



**LOS VAQUEROS RESERVOIR JOINT POWERS AUTHORITY
FINANCE COMMITTEE
AGENDA**

Regular Meeting
March 31, 2022 – 1:30 p.m.

SPECIAL NOTICE OF TELECONFERENCE ACCESSIBILITY

Pursuant to the provisions of Government Code Section 54953(e), as amended by Assembly Bill 361, any Committee Member and any member of the public who desires to participate in the open session items of this meeting may do so by accessing the Zoom link below without otherwise complying with the Brown Act's teleconference requirements.

Join Zoom Meeting

<https://lagerlof.zoom.us/j/85838978578?pwd=ZEZmU214eE1Hck1HTDFWWUFIQINIQT09>

Meeting ID: 858 3897 8578

Passcode: 862931

One tap mobile

+1-669-900-6833; 8583-897-8578# *862931# US (San Jose)

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Any member of the public wishing to make any comments to the Committee may do so by accessing the above-referenced link where they may select the option to join via webcam or teleconference. Members of the public may also submit written comments to the Interim Clerk by 4:00 p.m. on the day prior to the meeting for the Interim Clerk to read into the record (subject to three-minute limitation). The meeting Chair will acknowledge such individual(s) at the appropriate time in the meeting prior to making their comment. Members of the public will be disconnected from the meeting prior to any Closed Session, if applicable.

NOTE: To comply with the Americans with Disabilities Act, if you need special assistance to participate in this Committee meeting, please contact the Authority's Interim Clerk at rperea@lagerlof.com by 4:00 p.m. on March 30, 2022 to inform the Authority of your needs and to determine if accommodation is feasible. Each item on the Agenda shall be deemed to include any appropriate motion, resolution, or ordinance, to take action on any item. Materials related to items on this Agenda are available for public review at: www.losvaquerosjpa.com/board-meetings.

CALL TO ORDER

PLEDGE OF ALLEGIANCE

ROLL CALL OF COMMITTEE MEMBERS

Anthea Hansen - Chair, San Luis & Delta-Mendota Water Authority

Paul Sethy - Alameda County Water District

John Coleman - East Bay Municipal Utility District

Linda J. LeZotte - Santa Clara Valley Water District

PUBLIC COMMENT ON NON-AGENDA ITEMS

Any member of the public wishing to address the Finance Committee regarding items not on the Agenda should do so at this time. The Committee welcomes your comments and requests that speakers present their remarks within established time limits and on issues that directly affect the Authority or are within the jurisdiction of the Authority.

DISCUSSION ITEMS

- 1.1 Review of WIFIA Funding Approach**
- 1.2 Draft Investment Policy**
- 1.3 Draft Debt Management Policy**
- 1.4 Scheduling Future Committee Meetings**

FUTURE AGENDA ITEMS

ADJOURNMENT

ITEM 1.1: REVIEW OF WIFIA FUNDING APPROACH

RESPONSIBLE/LEAD STAFF MEMBER:

Marguerite Patil, Interim Administrator

DISCUSSION:

The Water Infrastructure Finance and Innovation Act (“WIFIA”) was enacted by Congress to accelerate investment in water infrastructure projects by providing long-term, low-cost supplemental loans for regionally and nationally significant projects. The WIFIA program is administered by the U.S. Environmental Protection Agency (“USEPA”). WIFIA allows for a single interest rate to be used, which is tied to the U.S. Treasury rate for a similar maturity (currently, that rate for a 30-year loan would be 2.60%). That rate would be applied even if draws from the loan are deferred. The maximum loan term is 35 years.

David Moore of Clean Energy Capital, the financial consultant who has been working with the Local Agency Partners on the Phase 2 Los Vaqueros Reservoir Expansion Project for the past several years, will review the WIFIA funding process and proposed next steps in more detail at the Committee meeting.

ALTERNATIVES:

For information only; no alternatives applicable.

FISCAL ANALYSIS:

Fiscal impact will vary based upon loan amount and interest rate that will apply.

ENVIRONMENTAL REQUIREMENTS:

Not applicable.

EXHIBITS/ATTACHMENTS:

Slide deck to be shown during Finance Committee meeting.

ITEM 1.2: DRAFT INVESTMENT POLICY

RESPONSIBLE/LEAD STAFF MEMBER:

James Ciampa, Interim General Counsel

DISCUSSION:

Government Code Section 53646(a)(2) provides that a local agency's treasurer may render to the local agency's governing body a statement of investment policy. Many public agencies adopt an investment policy to govern the investment of any surplus monies.

