircraft liability, hull coverage up to the assessed value of the planes, and UAV liability coverage up to \$10 million. For FY 2022/23, policies covering Metropolitan's two planes and eight UAVs cost \$81,820. For FY 2023/24, the premium will increase by 7.2 percent to 87,736. The crime policy provides \$5 million in coverage with a \$150,000 deductible to protect against losses such as fraud, public employee dishonesty, and forgery. The cost to obtain this policy will increase slightly from \$10,901 to \$11,401 for the coming year. Metropolitan also carries three-year duration special contingency crime, and travel accident policies last purchased in FY 2022/23 for the amounts of \$4,442 and \$25,450, respectively. These are not up for renewal until FY 2025/26.

The total cost of the insurance renewal for FY 2023/24, with similar limits and retentions, is \$1,893,257 without the inclusion of the expected continuity credits, up from approximately \$1,715,308 million expended in FY 2022/23.

If Metropolitan chooses to increase the self-insured retention to \$35 million from \$25 million, the total cost for FY 2023/24 is projected to be \$1,820,317

## Policy

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Metropolitan Water District Administrative Code Section 5201: Restricted Funds

Metropolitan Water District Administrative Code Section 5202: Fund Parameters

Metropolitan Water District Administrative Code Section 6413: Insurance Program

Metropolitan Water District Administrative Code Section 9101: Risk Retention and Procurements of Insurance

Metropolitan Water District Administrative Code Section 11104: Delegation of Responsibilities

## California Environmental Quality Act (CEQA)

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### CEQA determination for Option #1:

The proposed action is not defined as a project under CEQA (Public Resources Code Section 21065, State CEQA Guidelines Section 15378) because the proposed action will not cause either a direct physical change in the environment or a reasonably foreseeable indirect physical change in the environment, and because it involves continuing administrative activities such as general policy and procedure making (Section 15378(b)(2) of the State CEQA Guidelines). In addition, the proposed action is not defined as a project under CEQA because it involves the creation of government funding mechanisms or other government fiscal activities which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment (Section 15378(b)(4) of the State CEQA Guidelines).

### CEQA determination for Option #2:

None required

## Board Options

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### Option #1

Approve up to \$1.894 million to purchase insurance coverage for Metropolitan's Property and Casualty Insurance Program to renew or replace all the expiring excess liability and specialty insurance policies and maintain the \$25 million self-insured retention for general liability coverage.

**Fiscal Impact:** The anticipated \$1.894 million premium cost for FY 2023/24 would result in an approximate \$179,000 cost increase compared with the \$1.715 million premium cost for FY 2022/23. The \$1.894 million is included in the current board-approved budget.

**Business Analysis:** Protects Metropolitan's financial position against the risk of catastrophic loss.

### Option #2

Approve up to \$1.821 million to purchase insurance coverage for Metropolitan's Property and Casualty Insurance Program to renew or replace all the expiring excess liability and specialty insurance policies for FY 2023/24, and obtain general liability coverage with a \$35 million self-insured retention.

**Fiscal Impact:** The anticipated \$1.821 million premium cost for FY 2023/24 would result in an approximate \$106,000 increase compared with the \$1.715 million premium cost for FY 2022/23. The \$1.821 million cost is within the current board-approved Office of the CFO Group budget.

**Business Analysis:** Saves approximately \$73,000 compared with Option 1, protects Metropolitan's financial position against the risk of catastrophic loss, but significantly increases the financial exposure by \$10 million or 40 percent because of taking on the higher retention level.

**Staff Recommendation**

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Option #1

	6/5/2023
Katano Kasaine Assistant General Manager/ Chief Financial Officer	Date
	6/5/2023
Adel Hagekhalil General Manager	Date

**Attachment 1 – Metropolitan’s Casualty and Property Insurance Program Insurance Premium Comparison in Dollars**

Ref# cfo12693094

**Metropolitan’s Casualty and Property Insurance Program  
Insurance Premium Comparison  
In Dollars**

<b>Insurance Policy Type</b>	<b>Self-Insured Retention (SIR)</b>	<b>Coverage Limits</b>	<b>2022/23 Actual Insurance Premiums</b>	<b>2023/24 Quoted Insurance Premiums</b>	<b>2023/24 Quoted Insurance Premium Cost Change</b>	<b>2023/24 Quoted Insurance Premium % Change</b>
Excess General Liability <sup>1</sup>	\$25 million	\$75 million	1,054,491	1,207,872	153,380	14.5%
Fiduciary and Employee Benefits Liability <sup>1</sup>	\$25 million	\$60 million	94,990	96,989	1,999	2.1%
Public Officials Directors and Officers Liability <sup>1</sup>	\$25 million	\$65 million	320,068	350,812	30,744	9.6%
Crime	\$150,000	\$5 million	10,901	11,401	500	4.6%
Aircraft Liability and Hull	\$7,500	\$25 million	81,820	89,736	7,916	9.7%
Excess Workers’ Compensation, CA	\$5 million	Statutory	120,431	127,944	7,513	6.2%
Excess Workers’ Compensation, D.C.	\$0	Statutory	1,296	1,173	(123)	(9.5%)
Property <sup>2</sup>	\$0	Asset value	5,236	7,331+	2,095	40%
Special Contingency <sup>3</sup>	\$0	\$5 million	4,442	NA	NA	NA
Travel Accident <sup>3</sup>	\$0	\$250,000	21,633	NA	NA	NA
<b>Total Insurance Premiums – Option 1</b>	\$25 million	NA	<b>1,715,308</b>	<b>1,893,258</b>	<b>177,950</b>	<b>10.4%</b>
<b>Total Insurance Premiums – Option 2 <sup>4</sup></b>	\$35 million	NA	<b>1,715,308</b>	<b>1,820,317</b>	<b>105,009</b>	<b>6.1%</b>

<sup>1</sup> Premium costs for two layers of General Liability, Fiduciary and Employee Benefits Liability, and Public Officials Directors and Officers Liability.

<sup>2</sup> Premium for 2023/24 is an estimate based upon market indications.

<sup>3</sup> Three-year policies last purchased July 2022, and are up for renewal FY 2025/26.

<sup>4</sup> General Liability Self-Insured Retention increase from \$25 million to \$35 million.



Finance, Audit, Insurance, and Real Property Committee

# Renewal Status of Metropolitan's Property and Casualty Insurance Program

Item 7-3

June 13, 2023



# Metropolitan's Property and Casualty Insurance Program

## Objectives

Review the Current Program

Provide insurance program cost information, and request approval to purchase this year's insurance renewal

# Review

## Metropolitan's Property and Casualty Insurance Program

Self-Insured Retentions

Claims Programs to Manage Self-Insured Retentions

Liability / Property

Workers' Compensation

Excess and Specialty Insurance Coverages

# Metropolitan's Property and Casualty Insurance Program

## Self-Insured Retention

General Liability	\$25 million
Workers' Compensation	\$ 5 million
Property Damage *	Self-Insured

\* Stand Alone Property Damage Insurance Coverage

# Metropolitan's Property and Casualty Insurance Program

## Excess Insurance

General Liability	\$75 million
Workers' Compensation	Statutory
Public Officials, Directors & Officers Liability	\$65 million
Fiduciary & Employee Benefit Liability	\$60 million

## Specialty Insurance

# Metropolitan's Property and Casualty Insurance Program

Aircraft Liability	\$25 million
Aircraft Hull	Assessed Value
Property Damage	Assessed Value up to \$25 million
Crime	\$5 million
Special Contingency *	\$5 million
Travel Accident *	\$250,000

\* Three-year policies were last purchased July 2022, and will be up for renewal FY 2025/26

# Metropolitan's Property and Casualty Insurance Program

## 2023/24 Outlook

10.4% Overall Cost Increase

### Factors Driving Expected Cost Increase

- Escalating global inflation due to continuation of post-pandemic supply chain issues, and Russia-Ukraine war causing market fluctuations and uncertainty
- Climate change induced mega-catastrophic weather events such as extreme storms and historic wildfires
- Global political and social unrest

Total Policy Renewal is estimated to increase from

**\$1.715 million**

**\$1.894 million**

# Metropolitan's Property and Casualty Insurance Program

Excess Insurance Premiums (in dollars)

Coverage Type	2022/23 Actual	2023/24 Quoted	2023/24 % Change
General Liability	1,054,491	1,207,872	14.5
Fiduciary and Employee Benefit Liability	94,990	96,989	2.1
Public Officials Directors & Officers Liability	320,068	350,812	9.6
Workers' Compensation	121,727	129,117	6.1

# Metropolitan's Property and Casualty Insurance Program

Excess Insurance Premiums (in dollars)

Coverage Type	2022/23 Actual	2023/24 Quoted	2023/24 % Change
Aircraft Hull & Liability	81,820	89,736	9.7
Crime	10,901	11,401	4.6
Property *	5,236	7,331+	40
<b>Total Premiums</b>	<b>1,715,308</b>	<b>1,893,258</b>	<b>10.4</b>

\* Estimated Premium for stand alone coverage for three structures previously damaged by fire



# Metropolitan's Property and Casualty Insurance Program

Options	Coverage Type	2022/23 Actual	2023/24 Quoted	2023/24 % Change
Option 1	General Liability SIR \$25 Million	1,715,308	1,893,258	10.4
Option 2	General Liability SIR \$35 Million	-	1,820,317	6.1

# Metropolitan's Property and Casualty Insurance Program

## Premium Comparison by Fiscal Year

<b>Actual 2018/19</b>	<b>Actual 2019/20</b>	<b>Actual 2020/21</b>	<b>Actual 2021/22</b>	<b>Actual 2022/23</b>
<b>\$ 1,118,668</b>	<b>\$ 1,181,848*</b>	<b>\$ 1,308,608</b>	<b>\$1,543,787</b>	<b>\$ 1,715,308*</b>
		<b>Estimated 2023/2024</b>	<b>\$1,893,258</b>	

\* Includes renewal cost of 3-year duration policies for Travel Accident and Special Contingency policies

# Board Options

**Option #1** Approve up to \$1.894 million to renew excess and specialty insurance coverages.

**Impact** The anticipated \$1.894 million premium cost for FY 2023/24 would result in an \$177,950 cost increase compared with a \$171,521 premium cost increase for FY 2022/23. The \$1.894 million is included in the current Board approved budget.

# Board Options

## Option #2

Approve up to \$1.821 million to renew excess and specialty insurance coverages and increase the self-insured retention for General Liability from \$25 million to \$35 million.

## Impact

Savings of \$72,941 compared to Option #1, but with significant increased financial exposure.

# Staff Recommendation

Option #1      Approve up to \$1.894 million to renew excess and specialty insurance coverages.





● **Board of Directors**

***Finance, Audit, Insurance, and Real Property Committee***

6/13/2023 Board Meeting

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7-4

**Subject**

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Approve Metropolitan's Statement of Investment Policy for fiscal year 2023/24, delegate authority to the Treasurer to invest Metropolitan's funds for fiscal year 2023/24; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA

**Executive Summary**

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Per Section 5114 of the Metropolitan Water District Administrative Code, staff seeks board approval of Metropolitan's Statement of Investment Policy (Policy) for fiscal year (FY) 2023/24. Staff also seeks board approval for the delegation of authority to the Treasurer to invest Metropolitan's funds for FY 2023/24, pursuant to the Government Code of the state of California (California Government Code).

The Policy has been updated to ensure that it complies with the requirements of the California Government Code, conforms to the investment policy certification standards established by the California Municipal Treasurers Association, provides a balance between investment restrictions and investment flexibility, and expresses Metropolitan's investment objectives and preferences with clarity and consistency.

**Details**

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**Background**

Under Section 5114 of the Metropolitan Water District Administrative Code, not less than annually, the Treasurer is required to render a Statement of Investment Policy for the following fiscal year for approval by the Board.

Metropolitan's Policy for FY 2023/24 (**Attachment 1**) adheres to the following three criteria:

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

In accordance with Section 53607 of the California Government Code, the authority to invest public funds granted to the Board may be delegated to the Treasurer for a one-year period. The Board's prior delegation to the Treasurer expires on June 30, 2023. Subject to review, the Board may renew the delegation to the Treasurer annually.

## Details

The proposed Policy for FY 2023/24 has been updated. The proposed Policy is included as **Attachment 1**. **Attachment 2** is a redlined document that compares the Policy for FY 2022/23 to the proposed Policy for FY 2023/24. The following changes to Section XIV of the Policy are highlighted for the Board's consideration:

Section XIV – This section is updated to incorporate the change of the District's "Other fund" to "Endowment fund," which enables a tailored investment strategy for several of Metropolitan's trust funds (Multi-Species Reserve Fund, Habitat Maintenance Fund-Lower Colorado, HCP Remedial Measures Fund, Water Utility Climate Alliance Membership, and Lake Mathews). The goal of the investment strategy for the Endowment Fund is to preserve capital in the new portfolio as long as possible by investing longer to better match the trust funds' specific expenditure patterns.

Glossary – A definition and formula of "Effective Rate of Return" and formula of "Total Rate of Return" are added to the Glossary. Specifically, the changes to the Glossary are as follows:

- **EFFECTIVE RATE OF RETURN:** The annualized rate of return on an investment considering the price paid for the investment, its coupon rate, and the compounding of interest paid.  $(\text{Total Earnings} / \text{Average daily balance}) \times (365 / \# \text{ of days in the reporting period})$
- **TOTAL RATE OF RETURN:** A measure of a portfolio's performance over time. It is the internal rate of return that equates the beginning value of the portfolio with the ending value, and includes interest earnings and realized and unrealized gains and losses on the portfolio. For bonds held to maturity, total return is the yield to maturity.  $(\text{Net Invested Income} / \text{Time Weighted Invested Value}) \times (365 / \# \text{ of days in the reporting period})$

## Policy

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Metropolitan Water District Act Section 125: Investment of Surplus Money

Metropolitan Water District Administrative Code Section 2701(a): Treasurer's Reports

Metropolitan Water District Administrative Code Section 5101: Investment of Surplus Funds

Metropolitan Water District Administrative Code Section 5114: Reporting Requirements of the Treasurer

Metropolitan Water District Administrative Code Section 11104: Delegation of Responsibilities

## California Environmental Quality Act (CEQA)

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### CEQA determination for Option #1:

The proposed actions are not defined as a project under CEQA (Public Resources Code Section 21065, State CEQA Guidelines Section 15378(b)(2) and 15378(b)(5)) because they involve organizational or administrative activities and general policy and procedure making that would not result in a direct or indirect physical change to the environment.

### CEQA determination for Option #2:

None required

## Board Options

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### Option #1

Approve the Statement of Investment Policy for fiscal year 2023/24; and delegate authority to the Treasurer to invest Metropolitan's funds for fiscal year 2023/24.

**Fiscal Impact:** Allows Metropolitan's portfolio to continue to earn a reasonable return on investments while meeting the overarching goals of safety and liquidity.

**Business Analysis:** Permits the Treasurer to continue managing Metropolitan's investment portfolios and approves the Statement of Investment Policy for fiscal year 2023/24, governing investment practices.



**Option #2**

Do not approve the Statement of Investment Policy for fiscal year 2023/24, and do not delegate authority to the Treasurer to invest Metropolitan’s funds for fiscal year 2023/24.

**Fiscal Impact:** May prevent Metropolitan’s portfolio from earning a reasonable return on investments

**Business Analysis:** Not approving the Statement of Investment Policy would be an exception to the Metropolitan Water District Administrative Code requirement in Section 5114. Not delegating authority to the Treasurer to invest Metropolitan’s funds would require the Board to directly manage Metropolitan’s daily investments or have an authorized Board representative available to approve daily investment transactions identified by the Treasurer. This would likely result in lost investment income should the Board be unavailable to either manage or approve daily investment transactions.

**Staff Recommendation**

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Option #1

	6/5/2023
_____ Katano Kasaine Assistant General Manager/Chief Financial Officer	Date
	6/5/2023
_____ Adel Hagekhalil General Manager	Date

**Attachment 1 – Statement of Investment Policy Fiscal Year 2023/24**

**Attachment 2 – Redline of Statement of Investment Policy Fiscal Year 2023/24**

Ref# cfo12693061

## **THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA**

### **STATEMENT OF INVESTMENT POLICY FISCAL YEAR 2023/24**

**June 13, 2023**

#### **I. POLICY**

This Statement of Investment Policy (Policy) is intended to outline the guidelines and practices to be used in managing the Metropolitan Water District of Southern California's (District) investment portfolio. District funds not required for immediate cash disbursements will be invested in compliance with the Government Code of the state of California (California Government Code).

#### **II. INVESTMENT AUTHORITY**

As authorized by Section 53607 of the California Government Code, authority to invest or reinvest funds of the District is hereby delegated by the Board of Directors to the Treasurer, for a period of one-year, who shall thereafter assume full responsibility for the investment program until the delegation of authority is revoked or expires. Subject to review, the Board of Directors may renew the delegation of authority each year. The Treasurer may delegate the day-to-day investment activities to their designee(s) but not the responsibility for the overall investment program.

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

#### **III. STATEMENT OF OBJECTIVES**

In accordance with California Government Code Section 53600.5, and in order of importance, the Treasurer shall adhere to the following three criteria:

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

#### **IV. SCOPE**

This Policy applies to all funds and investment activities under the direct authority of the District and accounted for in the Annual Comprehensive Financial Report (ACFR), except for the employee's retirement and deferred compensation funds. In addition, deposits with banks under the California Government Code's "Deposit of Funds" provisions are excluded from this Policy's requirements. Funds of the District will be invested in compliance with the provisions of, but not necessarily limited to securities specified in the California Government Code Section 53601 et seq. and other applicable statutes. Investments will be in accordance with these policies and written administrative procedures. Investment of the District's bond proceeds shall be subject to the conditions and restrictions of bond documents and are not governed by this Policy.

#### **V. PRUDENT INVESTOR STANDARD**

Pursuant to California Government Code Section 53600.3, all persons authorized to make investment decisions on behalf of the District are trustees and therefore fiduciaries subject to the "prudent investor standard". The prudent investment standard obligates a trustee to ensure that "when investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law."

#### **VI. SAFEKEEPING AND CUSTODY**

To protect against potential losses caused by the collapse of individual securities dealers, all investment transactions involving deliverable securities will be conducted on a delivery versus payment (DVP) basis. All deliverable securities owned by the District, including collateral on repurchase agreements, shall be held in safekeeping by a third party bank trust department acting as agent for the District under the terms of a custody agreement executed by the bank and the District. All financial institutions that provide safekeeping services for the District shall be required to provide reports or safekeeping receipts directly to the Controller to verify securities taken into their possession. The Controller shall also maintain evidence of the District ownership in non-deliverable securities (e.g. LAIF, CAMP, and Time CDs).

#### **VII. INVESTMENT TRANSACTIONS**

Information concerning investment opportunities and market developments will be gained by maintaining contact with the financial community. Confirmations for investment transactions will be sent directly to the Controller for audit. When practical, the Treasurer shall solicit more than one quotation on each trade.

#### **VIII. REPORTING**

If the Board delegates responsibility of the investment program to the Treasurer, then in accordance with the Metropolitan Water District Administrative Code, Section 5114, the Treasurer shall submit a monthly report to the Executive Secretary of the Board of Directors via the General Manager indicating the types of investment by fund and date of maturity, and shall provide the current market value of all securities, rates of interest, and expected yield to maturity. The Treasurer shall also submit a monthly summary report to the Board of Directors via the General Manager showing investment activity, including yield and earnings, and the status of cash by depository.

In addition, the monthly report shall also include a statement denoting the ability to meet the District's expenditure requirements for the next six (6) months. The report shall also state compliance of the portfolio to this Policy, or manner in which the portfolio is not in compliance. In the event of non-compliance, staff will prepare a report for the Board that details the compliance issue, provides analysis, and provides a recommendation to bring the portfolio back into compliance with this Policy.

## **IX. PERFORMANCE STANDARDS**

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

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

## **X. INVESTMENT GUIDELINES AND ELIGIBLE SECURITIES**

The District is governed by the California Government Code, Sections 53600 et seq. Within the context of these limitations, the investments listed below are authorized.

The District is prohibited from investing in any investment authorized by the California Government Code but not explicitly listed in this Policy without the prior approval of the Board of Directors. Some of the limitations on investments set forth below are more stringent than required by the California Government Code and have been included to better manage the credit risks specific to the District's portfolio. Under the provisions of California Government Code Sections 53601.6, the District shall not invest any funds covered by this Investment Policy in inverse floaters, range notes, mortgage-derived, interest-only strips or any investment that may result in a zero interest accrual if held to maturity, except as authorized by Code Section 53601.6.

### **1. US Treasury Obligations**

United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest.

- Maximum allocation: 100% of the portfolio
- Maximum maturity: Five (5) years, except as otherwise permitted by this Policy
- Credit requirement: N.A.

### **2. Federal Agency Obligations**

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

- Maximum allocation: 100% of the portfolio
- Maximum maturity: Five (5) years, except as otherwise permitted by this Policy
- Credit requirement: N.A.

### **3. Banker's Acceptances**

Bills of exchange or time drafts drawn on and accepted by a commercial bank, typically created from a letter of credit issued in a foreign trade transaction.

- Maximum allocation: Forty percent (40%) of the portfolio; five percent (5%) with any one issuer
- Maximum maturity: One-hundred eighty (180) days
- Credit requirement: A-1 or its equivalent or better by a Nationally Recognized Statistical Rating Organization (NRSRO).
- Issued by banks with total deposits of over one billion dollars (\$1,000,000,000)
- Issued by banks from offices in the USA.

### **4. Commercial Paper**

Commercial paper is defined as short-term, unsecured promissory notes issued by financial and non-financial companies to raise short-term cash. Financial companies issue commercial paper to support their consumer and/or business lending; non-financial companies issue for operating funds.

- Maximum allocation: Forty percent (40%) of the portfolio; five percent (5%) with any one issuer
- Maximum maturity: Two hundred seventy (270) days
- Credit requirement: Highest ranking or highest letter and number rating as provided by an NRSRO.
- Entity issuing the commercial paper must meet the conditions of California Government Code Section 53601(h)(1) or (2).

### **5. Medium Term Corporate Notes**

All corporate and depository institution debt securities (not to include other investment types specified in Code) 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.

- Maximum allocation: Thirty percent (30%) of the portfolio; five percent (5%) with any one issuer
- Maximum maturity: Five (5) years
- Credit requirement: A or its equivalent or better by an NRSRO.

