

MONTE VISTA WATER DISTRICT

10575 Central Avenue, Montclair, California • (909) 624-0035

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NOTICE AND AGENDA OF FINANCE COMMITTEE MEETING

TUESDAY, MAY 31, 2022 • 4:30 P.M.

Committee Members

Director Erwin – Chair

Board Auditor Martinez

Consistent with the provisions in Government Code section 54953(e)(2), the Finance Committee will conduct this meeting by video and teleconference. Interested members of the public may participate in the meeting to observe and/or provide public comment by using the access information listed above.

1. CALL TO ORDER/ROLL

2. PUBLIC COMMENT

3. AGENDA CHANGES/ADDITIONS

4. DISCUSSION AND/OR ACTION ITEMS

A. Committee Meeting Minutes

Meeting Date: March 17, 2022

Recommendation: Approve as presented

B. Statement of Investment Policy

Presenter: Stephanie Reimer, Assistant General Manager/Chief Financial Officer

Recommendation: Recommend that the Board of Directors review and approve the District's Statement of Investment Policy.

C. Resolution 815-22: Establishing Appropriation Limits for Fiscal Year Ending 2023

Presenter: Stephanie Reimer, Assistant General Manager/Chief Financial Officer

Recommendation: Recommend that the Board of Directors adopt Resolution 815-22: Establishing Appropriation Limits for Fiscal Year Ending 2023.

5. ADJOURNMENT

DECLARATION OF POSTING

In accordance with the requirement of California Government Code §54954.2, this agenda has been posted in the display case at the gated entrance to our main office at 10575 Central Avenue, Montclair, California not less than seventy-two (72) hours prior to the meeting date and time above.

Written materials relating to open session agenda items, including those distributed to the majority of the Board of Directors after distribution of this agenda package, are available for public inspection during normal business hours at the District's main office, located at 10575 Central Avenue, Montclair, California.

Pursuant to the Americans with Disabilities Act, persons with a disability who require a disability-related modification or accommodation in order to participate in a meeting may request such modification or accommodation from the District's Board Secretary at (909) 624-0035 or by email at BoardSecretary@mvwd.org. Notification forty-eight (48) hours prior to the meeting will enable District staff to make reasonable arrangements to assure accessibility to the meeting.

**MINUTES OF THE REGULAR MEETING
OF THE FINANCE COMMITTEE
OF THE MONTE VISTA WATER DISTRICT
BOARD OF DIRECTORS**

March 17, 2022

DIRECTORS PRESENT

Philip Erwin, Director – Chair
Manny Martinez, Board Auditor

DIRECTORS ABSENT

None.

STAFF PRESENT

Justin Scott-Coe, General Manager
Stephanie Reimer, Assistant General Manager/Chief Financial Officer
Leah Nazaroff, Accounting Manager
Juan Ventura, Customer Service and Information Technology Manager
Brandi Goodman-DeCoud, Executive Assistant II

OTHERS IN ATTENDANCE

None.

ITEM 1: CALL TO ORDER

Director Erwin called the meeting to order at 4:31 p.m.

ROLL CALL

Mr. Scott-Coe stated that the Finance Committee (Committee) of the Board of Directors (Board) of the Monte Vista Water District (District) meeting will be conducted consistent with the provisions in Government Code section 54953(e)(2). Each Committee member confirmed their attendance and ability to hear the proceedings. Other attendees confirmed they could hear each Committee member. The Committee members and staff were reminded that any votes taken during the teleconference portion of the meeting must be taken by roll call vote.

ITEM 2: PUBLIC COMMENT

None.

ITEM 3: AGENDA CHANGES/ADDITIONS

None.

ITEM 4: DISCUSSION AND/OR ACTION ITEMS

A. Meeting Minutes: January 24, 2022

Upon motion by Board Auditor Martinez, seconded by Director Erwin, and unanimously carried:

M22-03-01

MOVED: Approve as presented, as by roll call vote:

Director Erwin	aye
Board Auditor Martinez	aye

B. Notice of Award: Independent Auditing Services

Ms. Nazaroff provided a brief presentation in support of staff’s recommendation.

Board Auditor Martinez stated that Fedak & Brown, LLP have provided great assistance to the District and noted a best practice in rotating auditing firms to provide a fresh perspective.

Director Erwin agreed with Board Auditor Martinez and suggested that staff make an effort to consider using a new company to avoid negative public perception regarding transparency.

Ms. Reimer thanked the Committee for their feedback and noted that the Board’s responsibility is to choose the auditing firm for the District. She explained that best practice suggests switching auditing firms every five years and stated that staff considered the option, however chose against it due to the large staff resources needed to overhaul the anticipated Enterprise Resource Planning Software Upgrade Project. She noted the difficulties in onboarding a new auditing firm during this transition.

Director Erwin recommended to bring the item to the Board and further discuss the possibility of rotating auditing firms.