While the Authority currently does not have any surplus funds, it likely will have surplus monies in the future. The attached draft Investment Policy tracks the Government Code's provisions regarding various permissible investments and applicable limitations, and includes a quarterly reporting requirement in compliance with Section 53646(b) (see Section 13 of the draft Policy on pages 12 and 13).

ALTERNATIVES:

The Committee could recommend a narrower policy that does not provide the full variety of permissible investments (e.g., allowing only investments in the Local Agency Investment Fund). Alternatively, the Committee could defer discussion of the Draft Investment Policy until a later date.

FISCAL ANALYSIS:

Not applicable

ENVIRONMENTAL REQUIREMENTS:

Not applicable

EXHIBITS/ATTACHMENTS:

Draft Resolution No. ____-22-____ Resolution of the Board of Directors of the Los Vaqueros Reservoir Joint Powers Authority Establishing its Investment Policy

RESOLUTION NO. ___-22-___

RESOLUTION OF THE BOARD OF DIRECTORS OF
THE LOS VAQUEROS RESERVOIR JOINT POWERS AUTHORITY
ESTABLISHING ITS INVESTMENT POLICY

1. **POLICY**

WHEREAS, the Legislature of the State of California has declared that the deposit and investment of public funds by local officials and local agencies is an issue of statewide concern; and

WHEREAS, the legislative body of a local agency may invest monies not required for the immediate necessities of the local agency in accordance with the provisions of California Government Code Sections 53601 and 53635; and

WHEREAS, the Treasurer of the Los Vaqueros Reservoir Joint Powers Authority (“Authority”) must prepare and submit a statement of investment policy and must subsequently, on an annual basis, submit such policy and any changes thereto for consideration by the Authority’s the Board of Directors at a public meeting.

NOW THEREFORE, it shall be the policy of the Authority to invest funds in a manner which will provide the highest investment return with the maximum security while meeting the Authority’s daily cash flow demands and conforming to all statutes governing the investment of Authority funds.

2. **SCOPE**

This investment policy applies to all financial assets of the Authority. These funds are accounted for in the annual Authority audit.

3. **PRUDENCE**

Investments shall be made with judgment and care, under circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the Authority, which persons of prudence, discretion and intelligence exercise in the management of their own affairs; not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived. The standard of prudence to be used by investment officials shall be the “prudent investor” standard (California Government Code Section 53600.3) and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the investment 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 appropriate action is taken to control adverse developments.

4. **OBJECTIVES**

When investing, reinvesting, purchasing, acquiring, exchanging, selling and managing Authority funds, the primary objectives, in priority order, of the investment activities shall be:

- a. **Safety:** Safety of principal is the foremost objective. Investments of the Authority shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.
- b. **Liquidity:** The investment portfolio will remain sufficiently liquid to enable the Authority to meet all operating requirements which might be reasonably anticipated.
- c. **Return on Investments:** The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio.

5. **DELEGATION OF AUTHORITY**

Authority to manage the investment program is derived from California Government Code Sections 53600, et seq. Management responsibility for the investment program is hereby delegated to the Treasurer, who, where appropriate, shall establish written procedures for the operation of the investment program consistent with this investment policy. No person may engage in an investment transaction except as provided under the terms of this policy and such procedures that are established by the Treasurer. The Treasurer shall be responsible for all transactions undertaken and shall establish controls to regulate the activities of subordinate officials. Under the provisions of California Government Code Section 53600.3, the Treasurer is a trustee and a fiduciary subject to the prudent investor standard.

The Authority may engage the services of one or more external investment managers to assist in the management of the Authority's investment portfolio in a manner consistent with the Authority's objectives. Such external managers may be granted discretion to purchase and sell investment securities in accordance with this Investment Policy. Such managers must be registered under the Investment Advisers Act of 1940.

6. **ETHICS AND CONFLICTS OF INTEREST**

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

7. AUTHORIZED FINANCIAL INSTITUTIONS AND DEALERS

The Treasurer will maintain a list of approved security broker/dealers who are authorized to provide investment and financial advisory services in the State of California. No public deposit shall be made except in a qualified public depository as established by state laws.

For broker/dealers of government securities and other investments, the Authority shall select only broker/dealers who are licensed and in good standing with the California Department of Securities, the Securities and Exchange Commission, the National Association of Securities Dealers or other applicable self-regulatory organizations.

