



**SAN BERNARDINO  
VALLEY** | A REGIONAL WATER  
AGENCY SINCE 1954

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**BOARD OF DIRECTORS WORKSHOP - POLICY/ADMINISTRATION  
2:00 pm Thursday, November 2, 2023**

**In Person:**

380 East Vanderbilt Way  
San Bernardino, CA 92408

**Online via Zoom:**

<https://sbvmwd.zoom.us/j/89386241472>

Meeting ID: 893 8624 1472

**PASSCODE: 3802020**

**By Telephone:**

Dial-in Info: (877) 853 5247 US Toll-free

Meeting ID: 893 8624 1472

**PASSCODE: 3802020**

If you are unable to participate online or by telephone, you may also submit your comments and questions in writing for the District's consideration by sending them to [comments@sbvmwd.com](mailto:comments@sbvmwd.com) with the subject line "Public Comment Item #" (insert the agenda item number relevant to your comment) or "Public Comment Non-Agenda Item". Submit your written comments by **6:00 p.m. on Wednesday, November 1, 2023**. All public comments will be provided to the Board President and may be read into the record or compiled as part of the record.

**IMPORTANT PRIVACY NOTE:** Online participants **MUST** log in with a Zoom account. The Zoom app is a free download. Please keep in mind: (1) This is a public meeting; as such, the virtual meeting information is published on the World Wide Web and available to everyone. (2) Should you participate remotely via telephone, your telephone number will be your "identifier" during the meeting and available to all meeting participants; there is no way to protect your privacy if you elect to call in to the meeting.



**SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT**  
380 E. Vanderbilt Way, San Bernardino, CA 92408

**BOARD OF DIRECTORS' WORKSHOP - POLICY/ADMINISTRATION**  
**2:00 PM Thursday, November 2, 2023**

**CALL TO ORDER**

1) **INTRODUCTIONS**

2) **PUBLIC COMMENT**

Members of the public may address the Board regarding any item within the subject matter jurisdiction of the Board; however, no action may be taken on off-agenda items except as authorized by law. Each speaker is limited to a maximum of three (3) minutes.

3) **DISCUSSION AND POSSIBLE ACTION ITEMS**

3.1 Quarterly Investment Portfolio Update with PFM Asset Management (20 min) - Page 2  
[Staff Memo - Quarterly Investment Portfolio Update with PFM Asset Management](#)  
[PFM Asset Management presentation on the District's investments through September 2023](#)

3.2 Review Board Approved Investment Policy (30 min) - Page 25  
[Staff Memo - Review Board Approved Investment Policy](#)  
[SBVMWD Investment Policy - Reviewed May 2023](#)  
[List of San Bernardino Valley Long Term Investments](#)

3.3 Review and Consider Terminology Used to Describe our State Water Project Ad Valorem Tax on the County Annual Property Tax Bills (30 min) - Page 42  
[Staff Memo - Review and Consider Terminology Used to Describe our State Water Project Ad Valorem Tax on the County Annual Property Tax Bills](#)  
[Example of San Bernardino County annual property tax statement](#)

4) **FUTURE BUSINESS**

5) **ADJOURNMENT**

**DATE:** November 2, 2023  
**TO:** Board of Directors' Workshop – Policy/Administration  
**FROM:** Cindy Saks, Chief Financial Officer / Deputy General Manager  
**SUBJECT:** Quarterly Investment Portfolio Update with PFM Asset Management

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**Staff Recommendation**

Receive and file the quarterly portfolio update report from PFM Asset Management.

**Summary**

Richard Babbe, Senior Managing Consultant of PFM Asset Management will be available via the Zoom meeting to make a presentation on the status of the District's investments based on the current investment strategy.

**Background**

One of the specific tasks outlined by the Board is to meet quarterly with the investment advisor. The Board approved Investment Advisory services from PFM Asset Management and to continue with the investment strategy developed and adopted by the Board. Periodically over the years the Board has reviewed the investment strategy. On February 10, 2022, the board reviewed and directed staff to continue with the same investment strategy which provides greater portfolio diversity with a slightly longer average maturity while not increasing risk, all of which is in accordance with the District's investment policy.

**Fiscal Impact**

There is no fiscal impact to receive and file the quarterly investment report and reviewing the District's investment policy.

**Attachments**

- 1) PFM Asset Management presentation on the District's investments through September 2023

# San Bernardino Valley Municipal Water District

## Investment Performance Review For the Quarter Ended September 30, 2023

### Client Management Team

Sarah Meacham, Managing Director  
James Sims, CFA, Managing Director  
Ellen Clark, Director  
Richard Babbe, CCM, Senior Managing Consultant

### PFM Asset Management LLC

633 W 5th St., 25th Floor  
Los Angeles, CA 90071  
213-415-1699

213 Market Street  
Harrisburg, PA 17101-2141  
717-232-2723

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# Market Update

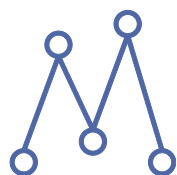
## Current Market Themes



- ▶ The U.S. economy is characterized by:
  - ▶ Stronger than expected growth, supported by a resilient consumer
  - ▶ Inflation that remains stubbornly above the Federal Reserve's ("Fed") target range
  - ▶ Continued creation of new jobs by the labor market, albeit at a moderating pace



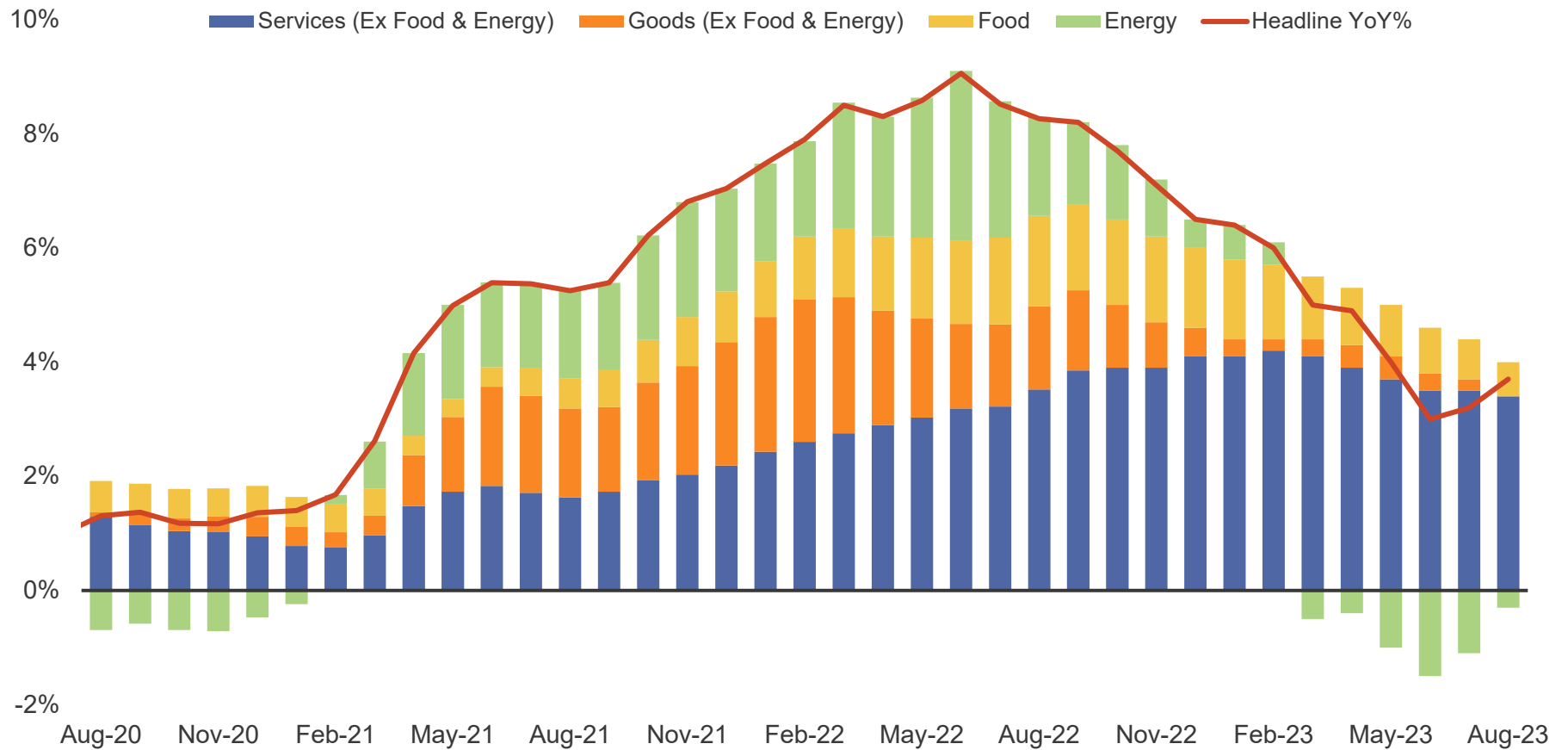
- ▶ Fed pauses again in rate hike campaign
  - ▶ After hiking in July, the Federal Reserve held rates steady at the September FOMC meeting as expected
  - ▶ The Fed's most recent "dot plot" indicated one more rate hike for 2023 and set the stage for interest rates to remain "higher-for-longer"
  - ▶ Updated FOMC economic projections point to stronger GDP growth expectations, higher inflation, and slightly lower unemployment for the remainder of 2023 and into 2024



- ▶ Interest rates reached their highest levels since 2006-7
  - ▶ The U.S. government rating downgrade by Fitch had little impact, although it highlighted growing worry about the erosion of governance standards and fiscal irresponsibility
  - ▶ Treasury yields across the curve rose during Q3. Sticky inflation, a "higher for longer" market consensus, increased Treasury borrowing, and reduced Treasury holdings by China and Japan weighed especially on the long end of the curve
  - ▶ The next concern is the annual federal budget process and potential for a government shutdown