Upon motion by Director Erwin, seconded by Board Auditor Martinez, and unanimously carried:

M22-03-02

MOVED: Recommend that the Board of Directors authorize the board president and general manager to enter into a contract with Fedak & Brown, LLP for a not-to-exceed amount of \$99,960 to provide independent auditing services, as by roll call vote:

Director Erwin	aye
Board Auditor Martinez	aye

C. Enterprise Resource Planning Software Upgrade Project

Ms. Reimer provided a brief presentation in support of staff’s recommendation.

Director Erwin inquired as to who the customers of the software would be. Ms. Reimer confirmed that software will be used for internal accounting purposes and customer utility billing.

Director Erwin next inquired if two software programs will be used concurrently or a full data migration. Ms. Reimer stated that staff has discussed how much historical data to transfer into the new system and noted that the current Eden system has a migration program to bring the historical data into the new Tyler system.

Board Auditor Martinez questioned if the software was cloud based or stored on District servers. Ms. Reimer clarified that the company offers both and that staff will bring an item, following contract negotiations, to the Committee to discuss the advantages and disadvantages of each option.

Mr. Scott-Coe expressed his appreciation to staff for their hard work.

Director Erwin stated his support for a cloud based solution.

Upon motion by Director Erwin, seconded by Board Auditor Martinez, and unanimously carried:

M22-03-03

MOVED: Recommend that the Board of Directors authorize staff to enter into contract negotiation with Tyler Technologies for the conversion, training, and implementation of a new Enterprise Resource Planning software, as by roll call vote:

Director Erwin	aye
Board Auditor Martinez	aye

D. Investment Update (Verbal)

Ms. Reimer provided an update on investments in the past few months and noted that the District has completed all required disclosure financial reports and submitted the annual debt treasury report.

Board Auditor Martinez requested clarification regarding federal interest rates.

ITEM 5: ADJOURNMENT

Upon motion by Director Erwin, seconded by Board Auditor Martinez, and unanimously carried:

M22-03-04

MOVED: Approved to adjourn the meeting, as by roll call vote:

Director Erwin	aye
Board Auditor Martinez	aye

There being no further business, Director Erwin adjourned the meeting at 5:09 p.m.

Respectfully submitted,

Justin M. Scott-Coe
General Manager/Secretary



May 31, 2022

Honorable Finance Committee
Monte Vista Water District

SUBJECT: Statement of Investment Policy

STAFF RECOMMENDATION:

It is recommended that the Finance Committee recommend that the Board of Directors review and approve the District's Statement of Investment Policy.

PRIOR BOARD ACTION:

On June 23, 2021, the Board reviewed and approved the District's Statement of Investment Policy.

FINANCIAL IMPACT:

None.

CONSISTENCY WITH STRATEGIC PLAN GOALS/INITIATIVES:

Strategic Goal 5: Maintain responsible stewardship of District funds to address future needs.

BACKGROUND:

An investment policy describes the parameters for investing government funds and identifies the investment objectives, preferences or tolerance for risk, constraints on the investment portfolio, and management and monitoring of the investment program. The document itself serves as a communication tool for staff, elected officials, the public, rating agencies, bondholders, and any other stakeholders on investment guidelines and priorities. An investment policy enhances the quality of decision-making and demonstrates a commitment to the fiduciary care of public funds, making it the most important element in a public funds investment program.

W a t e r D i s t r i c t

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Sandra S. Rose
PRESIDENT

G. Michael Milhiser
VICE PRESIDENT

Manny Martinez
DIRECTOR / BOARD AUDITOR

Philip L. Erwin
DIRECTOR

Tony Lopez
DIRECTOR

Statement of Investment Policy

As required by both California Government Code Section 53646 and the Monte Vista Water District's (District) Bylaws, the Chief Financial Officer may present to the Board of Directors (Board) annually a Statement of Investment Policy (Policy), which the legislative body shall consider at a public meeting. Any changes to the Policy shall also be considered by the legislative body at a public meeting. The Board previously reviewed and approved the District's Policy on June 23, 2021.

DISCUSSION:

Staff is not recommending any updates to the District's Statement of Investment Policy at this time. The Policy was most recently updated in 2020, and the Board reviewed and approved it in 2021. The attached version of the existing Policy has been formatted consistent with the District's Comprehensive Policy Manual.

Respectfully submitted,



Stephanie A. Reimer
Assistant General Manager/
Chief Financial Officer



Justin M. Scott-Coe
General Manager

Attachment

Policy: Statement of Investment	Number:
Authority: Resolution 773-20	Reviewed: 06-08-22 Updated: 06-24-20

1. Purpose

- 1.1. This Statement of Investment Policy (“Policy”) is intended to provide guidelines for the prudent investment of Monte Vista Water District (“District”) temporary idle cash and outline the policies for maximizing the effectiveness and efficiency of the District’s cash management system.