Before engaging in investment transactions with a broker/dealer, the Treasurer shall have received from said firm a signed Certification Form. This form shall attest that the individual responsible for the Authority's account with that firm has reviewed the Authority's Investment Policy and that the firm understands the policy and intends to present investment recommendations and transactions to the Authority that are appropriate under the terms and conditions of the Investment Policy.

When funds of the Authority not placed in FDIC-insured accounts are invested through the Local Agency Investment Fund (LAIF), the Treasurer need not be concerned with the qualifications of those financial institutions and broker/dealers with whom LAIF transacts business.

Selection of broker/dealers used by an external investment adviser retained by the Authority will be at the sole discretion of the investment adviser.

8. AUTHORIZED AND SUITABLE INVESTMENTS

The Authority's investments are governed by California Government Code, Sections 53600 et seq. Within the investments permitted by the Code, the Authority seeks to further restrict eligible investments to the guidelines listed below. In the event a discrepancy is found between this policy and the Code, the more restrictive parameters will take precedence. Percentage holding limits and credit rating requirements listed in this section apply at the time the security is purchased.

Any investment currently held at the time the policy is adopted which does not meet the new policy guidelines can be held until maturity, and shall be exempt from the current policy. At the time of the investment's maturity or liquidation, such funds shall be reinvested only as provided in the current policy.

The Authority is empowered by California Government Code Sections 53601 et seq. to invest in the following:

- a. Bonds issued by the Authority.
- b. United States Treasury Bills, Notes and Bonds.

- c. Registered state warrants or treasury notes or bonds issued by the State of California.
- d. Registered treasury notes or bonds of any of the other 49 United States in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 United States, and California.
- e. Bonds, notes, warrants or other evidence of debt issued by a local agency within the State of California, including pooled investment accounts sponsored by the State of California, County Treasurers, other local agencies or joint powers agencies. The Local Agency Investment Fund (LAIF) is an approved pooled investment account.
- f. 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. No more than 30% of the portfolio may be invested in any single Agency/GSE issuer. The maximum percentage of callable agency securities in the portfolio is 20%.
- g. Bankers acceptances, otherwise known as bills of exchange or time drafts, which are drawn on and accepted by a commercial bank. Purchase of bankers' acceptances may not exceed 180 days' maturity or 40% of the Authority's money that may be invested pursuant to this policy. However, no more than 5% of the Authority's money can be invested in the bankers' acceptances of any single commercial bank.
- h. Commercial paper of "prime" quality of the highest ranking or of the highest letter and number rating as provided for by a nationally recognized statistical-rating organization. The entity that issues the commercial paper shall either be:
 - (1) organized and operating within the United States, as a general corporation, shall have total assets in excess of five hundred million dollars (\$500,000,000), and shall issue debt, other than commercial paper, if any, that is rated in the "A" category or higher by a Nationally Recognized Statistical Rating Organization (NRSRO); or
 - (2) organized within the United States as a special purpose corporation, trust, or limited liability company, have program-wide credit enhancements including, but not limited to, overcollateralization, letters of credit, or surety bond, and has commercial paper that is rated "A-1" or higher, or the equivalent, by a NRSRO; orEligible commercial paper shall have a maximum maturity of 270 days or less. The Authority shall invest no more than 25% of its money in eligible commercial paper. The Authority shall purchase no more than 10 percent of the outstanding commercial paper of any single corporate issue. No more than 5% of the total portfolio may be invested per issuer.