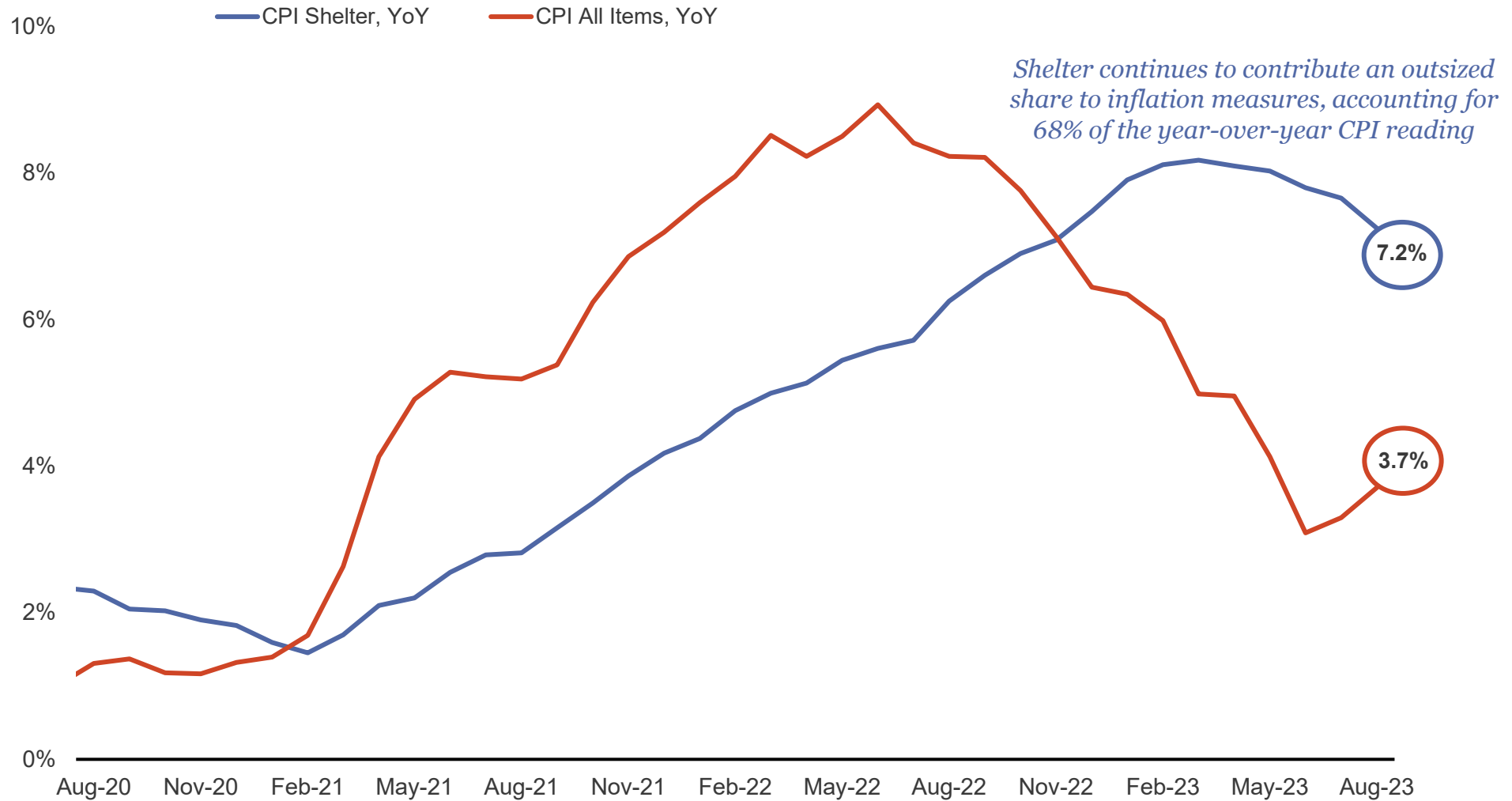
## Inflation Gradually Falling, But Sensitive to Recently Rising Energy Prices

### Factors Contributing to the Consumer Price Index (CPI YoY)



Source: Bloomberg, as of August 2023.

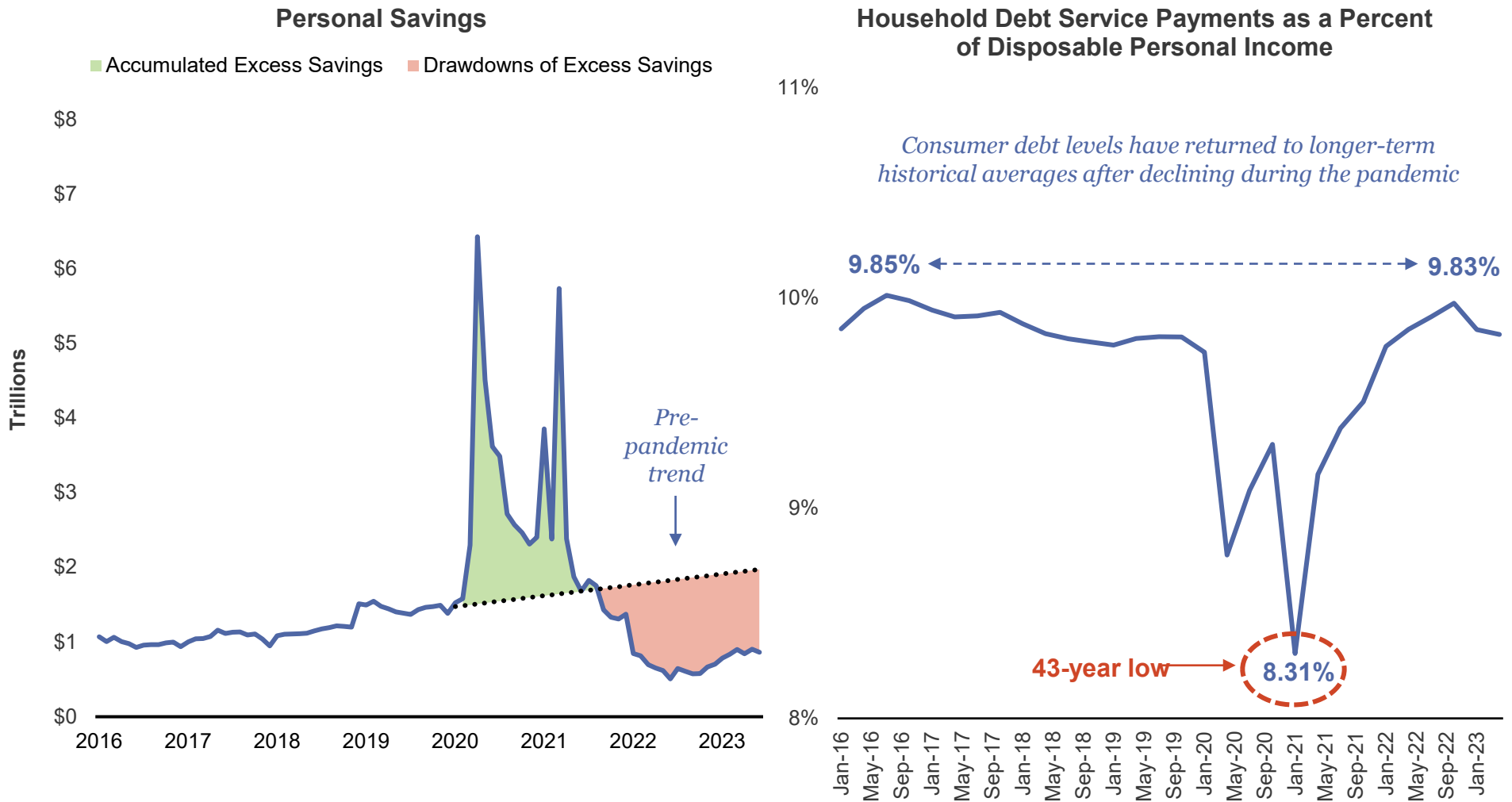
### Shelter Component of CPI Remains Elevated



Source: Federal Reserve Bank of St. Louis and Bureau of Labor Statistics, as of August 2023.



## Personal Savings and Consumer Debt Have Returned to Pre-Pandemic Levels



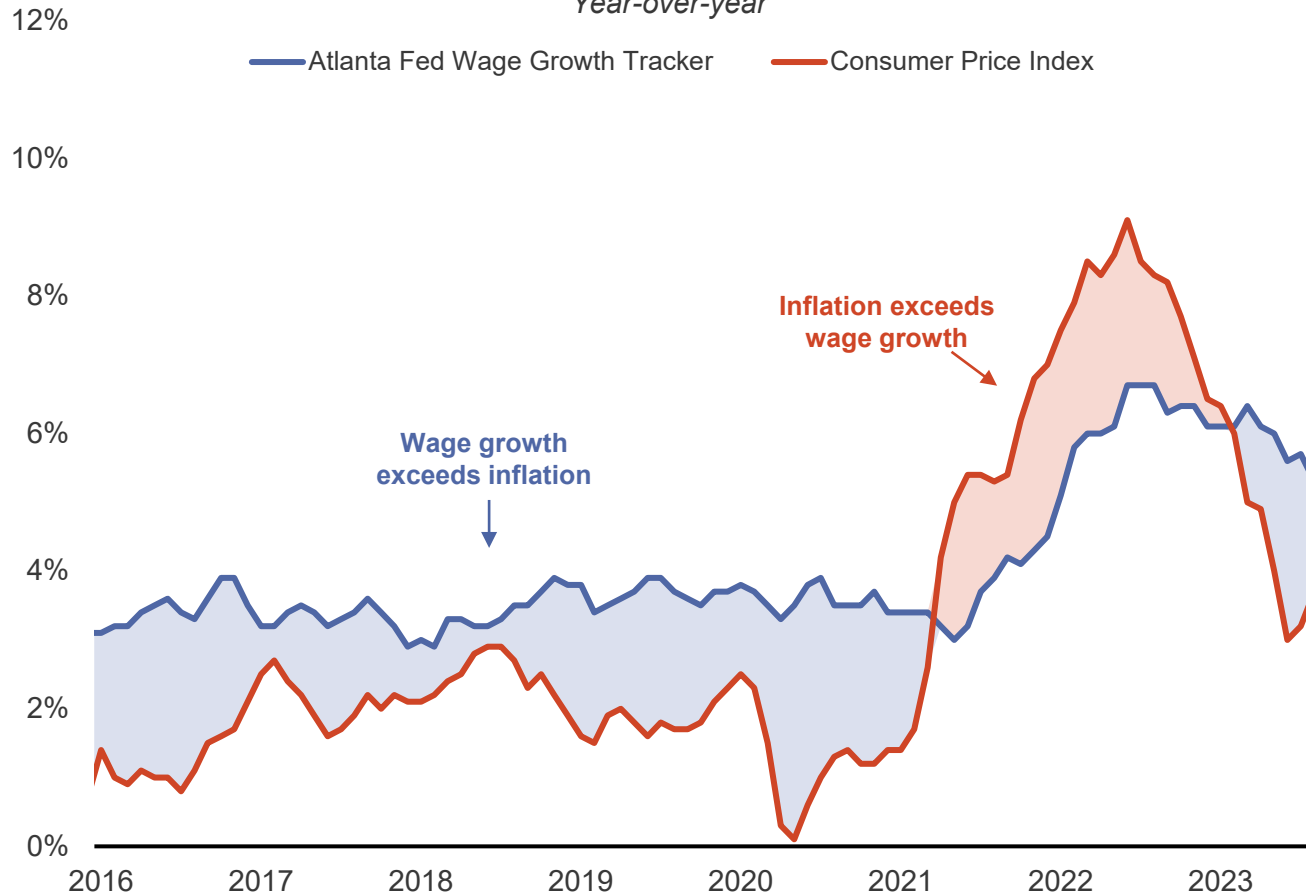
Source: Bloomberg and New York Fed Household Debt and Credit Report. Data as of June 30, 2023. (Left chart)

Source: Federal Reserve Bank of St. Louis. Data as of April 1, 2023. (Right chart)