### **6. Negotiable Certificates of Deposit**

Issued by a nationally or state-chartered bank, a savings association or a federal association, a state or federal credit union, or by a federally licensed or state-licensed branch of a foreign bank.

- Maximum allocation: Thirty percent (30%) of the portfolio, five percent (5%) with any one issuer
- Maximum maturity: Five (5) years
- Credit requirement: A (long-term) or A-1 (short-term) or their equivalents or better by an NRSRO
- Issued by banks with total deposits of one billion dollars (\$1,000,000,000) or more

### **7. Bank Deposit**

Insured or collateralized time certificates of deposits, saving accounts, market rate accounts, or other bank deposits.

- Maximum limit: Thirty percent (30%) of the portfolio for all deposits
- Maximum maturity: Five (5) years

- Credit requirement: All deposits must be collateralized as required by California Government Code Sections 53630 et seq. The Treasurer may waive collateral for the portion of any deposits that is insured pursuant to federal law.
- Deposits are limited to a state or national bank, savings association or federal association, a state or federal credit union, or a federally insured industrial loan company, located in California.
- Deposits must meet the conditions of California Government Code Sections 53630 et seq.

Pursuant to Government Code 53637, the District is prohibited from investing in deposits of a state or federal credit union if a member of the District's Board of Directors, or any person at the District with investment decision-making authority, serves on the board of directors or committee of the state or federal credit union.

## **8. Money Market Mutual Funds**

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

- Maximum maturity: N/A
- Maximum allocation: Twenty percent (20%) of the portfolio
- Credit requirement: Highest ranking by not less than two NRSROs or must retain an investment advisor that meets specified requirements
- The use of money market funds is limited to Government money market funds that provide daily liquidity and seek to maintain a stable Net Asset Value (NAV)

## **9. State of California, Local Agency Investment Fund (LAIF)**

LAIF is a pooled investment fund overseen by the State Treasurer, which operates like a money market fund, but is for the exclusive benefit of governmental entities within the state. The maximum investment amount authorized by the Local Agency Investment Fund (LAIF) is set by the California State Treasurer's Office. The LAIF is held in trust in the custody of the State of California Treasurer. The District's right to withdraw its deposited monies from LAIF is not contingent upon the State's failure to adopt a State Budget.

- Maximum limit: The current limit set by LAIF for operating accounts
- Maximum maturity: N/A
- Credit requirement: N/A

## **10. Municipal Bonds and Notes**

Municipal obligations issued by the State of California, any other of the states in the union, or a local agency within the State of California. This may include bonds, notes, warrants, or other evidences of indebtedness including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by an authorized entity.

- Maximum limit: Thirty percent (30%) of the portfolio; five percent (5%) with any one issuer
- Maximum maturity: Five (5) years
- Credit requirement: A (long-term) or A-1 (short-term) or their equivalents or better by an NRSRO
- Must be issued by State of California, any of the other 49 states, or a California local agency

**11. Repurchase Agreement**

A repurchase agreement is a purchase of authorized securities with terms including a written agreement by the seller to repurchase the securities on a future date and price.

- Maximum allocation: Twenty percent (20%) of the portfolio
- Maximum maturity: Two hundred seventy (270) days
- Master Repurchase Agreement must be on file
- Limited to primary dealers or financial institutions rated in a rating category of “A” or its equivalent or higher by an NRSRO.
- Fully collateralized at market value of at least one hundred two percent (102%) with US government or federal agency securities

**12. California Asset Management Program (CAMP)**

Shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7.

- Maximum allocation: Forty percent (40%) of the portfolio
- Maximum maturity: N/A
- Credit requirement: AAAM or its equivalent or better by an NRSRO
- Joint powers authority has retained an investment adviser that is registered or exempt from registration with the Securities and Exchange Commission, has five or more years of experience investing in the securities and obligations authorized under California Government Code Section 53601, and has assets under management in excess of five hundred million dollars (\$500,000,000).

**13. Supranationals**

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

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

**14. Asset-Backed Securities**

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

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

**XI. DIVERSIFICATION**

The District shall seek to diversify the investments within the investment portfolio to avoid incurring unreasonable risks inherent in concentrated holdings in specific instruments, individual financial institutions or maturities. To promote diversification, this Policy sets various percentage holding limits by investment type and issuer. Investment type and issuer percentage limitation listed in this Policy are

calculated at the time the security is purchased. Per issuer limits, when listed, are calculated across investment types at the parent company level. Should an investment percentage be exceeded due to instances such as the fluctuation in overall portfolio size, or market valuation changes, the Treasurer is not required to sell the affected securities. However, no additional investments can be made in that investment type or issuer while it is above the limits established by this Policy.

## **XII. CREDIT RATINGS**

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

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

## **XIII. MATURITY**

The Treasurer shall maintain a system to monitor and forecast revenues and expenditures so that the District's funds can be invested to the fullest extent possible while providing sufficient liquidity to meet the District's reasonably anticipated cash flow requirements.

The final maturity of any investment in the portfolios shall not exceed five (5) years with certain exceptions:

- The Treasurer is authorized to invest special trust funds in investment with a term to maximum maturity in excess of five years. These funds include, but are not limited to, the Water Revenue Bond Reserve Funds, Escrow Funds, Debt Service Funds, the Iron Mountain Landfill Closure/Post-closure Maintenance Trust Fund, and the Lake Mathews Multi-Species Reserve Trust Fund.
- The core portfolio may hold United States Treasury and Federal Agency securities with maturities in excess of five years.

## **XIV. DURATION**

Duration is a measure of a security's price sensitivity to interest rate changes. It indicates the approximate percentage change of a security's value given a 1% change in interest rates. A portfolio's duration is the weighted average of the individual security durations held in the portfolio.

The investment portfolio is divided into liquidity, core, and endowment fund portfolios. The Policy's duration limits only apply to the liquidity and core portfolios. The duration of the liquidity portfolio is limited to the duration of the benchmark index plus or minus 0.5 years. The duration of the core portfolio will be limited to the duration of the benchmark index plus or minus 1.5 years. The appropriate benchmark indices will be set by the Treasurer and reported to the Board in the Monthly Treasurer's Report.

## **XV. ADMINISTRATION**

The Treasurer may, at any time, establish more restrictive requirements for securities approved for investment as deemed appropriate in this Policy. These restrictions may include, but are not limited to, higher credit ratings, lower percentage limits by security type or issuer, shorter maturities and additional collateral requirements for collateralized investments.



## **XVI. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS**

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

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

## **XVII. INTERNAL CONTROLS**

The Treasurer or designee shall maintain a system of internal control procedures designed to ensure compliance with the Policy and to prevent losses due to fraud, employee error, and misrepresentations by third parties or unanticipated changes in financial markets. The internal control procedures shall apply to the investment activities of any person with investment decision-making authority acting on behalf of the District. Procedures should include references to individuals authorized to execute transactions or transfers, safekeeping agreements, repurchase agreements, wire transfer agreements, collateral/depository agreements and banking services contracts, as appropriate. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgement by management. As part of the annual audit, the District's external auditor will perform a review of investment transactions to verify compliance with policies and procedures.

## **XVIII. ETHICS AND CONFLICT OF INTEREST**

The Treasurer and designees shall refrain from personal business activity that could conflict with the proper execution and management of the investment program or that could impair their ability to make impartial decisions.

The Treasurer and designees shall disclose to the Ethics Officer and General Counsel any personal financial interests that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions.

## **XIX. INVESTMENT POLICY**

This Policy shall be reviewed periodically by the Treasurer with any and all modifications made thereto approved by the Board of Directors at a public meeting.

## SUMMARY TABLE OF INVESTMENT GUIDELINES AND ELIGIBLE SECURITIES

The following table is intended to be a summary of the Policy’s requirements in Section X of this Policy. If there is a discrepancy between Section X and this table, the requirements listed in Section X take precedence.

Authorized Investments	Maximum % Holdings	Purchase Restrictions	Maximum Maturity	Credit Quality
US Treasury Obligations	100%	N/A	5 Years <sup>1</sup>	N/A
Federal Agency Obligations	100%	N/A	5 Years <sup>1</sup>	N/A
Bankers’ Acceptance	40%	5% per issuer <sup>2</sup>	180 days	“A-1” or its equivalent or higher by an NRSRO.
Commercial Paper	40%	5% per issuer <sup>2</sup>	270 days	Highest ranking or of the highest letter and number rating as provided for by an NRSRO.
Medium Term Corporate Notes	30%	5% per issuer <sup>2</sup> . US licensed and operating corporations	5 years	“A” or its equivalent or higher by an NRSRO.
Negotiable CD	30%	5% per issuer <sup>2</sup> , National or state chartered bank, S&L, or branch of foreign bank	5 years	“A-1” (short-term) or “A” (long-term) or their equivalents or higher by an NRSRO.
Bank Deposit	30%	See California Government Code Section 53637	5 Years	Collateralized/FDIC Insured in accordance with California Government Code
Money Market Mutual Funds	20%	Gov’t MMF. Stable NAV	Daily Liquidity	Highest ranking by two NRSROs or advisor requirements
Local Agency Investment Fund (“LAIF”)	LAIF limit for operating accounts	Subject to California Government Code Section 16429.1 limitations	N/A	N/A
Municipal Bonds and Notes	30%	5% per issuer <sup>2</sup> . State of California or California agencies or other 49 states	5 Years <sup>1</sup>	“A” or its equivalent or higher by an NRSRO.

Authorized Investments	Maximum % Holdings	Purchase Restrictions	Maximum Maturity	Credit Quality
Repurchase Agreements (“REPO”)	20%	Limited to primary dealers or financial institutions rated “A” or better by a NRSROs	270 days	Collateralized (min 102% of funds invested) with US Government or federal agency securities with maximum 5 year maturities
California Asset Management Program (“CAMP”)	40%	N/A	Daily Liquidity	“AAAm” or its equivalent or higher by a NRSRO
Supranationals	30%	Limited to IBRD, IFC, IADB	5 Years	“AA” or its equivalent or higher by an NRSRO.
Asset-Backed Securities	20%	5% per issuer <sup>2</sup>	5 Years	“AA” or its equivalent or higher by an NRSRO.

## Notes:

- The Treasurer is authorized to invest special trust funds in investment with a term to maximum maturity in excess of five years. These funds include, but are not limited to, the Water Revenue Bond Reserve Funds, Escrow Funds, Debt Service Funds, the Iron Mountain Landfill Closure/Post-closure Maintenance Trust Fund, and the Lake Mathews Multi-Species Reserve Trust Fund.

The core portfolio may be invested in United States Treasury and Federal Agency securities with maturities in excess of five years.

- Per issuer limits, when listed, are calculated across investment types at the parent company level.

## GLOSSARY

The glossary is provided for general information only. It is not to be considered a part of the Policy for determining Policy requirements or terms.

**AGENCIES:** Federal agency securities and/or Government-sponsored enterprises (GSEs), also known as U.S. Government instrumentalities. Securities issued by Government National Mortgage Association (GNMA) are considered true agency securities, backed by the full faith and credit of the U.S. Government. GSEs are financial intermediaries established by the federal government to fund loans to certain groups of borrowers, for example homeowners, farmers and students and are privately owned corporations with a public purpose. The most common GSEs are Federal Farm Credit System Banks, Federal Home Loan Banks, Federal Home Loan Mortgage Association, and Federal National Mortgage Association.

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

**BANKERS’ ACCEPTANCE (BA):** A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer. This money market instrument is used to finance international trade.

**BASIS POINT:** One-hundredth of one percent (i.e., 0.01%).

**BENCHMARK:** A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio’s investment.

**BOND:** A financial obligation for which the issuers promises to pay the bondholder a specified stream of future cash flows, including periodic interest payments and a principal repayment.

**BOOK VALUE:** The value at which a debt security is shown on the holder’s balance sheet. Book value is acquisition cost less amortization of premium or accretion of discount.

**BROKER:** A broker acts as an intermediary between a buyer and seller for a commission and does not trade for his/her own risk and account or inventory.

**CALLABLE SECURITIES:** A security that can be redeemed by the issuer before the scheduled maturity date.

**CALIFORNIA ASSET MANAGEMENT PROGRAM (CAMP):** A local government investment pool organized as joint powers authority in which funds from California local agency investors/participants are aggregated together for investment purposes.

**CASH EQUIVALENTS (CE):** Highly liquid and safe instruments or investments that can be converted into cash immediately. Examples include bank accounts, money market funds, and Treasury bills.

**CASH FLOW:** An analysis of all changes that affect the cash account during a specified period.

**CERTIFICATE OF DEPOSIT (CD):** A time deposit with a specific maturity evidenced by a certificate. Large-denomination CD's are typically negotiable.

**COLLATERAL:** Securities, evidence of deposit or other property which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

**COLLATERALIZED MORTGAGE OBLIGATION (CMO):** A type of mortgage-backed security that creates separate pools of pass-through rates for different classes of bondholders with varying maturities, called tranches. The repayments from the pool of pass-through securities are used to retire the bonds in the order specified by the bonds' prospectus.

**COMMERCIAL PAPER:** Short-term, unsecured, negotiable promissory notes of corporations.

**CORPORATE NOTE:** Debt instrument issued by a private corporation.

**COUPON:** The annual rate at which a bond pays interest.

**CREDIT RATINGS:** A grade given to a debt instrument that indicates its credit quality. Private independent rating services such as Standard & Poor's, Moody's and Fitch provide these

**CREDIT RISK:** The risk that an obligation will not be paid and a loss will result due to a failure of the issuer of a security.

**CUSIP:** Stands for Committee on Uniform Securities Identification Procedures. A CUSIP number identifies most securities, including: stocks of all registered U.S. and Canadian companies, and U.S. government and municipal bonds. The CUSIP system—owned by the American Bankers Association and operated by Standard & Poor's—facilitates the clearing and settlement process of securities. The number consists of nine characters (including letters and numbers) that uniquely identify a company or issuer and the type of security.

**CURRENT YIELD:** The annual interest on an investment divided by the current market value. Since the calculation relies on the current market value rather than the investor's cost, current yield is unrelated to the actual return the investor will earn if the security is held to maturity.

**CUSTODIAN:** A bank or other financial institution that keeps custody of stock certificates and other assets.

**DEALER:** A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his/her own risk and account or inventory.

**DELIVERY VERSUS PAYMENT (DVP):** Delivery of securities with a simultaneous exchange of money for the securities.

**DERIVATIVES:** A financial instrument that is based on, or derived from, some underlying asset, reference date, or index.

**DIRECT ISSUER:** Issuer markets its own paper directly to the investor without use of an intermediary.

**DISCOUNT:** The difference between the cost of a security and its value at maturity when quoted at lower than face value.

**DIVERSIFICATION:** Dividing investment funds among a variety of securities offering independent returns and risk profiles.

**DURATION:** A measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security. This calculation is based on three variables: term to maturity, coupon rate, and yield to maturity. Duration measures the price sensitivity of a bond to changes in interest rates.

**EFFECTIVE RATE OF RETURN:** The annualized rate of return on an investment considering the price paid for the investment, its coupon rate, and the compounding of interest paid.  $(\text{Total Earnings} / \text{Average daily balance}) \times (365 / \# \text{ of days in the reporting period})$

**FACE VALUE:** The principal amount owed on a debt instrument. It is the amount on which interest is computed and represents the amount that the issuer promises to pay at maturity.

**FAIR VALUE:** The amount at which a security could be exchanged between willing parties, other than in a forced or liquidation sale. If a market price is available, the fair value is equal to the market value.

**FANNIE MAE:** Trade name for the Federal National Mortgage Association (FNMA), a U.S. Government sponsored enterprise.

**FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC):** A federal agency that provides insurance on bank deposits, guaranteeing deposits to a set limit per account, currently \$250,000.

**FEDERAL FARM CREDIT BANK (FFCB):** Government-sponsored enterprise that consolidates the financing activities of the Federal Land Banks, the Federal Intermediate Credit Banks and the Banks for Cooperatives. Its securities do not carry direct U.S. government guarantees.

**FEDERAL FUNDS RATE:** The rate of interest at which Federal funds are traded. This rate is considered to be the most sensitive indicator of the direction of interest rates, as it is currently pegged by the Federal Reserve through open-market operations.

**FEDERAL GOVERNMENT AGENCY SECURITIES:** Federal Agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.

**GOVERNMENT ACCOUNTING STANDARDS BOARD (GASB):** A standard-setting body, associated with the Financial Accounting Foundation, which prescribes standard accounting practices for governmental units.

**GUARANTEED INVESTMENT CONTRACTS (GICS):** An agreement acknowledging receipt of funds, for deposit, specifying terms for withdrawal, and guaranteeing a rate of interest to be paid.

**INDEX:** An index is an indicator that is published on a periodic basis that shows the estimated price and/or yield levels for various groups of securities. Examples of relevant indices for Metropolitan include, but not limited to, ICE BofAML, 3-Month Treasury Bill Index, and ICE BofAML, 1 - 5 years AAA-A US Corporate and Government Index

**INTEREST RATE:** The annual yield earned on an investment, expressed as a percentage.

**INTEREST RATE RISK:** The risk of gain or loss in market values of securities due to changes in interest-rate levels. For example, rising interest rates will cause the market value of portfolio securities to decline.

**INVESTMENT AGREEMENTS:** A contract providing for the lending of issuer funds to a financial institution that agrees to repay the funds with interest under predetermined specifications.

**INVESTMENT GRADE (LONG TERM RATINGS):** The minimum, high-quality ratings for long-term debt such as corporate notes. Investment Grade ratings are as follows: A3 (Moody's), A- (S&P), and A- (Fitch).

**INVESTMENT PORTFOLIO:** A collection of securities held by a bank, individual, institution or government agency for investment purposes.

**LIQUIDITY:** A liquid asset is one that can be converted easily and rapidly into cash with minimum risk of principal.

**LOCAL AGENCY INVESTMENT FUND (LAIF):** An investment pool sponsored by the State of California and administered/managed by the State Treasurer. Local government units, with consent of the governing body of that Agency, may voluntarily deposit surplus funds for the purpose of investment. Interest earned is distributed by the State Controller to the participating governmental agencies on a quarterly basis.

**LOCAL AGENCY INVESTMENT POOL:** A pooled investment vehicle sponsored by a local agency or a group of local agencies for use by other local agencies.

**MARKET RISK:** The risk that the value of securities will fluctuate with changes in overall market conditions or interest rates. Systematic risk of a security that is common to all securities of the same general class (stocks, bonds, notes, money market instruments) and cannot be eliminated by diversification (which may be used to eliminate non-systematic risk).

**MARKET VALUE:** The price at which a security is currently being sold in the market. See FAIR VALUE.

**MASTER REPURCHASE AGREEMENT:** A written contract covering all future transactions between the parties to repurchase agreements and reverse repurchase agreements that establish each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

**MATURITY:** The date that the principal or stated value of a debt instrument becomes due and payable.

**MEDIUM-TERM CORPORATE NOTES (MTNs):** Unsecured, investment-grade senior debt securities of major corporations which are sold in relatively small amounts either on a continuous or an intermittent basis. MTNs are highly flexible debt instruments that can be structured to respond to market opportunities or to investor preferences.

**MODIFIED DURATION:** The percent change in price for a 100 basis point change in yields. This is a measure of a portfolio's or security's exposure to market risk.

**MONEY MARKET:** The market in which short-term debt instruments (Treasury Bills, Discount Notes, Commercial Paper, Banker's Acceptances and Negotiable Certificates of Deposit) are issued and traded.

**MORTGAGED BACKED SECURITIES:** A type of security that is secured by a mortgage or collection of mortgages. These securities typically pay principal and interest monthly.

**MUNICIPAL BONDS:** Debt obligations issued by states and local governments and their agencies, including cities, counties, government retirement plans, school Agencies, state universities, sewer agency, municipally owned utilities and authorities running bridges, airports and other transportation facilities

**MUTUAL FUND:** An entity that pools money and can invest in a variety of securities that are specifically defined in the fund's prospectus.

**NEGOTIABLE CERTIFICATE OF DEPOSIT:** A large denomination certificate of deposit that can be sold in the open market prior to maturity.

**NET PORTFOLIO YIELD:** Calculation in which the 365-day basis equals the annualized percentage of the sum of all Net Earnings during the period divided by the sum of all Average Daily Portfolio Balances.

**NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION (NRSRO):** is a credit rating agency that issues credit ratings that the U.S Securities and Exchange Commission permits other financial firms to use for certain regulatory purposes.

**PAR VALUE:** The amount of principal which must be paid at maturity. Also referred to as the face amount of a bond. See FACE VALUE.

**PORTFOLIO:** The collection of securities held by an individual or institution.

**PREMIUM:** The difference between the par value of a bond and the cost of the bond, when the cost is above par.

**PRIMARY DEALER:** A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. These dealers are authorized to buy and sell government securities in direct dealing with the Federal Reserve Bank of New York in its execution of market operations to carry out U.S. monetary policy. Such dealers must be qualified in terms of reputation, capacity, and adequacy of staff and facilities.

**PRIME (SHORT TERM RATING):** High-quality ratings for short-term debt such as commercial paper. Prime ratings are as follows: P1 (Moody's), A1 (S&P), and F1 (Fitch).

**PRINCIPAL:** The face value or par value of a debt instrument, or the amount of capital invested in a given security.

**PRIVATE PLACEMENTS:** Securities that do not have to be registered with the Securities and Exchange Commission because they are offered to a limited number of sophisticated investors.

**PROSPECTUS:** A legal document that must be provided to any prospective purchaser of a new securities offering registered with the Securities and Exchange Commission that typically includes information on the issuer, the issuer's business, the proposed use of proceeds, the experience of the issuer's management, and certain certified financial statements (also known as an "official statement").

**PRUDENT INVESTOR STANDARD:** A standard of conduct for fiduciaries. Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.



**PUBLIC DEPOSIT:** A bank that is qualified under California law to accept a deposit of public funds.

**PURCHASE DATE:** The date in which a security is purchased for settlement on that or a later date. Also known as the “trade date”.

**RATE OF RETURN:** 1) The yield which can be attained on a security based on its purchase price or its current market price. 2) Income earned on an investment, expressed as a percentage of the cost of the investment.

**REALIZED GAIN (OR LOSS):** Gain or loss resulting from the sale or disposal of a security.

**REPURCHASE AGREEMENT (RP or REPO):** A transaction in which a counterparty or the holder of securities (e.g. investment dealer) sells these securities to an investor (e.g. the District) with a simultaneous agreement to repurchase them at a fixed date. The security "buyer" (e.g. the District) in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate the “buyer” for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money that is, increasing bank reserves.