- i. Negotiable certificates of deposit issued by a nationally or state-chartered bank, a savings association or a federal association (as defined by Section 5102 of the California Financial Code), a state or federal credit union, or by a state-licensed branch of a foreign bank. Purchases of negotiable certificates of deposit shall not exceed 30 percent of the Authority's money, subject to the limitations of Government Code Sections 53601(i) and 53638. The Board of Directors and the Treasurer are prohibited from investing Authority funds, or funds in the Authority's custody, in negotiable certificates of deposit issued by a state or federal credit union if a member of the Board of Directors, or any person with investment decision making authority within the Authority also serves on the board of directors, or any committee appointed by the board of directors, or the credit committee or the supervisory committee of the state or federal credit union issuing the negotiable certificates of deposit. No more than 5% of the total portfolio may be invested per issuer.
- j. Placement service deposits, including certificates of deposit, at a commercial bank, savings bank, savings and loan association or credit union that uses a private sector entity that assists in the placement of such deposits. Placement service deposits shall not in total exceed 50% of the Authority's money, subject to the limitations and requirements of Government Code Section 53638 and 53601.8.
- k. Repurchase/Reverse Repurchase Agreements of any securities authorized by Section 53601. The market value of securities that underlay a repurchase agreement shall be valued at 102% or greater of the funds borrowed against those securities. Repurchase agreements are restricted to a maturity of one year and are subject to the special limits and conditions of California Government Code 53601(j). Reverse repurchase agreements are subject to additional conditions including a maximum maturity of 92 days in accordance with California Code 53601(j)(3).
- l. Medium-term notes, defined as all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, 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. Notes eligible for investment under this subdivision shall be rated in the "A" category or better by a NRSRO. Purchases of medium-term notes shall not include other instruments authorized by this policy and may not exceed 30 percent of the Authority's money which may be invested pursuant to this policy. No more than 5% of the total portfolio may be invested per issuer.
- m. Shares of beneficial interest issued by diversified management companies (mutual funds) investing in the securities and obligations authorized by this policy, and shares in money market mutual funds, subject to the restrictions of Government Code Section 53601(l). The purchase price of investments under this subdivision shall not exceed 20% of the Authority's money that may be invested pursuant to this policy. However, no more than 10% of the Authority's money may be invested in any one mutual fund, except in the case of money market mutual funds. No more

than 20% of the Authority's money may be invested in a single money market mutual fund that either:

(1) has attained the highest ranking or the highest letter and numerical rating provided by not less than two (2) NRSROs; or

(2) has retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience investing in the Securities and obligations authorized by California Government Code, Section 53601 and with assets under management in excess of \$500 million.

- n. Moneys held by a trustee or fiscal agent and pledged to the payment or security of bonds or other indebtedness, or obligations under a lease, installment sale, or other agreement of a local agency, or certificates of participation in those bonds, indebtedness, or lease installment sale, or other agreements. These monies must be invested in accordance with the statutory provisions governing the issuance of those bonds, indebtedness, or lease installment sale, or other agreement, or to the extent not inconsistent therewith or if there are no specific statutory provisions, in accordance with the ordinance, resolution, indenture, or agreement of the local agency providing for the issuance.
- o. Notes, bonds, or other obligations that are at all times secured by a valid first priority security interest in securities of the types listed by Government Code Section 53651 as eligible securities for the purpose of securing local agency deposits having a market value at least equal to that required by Government Code Section 53652 for the purpose of securing local agency deposits. 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 granted.
- p. Any 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 from issuers other than the US Treasury or a US Federal Agency/GSE. Securities eligible for investment under this subdivision shall be rated in a rating category of "AA" or its equivalent or better by a NRSRO. Purchase of securities authorized by this subdivision may not exceed 20% of the Authority's money that may be invested pursuant to this policy.
- q. Supranational securities provided that they are US 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. The securities are rated in the

“AA” category or higher by a NRSRO. No more than 30% of the total portfolio may be invested in these securities. No more than 10% of the portfolio may be invested in any single issuer.

- r. Any other investment security authorized under the provisions of California Government Code Sections 5922 and 53601.

Such investments shall be limited to securities that at the time of the investment have a term remaining to maturity of five years or less, or as provided above.

A summary of the limitations and special conditions that apply to each of the above listed investment securities is attached and is included by reference in this Investment Policy.

Pursuant to Government Code Sections 53601.6 and 53631.5, the Authority shall not invest any funds covered by this Investment Policy in inverse floaters, range notes, interest-only strips derived from mortgage pools or any investment that may result in a zero interest accrual if held to maturity. Under a provision sunseting on January 1, 2026, securities backed by the U.S. Government that could result in a zero or negative interest accrual if held to maturity are permitted.

9. COLLATERALIZATION

All certificates of deposits must be collateralized by United States Treasury Obligations. Collateral must be held by a third party trustee and valued on a monthly basis. The percentage of collateralizations on repurchase and reverse agreements will adhere to the amount required under California Government Code Section 53601(j) (2).