2. Scope

- 2.1. All monies entrusted to the District shall be pooled in an actively managed portfolio under the control of the General Manager (“GM”) and/or the Assistant General Manager/Chief Financial Officer (“AGM/CFO”). These funds are accounted for in the District’s Annual Comprehensive Financial Report (“ACFR”). This Policy authorizes the AGM/CFO to invest funds in accordance with California Government Code (“CGC”) Section 53600 et seq. and applies to all financial assets and investment activities of the District.
- 2.2. Bond proceeds shall be invested in securities permitted by the applicable bond documents. If the bond documents are silent as to the permitted investments, bond proceeds will be invested in the securities permitted by this Policy. Notwithstanding the other provisions of this Policy, the percentage of dollar portfolio limitations listed elsewhere in this Policy do not apply to bond proceeds.
- 2.3. This Policy specifically excludes the employees’ retirement and deferred compensation funds. Additionally, monies held by a trustee or fiscal agent pledged to the payment or security of bonds or other indebtedness shall comply with CGC Section 53601 (L).

3. Investment Objectives

- 3.1. The District’s cash management system is designed to monitor and forecast expenditures and revenues, thus enabling the District to invest funds to the fullest extent possible. The District attempts to obtain the highest yield available while meeting the criteria established for safety, liquidity, and yield of investments, in that order of priority.
- 3.2. Safety. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.
- *Credit Risk*. The District will minimize credit risk, which is the risk of loss of all or part of the investment due to the failure of the security issuer or backer, by:

- Limiting investments to the types of securities listed in Section 8 of this Policy;
 - Pre-qualifying and conducting ongoing due diligence of the financial institutions, broker/dealers, intermediaries, and advisers with which the District will do business in accordance with Section 6; and
 - Diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.
- *Interest Rate Risk.* The District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by:
 - Structuring the investment portfolio so that security maturities match cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity; and
 - Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools and limiting individual security maturity as well as the average maturity of the portfolio in accordance with this Policy (see Section 10).
- 3.3. Liquidity. The District's investment portfolio will remain satisfactorily liquid, enabling the District to meet all anticipated and operating cash flow requirements.
- 3.4. Return on Investments. The District's investment portfolio shall be designed to attain a market rate of return throughout economic cycles. Whenever possible with respect to budgetary and cash flow requirements, and consistent with risk limitations and prudent investment principles, the AGM/CFO shall seek to augment returns above the market rate of return.
- 4. Standards of Care**
- 4.1. Prudence. The standard of prudence to be used by investment officials shall be the Uniform Prudent Investor Act standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and this Policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this Policy.

- 4.2. Ethics and Conflicts of Interest. Officers and employees involved in the investment process 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. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business, in accordance with applicable laws. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the District.
- 4.3. Internal Controls. The AGM/CFO shall establish a system of internal controls designed to prevent losses due to fraud, employee error, misrepresentation by third parties, unanticipated market changes, and/or imprudent actions by employees of the District. 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 judgments by management. Compliance with this Policy and internal controls shall be reviewed annually by the District's independent, external auditors.

Separation of duties among employees involved in cash management activities is designed to provide an ongoing internal review to prevent the potential for converting assets or concealing transactions.

Proper documentation obtained from confirmation and cash disbursement wire transfers is required for each investment transaction. Timely bank reconciliation is conducted by the Finance Department to ensure proper handling of all transactions.

The investment portfolio and all related transactions are reviewed and balanced to appropriate general ledger accounts by the Finance Department on a monthly basis.

An independent analysis by an external auditor shall be conducted annually to review internal control, account activity, and compliance with policies and procedures.

5. Delegation of Authority

- 5.1. The authority of the District's Board of Directors ("Board") to invest or reinvest funds of the District is delegated by Board resolution in conjunction with the annual investment policy review. Authority to manage the investment program is delegated to the AGM/CFO, who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this Policy. No person may engage in an investment transaction except as provided under the terms of this Policy and the procedures established by the AGM/CFO.

- 5.2. The AGM/CFO shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials. In the absence of the AGM/CFO, the authority to direct investment transactions affecting District monies will be restricted to District's GM as to maturity, investment instrument, and dollar size of the investment.
- 5.3. The AGM/CFO may retain the services of an outside investment advisor or manager as approved by the Board to assist with the District's investment program. Qualified outside managers will be either Securities and Exchange Commission (SEC) Registered Investment Advisors or Bank Money Managers. The investment advisor shall make all investment decisions and transactions in strict accordance with state and federal law, this Policy, and such other written instructions as are provided. The investment advisor or manager may not take possession of the District's cash or securities. The performance and service levels of investment advisors and managers shall be reviewed annually.

