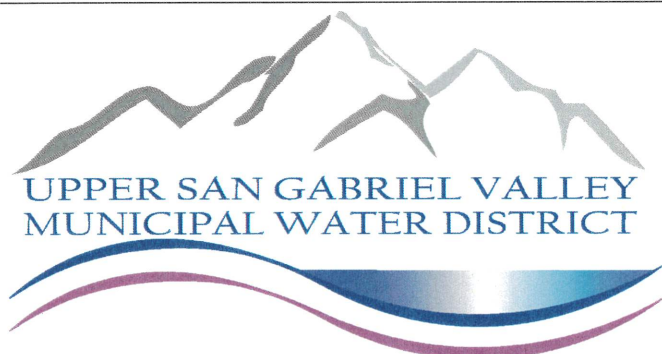


**ADMINISTRATION AND FINANCE
COMMITTEE MEETING
AND
SPECIAL MEETING OF THE
BOARD OF DIRECTORS**

**Tuesday, September 5, 2023
4:00 P.M.**

Committee Members:

Jennifer Santana, Chair
Charles Treviño, Vice-Chair



248 E. Foothill Blvd, Room 103
Monrovia, CA 91016

(626) 443-2297
www.upperdistrict.org

*The Administration and Finance Committee meeting is noticed as a joint committee meeting with the Board of Directors for the purpose of compliance with the Brown Act. Members of the Board who are not assigned to the Administration and Finance Committee may attend and participate as members of the Board, whether or not a quorum of the Board is present. To preserve the function of the Committee as advisory to the Board, members of the Board who are not assigned to the Administration and Finance Committee will not vote on matters before the Committee.

Communications

1. Call to Order
2. Public Comment

Discussion/Action

3. Proposed Amendments to the Investment Policy *(Staff memorandum enclosed.)*

Oral Reports

4. Update on the Fiscal Year 2022/23 Audit *(A letter from Rogers, Anderson, Malody & Scott, LLP is enclosed.)*
5. California Employers' Retiree Benefit Trust (CERBT) and California Employers' Pension Prefunding Trust (CEPPT) Plan Update

Other Matters

- 6.

Adjournment

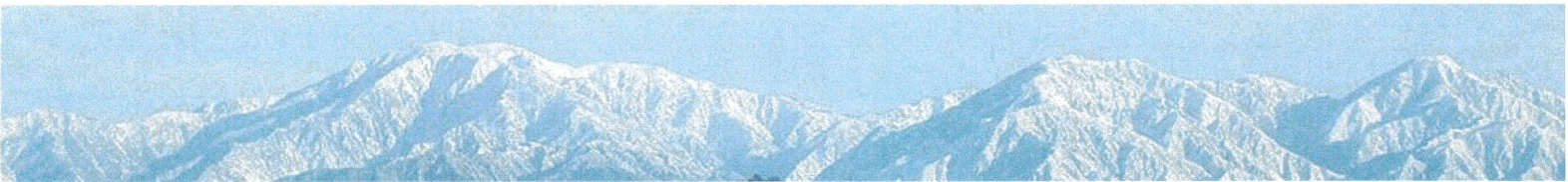
Next Meeting: Tuesday, October 3, 2023 at 4:00 p.m.



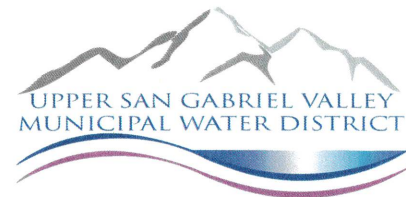
American Disabilities Act Compliance *(Government Code Section 54954.2(a))*

To request special assistance to participate in this meeting, please contact the Upper District office at (626) 443-2297 or venessa@usgvmwd.org at least 24 hours prior to meeting.





MEMORANDUM



ITEM 3.

DATE: August 31, 2023
TO: Administration and Finance Committee and Board of Directors
FROM: General Manager
SUBJECT: Approve Amendments to Upper District’s Investment Policy

Recommendation

Approve the proposed amendments to Upper District’s Investment Policy.

Background

Section 53600 et seq. of the California Government Code (CGC) requires the periodic review of public agency investment policies by the governing bodies of those agencies. The purpose of the review is to permit the governing bodies of public agencies to enact amendments to investment policies required by new statute and/or other modifications deemed appropriate.

The investment policy, in order of priority, follows the three fundamental principles of safety of principal, liquidity and return on investment. It also provides that all investment activities are to be consistent with the prudent investor standard. Each year, working with District Counsel and Chandler Asset Management (Chandler), Upper District reviews the investment policy for any changes required by statute. This year, Chandler recommends the following:

1. Adding securities with a forward settlement date exceeding 45 days to the list of prohibited investments as required under Senate Bill No. 1489.
2. Adding an exception to the Delivery versus Payment (DVP) requirement for non-deliverable securities such as money market funds and local government investment pools like LAIF.