10. SAFEKEEPING AND CUSTODY

All security transactions entered into by the Authority shall be conducted on delivery-versus-payment (DVP) basis. All securities purchased or acquired shall be delivered to the Authority by book entry, physical delivery or by third party custodial agreement. The only exceptions to the foregoing shall be depository accounts and securities purchases made with: (i) local government investment pools (e.g. LAIF); (ii) time certificates of deposit; and, (iii) mutual funds and money market mutual funds, since these securities are not deliverable.

11. DIVERSIFICATION

The Authority will diversify its investments by security type and institution. Assets shall be diversified to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer or a specific class of securities. Diversification strategies shall be determined and revised periodically, if determined necessary to meet Authority goals. In establishing specific diversification strategies, the following general policies and constraints shall apply:

- a. Portfolio maturity dates shall be matched versus liabilities to avoid undue concentration in a specific maturity sector.
- b. Maturities selected shall provide for stability of income and liquidity.
- c. Disbursement and payroll dates shall be covered through maturities of investments, marketable United States Treasury bills or other cash equivalent instruments such as money market mutual funds.

12. MITIGATING CREDIT RISK IN THE PORTFOLIO

Credit risk is the risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. The Authority will mitigate credit risk by adopting the following strategies:

- a. No more than 5% of the total portfolio may be invested in securities of any single issuer, other than the US Government, its agencies and enterprises, LAIF, or unless otherwise specified in this investment policy;
- b. The Authority may elect to sell a security prior to its maturity and record a capital gain or loss in order to improve the quality, liquidity or yield of the portfolio in response to market conditions or Authority's risk preferences; and,
- c. If securities owned by the Authority are downgraded by either Moody's or S&P to a level below the quality required by this Investment Policy, it will be the Authority's policy to review the credit situation and make a determination as to whether to sell or retain such securities in the portfolio.
 - 1. If a security is downgraded, the Treasurer will use discretion in determining whether to sell or hold the security based on its current maturity, the economic outlook for the issuer, and other relevant factors.
 - 2. If a decision is made to retain a downgraded security in the portfolio, its presence in the portfolio will be monitored and as deemed necessary reported to the Board of Directors.

13. REPORTING

The Treasurer shall submit a monthly transaction report to the Board of Directors within 30 days of the end of the reporting period in accordance with California Government Code Section 53607. In addition, the Treasurer shall submit an investment report to the Board of Directors at least quarterly. The report shall be submitted within 30 days following the end of the reporting period covered by the report. The report shall include a complete description of the portfolio, the type of investments, the issuers, maturity dates, par values and the current market values of each component of the portfolio, including funds managed for Authority by third party contracted managers. The report will also include the source of the portfolio valuation. If all funds are placed in LAIF, FDIC-insured accounts and/or in a county investment pool, the foregoing report elements

may be replaced by copies of the latest statements from such institutions. The report must also include a certification that (1) all investment actions executed since the last report have been made in full compliance with the Investment Policy and, (2) the Authority will meet its expenditure obligations for the next six months, as required by Government Code Section 53646(b)(2) and (3), respectively. The Treasurer shall maintain a complete and timely record of all investment transactions.

14. INVESTMENT POLICY ADOPTION

The Investment Policy shall be adopted by resolution of the Authority. Moreover, the Policy shall be reviewed on an annual basis, and modifications must be approved by the Board of Directors.

PASSED, APPROVED AND ADOPTED by the Board of Directors of the Los Vaqueros Reservoir Joint Powers Authority this ___ day of _____, 2022, by the following roll call vote:

AYES:
NOES:
ABSTAIN:
ABSENT:

Angela Ramirez Holmes, Chair

ATTEST:

Ellen Wehr, Secretary

Govt. Code Section	Investment Type	Maximum Maturity	Authorized Limit (%)	State Code Issuer Limit (%)	Investment Policy Issuer Limit (%)	Required Rating Category
53601(a)	Bonds issued by Los Vaqueros Reservoir Joint Powers Authority	5 years	None	N/A	N/A	None
53601(b)	U.S. Treasury Bills, Notes and Bonds	5 years	None	N/A	N/A	None
53601(c)	California Warrants or Bonds	5 years	None	N/A	N/A	None
53601(d)	Other States Treasury Notes or Bonds	N/A	None	N/A	N/A	None
16429.1	Local Agency Investment Fund (LAIF)	N/A	None	N/A	N/A	None
53601(f)	U.S. Agencies or Enterprises	5 years	None	N/A	30%	None
53601(g)	Bankers Acceptances	180 days	40%	30%	5%	None
53601(h) & 53601.8	Prime Commercial Paper	270 days	25%	10%*	5%	A-1 or equivalent
53601(i)	Negotiable Certificates of Deposit	5 years	30%	N/A	5%	None
53601.8 53635.8	Placement Service Deposits	5 years	50%	N/A	N/A	None
53601(j)	Repurchase/Reverse Repurchase Agreements	1 year **	None	N/A	N/A	None
53601(k) 53601.6(b)	Medium-Term Corporate Notes	5 years	30%	10%*	5%	A
53601(l)	Mutual Funds/ Money Market Mutual Funds ***	5 years	20%	10% 20%	10% 20%	****
53601(m)	Bond/COP Funds	N/A	None	N/A	N/A	None
53601(n)	Collateralized Bank Deposits	5 years	None	N/A	N/A	None
53601(o)	Mortgage Pass-Through Securities	5 years	20%	N/A	N/A	AA
53601(q)	Supranational	5 years	30%	N/A	10%	AA

* No more than 10% of the Authority's total investment assets may be invested in the commercial paper and medium term notes of any single issuer.

** The one-year limitation for Repurchase/Reverse Repurchase Agreements is subject to a further limitation set forth in Government Code Section 53601(i)(4), which, if applicable, may limit the maturity to 92 days.

*** Mutual Funds maturity may be defined as the weighted average maturity; money market mutual funds must have an average maturity of 60 days or less, per SEC regulations.

**** Highest ratings from two of the top three rating agencies or has retained an investment adviser registered or exempt from registration with the SEC with not less than five years' experience investing in the securities authorized by Government Code Section 53601 and with AUM in excess of \$500 million.

ITEM 1.3 DRAFT DEBT MANAGEMENT POLICY

RESPONSIBLE/LEAD STAFF MEMBER:

James Ciampa, Interim General Counsel

DISCUSSION:

A Debt Management Policy includes written guidelines, allowances, and requirements that guide the debt issuance practices of a state or local government, including the issuance process, management of a debt portfolio, adherence to various laws and regulations, post-issuance compliance for IRS purposes, and post-issuance compliance for continuing disclosure purposes. Because the Authority contemplates issuing debt (likely bonds or certificates of participation) in the future, it would be prudent to have a Debt Management Policy early in the Authority's existence to guide decisions and provide guidelines for the structure of debt issuance. Adherence to a Debt Management Policy signals to rating agencies and the capital markets that a local agency is well managed and therefore is likely to meet its debt obligations in a timely manner.

ALTERNATIVES:

The Committee could recommend revisions to the Draft Debt Management Policy or could defer discussion of this item to a later date.

FISCAL ANALYSIS:

No fiscal impact at this time.

ENVIRONMENTAL REQUIREMENTS:

Not applicable

EXHIBITS/ATTACHMENTS:

Draft Debt Management Policy

**LOS VAQUEROS RESERVOIR JOINT POWERS AUTHORITY
DRAFT DEBT MANAGEMENT POLICY**

1. PURPOSE

The purpose of this Debt Management Policy is to establish guidelines for the issuance and management of debt to be issued by the Los Vaqueros Reservoir Joint Powers Authority (the “Authority”), and to provide guidance for decision makers with respect to options available for financing capital projects related to the Phase 2 Los Vaqueros Reservoir Expansion Project, the “Project,” as defined in the Authority’s Joint Exercise of Powers Agreement (“JPA Agreement”), so that the most prudent, equitable, and cost effective financing can be chosen. For purposes of this policy, the term “debt” includes “Bonds,” as defined in the JPA Agreement.

2. OVERVIEW

This Debt Management Policy documents the objectives to be achieved by staff both prior to, and subsequent to, issuance of debt, and is designed to promote objectivity in the decision-making process, and to facilitate the financing process by establishing important policy decisions in advance.

This Debt Management Policy is intended to comply with Government Code Section 8855(i), and shall govern all debt undertaken by the Authority.

3. GENERAL POLICY PRINCIPLES

1. DEBT MANAGEMENT GOALS

This Debt Management Policy shall govern all debt undertaken by the Authority. The Authority hereby recognizes that a fiscally prudent debt policy is required in order to:

- Establish and maintain the Authority’s sound financial position;
- Ensure the Authority has the flexibility to respond to changes in future service priorities, revenue levels, and operating expenses;
- Protect the Authority’s credit-worthiness;
- To ensure total debt does not constitute an unreasonable burden to the Authority and its Members;
- Ensure that the Authority’s debt is consistent with the Authority’s planning goals and objectives and budget for contemplated Project components, as applicable, and;
- Ensure fiscal responsibility under prevailing economic conditions.