6. Authorized Financial Dealers and Institutions

- 6.1. A competitive process, whenever practical, will be used for investment transactions. For any investment transaction not conducted directly with the issuer, it shall be the District's policy to purchase securities only from authorized institutions and firms. No deposit of public funds shall be made except in a qualified public depository as established by state laws. The District shall transact business only with banks, savings and loan institutions, and registered investment securities dealers. The dealers should either be primary dealers authorized to buy and sell government securities in direct dealings with the Federal Reserve Bank of New York, or regional dealers qualifying under the SEC Rule 15C3-1.
- 6.2. If the District plans to initiate investment transactions on its own behalf, excluding bank deposits and investments made directly with an issuer, the AGM/CFO shall maintain a list of authorized broker/dealers and financial institutions that are approved for investment purposes. All financial institutions and broker/dealers who desire to become qualified for investment transactions must supply the following as appropriate and deemed by the District:
 - Audited financial statements demonstrating compliance with state and federal capital adequacy
 - Must be in business for at least three (3) years
 - Proof of Financial Industry Regulatory Authority ("FINRA") certification (not applicable to Certificate of Deposit counterparties)
 - Proof of state registration

- Completed broker/dealer questionnaire (not applicable to Certificate of Deposit counterparties)
- Certification of having read and understood and agreeing to comply with the District's policies and are free of conflicts of interest (using District-provided certification form)
- Evidence of adequate insurance coverage

6.3. The AGM/CFO shall examine financial institutions that wish to perform business with the District in order to confirm whether the participating financial institutions are satisfactorily capitalized, are market makers in securities appropriate to the agency's financial investment universe, and agree to comply by the conditions set forth in this Policy.

6.4. If the District has contracted with an investment advisor to provide investment services, the investment advisor may use their own list of approved issuers, brokers/dealers, and financial institutions to conduct transactions on the District's behalf.

7. Safekeeping and Custody Agreements

7.1. To protect against potential losses caused by collapse of individual securities dealers, all securities owned by the District shall be kept in safekeeping by a third party bank trust department, acting as an agent for the agency under the terms of a custody agreement executed by the bank and the agency. All securities will be received and delivered using standard delivery versus payment procedures with the agency's custodial bank and evidenced by safekeeping receipts. The only exception to the foregoing shall be depository accounts and securities purchases made with: (i) Local Agency Investment Fund ("LAIF") and local government investment pools ("LGIPs"); (ii) placement certificates of deposit, and, (iii) money market mutual funds, since the purchased securities are not deliverable. Evidence of each these investments will be held by the AGM/CFO.

7.2. No outside broker-dealer or advisor may have access to the District's funds, accounts, or investments. Any transfer of funds handled through a broker-dealer must be approved by persons identified in the "Delegation of Authority" section of this Policy.

7.3. Custodial statements are reconciled against transaction schedules by delegation of AGM/CFO monthly.

8. Authorized and Acceptable Investments

8.1. The District is subject to CGC Section 53601 et seq. Within the context of the governing language, the following investments are authorized and accepted as defined.

- 8.2. United States Treasury Bills, Notes, and Bonds. There is no limitation as to the percentage of the portfolio that can be invested within this category.
- 8.3. Obligations issued by the Government National Mortgage Association (“GNMA”), the Federal Farm Credit Bank System (“FFCB”), the Federal Home Loan Bank Board (“FHLB”), the Federal Home Loan Mortgage Corporation (“FHLMC”), the Federal National Mortgage Association (“FNMA”), and the Student Loan Marketing Association (“SLMA”). Although there is no percentage limitation on “governmental agency” issues, the prudent investor standard shall apply for a single agency name.
- 8.4. Time drafts drawn on and accepted by a commercial bank, otherwise known as Banker’s Acceptances (“BAs”). Banker’s Acceptances purchased shall not exceed 180 days to maturity, or 40% of the market value of the portfolio. No more than 30% of the market value of the portfolio may be invested in Banker’s Acceptances issued by any one commercial bank.
- 8.5. Commercial Paper rated “P1” by Moody’s Investor Services and “A1” by Standard and Poor’s and issued by a United States corporation having assets exceeding \$500,000 and having an “a” or better rating on its long-term debentures as rated by Moody’s and Standard and Poor. Commercial Paper purchases cannot exceed 15% of the market value of the portfolio (30% if the dollar weighted average maturity of all commercial paper does not exceed 31 days). Purchase of commercial paper may not exceed 10% of outstanding paper of an issuing corporation.
- 8.6. Negotiable Certificates of Deposit (“NCD”) issued by a nationally or state-chartered bank or a state or federal savings and loan association. To be eligible for purchase by the District, the NCD must be issued by:
- California bank rated “BB” or better by Standard and Poor’s;
 - Major national regional bank outside California rated “BBB” or better by Standard and Poor’s;
 - State branch of a foreign bank (“Yankee”) rated “BB” or better by Standard and Poor’s; or
 - Savings and loan association operating in California rated “BBB” or better by Standard and Poor’s.

Purchases of negotiable certificates of deposits may not exceed 30% of the market value of the portfolio. A maturity limitation of five (5) years is applicable on NCDs. With federal deposit insurance limits up to \$250,000, no more than \$250,000 shall be invested in NCDs per financial institution.