A copy of the District’s Investment Policy is attached showing the proposed redlined changes in Section 3.2.6 (b) (3) and (d) (1).

Attachment



Upper San Gabriel Valley Municipal Water District			
MANUAL OF POLICIES			
Subject	Policy Number	Date Adopted	Date Revised
INVESTMENT POLICY	3.2		Last adopted on: 07-14-21

Purpose

3.2.1 Investments by the General Manager under the supervision of the Treasurer pursuant to the delegation hereby made by this Statement of Investment Policy are limited to those instruments specified by the Board as defined in this Statement of Investment Policy.

Background

3.2.2 In accordance with Section 53600 et seq. of the Government Code of the State of California, the authority to invest public funds is expressly delegated to the Board of Directors for subsequent re-delegation to the General Manager under the supervision of the Treasurer.

Policy

3.2.3 In order of priority, three fundamental criteria shall be followed in the investment program:

- (a) Safety of Principal - Investments shall be undertaken in a manner which first seeks to ensure the preservation of principal in the portfolio. Each investment transaction shall be entered into after taking into consideration the quality of the issuer, the underlying security or collateral, and diversification of the portfolio. Market risk shall be reduced by limiting the average maturity of the portfolio, the maximum maturity of any one security, and by performing continuous cash flow analysis to avoid the need to sell securities prior to maturity.
- (b) Liquidity - In an effort to ensure that the Upper District's portfolio will be sufficiently liquid to meet current and anticipated operating requirements, a cash flow analysis will be performed on an ongoing basis. Investments shall be made so that the maturity date is compatible with cash flow needs and safety of principal.
- (c) Return on Investment - Investments shall be undertaken to produce an acceptable rate of return after first considering safety of principal and liquidity and the prudent investor standard.

3.2.4 All investment activity shall be consistent with the prudent investor standard.

3.2.5 Prudent Investor Standard: As applicable to Upper District, the prudent investor standard is a standard of conduct whereby any person authorized to make investment decisions on behalf of the Upper District acts with care, skill, prudence and diligence under the circumstances then prevailing, including but not limited to, the general economic conditions and the anticipated needs of the Upper District, that a prudent person acting in like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and meet the liquidity needs of the Upper District.

3.2.6 Portfolio: Any reference to the portfolio shall mean the total of the Upper District's cash and securities under management by the General Manager under the supervision of the Treasurer,

excluding cash and securities held in escrow or trust on behalf of the Upper District. The General Manager may invest in any security authorized for investment under the State law, subject to the limitations described below. All percentage holding limitations and credit quality minimums apply at the time of purchase.

(a) Maturity Limitations

- (1) The General Manager is authorized to invest the Upper District's fund balances up to a maximum term of five years. Special trust funds shall not be subject to the five-year maximum maturity. The General Manager is therefore authorized to invest special trust funds in excess of five years. These funds include, but are not limited to the following:

Employees' Deferred Compensation Fund

- (2) For certain instruments, the term of the investment is limited by market convention or as otherwise prescribed herein.
- (3) Not more than 20 percent of the portfolio shall consist of securities with a term to maturity in excess of three years, after deducting those Funds noted in 1a.

(b) Investment Transactions

- (1) Information concerning investment opportunities and market developments will be gained by maintaining contact with the financial community.
- (2) Annually the General Manager shall transmit a copy of the current Statement of Investment Policy to the investment management agent(s) or approved dealers. The investment management agent(s) or each dealer is required to return a signed statement indicating receipt and understanding of the Upper District's investment policies.
- (3) Prohibited investments include inverse floaters, range notes, interest only strips derived from a pool of mortgages (Collateralized Mortgage Obligations), securities with a forward settlement date exceeding 45 days from the time of the investment, and any security that could result in zero interest accrual if held to maturity. (Zero interest accrual means the security has the potential to realize zero earnings depending upon the structure of the security. Zero coupon bonds and similar investments that start at a level below the face value are legal because their value does increase).

(c) Portfolio Adjustments

- (1) Should an investment percentage of portfolio limitation be exceeded due to an incident such as a fluctuation in portfolio size, the affected securities may be held to maturity to avoid losses.
- (2) When no loss is indicated, the General Manager shall consider reconstructing the portfolio basing his decision in part on the expected length of time the portfolio will be imbalanced.
- (3) Should a security held in the portfolio be downgraded below the minimum criteria included in this Statement of Investment Policy, the General Manager shall use discretion in determining whether to sell or hold the security based on its maturity, the outlook for the issuer, and other relevant factors.