2. PURPOSE AND USE OF DEBT

The Authority will utilize reasonable debt financing to fund long-term improvements related to the Project, including those facilities specified in Exhibit B to the JPA Agreement. Debt can be issued to fund planning, pre-design, design, land and/or easement acquisition, and construction, as well as to procure related fixtures, equipment, and pay other costs as permitted by law.

Long-term debt financings will not generally be considered appropriate for current operating expenses and routine maintenance expenses. The Authority may use long-term debt financings subject to the following conditions:

- The project to be financed must be approved by the Authority Board;
- The proceeds of any debt obligation shall be expended only for the purpose for which it was authorized;
- The weighted average maturity of the debt (or the portion of the debt allocated to the project) will not exceed the average useful life of the project to be financed by more than 20%, or will otherwise meet or exceed any such requirement imposed by law;
- The Authority estimates that sufficient revenues will be available to service the debt through its maturity, and;
- The Authority determines that the issuance of the debt will comply with the applicable state and federal laws.

3. TYPES OF DEBT

The Authority may use revenue bonds, Certificates of Participation (COPs), variable rate bonds, state revolving fund (SRF) loans, federal loans, bank loans, notes, commercial paper, direct placements, installment sale agreements, capital leases, and lease-purchase financing. The Authority may from time to time find that other forms of debt would be beneficial to further its public purposes and may approve such debt without an amendment of this Debt Management Policy.

In addition to the aforementioned long-term and short-term financing instruments, the Authority may also consider joint arrangements with other governmental agencies. Communication and coordination will be made with local governments regarding cost sharing in potential joint projects, including leveraging grants and funding sources. The Authority is authorized to issue debt in coordination with its Members, as specified in the JPA Agreement.

4. CAPITAL IMPROVEMENTS AND BUDGET

The Authority is committed to long-term capital planning. The Authority intends to issue debt for the purposes stated in this Debt Management Policy. The Authority shall strive to fund the upkeep and maintenance of its infrastructure and facilities due to normal wear and tear through the expenditure of available operating revenues and reserve funds.

The Authority will seek to avoid the use of debt to fund infrastructure and facilities improvements that are the result of normal wear and tear. The Authority shall integrate its debt issuances with the goals of its capital improvement program by timing the issuance of debt to ensure that projects are appropriately funded.

5. METHOD OF SALE

As applicable to the type of debt issuance, the Authority will select the method of sale that best fits the type of issuance, market conditions, and the desire to structure any applicable maturities to improve the performance of the debt portfolio.

6. CREDITWORTHINESS OBJECTIVES

Ratings are a reflection of the fiscal soundness of the Authority and its Members, and the capabilities of its management. Typically, the higher the credit ratings, the lower the interest cost on the Authority's debt issuances. To enhance creditworthiness, the Authority is committed to prudent financial management, systematic capital planning, and long-term financial planning. The Authority recognizes that external economic, natural, and other events may affect the creditworthiness of its debt.

7. REDEMPTION FEATURES & REFUNDING POLICY

To preserve flexibility and refinancing opportunities, the Authority debt will generally be issued with call provisions, which enable the Authority to retire the debt earlier or enable the refunding of the debt prior to maturity. The Authority may consider calls that are shorter than traditionally offered in the market and/or non-callable debt when warranted by market conditions and opportunities. For each transaction, the Authority will evaluate the efficiency of call provision alternatives.

8. FINANCING - ROLES AND RESPONSIBILITIES

The primary responsibility for developing debt financing recommendations or refundings shall typically be managed by the Executive Director. In developing recommendations, the Executive Director shall consider the need for debt financing and assess progress on the current status of planning and/or construction of facilities, as defined in the JPA Agreement, specifically in its Exhibit B. All proposed debt financings will be presented to the Board, which has sole authority to approve the issuance of debt.

i. Bond Counsel

Where the Executive Director deems it prudent, the Authority will retain external bond counsel for a debt issue. Bond counsel will prepare the necessary authorizing resolutions, agreements and other documents necessary to execute the financing. All debt issued by the Authority will include a written opinion by bond counsel affirming that the Authority is authorized to issue the debt, stating that the Authority has met all state and federal constitutional and statutory requirements necessary for issuance, and determining the debt's state and federal income tax status.