- 8.7. Repurchase Agreements. The District may invest in Repurchase Agreements with banks and dealers with which The District has entered into a Master Repurchase Agreement which specifies terms and conditions of Repurchase Agreements. A signed copy of the Master Repurchase Agreement shall be required from the authorized financial dealer prior to the execution of any applicable transaction. The maturity of Repurchase Agreements shall not exceed one (1) year. The market value of securities used as collateral for Repurchase Agreements shall be monitored daily and will not be allowed to fall below 102% of the value of the Repurchase Agreement as set forth in CGC Section 53601 (i) (2).
- 8.8. Local Agency Investment Fund. The District may invest in the Local Agency Investment Fund (“LAIF”) established by the State Treasurer for the benefit of local agencies up to the maximum permitted by State law.
- 8.9. Local Government Investment Pools (“LGIP”). Shares of beneficial interest issued by a joint powers authority organized pursuant to CGC Section 6509.7. To be eligible for purchase, the pool shall meet all of the following conditions: (i) must meet the requirements of CGC Section 53601(p), (ii) the pool must seek to maintain a stable Net Asset Value (“NAV”), and (iii) the pool must be rated “AAm” or its equivalent or better by a NRSRO. A maximum of 50% of the portfolio may be invested in this category. Whenever the District has any funds invested in a LGIPs, the AGM/CFO shall maintain on file a copy of the pool’s current information statement. In addition, the AGM/CFO should review the pool’s summary portfolio holdings on a quarterly basis.
- 8.10. Money Market Funds. Shares of beneficial interest issued by diversified management companies that are money market funds registered with the SEC.
- The company shall have met either of the following criteria: (A) attained the highest ranking or the highest letter and numerical rating provided by not less than two NRSROs and (B) retained an investment adviser registered or exempt from registration with the SEC with not less than five years of experience managing money market mutual funds with assets under management in excess of five hundred million dollars (\$500,000,000). A maximum of 20% of the portfolio may be invested in this category.
- If the District has funds invested in a money market fund, a copy of the fund’s information statement shall be maintained on file. In addition, the AGM/CFO should review the fund’s summary holdings on a quarterly basis.
- 8.11. Medium-Term Notes of a maximum of five years maturity issued by corporations organized and operating within the United States or any state and operating within the United States. Notes eligible for investment shall be rated in a rating category of “A” or its equivalent or better by a nationally recognized rating service. No more than 30% of the market value of the portfolio may be invested in Medium-Term Notes.

8.12. Shares of beneficial interest issued by diversified management companies, otherwise known as Mutual Funds, as defined in Section 23701(m) of the Revenue and Taxation Code, investing in the securities and obligations as authorized by subdivisions (A) to (L), inclusive, of that section, and which comply with the investment restrictions (CGC, starting with Section 53601). Companies shall either:

- Attain the highest ranking or the highest letter and numerical ranking provided by not less than two out of the three rating services: Moody’s Investors Service, Standard and Poor’s or Fitch Investors Service, Inc.
- Have an investment advisor registered with the SEC with not less than five years’ experience investing in the securities and obligations as authorized by subdivision (A) to (L), inclusive, and with assets under management in excess of five hundred million dollars (\$500,000,000). The purchase price of shares of beneficial interest (Mutual Funds) purchased pursuant to this subdivision shall not include any commission that these companies may charge. No more than 15% of the portfolio may be invested in Mutual Funds. Further, the company may invest only in money market mutual funds that have an average maturity of ninety (90) days or less per SEC regulations.
- All positions in government-sponsored investment pools and permitted Mutual Funds shall be subject to periodic review by the AGM/CFO, or a designee thereof, in order to ensure that the monies in question are managed in a manner consistent with the standards and objectives set forth elsewhere in this Policy.

8.13. Collateralized Bank Deposits. The District may invest in notes, bonds, or other obligations which are always secured by a valid first priority security interest. The securities serving as collateral shall be placed by delivery or book entry into the custody of a trust company or the trust department of a bank which is not affiliated with the issuer of the secured obligation, and the security interest shall be perfected in accordance with the requirements of the Uniform Commercial Code or Federal regulations applicable to the types of securities in which the security interest is placed. For purposes of Time Deposits issued by financial institutions, the District may not invest more than 25% of the market value of the portfolio in this category.

8.14. Municipal Bonds. The District may invest in bonds issued by a state or local government agency, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency or by a department, board, agency, or authority of the local agency.

9. Prohibited Investments

- 9.1. In accordance with CGC Section 53601.6, the District will not invest any funds in inverse floaters, range notes, or interest only strips that are derived from a pool of mortgages. The agency may hold previously permitted but currently prohibited investments until their maturity dates.