(d) Safekeeping

- (1) All securities transactions entered into by the Upper District shall be conducted on a delivery versus payment (DVP) basis, with the exception of non-deliverable securities;

money market mutual funds, time deposits, and local government investment pools.

- (2) Securities will be held by an independent custodian designated by the General Manager and held in safekeeping pursuant to a safekeeping agreement.
- (3) All financial institutions that provide safekeeping services for the Upper District shall be required to provide reports or safekeeping receipts directly to the General Manager to verify securities taken into their possession.

3.2.7 Authorized Investments:

(a) U.S. Government and Agencies:

- (1) Investments in U.S. Treasury obligations shall not be subject to any limitations.
- (2) Investments in direct obligations of Federal Agencies guaranteed by the U.S. Government shall not be subject to any limitations. (Please refer to Appendix)
- (3) Investments in Federal Agency obligations that do not have a guarantee by the U.S. Government shall not exceed 60 percent of all investments in effect immediately after any such investment is made.

(b) Demand and Time Deposits/Certificates of Deposits: For purposes of this policy, collateralized demand deposits and time deposits shall be considered investments.

The following criteria will be used in evaluating financial institutions and form of collateral to determine eligibility for deposits:

- (1) The financial institution must have been in existence for at least five years.
- (2) Eligibility for deposits shall be limited to those financial institutions that maintain a rating equivalent to F1 by Fitch or better. Credit requirements may be waived for any time deposit that is federally insured.
- (3) The deposit shall not exceed the shareholders' equity of any depository bank. For the purposes of this constraint, shareholders' equity shall be deemed to include capital notes and debentures.
- (4) The deposit shall not exceed the total of the net worth of any depository savings and loan association, except that deposits not exceeding a total of five hundred thousand dollars (\$500,000) may be made to a savings and loan association without regard to the net worth of that depository, if such deposits are insured or secured as required by law.
- (5) In order to secure such demand deposits, the financial institution shall maintain in the collateral pool, securities having a market value of at least 10 percent in excess of the total amount deposited.
- (6) Promissory notes secured by real estate mortgages or deeds of trust may not be accepted as collateral.
- (7) Purchased time deposits will be limited to a maximum maturity of one year.

(c) Corporate Notes and Bonds - Restrictions are as follows:

- (1) Investment in corporate notes and bonds are limited to 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.
- (2) Corporate notes and bonds eligible for investment under this subdivision shall be rated in a rating category of at least "A" or its equivalent or better by a nationally recognized rating service. Maturities greater than two years must be rated "AA" or better.
- (3) Purchases of corporate notes and bonds may not exceed 30 percent of the portfolio.

- (4) Purchases of corporate notes and bonds will be limited to a maximum maturity of five years.
- (5) Purchases of corporate notes and bonds from a single issuer may not exceed 5% of the portfolio.
- (d) Local Agency Investment Fund Deposits: Deposits for the purpose of investment in the Local Agency Investment Fund of the State Treasury may be made up to the maximum amount permitted by State Treasury policy.
- (e) Local Government Investment Pools
- (f) Money Market Mutual Funds: Registered with the Securities and Exchange Commission under the Investment Company Act of 1940, provided that:
 - (1) Such Funds meet either of the following criteria:
 - Have attained the highest ranking provided by not less than two (2) Nationally Recognized Statistical Rating Organizations (NRSROs); or
 - Have 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.
 - No more than 20% of the total portfolio may be invested in money market funds.
- (g) Supranationals:
 - (1) Issues 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.
 - (2) The securities are rated in a rating category of "AA" or equivalent or higher by a NRSRO.
 - (3) No more than 30% of the portfolio may be invested in these securities.
 - (4) No more than 10% of the portfolio may be invested in a single issuer.
 - (5) The maximum maturity does not exceed 5 years.

3.2.8 In accordance with Administrative Code Section 5114, the General Manager shall submit a monthly report to the Board of Directors via the Treasurer indicating the type of investment, issuer, and date of maturity, and shall provide the par value, current market value of all securities, rates of interest, and expected yield to maturity, along with a statement that the Upper District has adequate funds to meet its cash flow requirements for the next six months. The report shall also include a statement of compliance with the investment policy, or manner in which the portfolio is not in compliance along with a timetable for resolution. The General Manager shall also submit a monthly summary report to the Board of Directors via the Treasurer showing investment activity, including yield and earnings, and the status of cash by depository. These monthly reports shall be submitted within 30 days following the end of the month covered by the report.

3.2.9 The General Manager and the Treasurer shall monitor or cause to be monitored the extent to which financial institutions with which the Upper District maintains deposits or investments are consistent with the Upper District's policies regarding business activities within countries that may jeopardize the safety and liquidity of Upper District funds or violate other Upper District policies. Such matters shall be reported to the Budget Committee or as part of the General Manager's monthly report.