## Wages Have Caught Up to Inflation Once Again

### Wage Growth vs. Inflation

Year-over-year



### Labor Market Stats

**Unemployment Rate (Sept.)** 3.8%

*Peaked during COVID at 14.7%*

**Excess Job Openings (Sept.)** 3 mil.

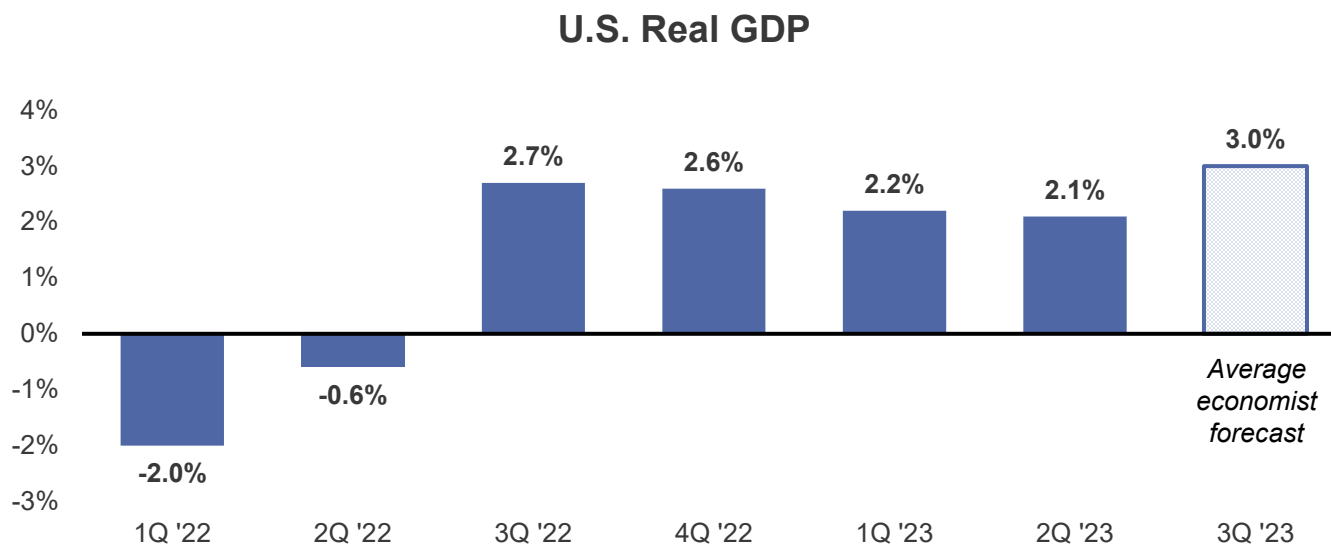
*For each unemployed worker, there are approximately 1.5 job openings*

**Nonfarm Payrolls (Sept.)** 336,000

*Although the pace has declined, the economy continues to create jobs at a healthy pace*

Source: As of September 2023. St. Louis Federal Reserve Economic Data. Excess job openings refers to the difference in job openings, as reported by JOLTS, and the total number of unemployed workers as reported by the Bureau of Labor Statistics.

## GDP Remains Surprisingly Robust



### GDP Contributors

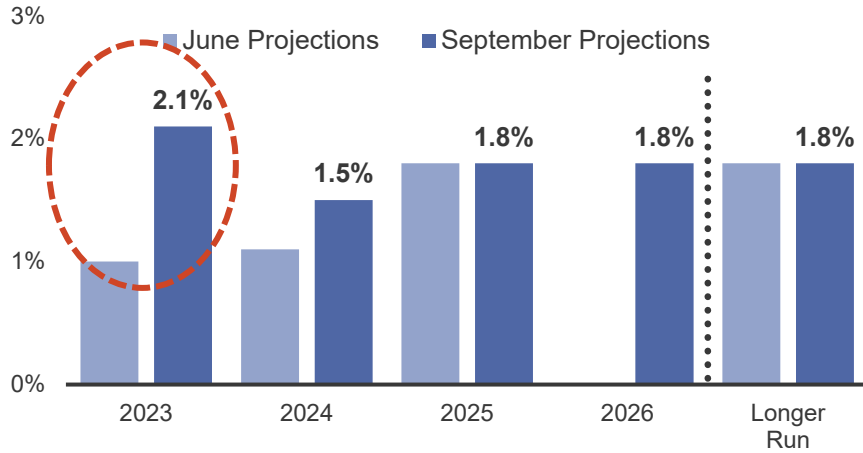
	1Q '22	2Q '22	3Q '22	4Q '22	1Q '23	2Q '23
<b>Real GDP</b>	<b>-2.0%</b>	<b>-0.6%</b>	<b>2.7%</b>	<b>2.6%</b>	<b>2.2%</b>	<b>2.1%</b>
Personal Consumption	0.0%	1.3%	1.1%	0.8%	2.5%	0.6%
Private Investment	1.2%	-2.1%	-1.5%	0.6%	-1.7%	0.9%
Net Exports	-2.6%	0.6%	2.6%	0.3%	0.6%	0.0%
Gov't Expenditures	-0.5%	-0.3%	0.6%	0.9%	0.8%	0.6%

◀ The U.S. Consumer has been the backbone of economic growth; historically being the largest contributor

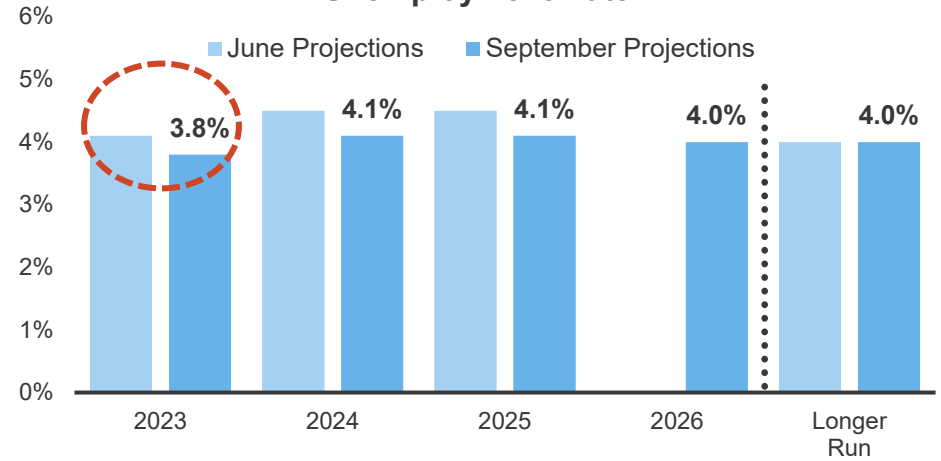
Source: St. Louis Federal Reserve Economic Data, Bureau of Economic Analysis. Average economist forecast sourced from Bloomberg.