10. Investment Diversification and Maximum Maturities

- 10.1. Diversification. It is the policy of the District to diversify its investment portfolios. To eliminate risk of loss resulting from the overconcentration of assets in a specific maturity, issuer, or class of securities, all cash and cash equivalent assets in all District funds shall be diversified by maturity, issuer, and security type. Diversification strategies shall be determined and revised periodically by the AGM/CFO for all funds except for the employee retirement funds.
- 10.2. In establishing specific diversification strategies, the following general policies and constraints shall apply:
- Portfolio maturities shall be staggered to avoid undue concentration of assets in a specific maturity sector.
 - Maturities selected shall provide for stability of income and reasonable liquidity.
 - Liquidity shall be assured through practices ensuring that the next disbursement date and payroll date are covered through maturing investments or marketable U.S. Treasury bills.
 - Positions in securities having potential default risk (e.g., commercial paper) shall be limited in size so that, in case of default, the portfolio's annual investment income will exceed a loss on a single issuer's securities.
 - Risks of market price volatility shall be controlled through maturity diversification and duration management.
 - The AGM/CFO shall establish strategies and guidelines for the percentage of the total portfolio that may be invested in securities other than repurchase agreements, Treasury bills or collateralized certificates of deposit. The AGM/CFO shall conduct an annual review of these guidelines and evaluate the probability of market and default risk in various investment sectors as part of its considerations.
- 10.3. The following diversification limitations shall be imposed on the portfolio:
- *Maturity*. The average maturity of funds should not exceed 1,275 days (3.5 years), and the cash flow requirements shall always prevail.

- *Default risk.* No more than twenty percent (20%) of the overall portfolio may be invested in the securities of a single issuer, except for securities of the U.S. Treasury. No more than the percentage of the portfolio as stated in Section VIII may be invested in each of the following categories of securities:
 - Commercial paper
 - Negotiable certificates of deposit
 - Bankers' acceptances
 - Any other obligation that does not bear the full faith and credit of the United States government or which is not fully collateralized or insured
- *Liquidity risk.* Based on liquidity needs, at least ten percent (10%) of the overall portfolio shall be invested in overnight instruments or in marketable securities which can be converted to cash within one (1) day.

10.4. Maximum Maturities. To the extent possible, the District shall attempt to match its investments with anticipated cash flow requirements. Per CGC Sections 53601 et seq., maximum maturities shall not exceed five (5) years, without specific approval of the District's Board.

11. Performance Standards

11.1. The District's investment portfolio will be designed to obtain a market average rate of return during budgetary and economic cycles, considering the agency's investment risk constraints and cash flow requirements.

11.2. The District will operate in an active capacity in the investment strategy. The basis of the strategy used by the AGM/CFO to determine whether market yields are achieved shall be the State of California LAIF.

12. Investment Committee

12.1. The District's Finance Committee shall act as the investment committee to provide general oversight and guidance concerning this Policy related to the management of District's investments. The Finance Committee shall meet at least annually to conduct the business of this Policy.

13. Financial Reporting

- 13.1. Under provision of Section 53646 of the California Government Code, the AGM/CFO shall render a quarterly report to the Board, providing the type of investment, financial institution from which the investment was purchased, the date of maturity, the date upon which the investment becomes subject to redemption provisions, amount (to include both par and book value) of the investment, and the current market value of all investments. The report shall also include the source of the market value. Additionally, the report shall include the rate of interest, accrued interest earned, the amortized portion of the investment purchased at a premium or discount, and other data so required by the District's Board or by amendment to the above section of CGC and its successors. The report shall include a statement denoting District's ability to meet its expenditure requirements for the following six-month period, or an explanation as to why sufficient monies will not be available. Additionally, the AGM/CFO shall state whether the agency is in compliance with its investment policy by signature required on the Treasurers' Report.

14. Collateral Requirements

- 14.1. Collateralization is required for investments of public deposits in Certificates of Deposits (in excess of the FDIC insured amount) and all Repurchase Agreements. In order to reduce market risk, the collateral level will be at least 110% of market value of principal and accrued interest of eligible securities for Certificate of Deposit. The percentage of collateralization on repurchase agreements shall adhere to CGC Section 53601 (i) (2).
- 14.2. In order to conform with provisions of the Federal Bankruptcy Code, which provides for the liquidation of securities held as collateral for Repurchase Agreements, the only securities acceptable as collateral shall be eligible Negotiable Certificates of Deposit, eligible Banker's Acceptances, or securities that are fully guaranteed as to principal and interest by the United States or by any agency of the United States government. All securities held as collateral shall have a maximum maturity of five (5) years.

15. Legislative Changes

- 15.1. Any State of California legislative action that further restricts allowable maturities, investment type, or percentage allocations will be incorporated into this Policy and supersede any and all previous applicable language.

16. Interest Earnings

- 16.1. All monies earned and collected from investments authorized in this Policy shall be allocated on a quarterly basis to various fund accounts where required by law, or other agreement, based on the cash balance in each fund as a percentage of the respective pooled portfolio. However, fiduciary accounts requiring full liquidity will receive their proportional distribution of monies based on the lower of pooled or LAIF rates.