3.2.10 The Treasurer may, at any time, temporarily further restrict the securities approved for

investment as deemed appropriate, subject to ratification by the Board of Directors at the next scheduled Board meeting.



ROGERS, ANDERSON, MALODY & SCOTT, LLP
CERTIFIED PUBLIC ACCOUNTANTS. SINCE 1948

May 10, 2023

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To the Honorable Board of Directors
Upper San Gabriel Valley Municipal Water District
Monrovia, California

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Bradford A. Welebir, CPA, MBA, CGMA
Jenny W. Liu, CPA, MST
Gardenya Duran, CPA, CGMA
Brianna Schultz, CPA, CGMA
Brenda L. Odle, CPA, MST (Partner Emeritus)

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Seong-Hyea Lee, CPA, MBA
Evelyn Morentin-Barcena, CPA
Veronica Hernandez, CPA
Laura Arvizu, CPA
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John Maldonado, CPA, MSA
Julia Rodriguez Fuentes, CPA, MSA
Demi Hite, CPA
Jeffrey McKennan, CPA

MEMBERS

American Institute of
Certified Public Accountants

PCPS The AICPA Alliance
for CPA Firms

Governmental Audit
Quality Center

California Society of
Certified Public Accountants



This letter is provided in connection with our engagement to audit the financial statements of the Upper San Gabriel Valley Municipal Water District (the District) as of and for the year ended June 30, 2023. Professional standards require that we communicate with you certain items including our responsibilities with regard to the financial statement audit and the planned scope and timing of our audit, including significant risks we have identified.

Our Responsibilities

As stated in our engagement letter dated May 10, 2023, we are responsible for conducting our audit in accordance with auditing standards generally accepted in the United States of America, and in accordance with *Government Auditing Standards* of the Comptroller General of the United States of America, and the State Controller's *Minimum Audit Requirements for California Special Districts*, for the purpose of forming and expressing an opinion(s) about whether the financial statements that have been prepared by management, with your oversight, are prepared, in all material respects, in accordance with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the California State Controller's Office and State regulations governing special districts. Our audit does not relieve you or management of your respective responsibilities.

Our responsibility relating to other information, whether financial or nonfinancial information (other than financial statements and the auditor's report thereon), included in the entity's annual report includes only the information identified in our report. We have no responsibility for determining whether the introductory or statistical information is properly stated. We require that we receive the final version of the annual report (including all the documents that, together, comprise the annual report) in a timely manner prior to the date of the auditor's report, or if that is not possible, as soon as practicable and, in any case, prior to the entity's issuance of such information.

Planned Scope of the Audit

Our audit will include examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. Our audit is designed to provide reasonable, but not absolute, assurance about whether the financial statements as a whole are free of material misstatement, whether due to error, fraudulent financial reporting, misappropriation of assets, or violations of laws or governmental regulations. Because of this concept of reasonable assurance and because we will not examine all transactions, there is a risk that material misstatements may exist and not be detected by us.

Honorable Board of Directors
Upper San Gabriel Valley Municipal Water District

Our audit will include obtaining an understanding of the entity and its environment, including its internal control, sufficient to assess the risks of material misstatement of the financial statements and as a basis for designing the nature, timing, and extent of further audit procedures, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. However, we will communicate to you at the conclusion of our audit any material weaknesses or significant deficiencies identified. We will also communicate to you:

- Any violation of laws or regulations that come to our attention;
- Our views relating to qualitative aspects of the entity's significant accounting practices, including accounting policies, accounting estimates, and financial statement disclosures;
- Significant difficulties, if any, encountered during the audit;
- Disagreements with management, if any, encountered during the audit;
- Significant unusual transactions, if any;
- The potential effects of uncorrected misstatements on future-period financial statements; and
- Other significant matters that are relevant to your responsibilities in overseeing the financial reporting process.

Our responsibility as auditors is, of course, limited to the period covered by our audit and does not extend to any other periods.

Certain significant risks are presumptive in most audits and merit attention by the auditors due to the direct impact over financial reporting and internal control processes. Although we are currently in the planning stage of our audit, the following presumptive significant risks are applicable to our audit and require special audit considerations:

- *Management's override of internal controls over financial reporting:* Auditors must consider and respond to the risk of management override of internal controls, which is the intervention by management in handling financial information and making decisions contrary to internal control policy.
- *Revenue recognition:* Auditors must consider and respond to the risk of management subversion of generally accepted accounting principles in determining how and when revenue is recognized.

We expect to begin our audit on approximately September 11, 2023. Scott Manno, CPA, CGMA is the engagement partner and is responsible for supervising the engagement and signing the report or authorizing another individual to sign it.

This information is intended solely for the information and use of the Board of Directors and management of the District and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully,

Rogers, Anderson, Malody & Scott, LLP.