**REVERSE REPURCHASE AGREEMENT (REVERSE REPO):** The opposite of a repurchase agreement. A reverse repo is a transaction in which the District sells securities to a counterparty (e.g. investment dealer) and agrees to repurchase the securities from the counterparty at a fixed date. The counterparty in effect lends the seller (e.g. the District) money for the period of the agreement with terms of the agreement structured to compensate the buyer.

**RISK:** Degree of uncertainty of return on an asset.

**SAFEKEEPING:** A service that banks offer to clients for a fee, where physical securities are held in the bank’s vault for protection and book-entry securities are on record with the Federal Reserve Bank or Depository Trust Company in the bank’s name for the benefit of the client. As an agent for the client, the safekeeping bank settles securities transactions, collects coupon payments, and redeems securities at maturity or on the call date, if called.

**SECURITIES AND EXCHANGE COMMISSION (SEC):** Agency created by Congress to protect investors in securities transactions by administering securities legislation.

**SECONDARY MARKET:** A market for the repurchase and resale of outstanding issues following the initial distribution.

**SECURITIES:** Investment instruments such as notes, bonds, stocks, money market instruments and other instruments of indebtedness or equity.

**SETTLEMENT DATE:** The date on which a trade is cleared by delivery of securities against funds.

**SPREAD:** The difference between two figures or percentages. It may be the difference between the bid (price at which a prospective buyer offers to pay) and asked (price at which an owner offers to sell) prices of a quote, or between the amount paid when bought and the amount received when sold.

**STRUCTURED NOTE:** A complex, fixed-income instrument, which pays interest, based on a formula tied to other interest rates, commodities or indices. Examples include “inverse floating rate” notes which have coupons that increase when other interest rates are falling, and which fall when other interest rates are rising and “dual

index floaters”, which pay interest based on the relationship between two other interest rates, for example, the yield on the ten-year Treasury note minus the Libor rate. Issuers of such notes lock in a reduced cost of borrowing by purchasing interest rate swap agreements.

**SUPRANATIONALS:** International institutions that provide development financing, advisory services and/or financial services to their member countries to achieve the overall goal of improving living standards through sustainable economic growth. The California Government Code allows local agencies to purchase the United States dollar-denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank.

**TIME DEPOSIT:** A deposit with a California bank or savings and loan association for a specific amount and with a specific maturity date and interest rate. Deposits of up to \$250,000 are insured by FDIC. Deposits over \$250,000 are collateralized above the insurance with either government securities (at 110% of par value), first trust deeds (at 150% of par value), or letters of credit (at 105% of par value).

**TOTAL RATE OF RETURN:** A measure of a portfolio’s performance over time. It is the internal rate of return that equates the beginning value of the portfolio with the ending value, and includes interest earnings and realized and unrealized gains and losses on the portfolio. For bonds held to maturity, total return is the yield to maturity.  $(\text{Net Invested Income} / \text{Time Weighted Invested Value}) \times (365 / \# \text{ of days in the reporting period})$

**TRUSTEE OR TRUST COMPANY OR TRUST DEPARTMENT OF A BANK:** A financial institution with trust powers that acts in a fiduciary capacity for the benefit of the bondholders in enforcing the terms of the bond contract.

**UNDERWRITER:** A dealer which purchases a new issue of municipal securities for resale.

**U.S. GOVERNMENT AGENCY SECURITIES:** Securities issued by U.S. government agencies, most of which are secured only by the credit worthiness of the particular agency. See AGENCIES.

**U.S. TREASURY OBLIGATIONS:** Securities issued by the U.S. Treasury and backed by the full faith and credit of the United States. Treasuries are the benchmark for interest rates on all other securities in the U.S. The Treasury issues both discounted securities and fixed coupon notes and bonds. The income from Treasury securities is exempt from state and local, but not federal, taxes.

**TREASURY BILLS:** Securities issued at a discount with initial maturities of one year or less. The Treasury currently issues three-month and six-month Treasury bills at regular weekly auctions. It also issues very short-term “cash management” bills as needed to smooth out cash flows.

**TREASURY NOTES:** Intermediate-term coupon-bearing securities with initial maturities of one year to ten years.

**TREASURY BOND:** Long-term coupon-bearing securities with initial maturities of ten years or longer.

**UNREALIZED GAIN (OR LOSS):** Gain or loss that has not become actual. It becomes a realized gain (or loss) when the security in which there is a gain or loss is actually sold. See REALIZED GAIN (OR LOSS).

**VOLATILITY:** Characteristic of a security, commodity or market to rise or fall sharply in price within a short-term period.

**WEIGHTED AVERAGE MATURITY:** The average maturity of all the securities that comprise a portfolio that is typically expressed in days or years.

**YIELD:** The annual rate of return on an investment expressed as a percentage of the investment. See CURRENT YIELD; YIELD TO MATURITY.

**YIELD CURVE:** Graph showing the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity.

**YIELD TO MATURITY:** Concept used to determine the rate of return if an investment is held to maturity. It takes into account purchase price, redemption value, time to maturity, coupon yield, and the time between interest payments. It is the rate of income return on an investment, minus any premium or plus any discount, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond, expressed as a percentage.

### RATING DESCRIPTION TABLE

Long Term Debt Ratings			
Credit Quality	Moody's	S&P	Fitch
<b>Strongest Quality</b>	Aaa	AAA	AAA
<b>Strong Quality</b>	Aa1/Aa2/Aa3	AA+/AA/AA-	AA
<b>Good Quality</b>	A1/A2/A3	A+/A/A-	A
<b>Medium Quality</b>	Baa1/Baa2/Baa3	BBB+/BBB/BBB-	BBB
<b>Speculative</b>	Ba1/Ba2/Ba3	BB+/BB/BB-	BB
<b>Low</b>	B1/B2/B3	B+/B/B-	B
<b>Poor</b>	Caa	CCC+	CCC
<b>Highly Speculative</b>	Ca/C	CCC/CCC-/CC	CC
Short Term Debt Ratings			
Credit Quality	Moody's	S&P	Fitch
<b>Strongest Quality</b>	P-1	A-1+	F1
<b>Strong Quality</b>		A-1	
<b>Good Quality</b>	P-2	A-2	F2
<b>Medium Quality</b>	P-3	A-3	F3

Note: Investment Grade ratings apply to securities with at least a medium credit quality or higher by one of the nationally recognize statistical rating organization; anything below the medium credit quality is non-investment grade.

## THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

### STATEMENT OF INVESTMENT POLICY

FISCAL YEAR ~~2022/23~~2023/24

June ~~14, 2022~~13, 2023

#### I. POLICY

This Statement of Investment Policy (Policy) is intended to outline the guidelines and practices to be used in managing the Metropolitan Water District of Southern California's (District) investment portfolio. District funds not required for immediate cash disbursements will be invested in compliance with the Government Code of the state of California (California Government Code).

#### II. INVESTMENT AUTHORITY

As authorized by Section 53607 of the California Government Code, authority to invest or reinvest funds of the District is hereby delegated by the Board of Directors to the Treasurer, for a period of one-year, who shall thereafter assume full responsibility for the investment program until the delegation of authority is revoked or expires. Subject to review, the Board of Directors may renew the delegation of authority each year. The Treasurer may delegate the day-to-day investment activities to their designee(s) but not the responsibility for the overall investment program.

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

#### III. STATEMENT OF OBJECTIVES

In accordance with California Government Code Section 53600.5, and in order of importance, the Treasurer shall adhere to the following three criteria:

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

#### **IV. SCOPE**

This Policy applies to all funds and investment activities under the direct authority of the District and accounted for in the Annual Comprehensive Financial Report (ACFR), except for the employee's retirement and deferred compensation funds. In addition, deposits with banks under the California Government Code's "Deposit of Funds" provisions are excluded from this Policy's requirements. Funds of the District will be invested in compliance with the provisions of, but not necessarily limited to securities specified in the California Government Code Section 53601 et seq. and other applicable statutes. Investments will be in accordance with these policies and written administrative procedures. Investment of the District's bond proceeds shall be subject to the conditions and restrictions of bond documents and are not governed by this Policy.

#### **V. PRUDENT INVESTOR STANDARD**

Pursuant to California Government Code Section 53600.3, all persons authorized to make investment decisions on behalf of the District are trustees and therefore fiduciaries subject to the "prudent investor standard". The prudent investment standard obligates a trustee to ensure that "when investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law."

#### **VI. SAFEKEEPING AND CUSTODY**

To protect against potential losses caused by the collapse of individual securities dealers, all investment transactions involving deliverable securities will be conducted on a delivery versus payment (DVP) basis. All deliverable securities owned by the District, including collateral on repurchase agreements, shall be held in safekeeping by a third party bank trust department acting as agent for the District under the terms of a custody agreement executed by the bank and the District. All financial institutions that provide safekeeping services for the District shall be required to provide reports or safekeeping receipts directly to the Controller to verify securities taken into their possession. The Controller shall also maintain evidence of the District ownership in non-deliverable securities (e.g. LAIF, CAMP, and Time CDs).

#### **VII. INVESTMENT TRANSACTIONS**

Information concerning investment opportunities and market developments will be gained by maintaining contact with the financial community. Confirmations for investment transactions will be sent directly to the Controller for audit. When practical, the Treasurer shall solicit more than one quotation on each trade.

#### **VIII. REPORTING**

If the Board delegates responsibility of the investment program to the Treasurer, then in accordance with the Metropolitan Water District Administrative Code, Section 5114, the Treasurer shall submit a monthly report to the Executive Secretary of the Board of Directors via the General Manager indicating the types of investment by fund and date of maturity, and shall provide the current market value of all securities, rates of interest, and expected yield to maturity. The Treasurer shall also submit a monthly summary report to the Board of Directors via the General Manager showing investment activity, including yield and earnings, and the status of cash by depository.

In addition, the monthly report shall also include a statement denoting the ability to meet the District's expenditure requirements for the next six (6) months. The report shall also state compliance of the portfolio to this Policy, or manner in which the portfolio is not in compliance. In the event of non-compliance, staff will prepare a report for the Board that details the compliance issue, provides analysis, and provides a recommendation to bring the portfolio back into compliance with this Policy.

## **IX. PERFORMANCE STANDARDS**

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

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

## **X. INVESTMENT GUIDELINES AND ELIGIBLE SECURITIES**

The District is governed by the California Government Code, Sections 53600 et seq. Within the context of these limitations, the investments listed below are authorized.

The District is prohibited from investing in any investment authorized by the California Government Code but not explicitly listed in this Policy without the prior approval of the Board of Directors. Some of the limitations on investments set forth below are more stringent than required by the California Government Code and have been included to better manage the credit risks specific to the District's portfolio. Under the provisions of California Government Code Sections 53601.6, the District shall not invest any funds covered by this Investment Policy in inverse floaters, range notes, mortgage-derived, interest-only strips or any investment that may result in a zero interest accrual if held to maturity, except as authorized by Code Section 53601.6.

### **1. US Treasury Obligations**

United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest.

- Maximum allocation: 100% of the portfolio
- Maximum maturity: Five (5) years, except as otherwise permitted by this Policy
- Credit requirement: N.A.

### **2. Federal Agency Obligations**

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

- Maximum allocation: 100% of the portfolio
- Maximum maturity: Five (5) years, except as otherwise permitted by this Policy
- Credit requirement: N.A.

### 3. Banker's Acceptances

Bills of exchange or time drafts drawn on and accepted by a commercial bank, typically created from a letter of credit issued in a foreign trade transaction.

- Maximum allocation: Forty percent (40%) of the portfolio; five percent (5%) with any one issuer
- Maximum maturity: One-hundred eighty (180) days
- Credit requirement: A-1 or its equivalent or better by a Nationally Recognized Statistical Rating Organization (NRSRO).
- Issued by banks with total deposits of over one billion dollars (\$1,000,000,000)
- Issued by banks from offices in the USA.

### 4. Commercial Paper

Commercial paper is defined as short-term, unsecured promissory notes issued by financial and non-financial companies to raise short-term cash. Financial companies issue commercial paper to support their consumer and/or business lending; non-financial companies issue for operating funds.

- Maximum allocation: Forty percent (40%) of the portfolio; five percent (5%) with any one issuer
- Maximum maturity: Two hundred seventy (270) days
- Credit requirement: Highest ranking or highest letter and number rating as provided by an NRSRO.
- Entity issuing the commercial paper must meet the conditions of California Government Code Section 53601(h)(1) or (2).

### 5. Medium Term Corporate Notes

All corporate and depository institution debt securities (not to include other investment types specified in Code) 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.

- Maximum allocation: Thirty percent (30%) of the portfolio; five percent (5%) with any one issuer
- Maximum maturity: Five (5) years
- Credit requirement: A or its equivalent or better by an NRSRO.

### 6. Negotiable Certificates of Deposit

Issued by a nationally or state-chartered bank, a savings association or a federal association, a state or federal credit union, or by a federally licensed or state-licensed branch of a foreign bank.

- Maximum allocation: Thirty percent (30%) of the portfolio, five percent (5%) with any one issuer
- Maximum maturity: Five (5) years
- Credit requirement: A (long-term) or A-1 (short-term) or their equivalents or better by an NRSRO
- Issued by banks with total deposits of one billion dollars (\$1,000,000,000) or more

### 7. Bank Deposit

Insured or collateralized time certificates of deposits, saving accounts, market rate accounts, or other bank deposits.

- Maximum limit: Thirty percent (30%) of the portfolio for all deposits
- Maximum maturity: Five (5) years



- Credit requirement: All deposits must be collateralized as required by California Government Code Sections 53630 et seq. The Treasurer may waive collateral for the portion of any deposits that is insured pursuant to federal law.
- Deposits are limited to a state or national bank, savings association or federal association, a state or federal credit union, or a federally insured industrial loan company, located in California.
- Deposits must meet the conditions of California Government Code Sections 53630 et seq.

Pursuant to Government Code 53637, the District is prohibited from investing in deposits of a state or federal credit union if a member of the District's Board of Directors, or any person at the District with investment decision-making authority, serves on the board of directors or committee of the state or federal credit union.

## **8. Money Market Mutual Funds**

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

- Maximum maturity: N/A
- Maximum allocation: Twenty percent (20%) of the portfolio
- Credit requirement: Highest ranking by not less than two NRSROs or must retain an investment advisor that meets specified requirements
- The use of money market funds is limited to Government money market funds that provide daily liquidity and seek to maintain a stable Net Asset Value (NAV)

## **9. State of California, Local Agency Investment Fund (LAIF)**

LAIF is a pooled investment fund overseen by the State Treasurer, which operates like a money market fund, but is for the exclusive benefit of governmental entities within the state. The maximum investment amount authorized by the Local Agency Investment Fund (LAIF) is set by the California State Treasurer's Office. The LAIF is held in trust in the custody of the State of California Treasurer. The District's right to withdraw its deposited monies from LAIF is not contingent upon the State's failure to adopt a State Budget.

- Maximum limit: The current limit set by LAIF for operating accounts
- Maximum maturity: N/A
- Credit requirement: N/A

## **10. Municipal Bonds and Notes**

Municipal obligations issued by the State of California, any other of the states in the union, or a local agency within the State of California. This may include bonds, notes, warrants, or other evidences of indebtedness including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by an authorized entity.

- Maximum limit: Thirty percent (30%) of the portfolio; five percent (5%) with any one issuer
- Maximum maturity: Five (5) years
- Credit requirement: A (long-term) or A-1 (short-term) or their equivalents or better by an NRSRO
- Must be issued by State of California, any of the other 49 states, or a California local agency

## **11. Repurchase Agreement**

A repurchase agreement is a purchase of authorized securities with terms including a written agreement by the seller to repurchase the securities on a future date and price.

- Maximum allocation: Twenty percent (20%) of the portfolio
- Maximum maturity: Two hundred seventy (270) days
- Master Repurchase Agreement must be on file
- Limited to primary dealers or financial institutions rated in a rating category of “A” or its equivalent or higher by an NRSRO.
- Fully collateralized at market value of at least one hundred two percent (102%) with US government or federal agency securities

### **12. California Asset Management Program (CAMP)**

Shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7.

- Maximum allocation: Forty percent (40%) of the portfolio
- Maximum maturity: N/A
- Credit requirement: AAAM or its equivalent or better by an NRSRO
- Joint powers authority has retained an investment adviser that is registered or exempt from registration with the Securities and Exchange Commission, has five or more years of experience investing in the securities and obligations authorized under California Government Code Section 53601, and has assets under management in excess of five hundred million dollars (\$500,000,000).

### **13. Supranationals**

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

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

### **14. Asset-Backed Securities**

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

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

## **XI. DIVERSIFICATION**

The District shall seek to diversify the investments within the investment portfolio to avoid incurring unreasonable risks inherent in concentrated holdings in specific instruments, individual financial institutions or maturities. To promote diversification, this Policy sets various percentage holding limits by investment type and issuer. Investment type and issuer percentage limitation listed in this Policy are calculated at the time the security is purchased. Per issuer limits, when listed, are calculated across investment types at the parent company level. Should an investment percentage be exceeded due to instances such as the fluctuation in overall portfolio size, or market valuation changes, the Treasurer is not

required to sell the affected securities. However, no additional investments can be made in that investment type or issuer while it is above the limits established by this Policy.

## **XII. CREDIT RATINGS**

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

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

## **XIII. MATURITY**

The Treasurer shall maintain a system to monitor and forecast revenues and expenditures so that the District's funds can be invested to the fullest extent possible while providing sufficient liquidity to meet the District's reasonably anticipated cash flow requirements.

The final maturity of any investment in the portfolios shall not exceed five (5) years with certain exceptions:

- The Treasurer is authorized to invest special trust funds in investment with a term to maximum maturity in excess of five years. These funds include, but are not limited to, the Water Revenue Bond Reserve Funds, Escrow Funds, Debt Service Funds, the Iron Mountain Landfill Closure/Post-closure Maintenance Trust Fund, and the Lake Mathews Multi-Species Reserve Trust Fund.
- The core portfolio may hold United States Treasury and Federal Agency securities with maturities in excess of five years.

## **XIV. DURATION**

Duration is a measure of a security's price sensitivity to interest rate changes. It indicates the approximate percentage change of a security's value given a 1% change in interest rates. A portfolio's duration is the weighted average of the individual security durations held in the portfolio.

The investment portfolio is divided into liquidity, core, and ~~bond reserves and trust~~ downturn fund portfolios. The Policy's duration limits only apply to the liquidity and core portfolios. The duration of the liquidity portfolio is limited to the duration of the benchmark index plus or minus 0.5 years. The duration of the core portfolio will be limited to the duration of the benchmark index plus or minus 1.5 years. The appropriate benchmark indices will be set by the Treasurer and reported to the Board in the Monthly Treasurer's Report.

## **XV. ADMINISTRATION**

The Treasurer may, at any time, establish more restrictive requirements for securities approved for investment as deemed appropriate in this Policy. These restrictions may include, but are not limited to, higher credit ratings, lower percentage limits by security type or issuer, shorter maturities and additional collateral requirements for collateralized investments.

## **XVI. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS**

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

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

## **XVII. INTERNAL CONTROLS**

The Treasurer or designee shall maintain a system of internal control procedures designed to ensure compliance with the Policy and to prevent losses due to fraud, employee error, and misrepresentations by third parties or unanticipated changes in financial markets. The internal control procedures shall apply to the investment activities of any person with investment decision-making authority acting on behalf of the District. Procedures should include references to individuals authorized to execute transactions or transfers, safekeeping agreements, repurchase agreements, wire transfer agreements, collateral/depository agreements and banking services contracts, as appropriate. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgement by management. As part of the annual audit, the District's external auditor will perform a review of investment transactions to verify compliance with policies and procedures.

## **XVIII. ETHICS AND CONFLICT OF INTEREST**

The Treasurer and designees shall refrain from personal business activity that could conflict with the proper execution and management of the investment program or that could impair their ability to make impartial decisions.

The Treasurer and designees shall disclose to the Ethics Officer and General Counsel any personal financial interests that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions.

## **XVIX. INVESTMENT POLICY**

This Policy shall be reviewed periodically by the Treasurer with any and all modifications made thereto approved by the Board of Directors at a public meeting.

## SUMMARY TABLE OF INVESTMENT GUIDELINES AND ELIGIBLE SECURITIES

The following table is intended to be a summary of the Policy’s requirements in Section X of this Policy. If there is a discrepancy between Section X and this table, the requirements listed in Section X take precedence.

Authorized Investments	Maximum % Holdings	Purchase Restrictions	Maximum Maturity	Credit Quality
US Treasury Obligations	100%	N/A	5 Years <sup>1</sup>	N/A
Federal Agency Obligations	100%	N/A	5 Years <sup>1</sup>	N/A
Bankers’ Acceptance	40%	5% per issuer <sup>2</sup>	180 days	“A-1” or its equivalent or higher by an NRSRO.
Commercial Paper	40%	5% per issuer <sup>2</sup>	270 days	Highest ranking or of the highest letter and number rating as provided for by an NRSRO.
Medium Term Corporate Notes	30%	5% per issuer <sup>2</sup> . US licensed and operating corporations	5 years	“A” or its equivalent or higher by an NRSRO.
Negotiable CD	30%	5% per issuer <sup>2</sup> , National or state chartered bank, S&L, or branch of foreign bank	5 years	“A-1” (short-term) or “A” (long-term) or their equivalents or higher by an NRSRO.
Bank Deposit	30%	See California Government Code Section 53637	5 Years	Collateralized/FDIC Insured in accordance with California Government Code
Money Market Mutual Funds	20%	Gov’t MMF. Stable NAV	Daily Liquidity	Highest ranking by two NRSROs or advisor requirements
Local Agency Investment Fund (“LAIF”)	LAIF limit for operating accounts	Subject to California Government Code Section 16429.1 limitations	N/A	N/A
Municipal Bonds and Notes	30%	5% per issuer <sup>2</sup> . State of California or California agencies or other 49 states	5 Years <sup>1</sup>	“A” or its equivalent or higher by an NRSRO.

Authorized Investments	Maximum % Holdings	Purchase Restrictions	Maximum Maturity	Credit Quality
Repurchase Agreements (“REPO”)	20%	Limited to primary dealers or financial institutions rated “A” or better by a NRSROs	270 days	Collateralized (min 102% of funds invested) with US Government or federal agency securities with maximum 5 year maturities
California Asset Management Program (“CAMP”)	40%	N/A	Daily Liquidity	“AAAm” or its equivalent or higher by a NRSRO
Supranationals	30%	Limited to IBRD, IFC, IADB	5 Years	“AA” or its equivalent or higher by an NRSRO.
Asset-Backed Securities	20%	5% per issuer <sup>2</sup>	5 Years	“AA” or its equivalent or higher by an NRSRO.