ii. Financial Advisors

The Authority will utilize the services of independent financial advisors when deemed prudent by the Executive Director. To avoid any conflict of interest, financial advisors cannot also underwrite Authority debt. Services and compensation caps shall be defined by contract. The primary responsibilities of the financial advisors are to advise and assist on bond document negotiations, transaction structuring, including advising on call provision options and timing of issuance, running debt service cash flow analyses, assistance in obtaining ratings on the proposed issuance, and generally acting as an independent financial consultant and economic market expert.

iii. Underwriters

For negotiated sales, the Authority will generally select or pre-qualify underwriters through a competitive process. This process may include a request for proposal or qualifications to firms considered appropriate for the underwriting of a particular issue or type of bonds. The Executive Director will determine the appropriate method to evaluate the underwriter submittals and then select or qualify firms on that basis.

iv. Disclosure Counsel

Where applicable, the Authority will engage Disclosure Counsel to ensure that all disclosure requirements are identified and complied with in a timely manner.

9. DEBT ADMINISTRATION

i. Pre- and Post-Issuance Compliance

In addition to complying with the terms of this Policy, the Authority shall comply with any other applicable policies, including Procedures for Post-Issuance Compliance which will be adopted regarding initial bond disclosure, continuing disclosure, post-issuance compliance, investment of bond proceeds, and bond covenants. The Authority will periodically review the requirements of and will remain in compliance with the following:

- Any continuing disclosure undertakings under SEC Rule 15c2-12;

- Any federal tax compliance requirements, including without limitation arbitrage and rebate compliance and required expenditure timelines, related to any prior bond issues;
- Investment policies as they relate to the investment of bond or other debt issuance proceeds;
- Insurance requirements, and;
- All rate and other bond or debt instrument covenants.

ii. Internal Control

A. Investment of Proceeds - The proceeds of any debt issuance will be invested until used for the intended project(s) in order to maximize utilization of the public funds. The investments will be made to obtain the highest level of 1) safety, 2) liquidity, and 3) yield, and may be held as cash. The Authority's investment guidelines and bond indenture or other debt instrument will govern objectives and criteria for investment of bond proceeds. The Executive Director will oversee the investment of bond proceeds in a manner to avoid, if possible, and minimize any potential negative arbitrage over the life of the bond issuance or other debt, while complying with arbitrage and tax provisions.

B. Use of Debt Issuance Proceeds – Debt issuance proceeds will be deposited and recorded in separate accounts to ensure funds are not comingled with other Authority funds. Where applicable, the Authority's Trustee, or other appointed administrator (as determined under the debt instrument) will administer the disbursement of such proceeds pursuant to each certain Indenture of Trust or Fiscal Agent Agreement, respectively, or other debt instrument. Requisition for the disbursement of debt issuance funds will be prepared and approved by the Executive Director.

Finance staff will be tasked with monitoring the expenditure of debt issuance proceeds to ensure they are used only for the purpose and authority for which the debt instrument was issued and exercising best efforts to spend those proceeds in such a manner that the Authority will meet one of the spend-down exemptions from arbitrage rebate.

C. Reporting – At least quarterly, Authority staff shall prepare and present to the Board for review, reports on the use of debt proceeds.

10. BOARD DISCRETION

This policy was drafted with the intent to serve as a guide and it in no way restricts the ability of the Authority to review proposed debt issuances or other actions of substance to the Authority. The Board maintains authorization to waive elements of the policy in connection with individual financings at its discretion.

ITEM 1.4 SCHEDULING FUTURE COMMITTEE MEETINGS

RESPONSIBLE/LEAD STAFF MEMBER:

Marguerite Patil, Interim Administrator

DISCUSSION:

It is recommended that the Committee discuss the establishment of regular Committee meeting dates and times to reduce the administrative burden for scheduling meetings and support more effective planning for future meetings. In addition, the Committee will need to discuss the proposed location of future Committee meetings once in-person meetings can proceed. As with the Authority Board meetings, the Brown Act requires the Committee meetings occur within the Authority's geographic jurisdiction.

ALTERNATIVES:

The Committee could defer discussion of this item to a later date.

FISCAL ANALYSIS:

Not applicable

ENVIRONMENTAL REQUIREMENTS:

Not applicable

EXHIBITS/ATTACHMENTS:

None