## The Fed's Protections for Growth and Employment Were More Upbeat

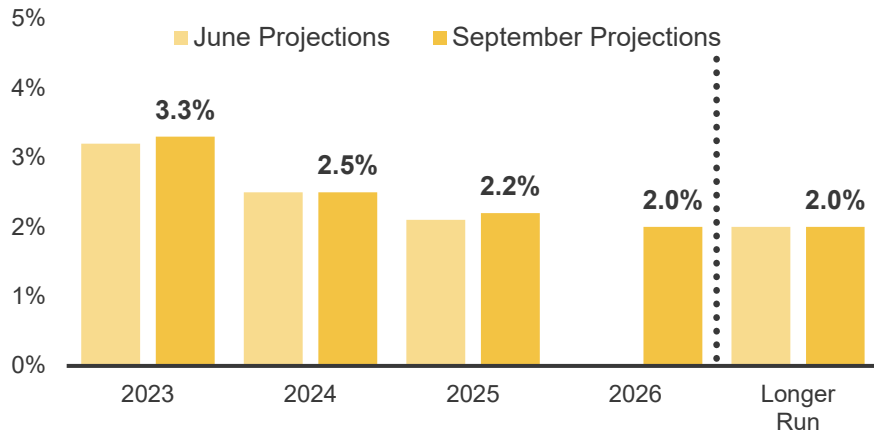
### Change in Real GDP



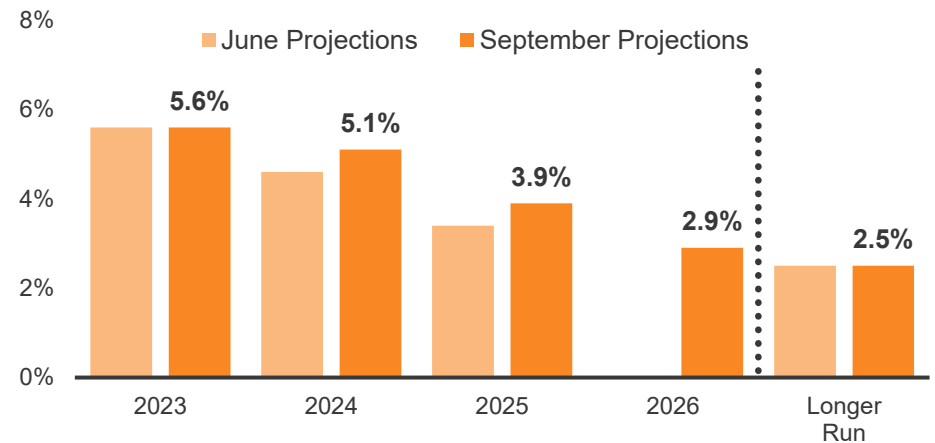
### Unemployment Rate



### PCE Inflation



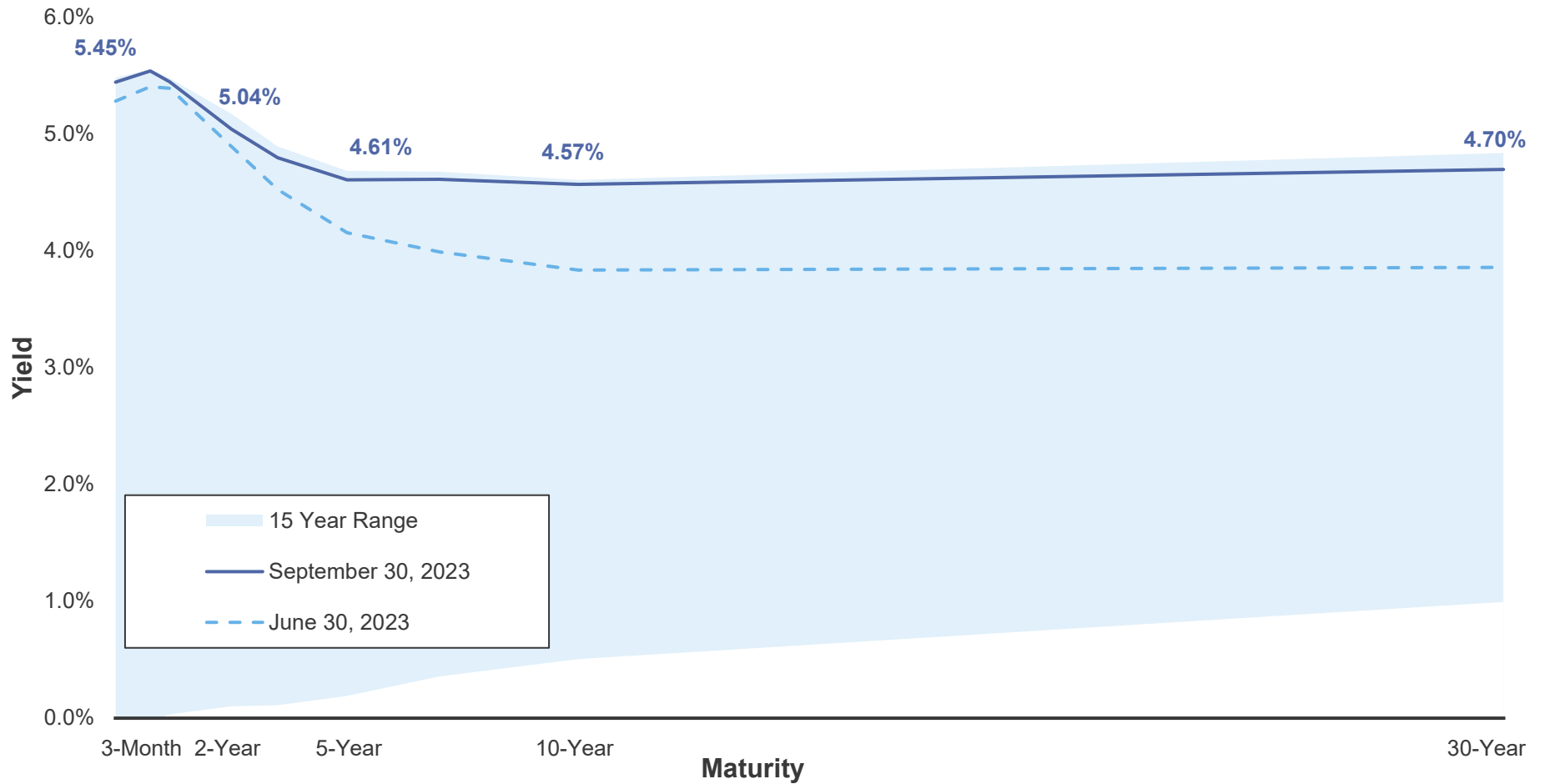
### Federal Funds Rate



Source: Federal Reserve, latest economic projections as of September 2023.

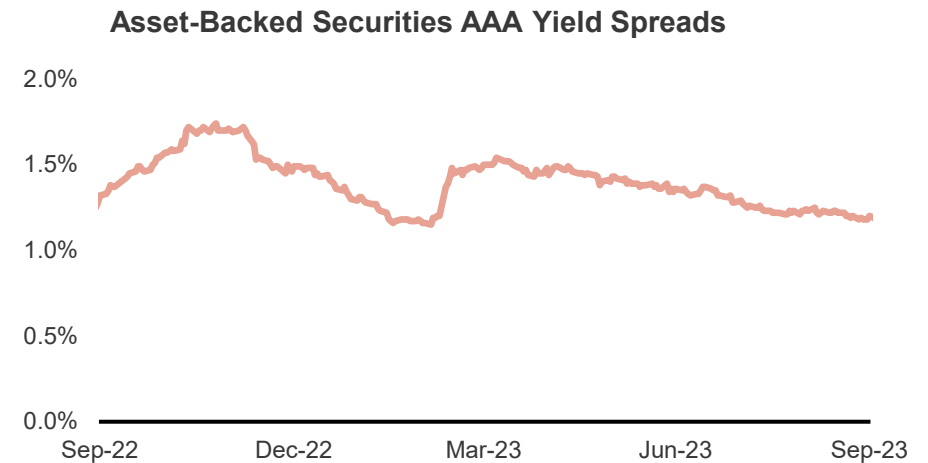
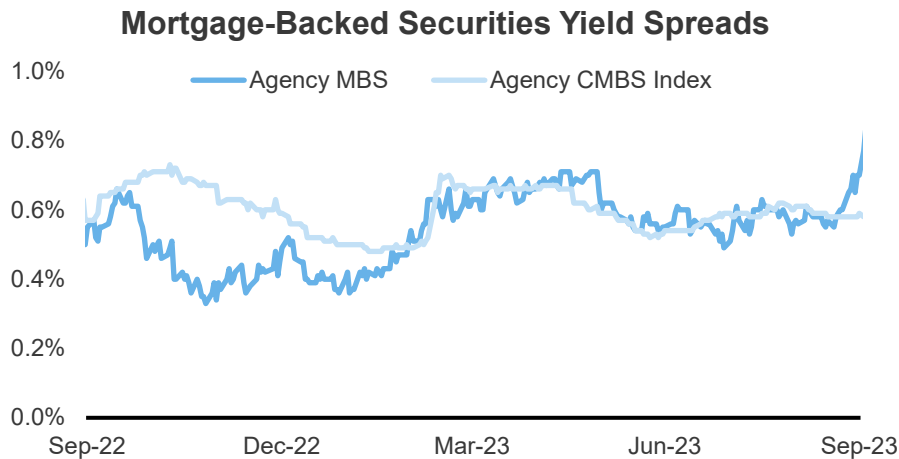
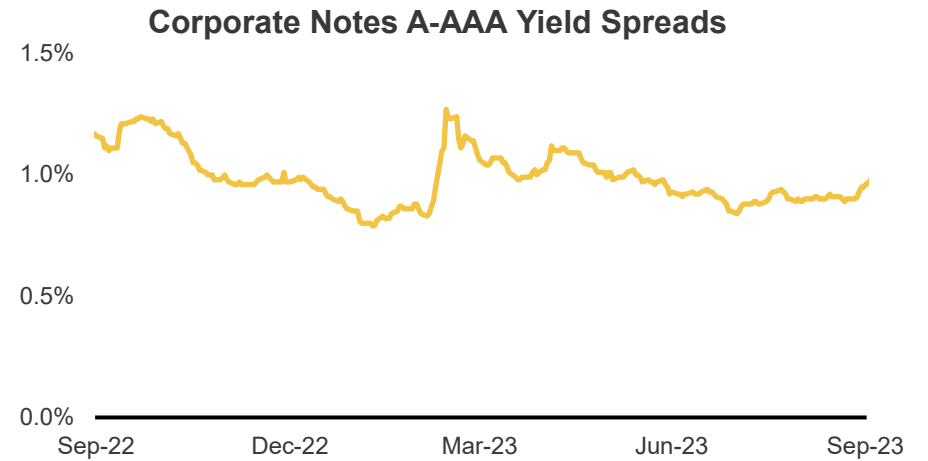
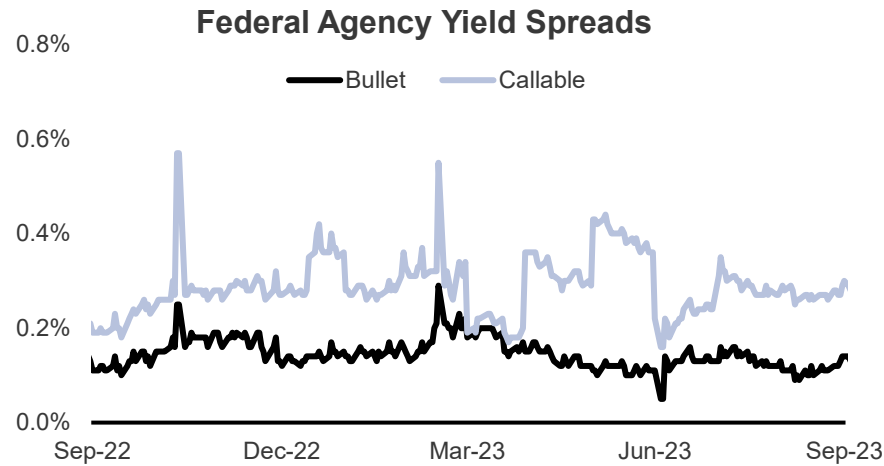
## Interest Rates Are At Their Highest Levels Since 2006-07

### U.S. Treasury Yield Curve



Source: Bloomberg, as of September 30, 2023.

## Sector Yield Spreads



Source: ICE BofAML 1-10 year Indices via Bloomberg, MarketAxess and PFMAM as of September 30, 2023. Spreads on ABS and MBS are option-adjusted spreads of 0-10 year indices based on weighted average life; spreads on agencies are relative to comparable maturity Treasuries. CMBS is Commercial Mortgage-Backed Securities and represented by the ICE BofA Agency CMBS Index.

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# Account Summary

### Combined Portfolio - Sector Allocations

Security Type	Market Value as of June 30, 2023	% of Portfolio	Market Value as of September 30, 2023	% of Portfolio	Change vs. 6/30/23	Sector Limits
U.S. Treasury	\$213,689,813	36.2%	\$216,451,786	36.8%	2.6%	100%
Federal Agency	\$6,648,597	1.1%	\$1,902,654	0.3%	-0.7%	100%
Municipal	\$7,055,605	1.2%	\$4,008,039	0.7%	-0.4%	30%
Negotiable CDs	\$8,772,359	1.5%	\$15,291,352	2.6%	1.2%	30%
Commercial Paper	\$5,828,187	1.0%	\$6,830,542	1.2%	0.2%	40%
Corporate Notes	\$94,483,340	16.0%	\$94,466,902	16.0%	0.9%	30%
<b>Securities Sub-Total</b>	<b>\$336,477,902</b>	<b>57.0%</b>	<b>\$338,951,275</b>	<b>57.6%</b>		
Accrued Interest	\$2,226,715		\$2,630,802			
<b>Securities Total</b>	<b>\$338,704,617</b>		<b>\$341,582,077</b>			
LAIF	\$73,401,637	12.4%	\$73,977,943	12.6%	0.8%	\$75 Million
Money Market Fund	\$154,493	<0.1%	\$193,972	<0.1%	0.0%	20%
CAMP*	\$214,552,371	30.5%	\$175,619,968	29.8%	-4.5%	50%
<b>Total Liquidity</b>	<b>\$288,108,501</b>	<b>43.0%</b>	<b>\$249,791,884</b>	<b>42.4%</b>		
<b>Total Investments</b>	<b>\$626,813,117</b>	<b>100.0%</b>	<b>\$591,373,960</b>	<b>100.0%</b>		