## Notes:

- The Treasurer is authorized to invest special trust funds in investment with a term to maximum maturity in excess of five years. These funds include, but are not limited to, the Water Revenue Bond Reserve Funds, Escrow Funds, Debt Service Funds, the Iron Mountain Landfill Closure/Post-closure Maintenance Trust Fund, and the Lake Mathews Multi-Species Reserve Trust Fund.

The core portfolio may be invested in United States Treasury and Federal Agency securities with maturities in excess of five years.

- Per issuer limits, when listed, are calculated across investment types at the parent company level.

## GLOSSARY

The glossary is provided for general information only. It is not to be considered a part of the Policy for determining Policy requirements or terms.

**AGENCIES:** Federal agency securities and/or Government-sponsored enterprises (GSEs), also known as U.S. Government instrumentalities. Securities issued by Government National Mortgage Association (GNMA) are considered true agency securities, backed by the full faith and credit of the U.S. Government. GSEs are financial intermediaries established by the federal government to fund loans to certain groups of borrowers, for example homeowners, farmers and students and are privately owned corporations with a public purpose. The most common GSEs are Federal Farm Credit System Banks, Federal Home Loan Banks, Federal Home Loan Mortgage Association, and Federal National Mortgage Association.

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

**BANKERS’ ACCEPTANCE (BA):** A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer. This money market instrument is used to finance international trade.

**BASIS POINT:** One-hundredth of one percent (i.e., 0.01%).

**BENCHMARK:** A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio’s investment.

**BOND:** A financial obligation for which the issuers promises to pay the bondholder a specified stream of future cash flows, including periodic interest payments and a principal repayment.

**BOOK VALUE:** The value at which a debt security is shown on the holder’s balance sheet. Book value is acquisition cost less amortization of premium or accretion of discount.

**BROKER:** A broker acts as an intermediary between a buyer and seller for a commission and does not trade for his/her own risk and account or inventory.

**CALLABLE SECURITIES:** A security that can be redeemed by the issuer before the scheduled maturity date.

**CALIFORNIA ASSET MANAGEMENT PROGRAM (CAMP):** A local government investment pool organized as joint powers authority in which funds from California local agency investors/participants are aggregated together for investment purposes.

**CASH EQUIVALENTS (CE):** Highly liquid and safe instruments or investments that can be converted into cash immediately. Examples include bank accounts, money market funds, and Treasury bills.

**CASH FLOW:** An analysis of all changes that affect the cash account during a specified period.

**CERTIFICATE OF DEPOSIT (CD):** A time deposit with a specific maturity evidenced by a certificate. Large-denomination CD's are typically negotiable.

**COLLATERAL:** Securities, evidence of deposit or other property which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

**COLLATERALIZED MORTGAGE OBLIGATION (CMO):** A type of mortgage-backed security that creates separate pools of pass-through rates for different classes of bondholders with varying maturities, called tranches. The repayments from the pool of pass-through securities are used to retire the bonds in the order specified by the bonds' prospectus.

**COMMERCIAL PAPER:** Short-term, unsecured, negotiable promissory notes of corporations.

**CORPORATE NOTE:** Debt instrument issued by a private corporation.

**COUPON:** The annual rate at which a bond pays interest.

**CREDIT RATINGS:** A grade given to a debt instrument that indicates its credit quality. Private independent rating services such as Standard & Poor's, Moody's and Fitch provide these

**CREDIT RISK:** The risk that an obligation will not be paid and a loss will result due to a failure of the issuer of a security.

**CUSIP:** Stands for Committee on Uniform Securities Identification Procedures. A CUSIP number identifies most securities, including: stocks of all registered U.S. and Canadian companies, and U.S. government and municipal bonds. The CUSIP system—owned by the American Bankers Association and operated by Standard & Poor's—facilitates the clearing and settlement process of securities. The number consists of nine characters (including letters and numbers) that uniquely identify a company or issuer and the type of security.

**CURRENT YIELD:** The annual interest on an investment divided by the current market value. Since the calculation relies on the current market value rather than the investor's cost, current yield is unrelated to the actual return the investor will earn if the security is held to maturity.

**CUSTODIAN:** A bank or other financial institution that keeps custody of stock certificates and other assets.

**DEALER:** A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his/her own risk and account or inventory.

**DELIVERY VERSUS PAYMENT (DVP):** Delivery of securities with a simultaneous exchange of money for the securities.

**DERIVATIVES:** A financial instrument that is based on, or derived from, some underlying asset, reference date, or index.

**DIRECT ISSUER:** Issuer markets its own paper directly to the investor without use of an intermediary.

**DISCOUNT:** The difference between the cost of a security and its value at maturity when quoted at lower than face value.



**DIVERSIFICATION:** Dividing investment funds among a variety of securities offering independent returns and risk profiles.

**DURATION:** A measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security. This calculation is based on three variables: term to maturity, coupon rate, and yield to maturity. Duration measures the price sensitivity of a bond to changes in interest rates.

**EFFECTIVE RATE OF RETURN:** The annualized rate of return on an investment considering the price paid for the investment, its coupon rate, and the compounding of interest paid.  $(\text{Total Earnings} / \text{Average daily balance}) \times (365 / \# \text{ of days in the reporting period})$

**FACE VALUE:** The principal amount owed on a debt instrument. It is the amount on which interest is computed and represents the amount that the issuer promises to pay at maturity.

**FAIR VALUE:** The amount at which a security could be exchanged between willing parties, other than in a forced or liquidation sale. If a market price is available, the fair value is equal to the market value.

**FANNIE MAE:** Trade name for the Federal National Mortgage Association (FNMA), a U.S. Government sponsored enterprise.

**FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC):** A federal agency that provides insurance on bank deposits, guaranteeing deposits to a set limit per account, currently \$250,000.

**FEDERAL FARM CREDIT BANK (FFCB):** Government-sponsored enterprise that consolidates the financing activities of the Federal Land Banks, the Federal Intermediate Credit Banks and the Banks for Cooperatives. Its securities do not carry direct U.S. government guarantees.

**FEDERAL FUNDS RATE:** The rate of interest at which Federal funds are traded. This rate is considered to be the most sensitive indicator of the direction of interest rates, as it is currently pegged by the Federal Reserve through open-market operations.

**FEDERAL GOVERNMENT AGENCY SECURITIES:** Federal Agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.

**GOVERNMENT ACCOUNTING STANDARDS BOARD (GASB):** A standard-setting body, associated with the Financial Accounting Foundation, which prescribes standard accounting practices for governmental units.

**GUARANTEED INVESTMENT CONTRACTS (GICS):** An agreement acknowledging receipt of funds, for deposit, specifying terms for withdrawal, and guaranteeing a rate of interest to be paid.

**INDEX:** An index is an indicator that is published on a periodic basis that shows the estimated price and/or yield levels for various groups of securities. Examples of relevant indices for Metropolitan include, but not limited to, ICE BofAML, 3-Month Treasury Bill Index, and ICE BofAML, 1 - 5 years AAA-A US Corporate and Government Index

**INTEREST RATE:** The annual yield earned on an investment, expressed as a percentage.

**INTEREST RATE RISK:** The risk of gain or loss in market values of securities due to changes in interest-rate levels. For example, rising interest rates will cause the market value of portfolio securities to decline.

**INVESTMENT AGREEMENTS:** A contract providing for the lending of issuer funds to a financial institution ~~which~~that agrees to repay the funds with interest under predetermined specifications.

**INVESTMENT GRADE (LONG TERM RATINGS):** The minimum, high-quality ratings for long-term debt such as corporate notes. Investment Grade ratings are as follows: A3 (Moody's), A- (S&P), and A- (Fitch).

**INVESTMENT PORTFOLIO:** A collection of securities held by a bank, individual, institution or government agency for investment purposes.

**LIQUIDITY:** A liquid asset is one that can be converted easily and rapidly into cash with minimum risk of principal.

**LOCAL AGENCY INVESTMENT FUND (LAIF):** An investment pool sponsored by the State of California and administered/managed by the State Treasurer. Local government units, with consent of the governing body of that Agency, may voluntarily deposit surplus funds for the purpose of investment. Interest earned is distributed by the State Controller to the participating governmental agencies on a quarterly basis.

**LOCAL AGENCY INVESTMENT POOL:** A pooled investment vehicle sponsored by a local agency or a group of local agencies for use by other local agencies.

**MARKET RISK:** The risk that the value of securities will fluctuate with changes in overall market conditions or interest rates. Systematic risk of a security that is common to all securities of the same general class (stocks, bonds, notes, money market instruments) and cannot be eliminated by diversification (which may be used to eliminate non-systematic risk).

**MARKET VALUE:** The price at which a security is currently being sold in the market. See FAIR VALUE.

**MASTER REPURCHASE AGREEMENT:** A written contract covering all future transactions between the parties to repurchase agreements and reverse repurchase agreements that establish each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

**MATURITY:** The date that the principal or stated value of a debt instrument becomes due and payable.

**MEDIUM-TERM CORPORATE NOTES (MTNs):** Unsecured, investment-grade senior debt securities of major corporations which are sold in relatively small amounts either on a continuous or an intermittent basis. MTNs are highly flexible debt instruments that can be structured to respond to market opportunities or to investor preferences.

**MODIFIED DURATION:** The percent change in price for a 100 basis point change in yields. This is a measure of a portfolio's or security's exposure to market risk.

**MONEY MARKET:** The market in which short-term debt instruments (Treasury Bills, Discount Notes, Commercial Paper, Banker's Acceptances and Negotiable Certificates of Deposit) are issued and traded.

**MORTGAGED BACKED SECURITIES:** A type of security that is secured by a mortgage or collection of mortgages. These securities typically pay principal and interest monthly.

**MUNICIPAL BONDS:** Debt obligations issued by states and local governments and their agencies, including cities,

counties, government retirement plans, school Agencies, state universities, sewer agency, municipally owned utilities and authorities running bridges, airports and other transportation facilities

**MUTUAL FUND:** An entity that pools money and can invest in a variety of securities ~~which~~that are specifically defined in the fund's prospectus.

**NEGOTIABLE CERTIFICATE OF DEPOSIT:** A large denomination certificate of deposit ~~which~~that can be sold in the open market prior to maturity.

**NET PORTFOLIO YIELD:** Calculation in which the 365-day basis equals the annualized percentage of the sum of all Net Earnings during the period divided by the sum of all Average Daily Portfolio Balances.

**NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION (NRSRO):** is a credit rating agency that issues credit ratings that the U.S Securities and Exchange Commission permits other financial firms to use for certain regulatory purposes.

**PAR VALUE:** The amount of principal which must be paid at maturity. Also referred to as the face amount of a bond. See FACE VALUE.

**PORTFOLIO:** The collection of securities held by an individual or institution.

**PREMIUM:** The difference between the par value of a bond and the cost of the bond, when the cost is above par.

**PRIMARY DEALER:** A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. These dealers are authorized to buy and sell government securities in direct dealing with the Federal Reserve Bank of New York in its execution of market operations to carry out U.S. monetary policy. Such dealers must be qualified in terms of reputation, capacity, and adequacy of staff and facilities.

**PRIME (SHORT TERM RATING):** High-quality ratings for short-term debt such as commercial paper. Prime ratings are as follows: P1 (Moody's), A1 (S&P), and F1 (Fitch).

**PRINCIPAL:** The face value or par value of a debt instrument, or the amount of capital invested in a given security.

**PRIVATE PLACEMENTS:** Securities that do not have to be registered with the Securities and Exchange Commission because they are offered to a limited number of sophisticated investors.

**PROSPECTUS:** A legal document that must be provided to any prospective purchaser of a new securities offering registered with the Securities and Exchange Commission that typically includes information on the issuer, the issuer's business, the proposed use of proceeds, the experience of the issuer's management, and certain certified financial statements (also known as an "official statement").

**PRUDENT INVESTOR STANDARD:** A standard of conduct for fiduciaries. Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

**PUBLIC DEPOSIT:** A bank that is qualified under California law to accept a deposit of public funds.

**PURCHASE DATE:** The date in which a security is purchased for settlement on that or a later date. Also known as the "trade date".

**RATE OF RETURN:** 1) The yield which can be attained on a security based on its purchase price or its current market price. 2) Income earned on an investment, expressed as a percentage of the cost of the investment.

**REALIZED GAIN (OR LOSS):** Gain or loss resulting from the sale or disposal of a security.

**REPURCHASE AGREEMENT (RP or REPO):** A transaction in which a counterparty or the holder of securities (e.g. investment dealer) sells these securities to an investor (e.g. the District) with a simultaneous agreement to repurchase them at a fixed date. The security "buyer" (e.g. the District) in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate the "buyer" for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money that is, increasing bank reserves.

**REVERSE REPURCHASE AGREEMENT (REVERSE REPO):** The opposite of a repurchase agreement. A reverse repo is a transaction in which the District sells securities to a counterparty (e.g. investment dealer) and agrees to repurchase the securities from the counterparty at a fixed date. The counterparty in effect lends the seller (e.g. the District) money for the period of the agreement with terms of the agreement structured to compensate the buyer.

**RISK:** Degree of uncertainty of return on an asset.

**SAFEKEEPING:** A service ~~which~~that banks offer to clients for a fee, where physical securities are held in the bank's vault for protection and book-entry securities are on record with the Federal Reserve Bank or Depository Trust Company in the bank's name for the benefit of the client. As an agent for the client, the safekeeping bank settles securities transactions, collects coupon payments, and redeems securities at maturity or on the call date, if called.

**SECURITIES AND EXCHANGE COMMISSION (SEC):** Agency created by Congress to protect investors in securities transactions by administering securities legislation.

**SECONDARY MARKET:** A market for the repurchase and resale of outstanding issues following the initial distribution.

**SECURITIES:** Investment instruments such as notes, bonds, stocks, money market instruments and other instruments of indebtedness or equity.

**SETTLEMENT DATE:** The date on which a trade is cleared by delivery of securities against funds.

**SPREAD:** The difference between two figures or percentages. It may be the difference between the bid (price at which a prospective buyer offers to pay) and asked (price at which an owner offers to sell) prices of a quote, or between the amount paid when bought and the amount received when sold.

**STRUCTURED NOTE:** A complex, ~~fixed-~~income instrument, which pays interest, based on a formula tied to other interest rates, commodities or indices. Examples include "inverse floating rate" notes which have coupons that increase when other interest rates are falling, and which fall when other interest rates are rising and "dual index floaters", which pay interest based on the relationship between two other interest rates, for example, the yield on the ten-year Treasury note minus the Libor rate. Issuers of such notes lock in a reduced cost of borrowing by purchasing interest rate swap agreements.

**SUPRANATIONALS:** International institutions that provide development financing, advisory services and/or

financial services to their member countries to achieve the overall goal of improving living standards through sustainable economic growth. The California Government Code allows local agencies to purchase the United States-dollar -denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank.

**TIME DEPOSIT:** A deposit with a California bank or savings and loan association for a specific amount and with a specific maturity date and interest rate. Deposits of up to \$250,000 are insured by FDIC. Deposits over \$250,000 are collateralized above the insurance with either government securities (at 110% of par value), first trust deeds (at 150% of par value), or letters of credit (at 105% of par value).

**TOTAL RATE OF RETURN:** A measure of a portfolio's performance over time. It is the internal rate of return ~~which~~that equates the beginning value of the portfolio with the ending value, and includes interest earnings and realized and unrealized gains and losses on the portfolio. For bonds held to maturity, total return is the yield to maturity. (Net Invested Income/Time Weighted Invested Value) X (365/ # of days in the reporting period)

**TRUSTEE OR TRUST COMPANY OR TRUST DEPARTMENT OF A BANK:** A financial institution with trust powers ~~which~~that acts in a fiduciary capacity for the benefit of the bondholders in enforcing the terms of the bond contract.

**UNDERWRITER:** A dealer which purchases a new issue of municipal securities for resale.

**U.S. GOVERNMENT AGENCY SECURITIES:** Securities issued by U.S. government agencies, most of which are secured only by the credit worthiness of the particular agency. See AGENCIES.

**U.S. TREASURY OBLIGATIONS:** Securities issued by the U.S. Treasury and backed by the full faith and credit of the United States. Treasuries are the benchmark for interest rates on all other securities in the U.S. The Treasury issues both discounted securities and fixed coupon notes and bonds. The income from Treasury securities is exempt from state and local, but not federal, taxes.

**TREASURY BILLS:** Securities issued at a discount with initial maturities of one year or less. The Treasury currently issues three-month and six-month Treasury bills at regular weekly auctions. It also issues very short-term "cash management" bills as needed to smooth out cash flows.

**TREASURY NOTES:** Intermediate-term coupon-bearing securities with initial maturities of one year to ten years.

**TREASURY BOND:** Long-term coupon-bearing securities with initial maturities of ten years or longer.

**UNREALIZED GAIN (OR LOSS):** Gain or loss that has not become actual. It becomes a realized gain (or loss) when the security in which there is a gain or loss is actually sold. See REALIZED GAIN (OR LOSS).

**VOLATILITY:** Characteristic of a security, commodity or market to rise or fall sharply in price within a short-term period.

**WEIGHTED AVERAGE MATURITY:** The average maturity of all the securities that comprise a portfolio that is typically expressed in days or years.

**YIELD:** The annual rate of return on an investment expressed as a percentage of the investment. See CURRENT YIELD; YIELD TO MATURITY.

**YIELD CURVE:** Graph showing the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity.

**YIELD TO MATURITY:** Concept used to determine the rate of return if an investment is held to maturity. It takes into account purchase price, redemption value, time to maturity, coupon yield, and the time between interest payments. It is the rate of income return on an investment, minus any premium or plus any discount, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond, expressed as a percentage.

### RATING DESCRIPTION TABLE

Long Term Debt Ratings			
Credit Quality	Moody's	S&P	Fitch
<b>Strongest Quality</b>	Aaa	AAA	AAA
<b>Strong Quality</b>	Aa1/Aa2/Aa3	AA+/AA/AA-	AA
<b>Good Quality</b>	A1/A2/A3	A+/A/A-	A
<b>Medium Quality</b>	Baa1/Baa2/Baa3	BBB+/BBB/BBB-	BBB
<b>Speculative</b>	Ba1/Ba2/Ba3	BB+/BB/BB-	BB
<b>Low</b>	B1/B2/B3	B+/B/B-	B
<b>Poor</b>	Caa	CCC+	CCC
<b>Highly Speculative</b>	Ca/C	CCC/CCC-/CC	CC
Short Term Debt Ratings			
Credit Quality	Moody's	S&P	Fitch
<b>Strongest Quality</b>	P-1	A-1+	F1
<b>Strong Quality</b>		A-1	
<b>Good Quality</b>	P-2	A-2	F2
<b>Medium Quality</b>	P-3	A-3	F3

Note: Investment Grade ratings apply to securities with at least a medium credit quality or higher by one of the nationally recognize statistical rating organization; anything below the medium credit quality is non-investment grade.



Finance, Audit, Insurance, and Real Property  
Committee

# Statement of Investment Policy and Authority to Invest

Item 7-4  
June 13, 2023



# Investment Policy and Authority to Invest

- Section 5114 of Metropolitan's Administrative Code requires the Treasurer to submit a Statement of Investment Policy to the Board for approval for the following fiscal year.
- Sections 53600 et seq. of the California Government Code expressly grant the authority to the Board to invest public funds and that authority may be delegated to the Treasurer for a one-year period.

# Statement of Investment Policy – Change

	FY2022/23	FY2023/24	Rationale
§XIV	The investment portfolio is divided into liquidity, core and bond reserves and trust fund portfolios	The investment portfolio is divided into liquidity, core, and endowment fund portfolios	Combine trust funds into an endowment fund to enable a tailored investment strategy

# Statement of Investment Policy – Change

	FY2022/23	FY2023/24	Rationale
Glossary	N/A	EFFECTIVE RATE OF RETURN: The annualized rate of return on an investment considering the price paid for the investment, its coupon rate, and the compounding of interest paid. (Total Earnings / Average daily balance) x (365/ # of days in the reporting period)	Add a definition of Effective Rate of Return

# Statement of Investment Policy – Change

	FY2022/23	FY2023/24	Rationale
Glossary	<p><b>TOTAL RATE OF RETURN:</b> A measure of a portfolio's performance over time. It is the internal rate of return which equates the beginning value of the portfolio with the ending value, and includes interest earnings and realized and unrealized gains and losses on the portfolio. For bonds held to maturity, total return is the yield to maturity.</p>	<p><b>TOTAL RATE OF RETURN:</b> A measure of a portfolio's performance over time. It is the internal rate of return which equates the beginning value of the portfolio with the ending value, and includes interest earnings and realized and unrealized gains and losses on the portfolio. For bonds held to maturity, total return is the yield to maturity. (Net Invested Income/Time Weighted Invested Value) X (365/ # of days in the reporting period)</p>	<p>Add a formula of Total Rate of Return</p>

# Board Options

## Option #1:

- Approve the Statement of Investment Policy for fiscal year 2023/24; and
- Delegate authority to the Treasurer to invest Metropolitan's funds for fiscal year 2023/24.

## Option #2:

- Do not approve the Statement of Investment Policy for fiscal year 2023/24 and do not delegate authority to the Treasurer to invest Metropolitan's funds for fiscal year 2023/24.

# Staff Recommendation

## Option #1



# Questions







● **Board of Directors**

***Finance, Audit, Insurance, and Real Property Committee***

6/13/2023 Board Meeting

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**7-5**

**Subject**

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Authorize the General Manager to execute six lease/license amendments and two new license agreements for the installation and upgrade of telecommunication equipment and changes in the terms at existing telecommunication sites known as Edom Hill, Vidal Junction, Crossman Peak, Las Vegas Junction, Searchlight, Christmas Tree, and Black Peak, and to commence occupying a new site known as Super Nap, in Southern California, Southern Nevada, and Southern Arizona, as part of Metropolitan's Desert Microwave Project; the proposed action is in furtherance of a project that was previously determined to be exempt from CEQA (Riverside County Assessor Parcel No. 659-260-030, San Bernardino County Assessor Parcel No. 0647-321-20-0000, Mohave County Parcel No. 113-02-003, Clark County Parcel Nos. 190-15-000-001; 243-34-501-019; 259-00-001-001; 176-01-801-043, and La Paz County Parcel No. 311-01-006)

**Executive Summary**

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This action authorizes the General Manager to execute six lease/license amendments at Vidal Junction, Crossman Peak, Las Vegas Junction, Searchlight, Christmas Tree, and Black Peak sites and two new license agreements at Edom Hill and Super Nap sites for the upgrade of telecommunication equipment and changes in the terms including footprint, duration and rental amounts at existing telecom sites (**Attachment 1**). These upgrades and change in terms are part of Metropolitan's Desert-Wide-Area Network Upgrade Project. The existing microwave radio wide-area network is over 14 years old, and the Board authorized the design and procurement of components for the upgrade project on January 8, 2019, and July 13, 2021.