17. Limiting Market Value Erosion

17.1. The longer the maturity of securities, the greater the market price volatility. Therefore, it is the general policy of District to limit the potential effects from erosion in market values by adhering to the following guidelines:

- All immediate and anticipated liquidity requirements will be addressed prior to purchasing all investments.
- Maturity dates for longer-term investments will coincide with significant cash flow requirements where possible, to assist with short-term cash requirements at maturity.
- All longer-term securities will be purchased with the intent to hold all investments to maturity under then-prevailing economic conditions. However, economic or market conditions may change, making it in District's best interest to sell or trade a security prior to maturity.

18. Portfolio Management Activity

18.1. The investment program shall seek to augment returns consistent with the intent of this Policy, identified risk limitations and prudent investment principles. The objectives will be achieved by use of the following strategies.

18.2. Active Portfolio Management. Through active fund and cash flow management taking advantage of current economic and interest rate trends, the portfolio yield may be enhanced with limited and measurable increases in risk by extending the weighted maturity of the total portfolio (not to exceed 1,275 days).

18.3. Portfolio Maturity Management. When structuring the maturity composition of the portfolio, the District shall evaluate current and expected interest rate yields and necessary cash flow requirements. It is recognized that in normal market conditions longer maturities produce higher yields. However, the securities with longer maturities also experience greater price fluctuations when the level of interest rates change.

18.4. Competitive Bidding. It is the policy of the District to require competitive bidding for investment transactions that are not classified as "new issue" securities. For the purchase of non-"new issue" securities, and the sale of all securities, at least three bidders must be contacted.

19. Investment Policy Review

19.1. This Policy is intended to conform to all applicable statutes at the time of adoption.

- 19.2. This Policy shall be reviewed and approved annually by the District's Board at a public meeting to ensure consistency with the overall objectives of the preservation of capital, liquidity, and return of the portfolio. This Policy shall also be reviewed to ensure its compliance and relevance to the current law, financial and economic trends, and to meet the cash flow requirements of the District.
- 19.3. Investment operations are reviewed monthly during the reconciliation process of investment transactions to the third-party statements, and by the Finance Department in the proof of cash process.
- 19.4. The District's independent auditors shall audit the investment portfolio annually. The audit shall include a review for compliance with this Policy.

20. List of Attachments

- 20.1. The following documents, as applicable are attached to this Policy:
 - Broker/Dealers Certification Statement
 - Glossary

Attachment A

CERTIFICATION STATEMENT

I hereby certify that I have personally read Monte Vista Water District's ("District") Investment Policy pertaining to the investments of the District, and have implemented reasonable procedures and a system of controls designed to preclude imprudent investment activities arising out of transactions conducted between our financial institution and the District. All sales personnel will be routinely informed of the District's investment objectives, horizon, outlook, strategies, and risk constraints whenever we are so advised. We pledge to exercise reasonable diligence in informing the District's Director of Finance and Administrative Services of foreseeable risks associated with financial transactions conducted with our financial institution. I attest to the accuracy of our responses to your questionnaire.

NOTE: Completion of the attached questionnaire is only part of Monte Vista Water District's certification process and DOES NOT guarantee that our financial institution will be guaranteed any portion of the investment business with Monte Vista Water District.

Firm Name: _____

Name: _____ Signature: _____

Date: _____

Name: _____ Signature: _____
(Person in charge of government securities operations)

Date: _____

Attachment B

GLOSSARY OF INVESTMENT TERMS

AGENCIES: Securities issued by any of several U. S. Government Agencies including, but not limited to the Federal Home Loan Bank (FHLB), the Federal Farm Credit Bank (FFCB), and the Federal National Mortgage Association (FNMA or “Fannie Mae”).

ASKED: The price at which securities are offered.

BANKERS' ACCEPTANCE (BA): A draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

BID: The price offered for securities.

BROKER: A broker brings buyers and sellers together for a Board of Directors paid by the initiator of the transaction or by both sides.

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

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a certificate. Certificate of Deposit may be issued in either negotiable or nonnegotiable form. Nonnegotiable certificates cannot be resold on the secondary market and may face penalties for early redemption whereas a negotiable CD may be resold.

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

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

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

DERIVATIVE: A financial instrument created from, or whose value depends on (is derived from) the value of one or more underlying assets or indexes of asset values.

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

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

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

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

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

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

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, currently up to \$100,000 per deposit.

FEDERAL HOME LOAN BANKS (FHLB): The institutions that regulates and lend to savings and loan associations. The Federal Home Loan Banks play a role analogous to that played by the Federal Reserve Banks vis-à-vis member commercial banks.

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

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

LOCAL AGENCY INVESTMENT FUND (LAIF): The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

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

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

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

MUNICIPAL BONDS: Offered by state and local governments, these bonds are primarily issued to finance infrastructure improvements, such as highways or sewers.

PORTFOLIO: Collection of securities held by an investor.

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

PRIMARY DEALER: A group of government securities dealers that submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC) registered securities broker-dealers, banks, and a few regulated firms.