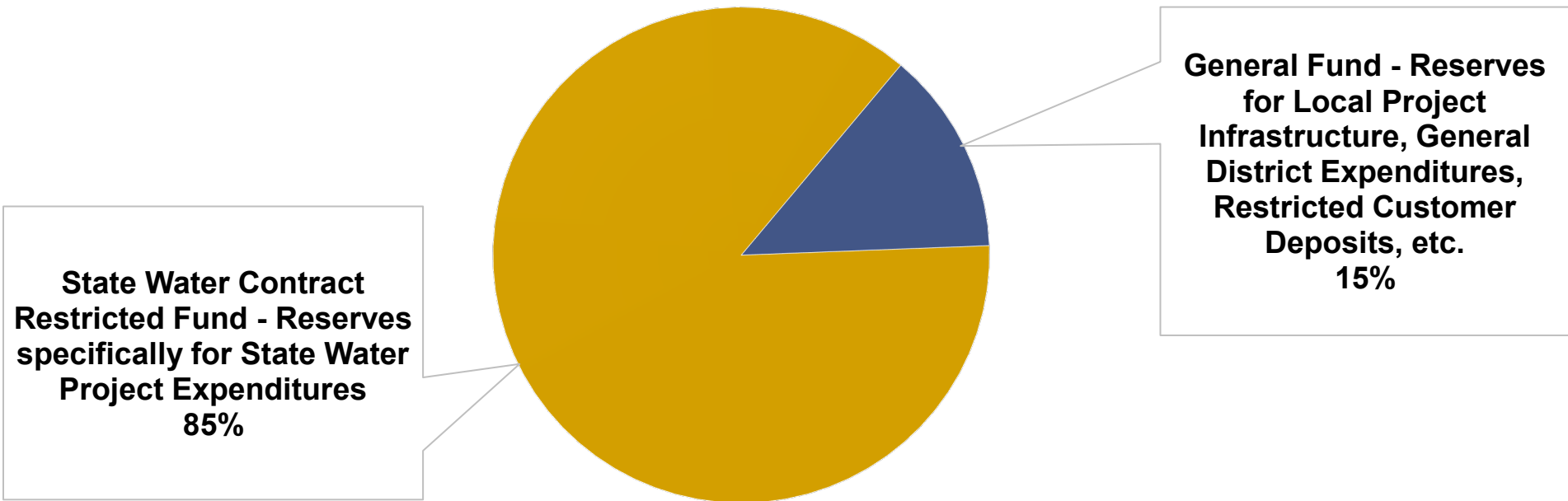
\* Note: The CAMP balance includes the proceeds of 2023A Project Fund, which are part of the General Fund.



**Combined Portfolio – Composition: By Fund**

<b>Fund</b>	<b>June 30, 2023</b>	<b>September 30, 2023</b>
General Fund*	\$100,676,671	\$90,822,381
State Water Contract Fund	\$526,136,447	\$500,551,580
<b>Total</b>	<b>\$626,813,117</b>	<b>\$591,373,960</b>

**Combined Portfolio at 9/30/2023**



\* Note: The General Fund includes the proceeds of 2023A Project Fund, which are invested in CAMP.

## Certificate of Compliance

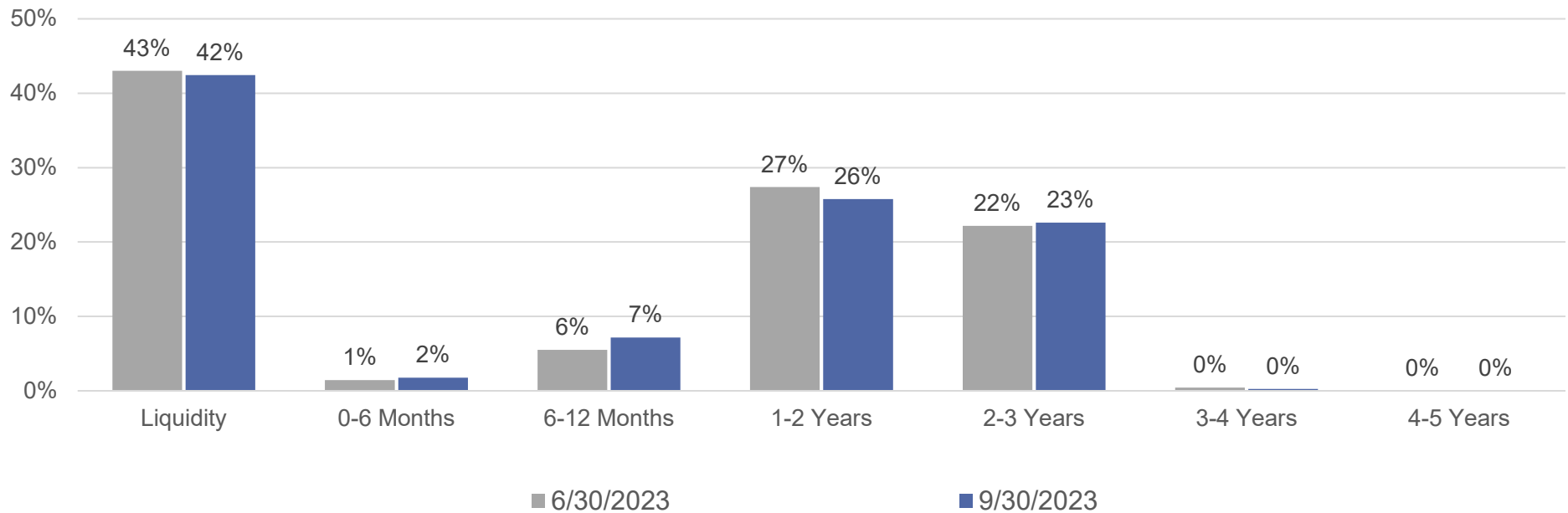
During the reporting period for the quarter ended September 30, 2023, the account(s) managed by PFM Asset Management ("PFMAM") were in compliance with the applicable investment policy and guidelines as furnished to PFMAM.

Acknowledged : *PFM Asset Management LLC*

*Note: Pre- and post-trade compliance for the account(s) managed by PFM Asset Management is provided via Bloomberg Asset and Investment Management ("AIM").*

### Combined Portfolio - Maturity Distribution

- The District maintains ample liquidity in the LAIF/CAMP.
- For the managed portfolio, we continue to emphasize maturities in the 1-3 year maturity range, consistent with the strategies for the portfolios.



Weighted Average Maturity (Years)	June 30, 2023	September 30, 2023
Overall	1.03	1.02
Managed Portfolio	1.80	1.78

## Managed Portfolio Total Return Performance

- Total returns were positive during the quarter as higher earnings on recent investments more than offset the market value declines resulting from the higher interest rates during the quarter
- Total return expresses annualized rate of return over a specified period and incorporates all changes in value in the portfolio, including market value changes, cash flows, and interest earned plus realized gains/losses.

Periods Ending September 30, 2023					
BofAML Indices	Duration (years)	Annualized			
		Quarter	Past 12 Months	Past 5 Years	Past 10 Years
State Water Contract Fund	1.73	0.83%	3.00%	1.34%	1.20%
General Fund	1.21	1.06%	3.65%	1.62%	1.34%
ICE BofAML 1 Year UST Index (GC03)	0.89	1.21%	3.68%	1.46%	1.00%
ICE BofAML 1-3 Year UST Index (G1O2)	1.75	0.74%	2.74%	1.06%	0.81%
ICE BofAML 1-5 Year UST Index (GVQ0)	2.50	0.23%	2.12%	0.93%	0.83%

ICE BofAML Indices provided by Bloomberg Financial Markets.

The District's portfolios are not managed on a total return basis, so the indices are shown for information only. Performance on trade-date basis, gross (i.e., before fees), in accordance with the CFA Institute's Global Investment Performance Standards (GIPS).

Periods less than one year are on an unannualized basis. Periods greater than one year are on an annualized basis.

The lesser of 10 years or since inception is shown. Portfolio inception date as of June 30, 2012

### Combined Portfolio - Market Value and Accrual Basis Earnings

Market Value Earnings	3 Months	1 Year	3 Years	5 Years	10 Years <sup>1</sup>
Interest Earned <sup>2</sup>	\$2,377,895	\$7,002,954	\$14,763,188	\$29,743,116	\$48,010,615
Change in Market Value	\$544,045	\$3,218,276	(\$19,853,295)	(\$6,964,507)	(\$12,230,226)
<b>Total Dollar Return</b>	<b>\$2,921,940</b>	<b>\$10,221,230</b>	<b>(\$5,090,107)</b>	<b>\$22,778,609</b>	<b>\$35,780,389</b>

Accrual Basis Earnings	3 Months	1 Year	3 Years	5 Years	10 Years <sup>1</sup>
Interest Earned <sup>2</sup>	\$2,377,895	\$7,002,954	\$14,763,188	\$29,743,116	\$48,010,615
Realized Gains / (Losses) <sup>3</sup>	(\$1,323,988)	(\$5,019,318)	(\$3,023,840)	(\$1,168,709)	(\$1,657,436)
Change in Amortized Cost	\$166,872	\$162,835	(\$486,983)	(\$221,836)	(\$1,589,356)
<b>Total Dollar Earnings</b>	<b>\$1,220,779</b>	<b>\$2,146,471</b>	<b>\$11,252,365</b>	<b>\$28,352,571</b>	<b>\$44,763,823</b>

1. The lesser of 10 years or since inception is shown. Performance inception date is June 30, 2012.
2. Interest earned calculated as the ending accrued interest less beginning accrued interest, plus net interest activity.
3. Realized gains / (losses) are shown on an amortized cost basis.

## Important Disclosures

This material is for general information purposes only and is not intended to provide specific advice or a specific recommendation, as it was prepared without regard to any specific objectives or financial circumstances.

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It is not possible to invest directly in an index. The index returns shown throughout this material do not represent the results of actual trading of investor assets. Third-party providers maintain the indices shown and calculate the index levels and performance shown or discussed. Index returns do not reflect payment of any sales charges or fees an investor would pay to purchase the securities they represent. The imposition of these fees and charges would cause investment performance to be lower than the performance shown.

The views expressed within this material constitute the perspective and judgment of PFMAM at the time of distribution and are subject to change. Any forecast, projection, or prediction of the market, the economy, economic trends, and equity or fixed-income markets are based upon certain assumptions and current opinion as of the date of issue and are also subject to change. Some, but not all assumptions are noted in the report. Assumptions may or may not be proven correct as actual events occur, and results may depend on events outside of your or our control. Changes in assumptions may have a material effect on results. Opinions and data presented are not necessarily indicative of future events or expected performance.

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## Important Disclosures

- Market values that include accrued interest are derived from closing bid prices as of the last business day of the month as supplied by Refinitiv, Bloomberg, or Telerate. Where prices are not available from generally recognized sources, the securities are priced using a yield-based matrix system to arrive at an estimated market value.
- In accordance with generally accepted accounting principles, information is presented on a trade date basis; forward settling purchases are included in the monthly balances, and forward settling sales are excluded.
- Performance is presented in accordance with the CFA Institute's Global Investment Performance Standards (GIPS). Unless otherwise noted, performance is shown gross of fees. Quarterly returns are presented on an unannualized basis. Returns for periods greater than one year are presented on an annualized basis. Past performance is not indicative of future returns.
- Bank of America/Merrill Lynch Indices provided by Bloomberg Financial Markets.
- Money market fund/cash balances are included in performance and duration computations.
- Standard & Poor's is the source of the credit ratings. Distribution of credit rating is exclusive of money market fund/LGIP holdings.
- Callable securities in the portfolio are included in the maturity distribution analysis to their stated maturity date, although, they may be called prior to maturity.
- MBS maturities are represented by expected average life.