**Details**

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**Background**

Metropolitan's Desert-Wide-Area Network (WAN) was constructed in the late 1990s and presently comprises a network of 72 transmission tower sites throughout Southern California, including 24 that support the CRA. Most sites are located on remote hilltops to provide point-to-point communication links. These sites are managed by landowners or telecommunication site operators such as American Tower Company, Crown Castle, SBA Structure, Switch, or the US Bureau of Land Management. Metropolitan's WAN provides the primary data transmission and communications path across the desert region, which entails transmitting telephone, voice, data, and video communications as well as real-time data from the supervisory control and data acquisition system, automated meter reading system, security cameras, teleprotection, and system alarms to Metropolitan's control facilities. The WAN also provides access at remote sites to email, the geographical information system, Oracle Financial, WorkTech, and PeopleSoft applications between all Metropolitan facilities.

Each transmission site consists of a tower, directional antennas that transmit incoming and outgoing signals, and microwave radio equipment typically housed in a small masonry structure. In most cases, the transmission tower and related infrastructure are owned by the landowners or telecommunication site operators and serve other public and private end-users besides Metropolitan.

The upgrade of the WAN is included within Metropolitan's Capital Investment Plan and Infrastructure Reliability Program. On January 8, 2019, the Board authorized a professional technical service contract for the subject equipment upgrades. The Board authorized procurement of the equipment for this project and additional technical services on July 13, 2021. The WAN Project will replace the current microwave system with a high-capacity

carrier-grade microwave system that will provide a more reliable communications system to the desert region. The replacement microwave system is anticipated to upgrade the microwave radio antennas, waveguides, routers, rectifiers, network management system, supporting network equipment, and direct current power distribution with battery backup systems.

Metropolitan currently uses privately owned telecommunication sites at Vidal Junction, Crossman Peak, Las Vegas Junction, Searchlight, Christmas Tree, Black Peak, and Edom Hill, which have been identified as sites that need to be upgraded/expanded as part of the WAN upgrade project. The staff has also negotiated longer-term deals where possible due to the cost of implementing this WAN upgrade Project and the long-term needs for the communication facilities. The staff has also identified a new site at Super Nap as part of the WAN Upgrade Project. The existing and proposed agreements also include rent adjustments between 3 to 5 percent per year.

### Proposed Terms

Terms for each agreement and amendment have been tentatively agreed upon and are presented in this letter for the Board's consideration.

### Term Duration

Each agreement and amendment will include the term dates set forth in Table 1 below:

**Table 1: Proposed Term Dates**

Site Name (Vendor)	Term Start Date	Term End Date	Extension Options
Edom Hill (American Tower)	June 2023	June 2038	(3) Five-Year Options
Vidal Junction (American Tower)	June 2023	February 2032	(2) Five-Year Options
Crossman Peak (American Tower)	June 2023	November 2032	(6) Five-Year Options
Las Vegas Junction (American Tower)	June 2023	July 2033	(2) Five-Year Options
Searchlight (Crown Castle)	June 2023	March 2027	(3) Five-Year Options
Christmas Tree (SBA Structure)	TBD	July 2033	None
BlackPeak (SBA Structure)	TBD	July 2033	None
Super Nap (Switch)	TBD	December 2026	None

### Annual Rent

Annual rent for each agreement and amendment will be established as outlined in Table 2 below:

**Table 2: Proposed Annual Rents - Year 1**

Site Name (Vendor)	Current Rent	Proposed Rent	Change
Edom Hill (American Tower)	\$30,172	\$43,260 (New)	\$13,088
Vidal Junction (American Tower)	\$71,189	\$83,189	\$12,000
Crossman Peak (American Tower)	\$24,316	\$49,516	\$25,200
Las Vegas Junction (American)	\$34,160	\$65,960	\$31,800
Searchlight (Crown Castle)	\$19,577	\$24,677	\$5,100
Christmas Tree (SBA Structure)	\$40,991	\$52,991	\$12,000

Site Name (Vendor)	Current Rent	Proposed Rent	Change
BlackPeak (SBA Structure)	\$17,289	\$26,289	\$9,000
Super Nap (Switch)	New Agreement	\$12,864	\$12,864
<b>TOTAL</b>	<b>\$237,694</b>	<b>\$358,746</b>	<b>\$121,052</b>

## Policy

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Metropolitan Water District Administrative Code Section 8230: Grants Real Property Interests

Metropolitan Water District Administrative Code Section 8231: Appraisal of Real Property Interests

Metropolitan Water District Administrative Code Section 8232: Terms and Conditions of Management

Metropolitan Water District Administrative Code Section 11104: Delegation of Responsibilities

By Minute Item 48766, dated August 16, 2011, the Board adopted the proposed policy principles for managing Metropolitan's real property assets.

## California Environmental Quality Act (CEQA)

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### CEQA determination for Option #1:

Metropolitan's Desert-Wide-Area Network Upgrade Project was previously determined to be categorically exempt under the provisions of CEQA and State CEQA Guidelines. The activities associated with this project were determined to be exempt under Classes 1, 2, 4, 6 and 9, Sections 15301, 15303, 15304, 15306, and 15309 of the State CEQA Guidelines on January 8, 2019 and July 13, 2021. The statute of limitations has ended. With the current board action to execute six lease amendments and two license agreements, there is no substantial change proposed to the project. Accordingly, no further CEQA documentation is necessary for the Board to act with regards to the action.

### CEQA determination for Option #2:

None required

## Board Options

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### Option #1

Authorize the General Manager to execute six lease/license amendments and two new license agreements for the installation and upgrade of telecommunication equipment and changes in the terms at existing telecommunication sites known as Edom Hill, Vidal Junction, Crossman Peak, Las Vegas Junction, Searchlight, Christmas Tree, and Black Peak, and to commence occupying a new site known as Super Nap, in Southern California, Southern Nevada, and Southern Arizona, as part of Metropolitan's Desert Microwave Project.

**Fiscal Impact:** Metropolitan's annual rent for the subject Desert Microwave sites will increase by \$121,052.

**Business Analysis:** This action will allow equipment upgrades that increase the reliability and longevity of Metropolitan's communications systems.

### Option #2

Do not authorize the lease/license amendments and new license agreements.

**Fiscal Impact:** Metropolitan's annual rent will remain at \$237,694, subject to annual rent adjustments.


Project management and design costs incurred to date in association with the equipment upgrades at these sites will be sunk costs.


**Business Analysis:** Metropolitan's communications systems may become unreliable due to aging communication equipment.

**Staff Recommendation**

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Option #1

  
Shane O. Chapman 5/25/2023  
Assistant General Manager/Operations Date

  
Adel Hagekhalil 5/26/2023  
General Manager Date

**Attachment 1 – Site Map**

Ref# rpd12694274





Finance, Audit, Insurance, & Real Property Committee

# Desert Microwave Telecom Agreements

Item 7-5

June 13, 2023

# Service Area & CRA Map



## Key Provisions

- Six amendments to existing agreements and two new license agreements as part of MWD's Desert Wide Area Network Upgrade Project
- Metropolitan's annual rent for sites supporting the Desert Wide Area Network will increase \$121,052.
- The eight agreements include annual fixed rent increases ranging from 3, 4, & 5%.
- Five of the eight agreements include options to extend the term.



# Board Options

## Option No. 1

- Authorize the General Manager to execute six lease/license amendments and two new license agreements for the installation and upgrade of telecommunication equipment and changes in the terms at existing telecommunication sites known as Edom Hill, Vidal Junction, Crossman Peak, Las Vegas Junction, Searchlight, Christmas Tree, and Black Peak, and to commence occupying a new site known as SuperNap, in Southern California, Southern Nevada, and Southern Arizona, as part of Metropolitan's Desert Microwave Project.

# Board Options

## Option 2

- Do not authorize the new agreements and agreement amendments.

# Board Options

## Staff Recommendations

- Option No. 1





● **Board of Directors**  
***Finance, Audit, Insurance, and Real Property Committee***

6/13/2023 Board Meeting

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**7-6**

**Subject**

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Authorize the General Manager to grant a permanent 40-foot easement to Eastern Municipal Water District for water pipeline purposes northeast of Diamond Valley Lake in the city of Hemet within Assessor Parcel Numbers 464-250-002, 464-250-003, 454-270-020 and 454-270-032; the General Manager has determined that the proposed action is exempt and not subject to CEQA

**Executive Summary**

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This action authorizes the General Manager to grant a permanent easement to Eastern Municipal Water District (EMWD) to allow for future construction, operation, maintenance, repair and replacement of a water pipeline within Metropolitan's fee-owned property. The proposed 4.1-acre easement area is located northeast of Diamond Valley Lake and south of the intersection of Chambers Avenue and Palm Avenue in the City of Hemet (**Attachment 1**). Board authorization to grant this permanent easement is required as the real property interest to be conveyed exceeds five years.

**Details**

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**Background**

In October 2003, Metropolitan granted approximately 1.7 acres to EMWD for a 20-foot-wide utility easement to accommodate a 24-inch potable water pipeline at the subject location. The purpose of the proposed additional 40-foot easement is to accommodate future construction, operation, maintenance, repair and replacement of a pipeline that would run parallel to EMWD's existing pipeline.

Staff has determined that this new easement would not interfere with Metropolitan's water operations as there are no existing or future facilities proposed in this area, and the surrounding land has been declared surplus by the Board. Prior to sale of the fee simple interest in the land, any improvements proposed within the easement area will be subject to Metropolitan's prior review and written approval to again ensure operational compatibility.

The proposed permanent easement will have the following key provisions to again protect Metropolitan for as long as Metropolitan continues to own the underlying fee simple interest:

- Requirements for mutually compatible uses between two public entities with prior rights provisions for Metropolitan.
- Easement owner rights for construction, operation, maintenance, repair and replacement.
- All plans for construction, maintenance, major repair, or replacement work shall be reviewed and approved by Metropolitan prior to the commencement of such work.
- EMWD shall complete and prepare any environmental analysis, review and documentation that may be required under the California Environmental Quality Act (CEQA) prior to approval and commencement of any activities permitted under the easement.
- EMWD shall defend, indemnify and hold harmless Metropolitan.

The fair market value for the proposed easement is \$60,000, as determined by a qualified licensed appraiser. Metropolitan will also receive a one-time processing fee of \$6,000.

## Policy

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Metropolitan Water District Administrative Code Section 8230: Grants of Real Property Interests

Metropolitan Water District Administrative Code Section 8231: Appraisal of Real Property Interests

Metropolitan Water District Administrative Code Section 8232: Terms and Conditions of Management

Metropolitan Water District Administrative Code Section 11104: Delegation of Responsibilities

By Minute Item 48766, dated August 16, 2011, the Board adopted fair market value policies for managing Metropolitan's real property assets.

## California Environmental Quality Act (CEQA)

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### CEQA determination for Option #1:

EMWD is requesting an additional 40-foot easement to accommodate future construction, operation, maintenance, repair and replacement of a pipeline running parallel to its existing 24-inch potable water pipeline. However, currently, no such pipeline has been proposed, planned or approved.

Accordingly, the proposed action granting this additional easement is not defined as a project because it involves organizational or continuing administrative activities that will not result in direct or indirect physical changes in the environment. (CEQA Public Resources Code §21065, State CEQA Guidelines §15378(b)(2).) In addition, the proposed action is not subject to CEQA because it can be seen with certainty that this additional easement in and of itself will not cause a significant effect on the physical environment (Section 15061(b)(3) of the State CEQA Guidelines).

EMWD, acting as the Lead Agency, will complete and prepare any environmental analysis, review and documentation that may be required under CEQA prior to approval and commencement of any activities permitted under this easement. (State CEQA Guidelines §§15004, 15352.)

### CEQA determination for Option #2:

None required

## Board Options

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### Option #1

Authorize the General Manager to grant a permanent 40-foot easement to Eastern Municipal Water District for water pipeline purposes northeast of Diamond Valley Lake in the city of Hemet within Assessor Parcel Numbers 464-250-002, 464-250-003, 454-270-020 and 454-270-032.

**Fiscal Impact:** Metropolitan will receive positive revenue in the form of a one-time payment of \$6,000 for processing fees and \$60,000 as the fair market value for the easement area.

**Business Analysis:** Cooperation with other agencies, by granting easements and other rights of entry, furthers the public interest and facilitates Metropolitan obtaining easements and other property rights critical for its operations. Metropolitan will also receive positive revenue in the form of fees and fair market value for the easement.

### Option #2

Do not approve the permanent easement.


**Fiscal Impact:** Metropolitan will forgo one-time transaction and conveyance fees of \$66,000.

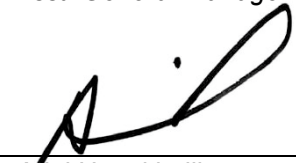
**Business Analysis:** EMWD will not be permitted to construct and maintain a water pipeline within the Metropolitan property which may impact their future water deliveries in the area. This option could hinder water distribution and system resiliency.

**Staff Recommendation**

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Option #1

 5/25/2023  
Shane O. Chapman Date  
Asst. General Manager/Operations

 5/26/2023  
Adel Hagekhalil Date  
General Manager

**Attachment 1 – Site Map**

Ref# rpd12695821







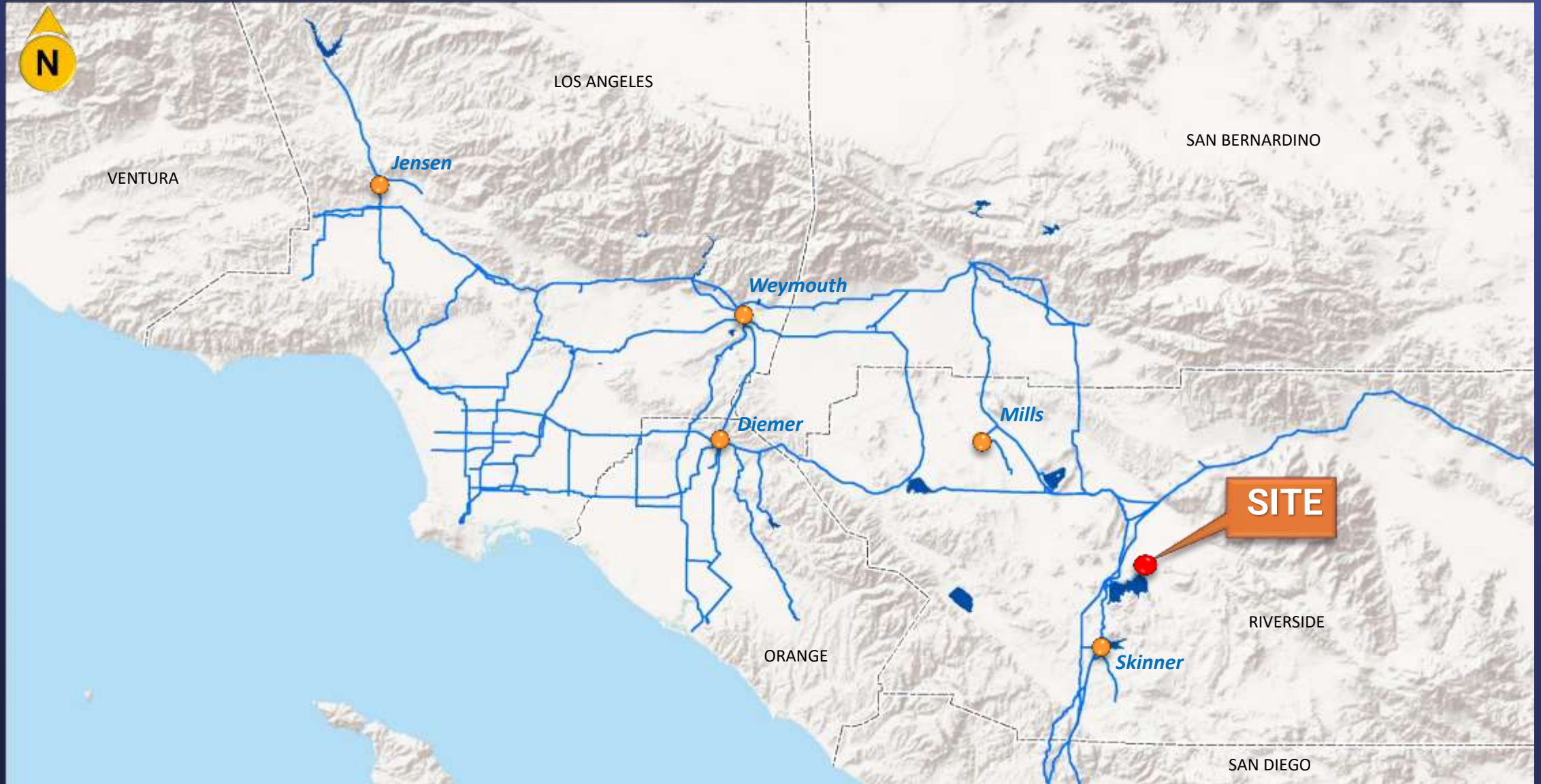
Finance, Audit, Insurance, & Real Property Committee

# Eastern Municipal Water District Easement

Item 7-6

June 13, 2023

# Distribution System Map



# General Location Map



# Site Map



## Key Provisions

- Prior rights provisions for Metropolitan
- Easement owner rights of 4.1 acres
- All plans shall be approved by Metropolitan prior commencement of work
- EMWD shall complete CEQA documentation
- EMWD shall hold Metropolitan harmless
- Appraised fair market value of \$60,000 + \$6,000 one-time processing fee

# Board Options

## Option No. 1

- Authorize the General Manager to grant a permanent 40-foot easement to Eastern Municipal Water District for water pipeline purposes northeast of Diamond Valley Lake in the city of Hemet.

## Option No. 2

- Do not approve the permanent easement.

# Board Options

## Staff Recommendation

- Option No. 1







● **Board of Directors**

***Finance, Audit, Insurance, and Real Property Committee***

6/13/2023 Board Meeting

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9-2

**Subject**

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Introduction of Ordinance No. 152: Determining that the Interests of Metropolitan Require the Use of Revenue Bonds in the Aggregate Principal Amount of \$500 Million to Finance a Portion of Capital Expenditures

**Executive Summary**

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Introduction of Ordinance No. 152 - Determining That The Interests Of The District Require The Use of Revenue Bonds In the Aggregate Principal Amount of \$500,000,000 To Finance A Portion Of Capital Expenditures (Ordinance) will allow the Board to consider the adoption of the Ordinance at the Board's July meeting.

**Details**

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**Background**

In 1974, the voters in Metropolitan's service area approved the use of long-term revenue bonds as an alternative to pay-as-you-go financing. Revenue bonds include bonds, notes, loans, or other evidences of indebtedness.

Pursuant to the approval of the voters and the Metropolitan Water District Act (MWD Act), the Board may authorize issuance of revenue bonds upon the adoption of an ordinance finding the interests of the District require their use for the purposes set forth in Section 237 of the MWD Act. These purposes include financing a portion of capital expenditures, should their costs be too great to be paid out of the operating revenues, in order to preserve the financial flexibility of the District.

The adoption of the Ordinance is the first step to subsequent and separate authorization of revenue bonds in an aggregate principal amount of up to \$500 million. Adoption of the Ordinance will not authorize any specific bond issuance. Separate board approval would be required for any bond issuance under this Ordinance.

Staff anticipates returning to the Board in July 2023 for consideration and adoption of the attached Ordinance. The MWD Act requires ordinances to be introduced on a day prior to the time of the Board's adoption of the ordinance. The MWD Act does not specify the method of introduction of ordinances. By introducing the Ordinance in June and seeking board approval in July, we are satisfying the requirements of the MWD Act. The analysis supporting that proposal will be presented to the Board at that time.

Sequence of Board actions:

- 1 Introduce the Ordinance by a reading of the title only of the Ordinance. (June – Board only.)
2. Vote whether the interests of the District require use of revenue bonds in the amount not to exceed \$500 million to finance a portion of capital expenditures and waive the full reading of the Ordinance. (Scheduled for July – Finance, Audit, Insurance, and Real Property Committee and Board.)
3. Adopt separate bond resolutions, as needed, up to an aggregate principal amount of \$500 million to authorize future bond issuance. Follows adoption of Ordinance.

**Attachment 1** provides the Board with the full text of the proposed Ordinance.

**Policy**

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Metropolitan Water District Act Section 61: Ordinances, Resolutions and Orders

Metropolitan Water District Act Section 63: Roll Call on Ordinances

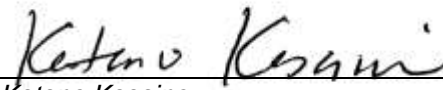
Metropolitan Water District Act Section 64: Ordinances; Introduction; Adoption

Metropolitan Water District Act Section 237: Revenue Bond Purposes

**Fiscal Impact**

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None.

	6/1/2023
_____ Katano Kasaine Assistant General Manager/ Chief Financial Officer	Date

	6/2/2023
_____ Adel Hagekhalil General Manager	Date

**Attachment 1 – Ordinance of the Board of Directors of The Metropolitan Water District of Southern California Determining that the Interests of the District Require the Use of Revenue Bonds in the Aggregate Principal Amount of \$500,000,000 to Finance a Portion of Capital Expenditures**

Ref# cfo12693278

THE METROPOLITAN WATER DISTRICT OF  
SOUTHERN CALIFORNIA

ORDINANCE 152

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ORDINANCE OF THE BOARD OF DIRECTORS  
OF THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA  
DETERMINING THAT THE INTERESTS OF THE DISTRICT REQUIRE THE USE OF  
REVENUE BONDS IN THE AGGREGATE PRINCIPAL AMOUNT OF \$500,000,000 TO  
FINANCE A PORTION OF CAPITAL EXPENDITURES

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The Board of Directors of The Metropolitan Water District of Southern California (the “Board”) hereby finds that:

1. Pursuant to Chapter 1.6 of Part 5 of the Metropolitan Water District Act (California Statutes 1969, Chapter 209, as amended, hereinafter sometimes referred to as the “Act”), the Board of The Metropolitan Water District of Southern California (the “District”), on March 12, 1974, adopted Ordinance No. 126, calling a special election to be held within the District on June 4, 1974, for the purpose of submitting to the qualified voters of said District the following proposition:

To permit use of long-term bonds backed by water revenues as an alternative to pay-as-you-go financing, shall the Board of Directors of the Metropolitan Water District of Southern California be authorized to issue and sell revenue bonds under Chapter 1.6, Part 5, Metropolitan Water District Act?