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

QUALIFIED PUBLIC DEPOSITORIES: A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the Board of Directors eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

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

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

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

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

TREASURY BOND: Long-term U.S. Treasury securities having initial maturities of more than ten years.

TREASURY NOTES: Intermediate term coupon bearing U.S. Treasury securities having initial maturities of from one to ten years.

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



Justin Scott-Coe, PhD
GENERAL MANAGER

May 31, 2022

Honorable Finance Committee
Monte Vista Water District

SUBJECT: Resolution 815-22: Establishing Appropriation Limits for Fiscal Year Ending 2023

STAFF RECOMMENDATION:

It is recommended that the Finance Committee recommend that the Board of Directors adopt Resolution 815-22, establishing appropriation limits for Fiscal Year Ending 2023.

PRIOR BOARD ACTION:

On June 23, 2021, the Board adopted Resolution 787-21: Establishing the Appropriation Limits and Calculations for Fiscal Year Ending 2022.

FINANCIAL IMPACT:

None.

CONSISTENCY WITH STRATEGIC PLAN GOALS/INITIATIVES:

Strategic Goal 5: Maintain responsible stewardship of District funds to address future needs.

BACKGROUND:

Pursuant to Title 1 of the State of California Government Code, Chapter 1205, Statutes of 1980, tax appropriation limits must be determined each year by the local taxing agencies. The appropriation limits are designed to reflect the change in population in addition to either the percentage change in California's average per capita personal income or the percentage change in local assessment roll due to local non-residential construction.



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Sandra S. Rose
PRESIDENT

G. Michael Milhiser
VICE PRESIDENT

Manny Martinez
DIRECTOR / BOARD AUDITOR

Philip L. Erwin
DIRECTOR

Tony Lopez
DIRECTOR

Resolution 815-22: Establishing Appropriation Limits for Fiscal Year Ending 2023

The purpose of this statute is to monitor the tax revenue received by a public agency to ensure that the rate of growth of tax revenue is consistent with the identified changes in either personal income or increased assessed valuation due to non-residential development.

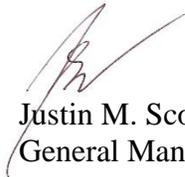
DISCUSSION:

In 1991, the Monte Vista Water District (District) Board of Directors elected to use the percentage change in California's average per capita personal income as the factor of measuring growth within the District. Based on this criterion, and as presented in the attached worksheet, the District's Fiscal Year Ending (FYE) 2023 Tax Appropriation Limit equals \$3,598,976. Because the calculated tax appropriation limit is significantly higher than the District's projected FYE 2023 tax revenues of \$2,220,500, there will be no impact to the District's property tax receipts.

Respectfully submitted,



Stephanie A. Reimer
Assistant General Manager/
Chief Financial Officer



Justin M. Scott-Coe
General Manager

Attachments

RESOLUTION 815-22
RESOLUTION OF THE BOARD OF DIRECTORS
OF THE MONTE VISTA WATER DISTRICT,
COUNTY OF SAN BERNARDINO, STATE OF CALIFORNIA,
ESTABLISHING APPROPRIATION LIMITS
FOR FISCAL YEAR 2022-23

WHEREAS, effective January 1, 1981, Title 1 of the State of California Government Code, Chapter 1205, Statutes of 1980, as amended by Proposition 111 specified that tax appropriations may increase each year by an amount equal to the percentage change in population January to January each year, and either the percentage change in the local assessment roll due to local non-residential construction or the percentage change in California's per capita personal income; and

WHEREAS, the population increase for the period January 2021 to January 2022 for San Bernardino County was 0.14 percent; and

WHEREAS, the California Per Capita Personal Income Change for the period January 2021 to January 2022 was 7.55 percent; and

WHEREAS, the calculations for the 2022-23 Appropriation Limits is attached hereto and made a part hereof.

NOW, THEREFORE, BE IT RESOLVED the Board of Directors of Monte Vista Water District does hereby determine and approve that the tax appropriation limits for Fiscal Year Ending June 30, 2023 is \$3,598,976 per the attached calculation.

APPROVED AND ADOPTED this 8th day of June 2022.

Sandra S. Rose
President of the Board of Directors
MONTE VISTA WATER DISTRICT

ATTEST:

Justin M. Scott-Coe
Secretary to the Board of Directors
MONTE VISTA WATER DISTRICT

FYE 2023

Monte Vista Water District

Tax Appropriations Limit Calculation

Population Change = 0.14%
Converted to Ratio = 1.0014

Per capital Personal Income Increase = 7.55%
Converted to Ratio = 1.0755

1.0014 x 1.0755 = 1.0770
Converted to percentage = 7.70%

2022-23 Appropriations Limit Factor = 0.0770

(Appropriations Limit Adjustment)

0.0770 x \$ 3,341,668 = \$ 257,308
2021-22 Appropriations Limit = 3,341,668
2022-23 Appropriations Limit = \$ 3,598,976