## Glossary

- **Accrued Interest:** Interest that is due on a bond or other fixed income security since the last interest payment was made.
- **Agencies:** Federal agency securities and/or Government-sponsored enterprises.
- **Amortized Cost:** The original cost of the principal of the security is adjusted for the amount of the periodic reduction of any discount or premium from the purchase date until the date of the report. Discount or premium with respect to short-term securities (those with less than one year to maturity at time of issuance) is amortized on a straight line basis. Such discount or premium with respect to longer-term securities is amortized using the constant yield basis.
- **Asset-Backed Security:** A financial instrument collateralized by an underlying pool of assets – usually ones that generate a cash flow from debt, such as loans, leases, credit card balances, and receivables.
- **Bankers' Acceptance:** A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill as well as the insurer.
- **Commercial Paper:** An unsecured obligation issued by a corporation or bank to finance its short-term credit needs, such as accounts receivable and inventory.
- **Contribution to Total Return:** The weight of each individual security multiplied by its return, then summed for each sector to determine how much each sector added or subtracted from the overall portfolio performance.
- **Effective Duration:** A measure of the sensitivity of a security's price to a change in interest rates, stated in years.
- **Effective Yield:** The total yield an investor receives in relation to the nominal yield or coupon of a bond. Effective yield takes into account the power of compounding on investment returns, while nominal yield does not.
- **FDIC:** Federal Deposit Insurance Corporation. A federal agency that insures bank deposits to a specified amount.
- **Interest Rate:** Interest per year divided by principal amount and expressed as a percentage.
- **Market Value:** The value that would be received or paid for an investment in an orderly transaction between market participants at the measurement date.
- **Maturity:** The date upon which the principal or stated value of an investment becomes due and payable.
- **Negotiable Certificates of Deposit:** A CD with a very large denomination, usually \$1 million or more, that can be traded in secondary markets.
- **Par Value:** The nominal dollar face amount of a security.
- **Pass-through Security:** A security representing pooled debt obligations that passes income from debtors to its shareholders. The most common type is the mortgage-backed security.



## Glossary

- Repurchase Agreements: A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date.
- Settle Date: The date on which the transaction is settled and monies/securities are exchanged. If the settle date of the transaction (i.e., coupon payments and maturity proceeds) occurs on a non-business day, the funds are exchanged on the next business day.
- Supranational: A multinational union or association in which member countries cede authority and sovereignty on at least some internal matters to the group, whose decisions are binding on its members.
- Trade Date: The date on which the transaction occurred; however, the final consummation of the security transaction and payment has not yet taken place.
- Unsettled Trade: A trade which has been executed; however, the final consummation of the security transaction and payment has not yet taken place.
- U.S. Treasury: The department of the U.S. government that issues Treasury securities.
- Yield: The rate of return based on the current market value, the annual interest receipts, maturity value, and the time period remaining until maturity, stated as a percentage on an annualized basis.
- YTM at Cost: The yield to maturity at cost is the expected rate of return based on the original cost, the annual interest receipts, maturity value, and the time period from purchase date to maturity, stated as a percentage on an annualized basis.
- YTM at Market: The yield to maturity at market is the rate of return based on the current market value, the annual interest receipts, maturity value, and the time period remaining until maturity, stated as a percentage on an annualized basis.



**DATE:** November 2, 2023  
**TO:** Board of Directors’ Workshop – Policy/Administration  
**FROM:** Cindy Saks, CFO / Deputy General Manager  
**SUBJECT:** Review Board Approved Investment Policy

**Staff Recommendation**

Staff recommends the Board review the Investment Policy and provide direction to staff on any potential updates or changes to the policy.

**Background**

This item is brought back today for additional discussion after being tabled at the Board Handbook Workshop on September 26, 2023. During the required annual board review of the investment policy; the Board approved Director Longville’s request for a future business item to discuss identifying companies that the District would divest and not invest or hold investment securities specifically in publicly traded fossil fuel companies.

The investment policy is intended to provide guidelines for the prudent investment of San Bernardino Valley’s (SBVMWD) temporary idle cash and outline the policies for maximizing the effectiveness and efficiency of its cash management system. The goal is twofold; one is to preserve SBVMWD’s capital resources while maximizing investment earnings pursuant to the “Prudent Investor Standard”, the second is to provide guidelines for authorized investments.

PFM Asset management is the District’s investment advisor and follows the guidelines as set forth in the investment policy specifically mentioned in the Objectives section which states:

*SBVMWD’s cash management system is designed to monitor and forecast expenditures and revenues, thus enabling the SBVMWD to invest funds to the fullest extent possible. The SBVMWD attempts to obtain the highest yield available, while investments meet the criteria established for safety, liquidity, and yield, in that order of priority.*

The investment policy is being brought to the workshop today for future discussion by the Board.

**Fiscal Impact**

There is no fiscal impact to reviewing the investment policy. Additional consulting fees could result if the Board made changes to the investment policy requiring the investment advisor to perform additional services outside the normal prudent investor standards.

**Attachment**

- 1) Board Approved Investment Policy - Reviewed May 2023
- 2) List of San Bernardino Valley Long Term Investments

*San Bernardino Valley Municipal Water District*

**STATEMENT OF INVESTMENT POLICY**

**Revised and adopted on August 13, 2020**

**Reviewed by the Board on May 16, 2023**

**I. POLICY**

This Statement of Investment Policy (Policy) is intended to provide guidelines for the prudent investment of San Bernardino Valley Municipal Water District (SBVMWD)'s temporary idle cash, and outline the policies for maximizing the effectiveness and efficiency of SBVMWD's cash management system. The goal is twofold; one is to preserve SBVMWD's capital resources while maximizing investment earnings pursuant to the "Prudent Investor Standard", the second is to provide guidelines for authorized investments.

**II. SCOPE**

All moneys entrusted to SBVMWD shall be pooled in an actively managed portfolio. The Chief Executive Officer (CEO) / General Manager or their designee is authorized to invest funds in accordance with California Government Code (CGC) Section 53600 et seq. This Policy applies to all financial assets and investment activities of SBVMWD and includes, but is not limited to, the following funds:

General Funds  
State Water Contract Funds  
Capital Project Funds  
Enterprise Funds, and any new fund, unless specifically exempted.

This Policy, however, specifically excludes the employees' retirement and deferred compensation funds. In accordance with CGC Section 53601 (m), bond proceeds will be invested according to the applicable bond documents. If the bond documents are silent as to the investment of the proceeds, the proceeds will be invested according to this Policy.

**III. PRUDENCE**

SBVMWD shall follow the standards within the content of the Prudent Investor Standard as set forth in CGC Section 53600.3 that states in part: "When investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds, a trustee shall act with care, skill and prudence and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims to safeguard the principal and maintain the liquidity needs of the agency."

#### **IV. OBJECTIVES**

SBVMWD's cash management system is designed to monitor and forecast expenditures and revenues, thus enabling the SBVMWD to invest funds to the fullest extent possible. The SBVMWD attempts to obtain the highest yield available, while investments meet the criteria established for safety, liquidity, and yield, in that order of priority.

##### **A. SAFETY**

Safety of principal is the foremost objective of the SBVMWD. Each investment transaction shall seek to ensure that capital losses are avoided, whether from securities default, rating downgrades, broker-dealer defaults, or erosion of market value. SBVMWD shall seek the preservation of capital by mitigating two types of risk; credit risk and market risk.

1. Credit risk - is the risk of loss due to failure of the issuer and is mitigated by investing in safe securities, and diversifying the investment portfolio so the failure of one issuer would not materially affect the cash flow of the agency.
2. Market risk - is the risk of market value fluctuations due to changes in the general level of interest rates, and shall be mitigated by structuring the portfolio so maturing securities match cash outflows, eliminating the need to sell securities prior to their maturity. Market risk shall also be mitigated by limiting the maturity of the SBVMWD investment portfolio to the terms described in Section C subparagraph V in this policy.

It is recognized that within a diversified portfolio, occasional measured losses are inevitable, and must be considered within the context of the overall return on the investment.

##### **B. LIQUIDITY**

SBVMWD will endeavor to invest in a manner consistent with its anticipated cash flow requirements. SBVMWD's investment portfolio will remain satisfactorily liquid, enabling the agency to meet all anticipated and operating cash flow requirements.

##### **C. RETURN ON INVESTMENTS**

SBVMWD's investment portfolio shall be designed to attain a market rate of return over budgetary and economic cycles. Whenever possible with respect to budgetary and cash flow requirements, and consistent with risk limitations and prudent investment principles, the CEO / General Manager or their designee shall seek to augment returns above the market rate of return.

SBVMWD will operate in an active capacity in the investment strategy. The basis of the strategy used by the CEO / General Manager or their designee to determine whether market yields are achieved shall be the State of California Local Agency Investment Fund (L.A.I.F.).

**V. MAXIMUM MATURITIES**

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

- A. All immediate and anticipated liquidity requirements will be addressed prior to purchasing all investments.
- B. Maturity dates for longer-term investments will coincide with significant cash flow requirements where possible, to assist with short term cash requirements at maturity.
- C. 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 SBVMWD's best interest to sell or trade a security prior to maturity.
- D. Per CGC Sections 53601 et seq. where a maximum maturity is not stated, the maximum maturity of any investment shall not exceed five (5) years, without specific approval of the SBVMWD Board of Directors of the investment or of an investment program, not less than three months prior to initiating that investment or program.
- E. The average maturity of the overall portfolio shall not exceed 1,275 days (3.5 years).

**VI. DELEGATION AND GRANTS OF AUTHORITY**

Management responsibility for the investment program is delegated by the Board of Directors for a period of one-year to the CEO / General Manager or their designee who shall establish written procedures and policies for the operation of the investment program consistent with this Policy. Subject to review, the Board of Directors may renew the delegation of authority pursuant to this section each year.

No person shall engage in an investment transaction except as provided under the terms of this Policy and the procedures established by the Board of Directors. The CEO / General Manager or their designee shall establish a series of internal accounting controls to regulate and/or restrict the activities of subordinate representatives within the SBVMWD. As authorized by the Board of Directors, the CEO / General Manager or their designee may engage an investment advisor to assist with the SBVMWD's investment program. Under the direction of the CEO / General Manager or their designee, the investment advisor will have responsibility for providing recommendations for and managing designated funds and recommending procedures for executing day-to-day investment transactions. The investment advisor shall follow this investment policy and such other written instructions as are provided.

**VII. INVESTMENT COMMITTEE**

The SBVMWD Board of Directors shall act as the investment committee to provide general oversight and guidance concerning the investment policy related to the management of SBVMWD's investments. The committee shall meet as needed. The CEO / General Manager or their designee shall be responsible for the day-to-day investments of the agency.