2. Said election was duly and regularly held, and said proposition received the affirmative vote and assent of a majority of all of the qualified voters of the District voting on said proposition, and therefore the Board is authorized to issue and sell revenue bonds under Chapter 1.6 of Part 5 of the Act.

3. Revenue bonds means bonds, notes, loans, or other obligations or evidences of indebtedness, as provided for in the Act and California Government Code.

4. The ability to ensure a reliable supply of high-quality water for the District’s 26 member agencies depends upon the District’s ongoing ability to fund operations and maintenance, maintain and augment local and imported water supplies, fund replacements and refurbish existing infrastructure, and invest in system improvements.

5. Ordinance 151 was adopted by the Board on September 15, 2020, finding that the interests of Metropolitan require the use of revenue bonds in the aggregate principal amount of \$500,000,000 to fund a portion of the District’s capital investment plan expenditures, the cost of which is too great to be paid out of the ordinary annual income and revenue of the District.

6. Of the \$500,000,000 aggregate principal amount of revenue bonds authorized under Ordinance 151, all but \$396.155 million have been issued, and \$260 million is anticipated to be issued in fiscal year (FY) 2022/23 to finance a portion of the District's capital expenditures.

7. On April 12, 2022, the Board approved a biennial budget for FY 2022/23 and FY 2023/24, containing capital expenditures of \$300 and \$300 million, respectively, of which 55 percent is anticipated to be funded by debt proceeds.

8. On April 12, 2022, the Board approved a ten-year financial forecast for FY 2022/23 through FY 2031/32 (the "Ten-Year Financial Forecast"), forecasting annual capital expenditures of \$300 million for FY 2022/23 and FY 2023/24 and increasing from \$372 million up to \$1,202 million in FY 2024/25 through FY 2030/31, of which some portion of each year is anticipated to be funded by debt proceeds. The Ten-Year Financial Forecast provides an estimated forecast of future capital expenditures.

9. On April 12, 2022, the Board approved the use of \$270 million in operating revenues to partially fund the capital investment plan for FY 2022/23 and FY 2023/24. The capital investment plan identifies the capital priorities of the District for the fiscal years of the adopted budget.

10. In order to fully fund the capital investment plan and board-approved bond-financed projects for the Antelope Valley East Kern (AVEK) High Desert Water Banking Program and conservation program adopted by the Board on April 12, 2022, \$463.9 million in revenue bonds would be required in FY 2022/23 and FY 2023/24. To support the issuance of such \$463.9 million in revenue bonds, a capacity of \$396.155 million under Ordinance 151 is available. This Ordinance would provide support for these bond issues and provide capacity for debt issued in future years.

11. Debt financing in future FYs of the Ten-Year Financial Forecast is assumed at amounts ranging from \$165 million to \$1,002 million per fiscal year.

12. The Board may, from time to time, approve capital expenditures other than or in addition to those contemplated by the capital investment plan at the time of the then-current biennial budget.

13. From time to time, capital projects that have been undertaken are delayed, redesigned, or deferred by the District for various reasons.

14. This Ordinance would support future board actions for debt financing over several years for capital expenditures approved by the Board as provided in the then-current biennial budget, capital investment plan, ten-year financial forecast, and as otherwise approved by the Board, which collectively would not exceed \$500,000,000.

15. Using debt to finance a portion of capital expenditures will provide the District with additional financial flexibility to fund capital expenditures that are necessary or convenient to carry out the purposes of the District while mitigating increases in water rates and charges.

16. This Ordinance was introduced at the regular meeting of the Board held on June 13, 2023.

NOW, THEREFORE, the Board of Directors of the District, DOES HEREBY RESOLVE, DETERMINE AND ORDER as follows:

The interests of The Metropolitan Water District of Southern California require the use of revenue bonds in the aggregate principal amount of \$500,000,000 to finance a portion of the District's capital expenditures, the cost of which is too great to be paid out of the ordinary annual income and revenue of the District.

**I HEREBY CERTIFY** that the foregoing is a full, true and correct copy of an Ordinance adopted by a two-thirds (2/3) vote of the total vote of the Board of Directors of The Metropolitan Water District of Southern California at its meeting held on July 11, 2023.

---

Secretary of the Board of Directors  
of the Metropolitan Water District  
of Southern California



Finance, Audit, Insurance, and Real Property Committee

# Quarterly Investment Activities Report

Item 7a  
June 13, 2023

# Portfolio Overview

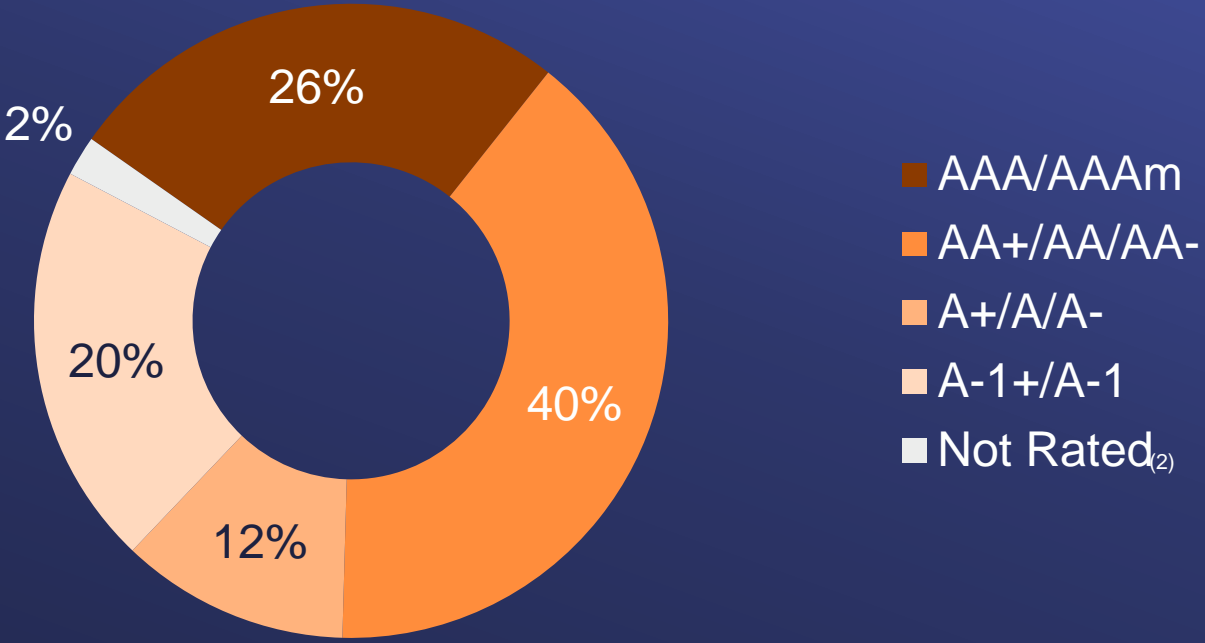
## Statistics as of March 31, 2023

Total Market Value	\$ 1.225 billion
Duration	10.56 months
Yield to Maturity	3.55%

# Portfolio Overview

## Credit Quality <sup>(1)</sup>

Over 98% of the total portfolio is investment grade



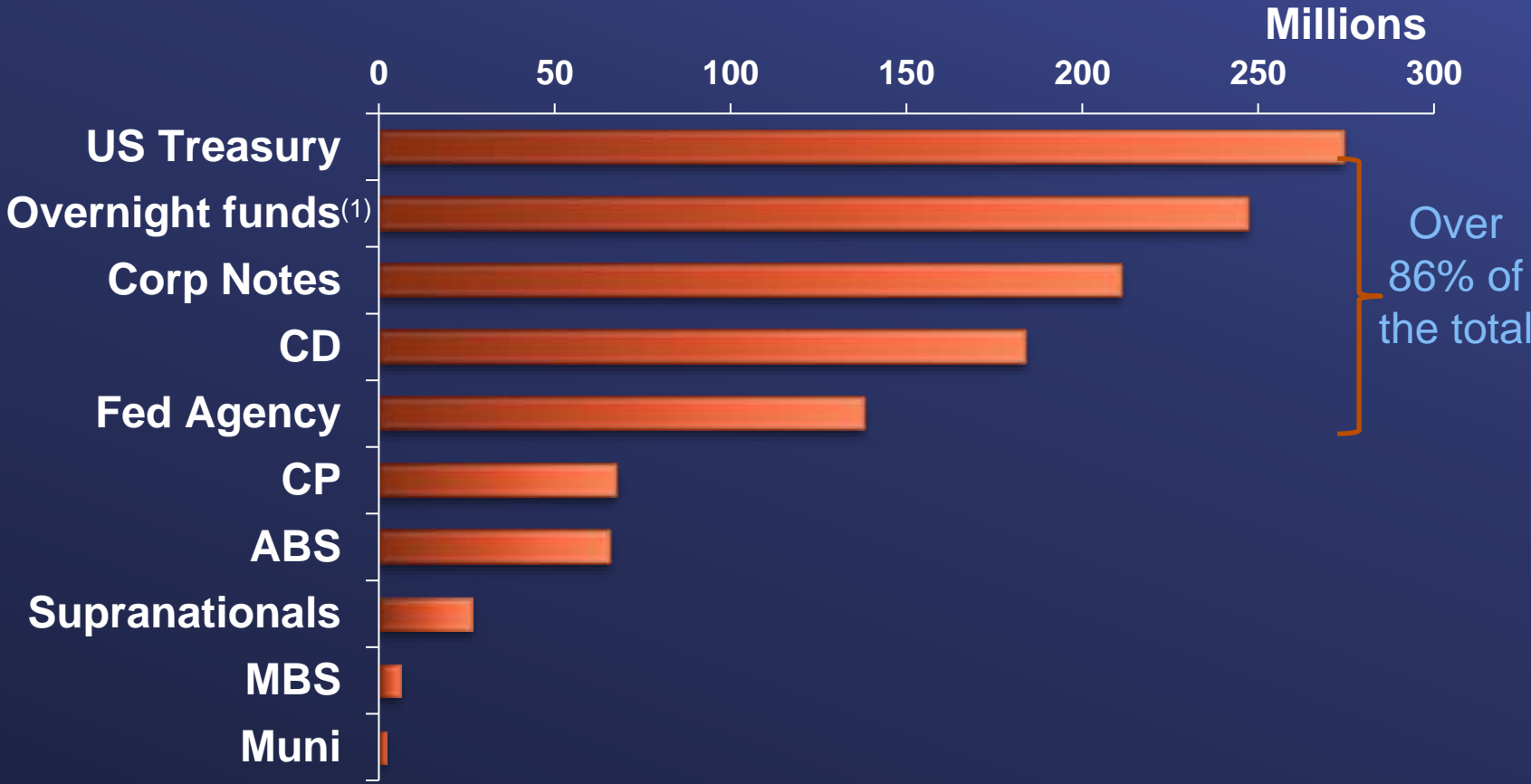
<sup>(1)</sup> S&P Ratings

<sup>(2)</sup> California Treasurer's Local Agency Investment Fund (LAIF)



# Portfolio Overview

## Sector Allocation

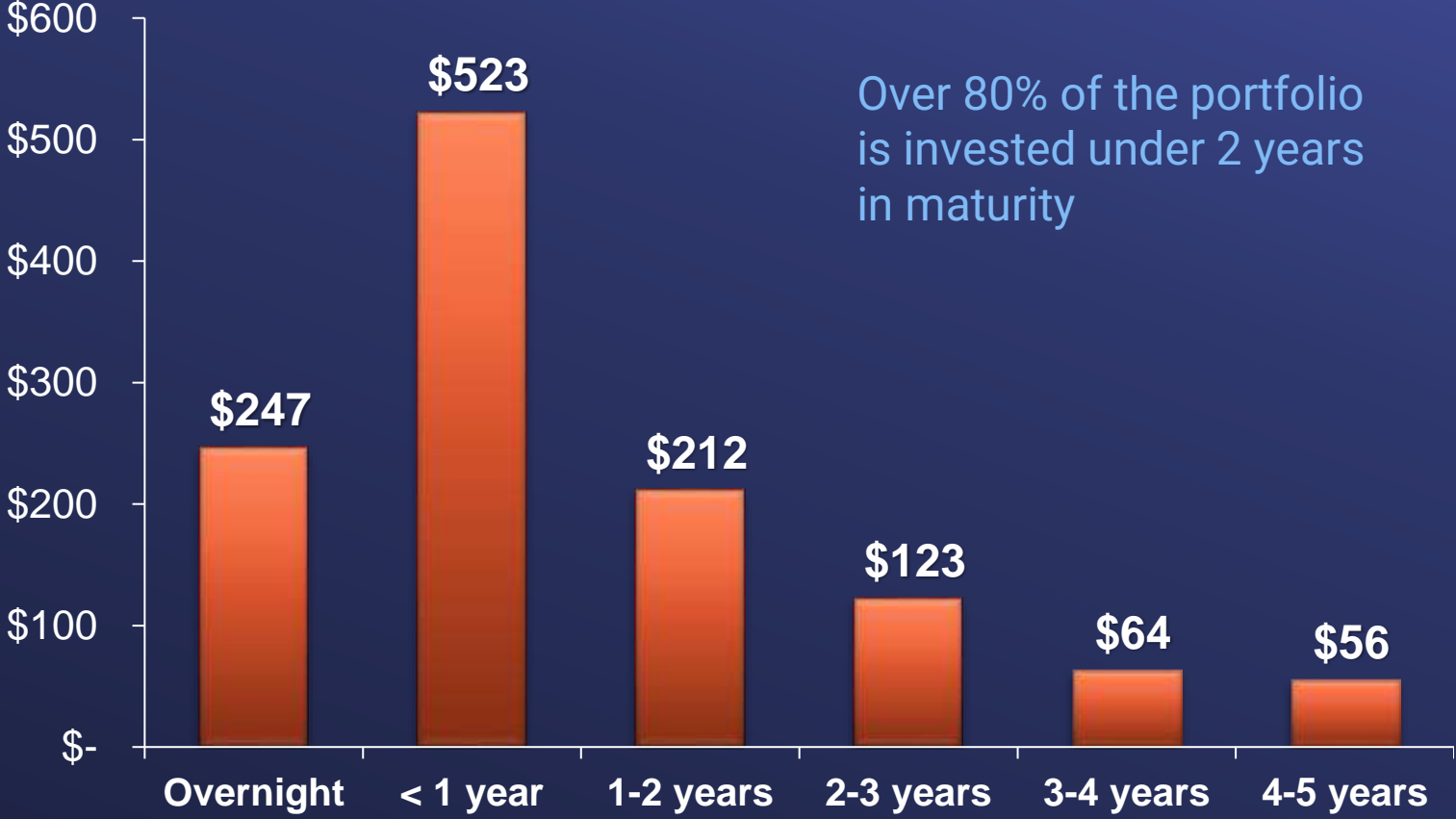


<sup>(1)</sup> California Treasurer's Local Agency Investment Fund (LAIF), California Asset Management Program (CAMP), and Money Market Funds

# Portfolio Overview

## Maturity

(\$ in millions)

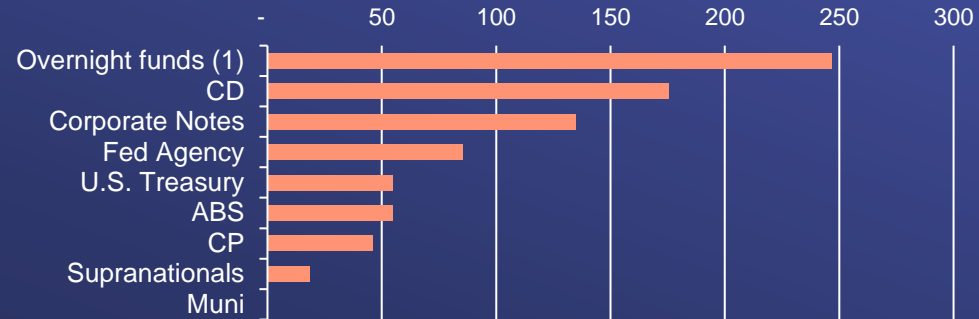


# Portfolio Statistics: Liquidity and Core Segments

## Liquidity Portfolio Statistics

Market Value	\$816,851,218
Duration	0.34 year
Yield to Maturity	3.90%

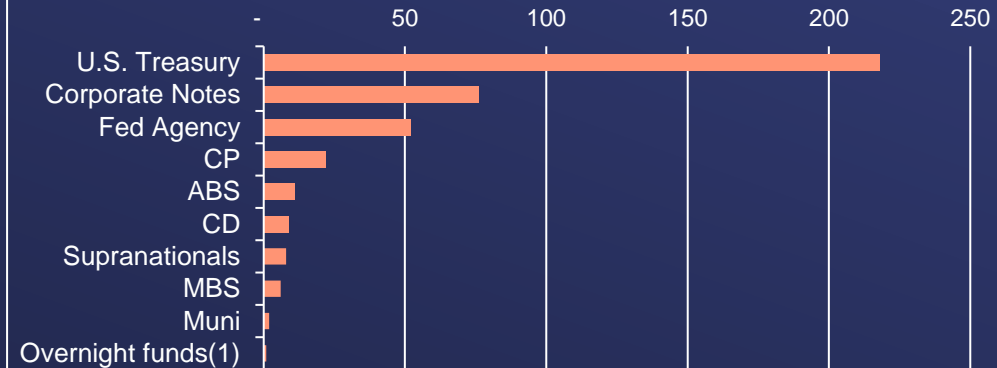
## Liquidity Portfolio Sector Allocation



## Core Portfolio Statistics

Market Value	\$404,353,261
Duration	1.97 years
Yield to Maturity	2.92%

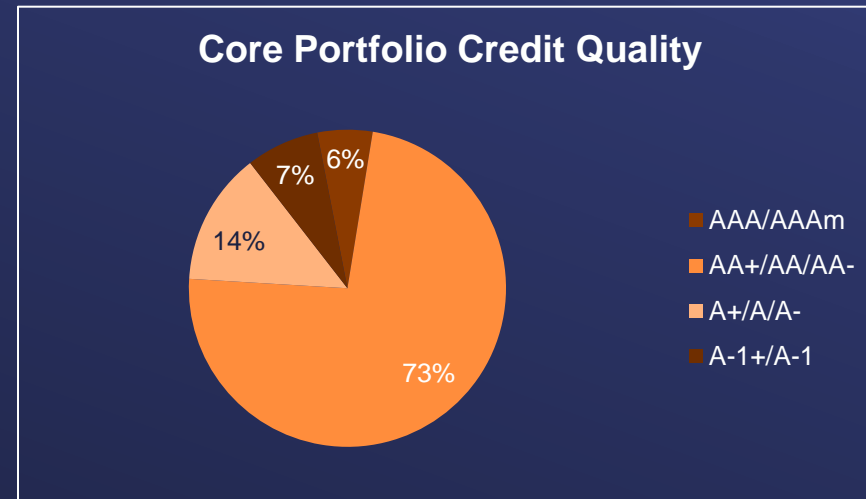
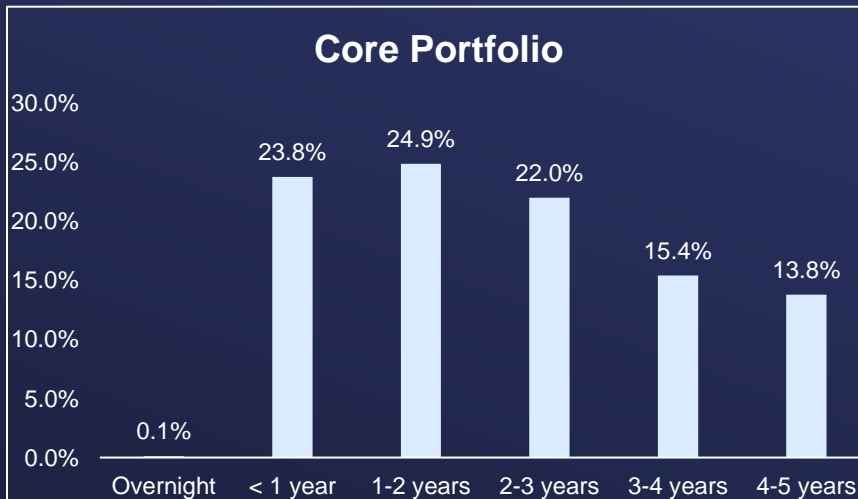
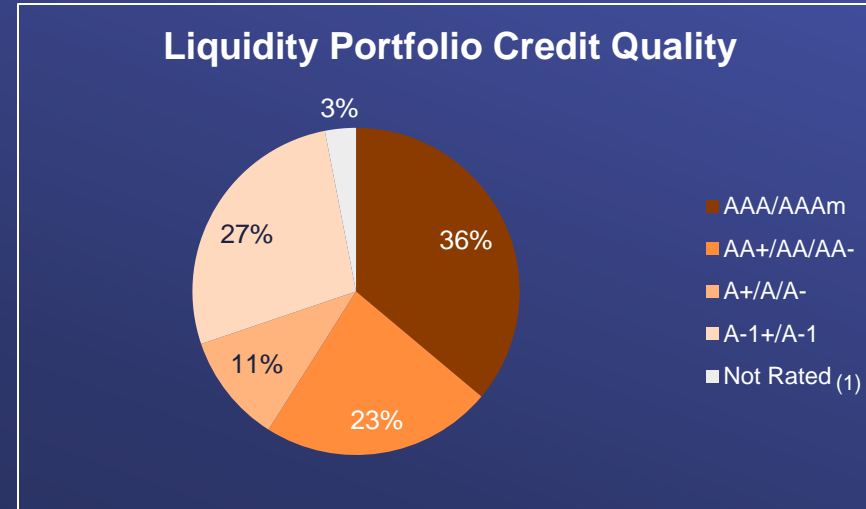
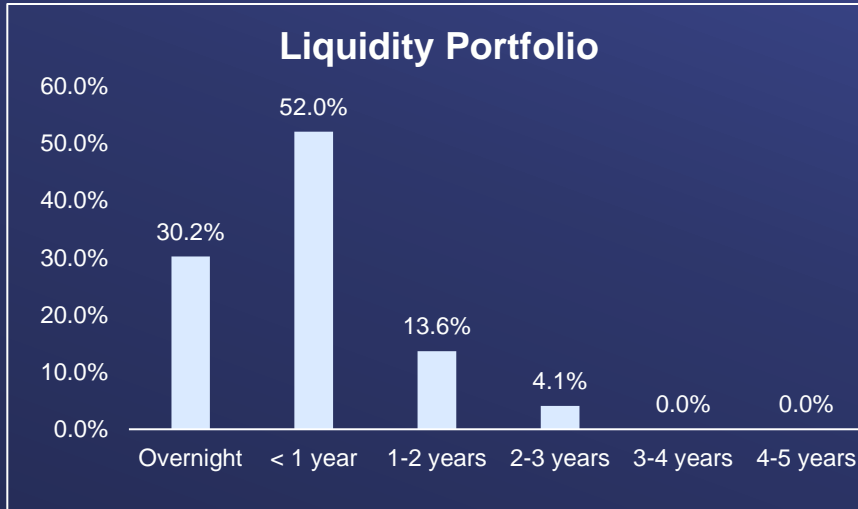
## Core Portfolio Sector Allocation



Market values as of 03/31/23, exclude accrued interest.

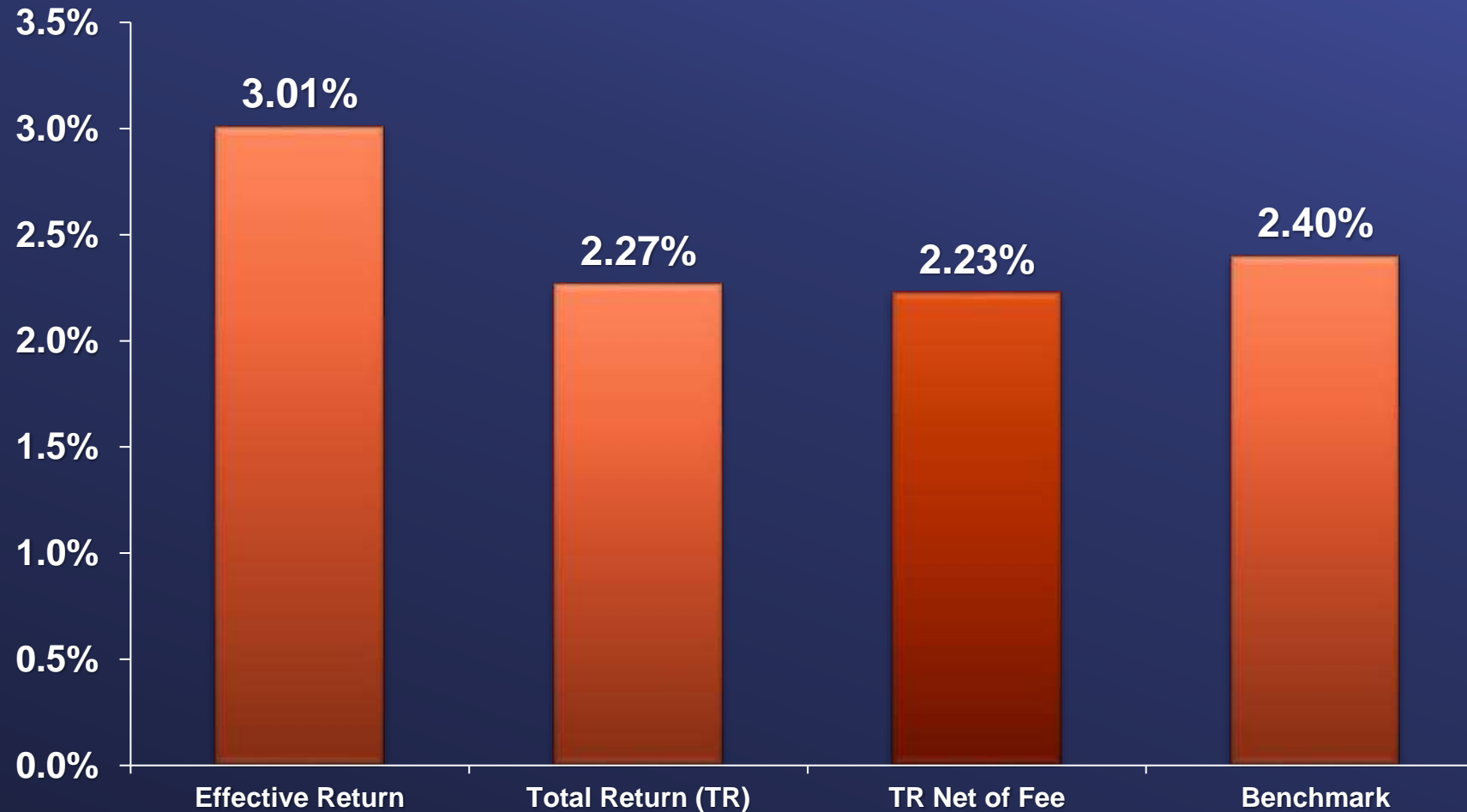
(1) California Treasurer's Local Agency Investment Fund (LAIF), California Asset Management Program (CAMP), and Money Market Funds

# Maturity and Credit Quality Breakdown

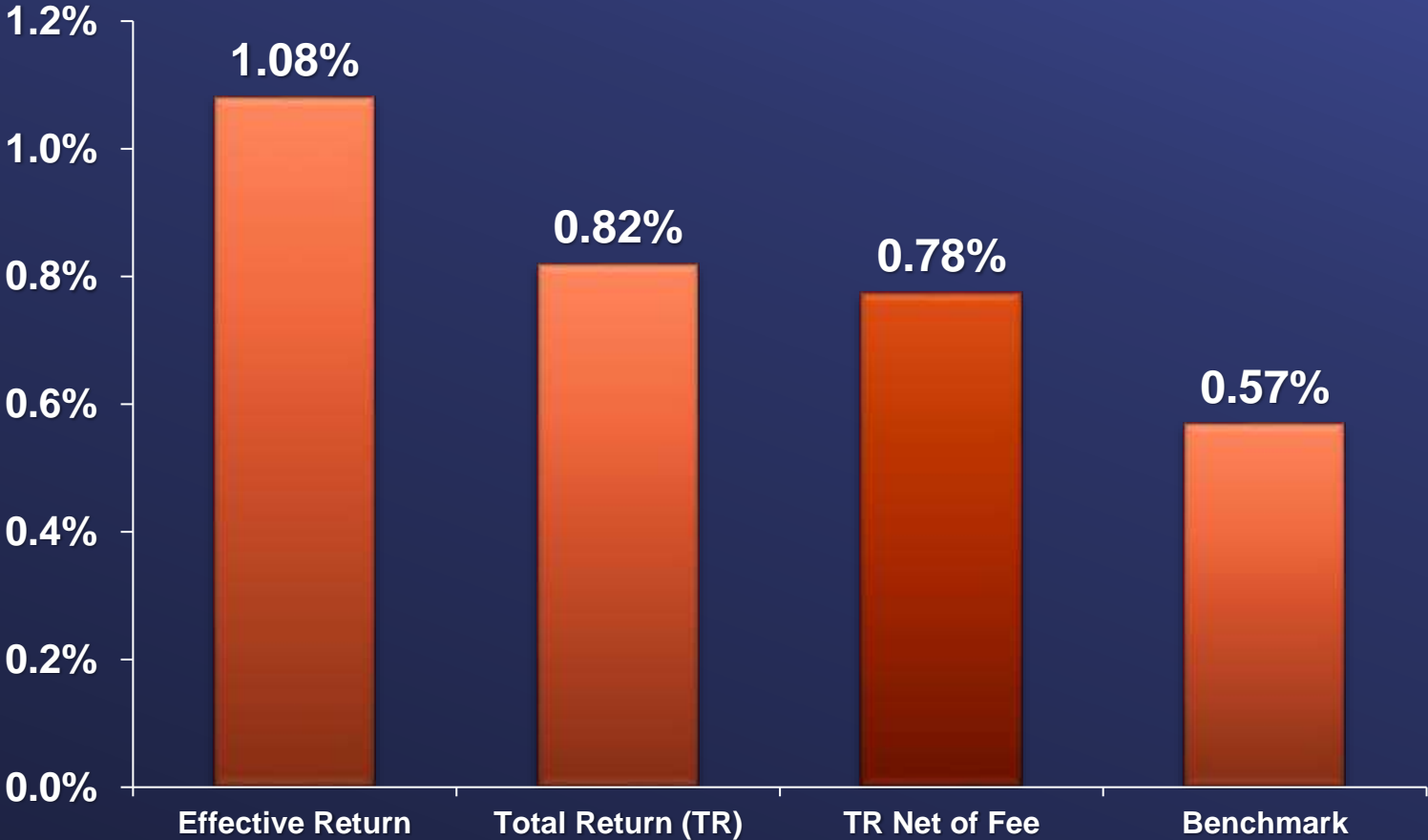


(1) California Treasurer's Local Agency Investment Fund (LAIF)

# Liquidity Portfolio – Fiscal YTD Earnings and Return



# Core Portfolio – Fiscal YTD Earnings and Return







Finance, Audit, Insurance, and Real Property Committee

# Annexation Policies within Metropolitan's Current Boundaries

Item 7b

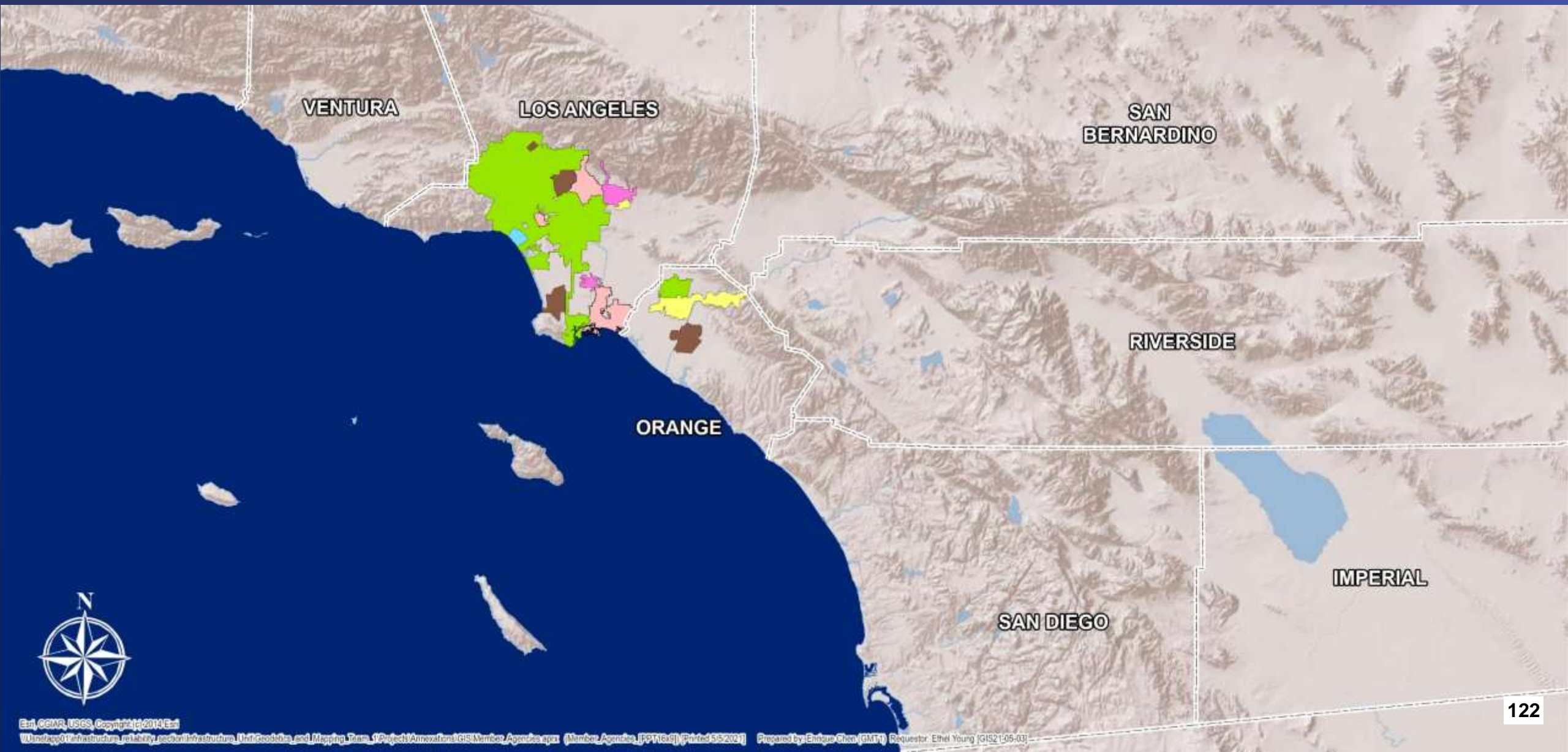
June 13, 2023





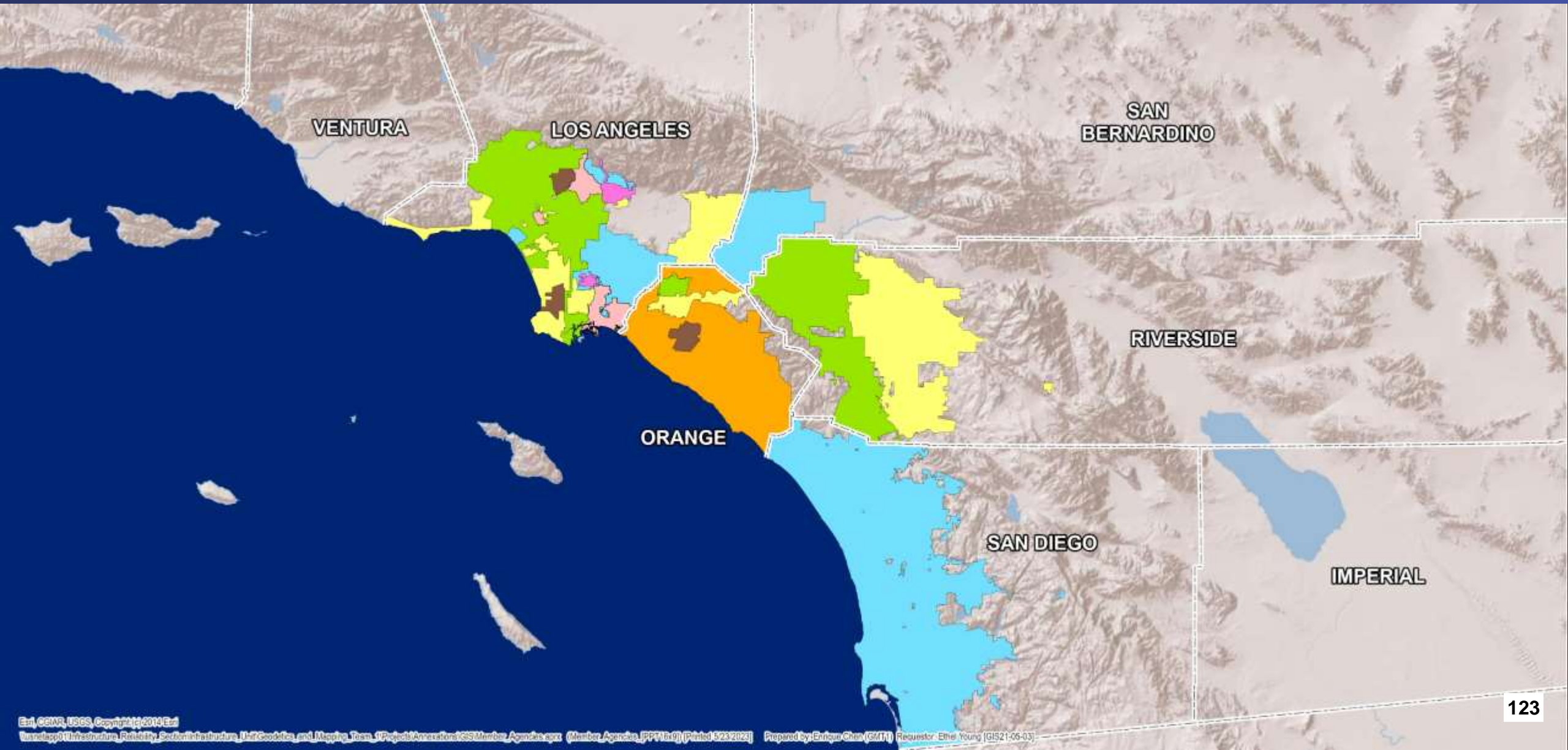
# Original Member Cities

1928- 1931



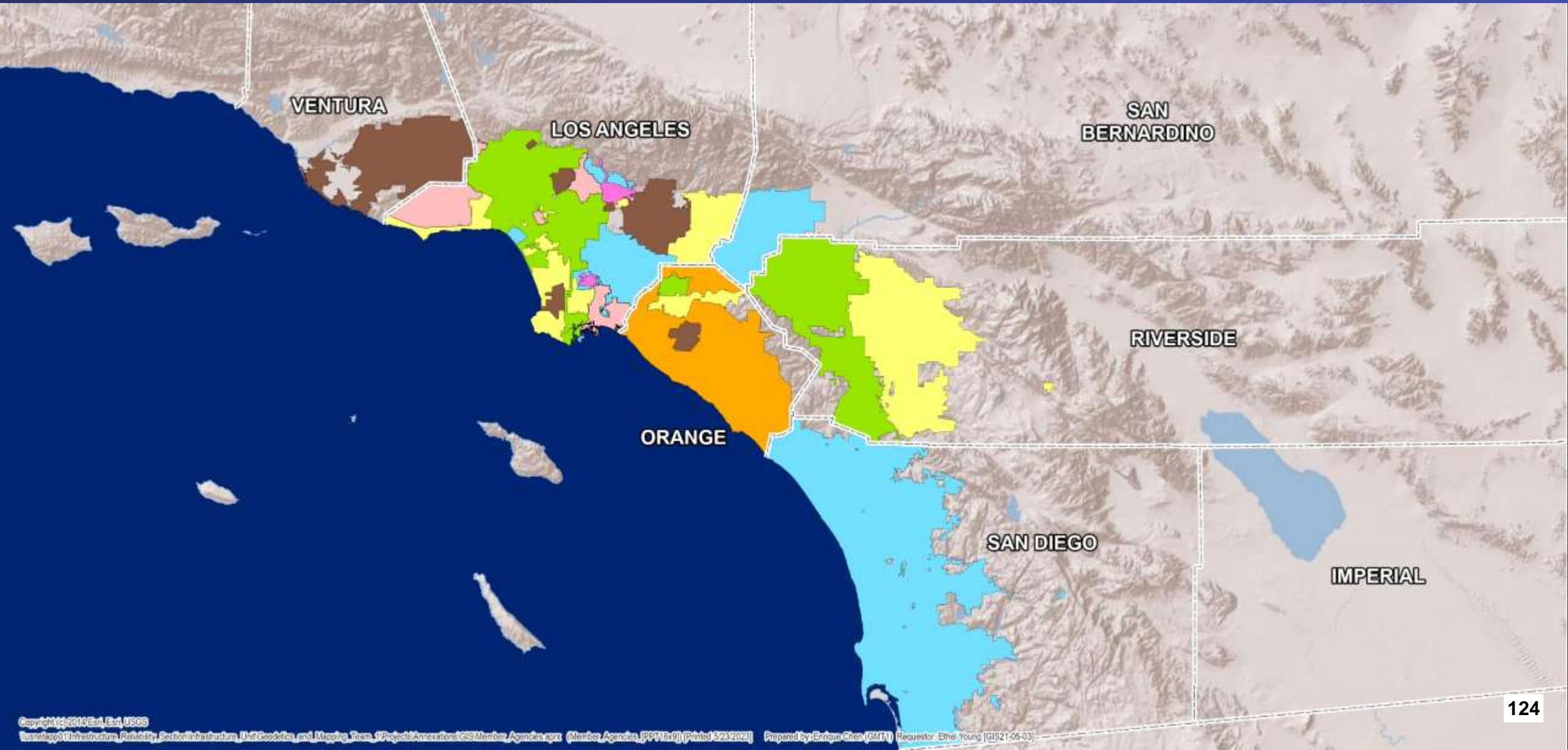
# Added Member Agencies

1942-1954



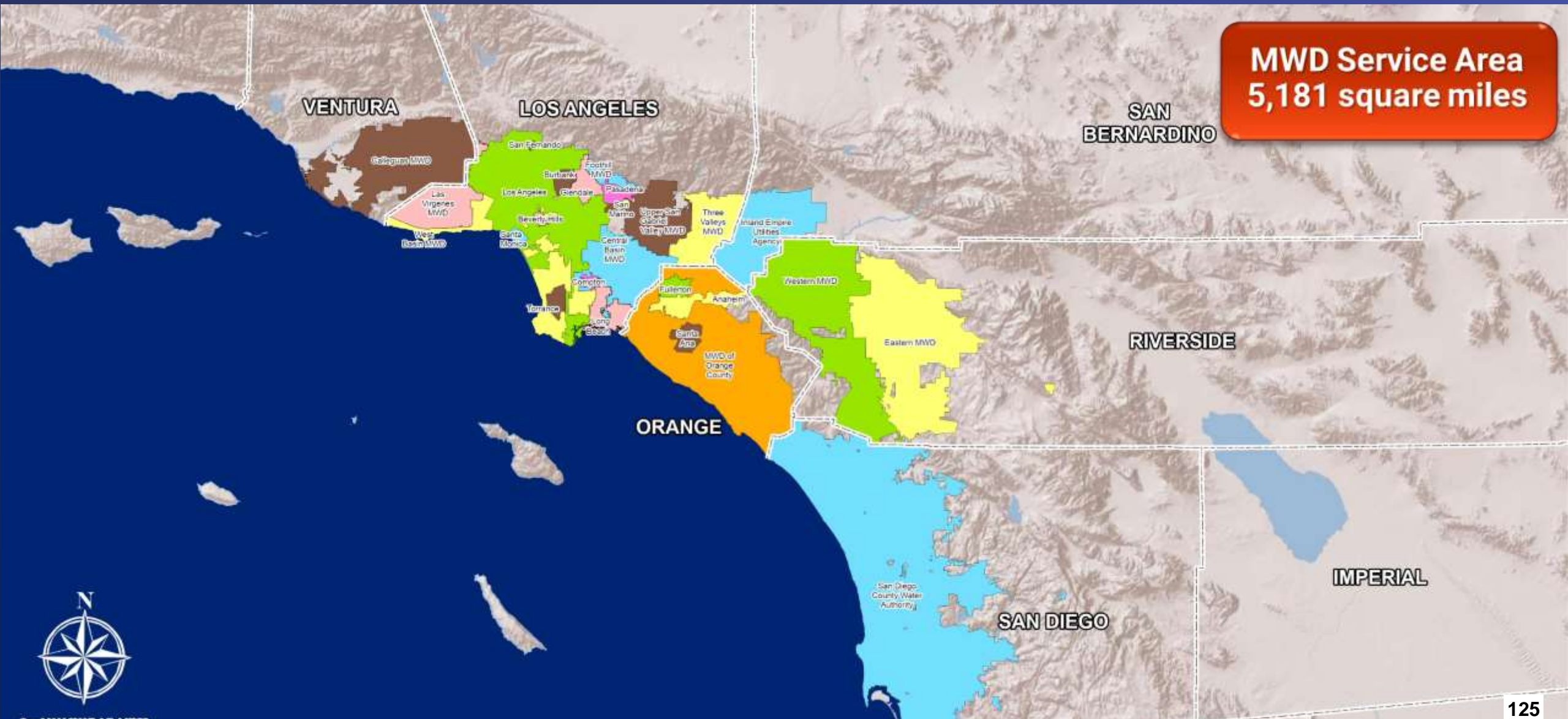
# Added Member Agencies

1960-1971



# MWD Service Area

2023



# Board-Approved Annexation Process

Request Submitted

Comprehensive verification per Administrative Code



Board Approval

- Subject to water service regulations
- No direct or indirect benefit of areas outside the District
- No obligation for additional facilities
- Water availability
- Annexation criteria
- Terms and conditions