**VIII. ETHICS AND CONFLICT OF INTEREST**

The CEO / General Manager and all investment personnel shall refrain from personal business activity which could create a conflict with proper execution of the investment program, or which could impair the ability to execute impartial investment decisions. The CEO / General Manager and all investment personnel shall disclose to SBVMWD's legal counsel any material financial interests in financial institutions that conduct business within the jurisdiction, and shall disclose any material financial investment positions that could be related in a conflicting manner to the performance of the SBVMWD's investment portfolio.

The CEO / General Manager, Chief Financial Officer (CFO) / Deputy General Manager and Investment Advisor shall complete on an annual basis, State of California Form 700, Statement of Economic Interests disclosure.

**IX. SAFEKEEPING AND CUSTODY AGREEMENTS**

To protect against potential losses caused by collapse of individual securities dealers, all securities owned by SBVMWD shall be kept in safekeeping by a third party bank trust department, acting as agent for the SBVMWD under the terms of a custody agreement executed by the bank and the SBVMWD. All securities will be received and delivered using standard delivery versus payment procedures with the SBVMWD's custodial bank, and evidenced by safekeeping receipts. The only exception to the foregoing shall be depository accounts and securities purchases made with: (i) placement service CDs, (ii) LAIF, (iii) local government investment pools; and, (iv) money market mutual funds, since these securities are not deliverable. These investments shall be made in the name of the SBVMWD and the CEO / General Manager or their designee shall keep a record of any funds in any of these investments. Custodial statements shall be reconciled against transaction schedules on a monthly basis.

**X. INTERNAL CONTROLS**

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 shall be conducted to ensure proper handling of all transactions.

The investment portfolio and all related transactions shall be reviewed and balanced to appropriate general ledger accounts 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. The audit shall also include a review for compliance with SBVMWD's Statement of Investment Policy.

**XI. FINANCIAL REPORTING**

As recommended by CGC Section 53646, the CEO / General Manager or their designee shall render a monthly report to the SBVMWD Board of Directors, 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. Additionally, the report shall also include the rate of interest and other data so required by the SBVMWD Board of Directors. The report shall include a statement denoting SBVMWD's ability to meet its expenditure requirements for the following six-month period, or an explanation as to why sufficient moneys will not be available. Additionally, the CEO / General Manager and their designee shall state whether the SBVMWD is in compliance with this Policy by signature required on the Treasurers' Report. As required by CGC Section 53607, the CEO / General Manager or their designee shall also provide a monthly list of transactions to the Board of Directors.

**XII. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS**

Investments not purchased directly from the issuer, shall be purchased from 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 Securities and Exchange Commission Rule 15C3-1.

If the SBVMWD is utilizing financial dealers or institutions to execute transactions, the CEO / General Manager or their designee shall examine financial institutions that wish to perform business with the SBVMWD, in order to confirm whether the participating financial institutions are satisfactorily capitalized, are market makers in securities appropriate to the SBVMWD's financial investment universe and agree to comply by the conditions set forth in SBVMWD's Policy. The CEO / General Manager or their designee shall send a copy of the current Statement of Investment Policy to all dealers approved to do business with the SBVMWD. Signed Dealer/Broker Confirmation Certificates shall be kept on file documenting the dealer/broker's understanding of SBVMWD's Policy.

If an investment advisor has been engaged to assist with SBVMWD's investment program, the investment advisor is authorized to use their own list of approved broker/dealers/issuers/ financial institutions to conduct investment transactions on SBVMWD's behalf subject to the provisions of SBVMWD's policy.

**XIII. AUTHORIZED AND ACCEPTABLE INVESTMENTS**

SBVMWD is subject to CGC Section 53601 et seq. Within the context of the governing language, the following investments are authorized and accepted as defined below. In the event an apparent discrepancy is found between this Policy and the CGC, the more restrictive parameters will take precedence. Percentage holding limits listed in this section apply at the time the security is purchased. In the event a security held by the



SBVMWD is subject to a credit rating change that brings it below the minimum credit ratings specified in this Policy, the CEO / General Manager or their designee shall notify the Board of Directors of the change. The course of action to be followed will then be decided on a case-by-case basis, considering such factors as the reason for the change, prognosis for recovery or further rate drops, and the market price of the security.

- A. United States Treasuries. United States Treasury Bills, Notes and Bonds, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest There is no limitation as to the percentage of the portfolio that can be invested within this category.
- B. Federal Agencies. 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. Although there is no percentage limitation on "federal agency" issues, the prudent investor standard shall apply for a single agency name.
- C. Banker's Acceptances. Time drafts drawn on and accepted by a commercial bank, otherwise known as Banker's Acceptances (BAs). To be eligible for purchase, the issuer must have debt that is rated in a rating category of at least "A-1" short-term or "A" long-term by a Nationally Recognized Statistical Rating Organization (NRSRO). Eligible banker's acceptances shall have a maximum maturity of 180 days or less. Purchases of banker's acceptances may not exceed 40% of the market value of the portfolio.
- D. Commercial Paper. Commercial Paper rated in the highest ranking or of the highest letter and number rating as provided for by a NRSRO and issued by a corporation organized and operating within the United States having assets exceeding five hundred million dollars (\$500,000,000) and having debt other than commercial paper, if any, that is rated in a rating category of "A" or higher by an NRSRO. Eligible commercial paper shall have a maximum maturity of 270 days or less. Purchases of commercial paper cannot exceed 25% of the market value of the portfolio. Purchases of commercial paper may not exceed 10% of outstanding paper of an issuing corporation.
- E. Negotiable Certificates of Deposit (NCD). NCDs issued by a nationally or state-chartered bank, a savings association or a federal association, a state or federal credit union, or by a federally licensed or state-licensed branch of a foreign bank. To be eligible for purchase by the SBVMWD, the NCD must be issued by an issuer whose short-term debt is rated in a rating category of at least "A-1", or "A" long-term by a NRSRO. Purchases of NCDs may not exceed 30% of the market value of the portfolio. A maturity limitation of five (5) years is applicable on NCDs.
- F. Placement Service Deposits. Deposits placed with a private sector entity that assists in the placement of deposit with eligible financial institutions located in the United States. The full amount of the principal and the interest that may be accrued during the maximum term of each deposit shall at all times be insured by federal deposit insurance. Placement service deposits shall meet all of the requirements of CGC 53601.8. Purchases of placement service deposits may not exceed 30% of the market value of the portfolio.

- G. Repurchase Agreements. Repurchase Agreements with banks and dealers with which the SBVMWD 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 year. 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. 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).
- H. Local Agency Investment Fund. The Agency may invest in the Local Agency Investment Fund (L.A.I.F.) established by the State Treasurer for the benefit of local agencies up to the maximum permitted by State law.
- I. Medium-Term Notes. 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. Medium-Term Notes eligible for investment shall be rated in a rating category of "A," or its equivalent, or better by a nationally recognized rating service. Purchases of medium-term notes may not exceed 30% of the market value of the portfolio.
- J. Local Government Investment Pools. Shares of beneficial interest issued by a joint powers authority organized pursuant to CGC 6509.7 that invests in the securities and obligations authorized in CGC Section 53601 subdivisions (a) to (o), inclusive. To be eligible under this section, the joint powers authority issuing the shares shall have retained an investment adviser that meets the requirements of CGC 53601(p). Investments are limited to pools that are rated in a rating category of "AA" or better. Purchases of local government investment pools may not exceed 50% of the market value of the portfolio.
- K. Money Market Funds. Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1 et seq.). The company shall have met either of the following criteria: (i) Attain the highest ranking or the highest letter and numerical ranking provided by not less than two NRSROs; or (ii) Have an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of five hundred million dollars (\$500,000,000). The purchase price of shares of beneficial interest (purchased pursuant to this subdivision shall not include any commission that these companies may charge. Purchases of money market funds may not exceed 20% of the market value of the portfolio.

- L. All positions in pooled investment programs (per Sections H, J, and K above) shall be subject to periodic review by the CEO / General Manager, or a designee thereof, in order to ensure that the moneys in question are managed in a manner consistent with the standards and objectives set forth elsewhere in this Policy.
- M. Bank Deposits. FDIC insured or fully collateralized demand deposit accounts, savings accounts, market rate accounts, or time certificates of deposits in financial institutions located in California. Any financial institution accepting SBVMWD funds for deposit must comply with the requirements of CGC 53630 et seq., including collateralization of deposits. The CEO / General Manager or their designee may waive the collateralization requirements for any portion of the deposit that is covered by Federal Deposit Insurance. As provided by CGC 53649, the SBVMWD shall have a signed contract with each financial institution that has SBVMWD funds on deposit. There is no limitation as to the percentage of the portfolio that may be invested in bank deposits; however, no more than 25% of the market value of the portfolio may be invested in time certificates of deposit.
- N. Municipal Bonds. Registered treasury notes or bonds issued by any of the 50 United States, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by agency state or by a department, board, agency, or authority of any state.

Bonds, notes, warrants, or other evidences of indebtedness of any local agency within the State of California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency.

Purchases of municipal bonds may not exceed 30% of the market value of the portfolio.

#### **XIV. PROHIBITED INVESTMENTS**

In accordance with CGC Section 53601.6, SBVMWD will not invest any funds in inverse floaters, range notes, or interest only strips that are derived from a pool of mortgages. The purchase of securities issued by companies organized outside the United States is prohibited. The SBVMWD may hold previously permitted but currently prohibited investments until their maturity dates.

#### **XV. LEGISLATIVE CHANGES**

Any State of California legislative action that further restricts allowable maturities, investment type, or percentage allocations shall be incorporated into SBVMWD's Investment Policy, and supersede any and all previous applicable language.

#### **XVI. INTEREST EARNINGS**

All moneys 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 moneys based on the lower of pooled or LAIF rates.

#### **XVI. PORTFOLIO MANAGEMENT ACTIVITY**

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:

- A. Active Portfolio Management. Through active fund and cash flow management taking advantage of current economic and interest rate trends, the portfolio's yield may be enhanced with limited and measurable increases in risk.
- B. Portfolio Maturity Management. When structuring the maturity composition of the portfolio, the SBVMWD 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.
- C. Competitive Bidding. It is the policy of the SBVMWD to require competitive bidding for investment transactions whenever practical.
- D. Diversification. To promote diversification, no more than 5% of the market value of the portfolio may be invested in the securities of any one issuer, regardless of security type; with the exception of U.S. Treasuries, federal agencies, supranationals, and pooled investments such as LAIF, money market funds, or local government investment pools.

#### **XVIII. INVESTMENT POLICY REVIEW**

This Policy is intended to conform to all applicable statutes at the time of adoption. The Policy shall be reviewed and approved annually by the SBVMWD Board of Directors at a public meeting to ensure consistency with the SBVMWD's investment objectives and to ensure its compliance and relevance to the current law, financial and economic trends, and to meet the cash flow requirements of the SBVMWD.

## **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 commission 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.