LAFCO  
Completion

# Annexation Fee Calculation Methods

Administrative Code §3300

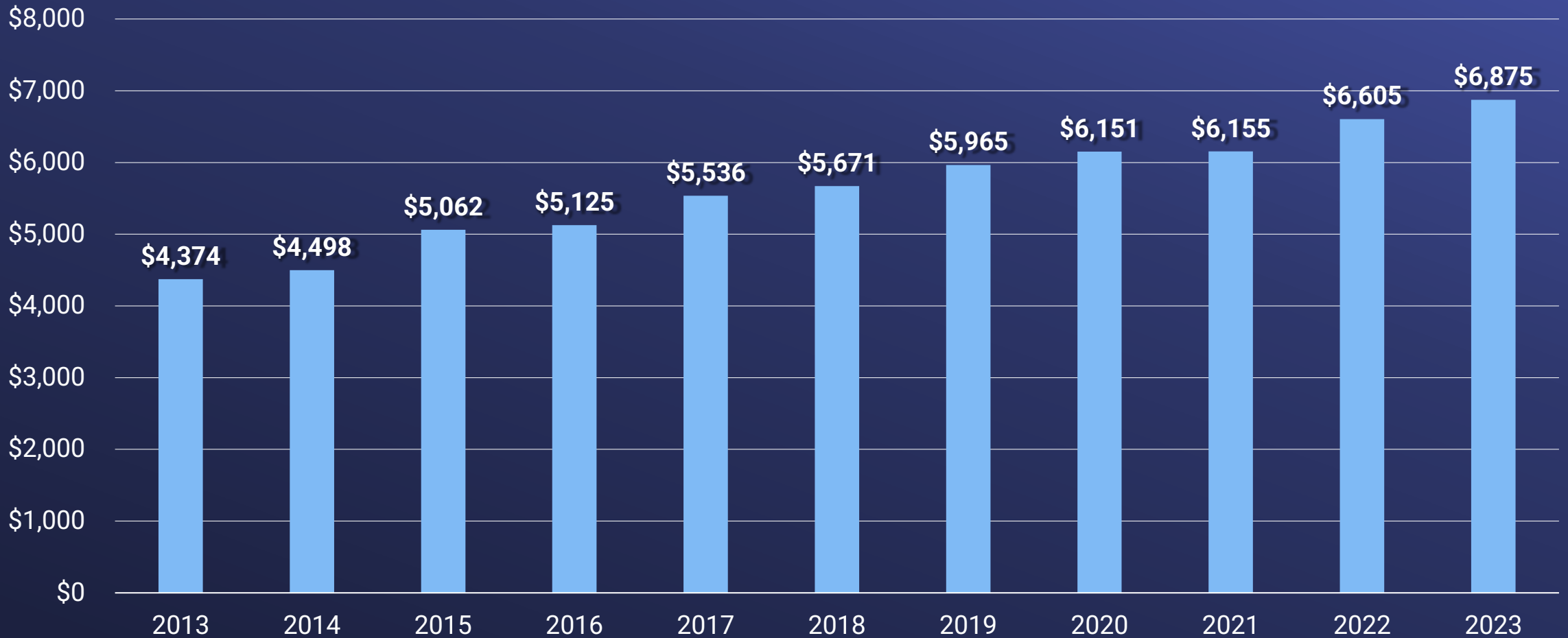
1 Back-Tax Computation

2 Per-Acre Charge

\$6,875 for calendar year 2023

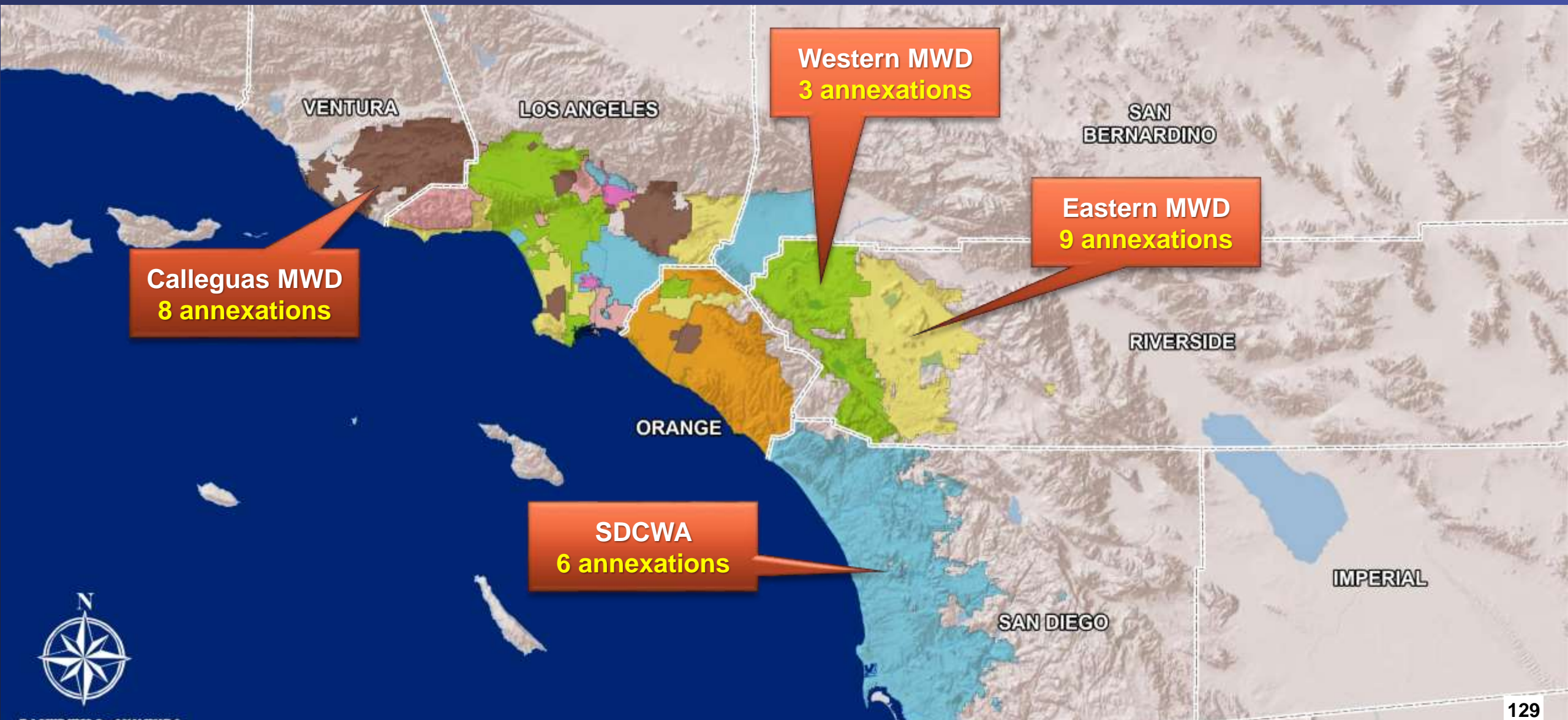
The annexation charge is the greater of the two methods. Practically, the per-acre charge is used.

# Per-Acre Annexation Charges 2013-2023

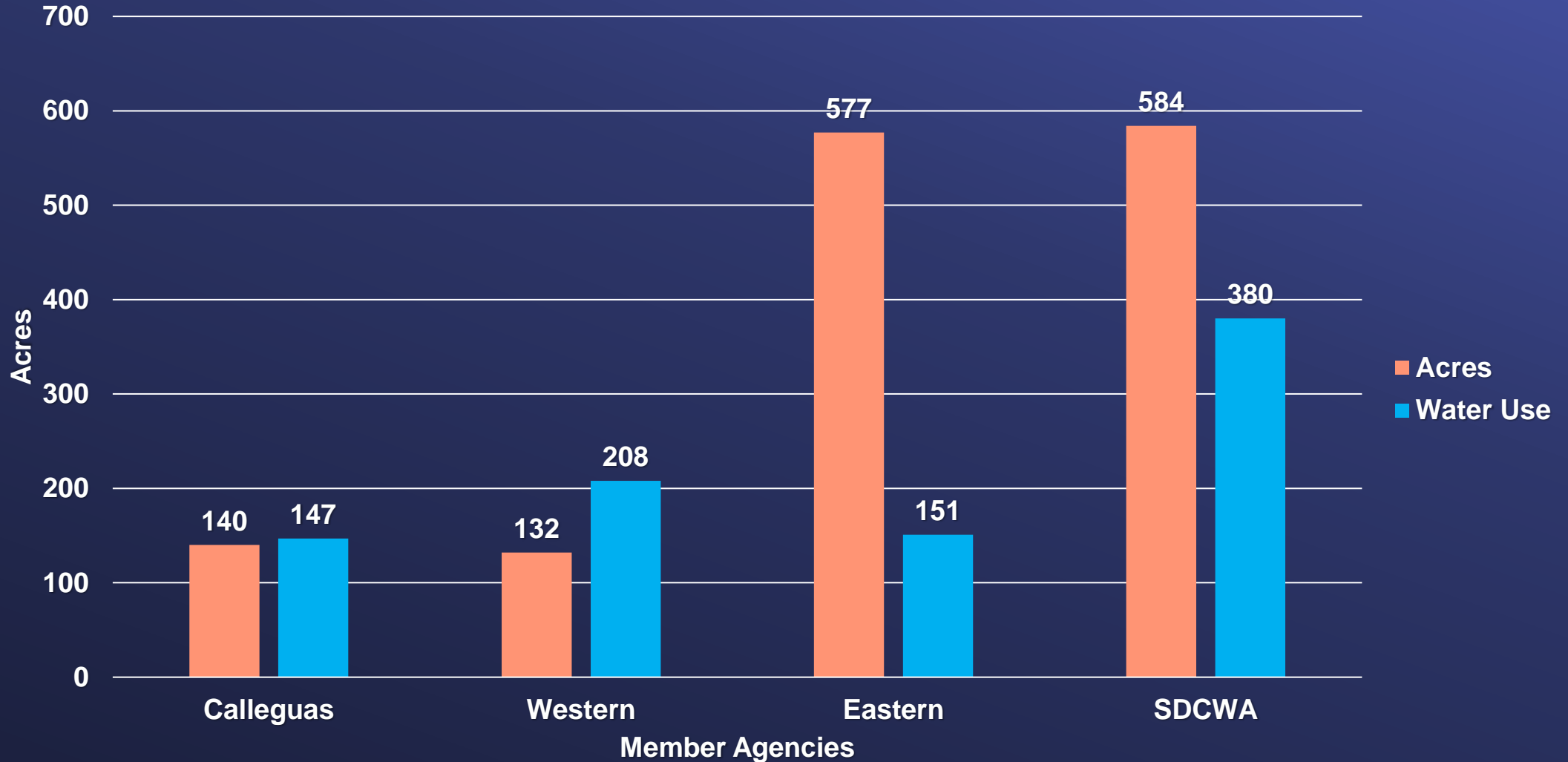




# Annexations From 2013-2023



# Member Agency Annexations 2013-2023



## Annexation Laws & Policy

### **MWD Act**

The Metropolitan Water District Act Part 7  
Changes in Organization Chapter 1

### **MWD Administrative Code**

Division 3 Section 3100-3300

Annexation of Territory with Consent of the Board

### **MWD Policy Principles**

2016 MWD Board Policy Principles on Annexation, Service Area Consolidations, or Extension of Water Service by Contact

## LAFCO authority

- Metropolitan conducts its own process for discretionary annexations that are subject to final LAFCO approval
- LAFCOs created in 1963
  - Conduct municipal service reviews
  - Develop municipal spheres of influence
  - Approve final terms and conditions
  - Approve boundary changes
- Cortese-Knox-Hertzberg Local Government Reorganization Act (Gov't Code §§ 56000- 57550) or LAFCO Act

## MWD Act

### Part 7—Changes in Organization

#### Chapter 1—Annexation of territory

**Article 1** Annexation of public agencies

**Article 2** Automatic annexation of territory in a city

**Article 3** Annexation of territory with  
consent of the board

**Article 4** Change in boundaries

**Article 5** Conflict of city and agency annexations

**Article 6** Modification of special tax levies

#### Chapter 2 Exclusion of territory

#### Chapter 3 Exchange of territory

## MWD Act (cont'd)

### Sec. 350. [Annexation of Corporate Area of Agency]

The corporate area of any public agency may be annexed to any metropolitan water district by direct annexation as a separate unit upon terms and conditions fixed by the board of directors and in accordance with the provisions of this article.

## MWD Act (cont'd)

### Sec. 450. [Completion of Exclusion]

If any portion of the corporate area of any member public agency, shall be excluded from such agency in accordance with the provisions of law applicable to such exclusions, then such excluded area shall thereby also be excluded from the corporate area of such metropolitan water district, but the taxable property within such excluded area shall continue to be taxable by the district for the purpose of paying the bonded or other indebtedness of the district outstanding or contracted for at the time of such exclusion and the balance of any indebtedness due the district under terms of annexation to the district.

## MWD Act (cont'd)

### Sec. 455. [Effect of Exchange]

Whenever two or more member public agencies of a district are subject to a reorganization of their boundaries under applicable provisions of law which would result in an exchange, but not an overlapping, of territory that is entirely within such district, the boundaries of such agencies within the district, upon completion of such reorganization and the filing with the secretary of the district of certificates thereof, shall constitute the boundaries of such member public agencies for all district purposes, without action by the board, and shall be so shown on any certificates relating to district boundaries thereafter filed under this part or applicable provisions of law.



## MWD Act (cont'd)

### Sec. 455. [Effect of Exchange]

If such exchange includes territory subject to special conditions and tax levies pursuant to terms of annexation at the time such territory became a part of the district, such territory shall continue subject to such conditions and to be taxable by the district for such levies.





Finance, Audit, Insurance and Real Property Committee

# CFO Report

Item 8a  
June 13, 2023

# Bond Financing Team

2023 Series A Bonds

## Bond Financing Team

*Finance wants to thank the underwriting team members and various Metropolitan staff who contributed to the successful pricing.*

- The underwriting syndicate was led by a California-based MWBE investment bank.

Firm	Role
Siebert Williams Shank	Senior Manager
Ramirez & Co, Inc.	Co-Senior Manager
Cabrera Capital	Co-Manager
Barclays	Co-Manager
Public Financial Management, Inc.	Municipal Advisor
Hawkins Delafield & Wood LLP	Bond Counsel
Stradling Yocca Carlson & Rauth LLP	Disclosure Counsel

2023 Series A Bonds

# CIP Projections

*\$600 million total capital  
expenditures approved for FY  
2022/23 & 2023/24 Budget*

## Adopted Budget – CIP

- The FY 2022/23 & 2023/24 Adopted Budget included \$600 million in total capital expenditures.
- Approximately \$300 million each fiscal year consisting of both PAYGO (\$135 million per year) and new money bond proceeds (\$330 million in FY 2022/23).
- Issued \$257 million in bond proceeds based on current spend to meet our anticipated needs.

2023 Series A Bonds

# Transaction Summary

*While the closing of the District's bonds is scheduled for June 21<sup>st</sup>, the pricing terms have been set as of June 6<sup>th</sup>.*

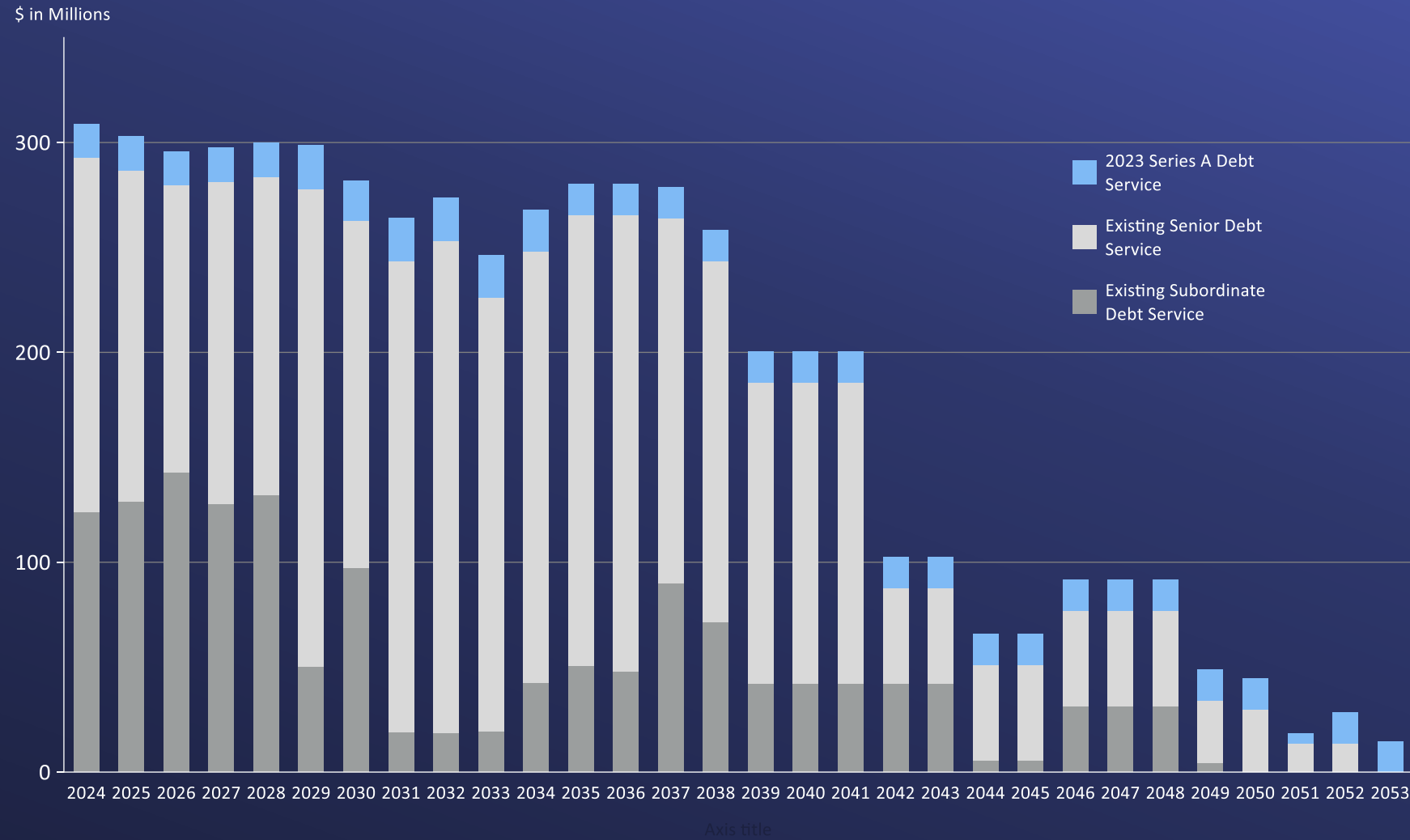
## Metropolitan's Bond Pricing

- On Tuesday, June 6th, the Metropolitan Water District of Southern California priced \$258,410,000 of Water Revenue and Refunding Bonds, 2023 Series A
- The bonds were issued with an **All-In True Interest Cost of 3.88%** and has an average life of 17.4 years
  - In March 2023, staff reported out a good-faith estimated True Interest Cost of **4.017%**.
- Compared to other recent utility bond sales, MWD priced **8 to 29 basis points better**.
- During the order period, **\$874 million** in institutional orders from **49 different investors** were submitted, including orders from **13 potential new investors**
- Overall, the transaction was **3.3x oversubscribed**

# Metropolitan's Debt Profile with the 2023 Series A Bonds

2023 Series A Bonds

## Projected FY Annual Debt Service by Lien



2023 Series A Bonds

# Rating Agency Highlights

*Even though Metropolitan has strong fundamentals supporting its credit, future credit challenges exist.*

## Credit Rating Considerations

- The Bonds were rated **AAA from S&P** and **Aaa from Moody's** with Stable outlooks. Key credit challenges identified by Moody's/S&P include:
  - Variable water supplies that will remain vulnerable to climate change
  - Worsening drought conditions that could reduce available supplies or deplete stored water levels
  - Increased capital costs required to meet future supply or environmental requirements that significantly weaken financial performance or water affordability
  - Weakened debt service coverage or liquidity (rate capacity and/or unrestricted reserves)





# Questions





Finance, Audit, Insurance & Real Property Committee

# Group Manager Report

Item 8c  
June 13, 2023

# Real Property Recognition

## IRWA Young Professionals of the Year



Diana Kwan  
Chapter 1  
Young Professional of the Year



Noelle Vest  
Region 1  
Young Professional of the Year