## **GLOSSARY OF INVESTMENT TERMS**

**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 \$250,000 per deposit.

**FEDERAL HOME LOAN BANKS (FHLB):** The institutions that regulate 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.

## **GLOSSARY OF INVESTMENT TERMS**

**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 commission 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 COMMISSION:** Agency created by Congress to protect investors in securities transactions by administering securities legislation.

## **GLOSSARY OF INVESTMENT TERMS**

**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.



Security Type	Description	PAR Value
FEDERAL AGENCY BOND	FEDERAL HOME LOAN BANKS	850,000.00
FEDERAL AGENCY BOND	FEDERAL HOME LOAN MORTGAGE CORP	1,075,000.00
CERTIFICATE OF DEPOSIT	Bank of Montreal - Chicago Branch	925,000.00
CERTIFICATE OF DEPOSIT	Barclays Bank PLC	925,000.00
CERTIFICATE OF DEPOSIT	Credit Agricole Corporate And Investment Bank, New	2,175,000.00
CERTIFICATE OF DEPOSIT	Nordea ABP - New York Branch	2,850,000.00
CERTIFICATE OF DEPOSIT	Rabobank Nederland - New York Branch	2,450,000.00
CERTIFICATE OF DEPOSIT	Toronto-Dominion Bank - New York Branch	3,850,000.00
CORPORATE NOTE/BOND	AMAZON.COM INC	2,500,000.00
CORPORATE NOTE/BOND	AMERICAN EXPRESS CO	2,190,000.00
CORPORATE NOTE/BOND	AMERICAN HONDA FINANCE CORP	2,625,000.00
CORPORATE NOTE/BOND	ASTRAZENECA FINANCE LLC	1,825,000.00
CORPORATE NOTE/BOND	AUSTRALIA AND NEW ZEALAND BANKING GROUP LTD (NEW YORK)	1,215,000.00
CORPORATE NOTE/BOND	BANK OF AMERICA CORP	3,650,000.00
CORPORATE NOTE/BOND	BANK OF AMERICA NA	1,500,000.00
CORPORATE NOTE/BOND	BANK OF NEW YORK MELLON CORP	1,980,000.00
CORPORATE NOTE/BOND	BMW US CAPITAL LLC	3,355,000.00
CORPORATE NOTE/BOND	CATERPILLAR FINANCIAL SERVICES CORP	2,005,000.00
CORPORATE NOTE/BOND	CHARLES SCHWAB CORP	1,155,000.00
CORPORATE NOTE/BOND	CINTAS NO 2 CORP	625,000.00
CORPORATE NOTE/BOND	CITIGROUP INC	2,670,000.00
CORPORATE NOTE/BOND	COLGATE-PALMOLIVE CO	1,460,000.00
CORPORATE NOTE/BOND	COMCAST CORP	290,000.00
CORPORATE NOTE/BOND	COMMONWEALTH BANK OF AUSTRALIA (NEW YORK BRANCH)	3,900,000.00
CORPORATE NOTE/BOND	COOPERATIEVE RABOBANK UA (NEW YORK BRANCH)	885,000.00
CORPORATE NOTE/BOND	ELI LILLY AND CO	770,000.00
CORPORATE NOTE/BOND	EXXON MOBIL CORP	2,100,000.00
CORPORATE NOTE/BOND	GOLDMAN SACHS GROUP INC	1,350,000.00
CORPORATE NOTE/BOND	HOME DEPOT INC	580,000.00
CORPORATE NOTE/BOND	HONEYWELL INTERNATIONAL INC	1,265,000.00
CORPORATE NOTE/BOND	HSBC USA INC	2,635,000.00
CORPORATE NOTE/BOND	INTEL CORP	1,250,000.00
CORPORATE NOTE/BOND	INTERNATIONAL BUSINESS MACHINES CORP	2,615,000.00
CORPORATE NOTE/BOND	JOHN DEERE CAPITAL CORP	4,035,000.00
CORPORATE NOTE/BOND	JPMORGAN CHASE & CO	4,230,000.00
CORPORATE NOTE/BOND	LINDE INC	2,465,000.00
CORPORATE NOTE/BOND	LOCKHEED MARTIN CORP	475,000.00
CORPORATE NOTE/BOND	MERCEDES-BENZ FINANCE NORTH AMERICA LLC	250,000.00
CORPORATE NOTE/BOND	MERCK & CO INC	810,000.00
CORPORATE NOTE/BOND	MORGAN STANLEY	2,215,000.00
CORPORATE NOTE/BOND	NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORP	1,995,000.00
CORPORATE NOTE/BOND	NESTLE HOLDINGS INC	2,995,000.00
CORPORATE NOTE/BOND	PACCAR FINANCIAL CORP	3,470,000.00
CORPORATE NOTE/BOND	PEPSICO INC	2,365,000.00
CORPORATE NOTE/BOND	PNC FINANCIAL SERVICES GROUP INC	1,150,000.00
CORPORATE NOTE/BOND	ROCHE HOLDINGS INC	4,225,000.00
CORPORATE NOTE/BOND	STATE STREET CORP	3,495,000.00
CORPORATE NOTE/BOND	TEXAS INSTRUMENTS INC	310,000.00
CORPORATE NOTE/BOND	TOYOTA MOTOR CREDIT CORP	2,325,000.00
CORPORATE NOTE/BOND	TRUIST FINANCIAL CORP	2,075,000.00
CORPORATE NOTE/BOND	UNILEVER CAPITAL CORP	655,000.00

Security Type	Description	PAR Value
CORPORATE NOTE/BOND	UNITEDHEALTH GROUP INC	1,000,000.00
CORPORATE NOTE/BOND	USAA CAPITAL CORP	1,155,000.00
CORPORATE NOTE/BOND	WALMART INC	1,625,000.00
CORPORATE NOTE/BOND	WELLS FARGO & CO	1,600,000.00
CORPORATE NOTE/BOND	WELLS FARGO BANK NA	850,000.00
COMMERCIAL PAPER	BNP Paribas New York Branch	950,000.00
COMMERCIAL PAPER	Canadian Imperial Holdings, Inc.	1,000,000.00
COMMERCIAL PAPER	Citigroup Global Markets Inc.	725,000.00
COMMERCIAL PAPER	Credit Agricole Corporate And Investment Bank	1,450,000.00
COMMERCIAL PAPER	MUFG Bank, Ltd., New York Branch	1,450,000.00
COMMERCIAL PAPER	Natixis, New York Branch	1,400,000.00
MUNICIPAL BONDS	CALIFORNIA ST UNIV REV	625,000.00
MUNICIPAL BONDS	FLORIDA ST BRD ADMIN FIN CORP REV	925,000.00
MUNICIPAL BONDS	MASSACHUSETTS (COMMONWEALTH OF)	1,565,000.00
MUNICIPAL BONDS	MISSISSIPPI ST	275,000.00
MUNICIPAL BONDS	NEW JERSEY ST TPK AUTH TPK REV	760,000.00
U.S. GOVERNMENT	UNITED STATES TREASURY	223,240,000.00
YANKEE	COOPERATIEVE RABOBANK UA (NEW YORK BRANCH)	1,625,000.00
YANKEE	NATIONAL AUSTRALIA BANK LTD (NEW YORK BRANCH)	3,510,000.00
		<b>346,765,000.00</b>
	STATE WATER CONTRACT FUND	<b>298,440,000.00</b>
	GENERAL FUND	<b>48,325,000.00</b>
		<b>346,765,000.00</b>

**DATE:** November 2, 2023

**TO:** Board of Directors’ Workshop – Policy/Administration

**FROM:** Heather Dyer, CEO / General Manager  
Cindy Saks, CFO / Deputy General Manager

**SUBJECT:** Review and Consider Terminology Used to Describe our State Water Project Ad Valorem Tax on the County Annual Property Tax Bills

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**Staff Recommendation**

Staff recommends the Board review and discuss suggested revised terminology to be listed on the Riverside and San Bernardino County property tax bills to clearly indicate the use of those funds for imported water supply. Provide direction to staff.

**Background**

At a recent workshop, the Board requested a future item to discuss the terminology of how San Bernardino Valley is listed on the Riverside and San Bernardino County (County) property tax bills for our ad valorem tax, which pre-dates Proposition 13 and is used for debt service and operational expenses for the State Water Project. When voters approved the Burns-Porter Act in 1960 to provide funds for the State Water Resources Development System, they approved an indebtedness in the amount necessary for building, operating, maintaining, and replacing the project. In addition to identifying the infrastructure components, the voters intended for the costs to be met by payments from local agencies with taxing authority that entered into water contracts with the Department of Water Resources (DWR). This critical statewide infrastructure system is known today as the State Water Project (SWP) and is funded through state water contracts between DWR and 29 public agencies known as State Water Contractors, including San Bernardino Valley. The State Water Project contributes to regional water supply reliability through both direct deliveries to local retail agencies and groundwater replenishment.

Annually, San Bernardino Valley sets an ad valorem property tax for an amount sufficient to fund eligible expenditures for the SWP. The SWP ad valorem tax revenues generated are restricted for the specific purpose identified in the Burns-Porter Act and the California Water Code. It is

important to note that non-eligible expenses, such as local water projects, are funded through other revenue sources within the San Bernardino Valley’s General Fund.

The current terminology listed on the county property tax statements is:

County	Current Terminology
San Bernardino	SB VALLEY MUNI WTR DBT SVC
Riverside	SAN BERNARDINO V MUNI WTR DS

Following the request by the Board to look into the possibility of changing, for clarity purposes, the descriptive language included on the annual property tax bills, staff consulted with County staff and our bond counsel, Mr. Doug Brown, to develop a revised description that meets all requirements, including compliance with specific language requirements needed to maintain the ability to levy taxes for SWP expenditures under the Burns-Porter Act, the California Water Code and court decisions decided after the approval of Proposition 13. Additionally, a 26-character limit is in place for the County of San Bernardino property tax bill. Riverside County does not have the same character limits. Based on this information and extensive research, Agency bond counsel and staff recommended the new terminology as follows:

SBVMWD SWP/IMPORTED WATER.

The proposed language is consistent with how San Bernardino Valley refers to this revenue source while providing additional clarity as to the purpose of the property tax. The regional investment in the SWP is a critical element of our water supply reliability, the proposed revision provides property owners with a clearer indication of what their property taxes are contributing to. If directed by the Board to proceed, staff will submit the information to the Counties and this change would take effect on the next property tax bills issued, likely in 2024.

**Fiscal Impact**

There is no fiscal impact to changing the terminology listed on the property tax bills.

**Attachment**

- 1) Example of San Bernardino County annual property tax bill



# San Bernardino County

## Ensen Mason CPA, CFA • Auditor-Controller/Treasurer/Tax Collector

### 2022 ANNUAL UNSECURED PROPERTY TAX BILL

FISCAL YEAR JULY 01, 2022 TO JUNE 30, 2023

**CORRECTED BILL**

Mailed to **SB VALLEY MUNICIPAL WATER DISTRICT**

COUNTY MULTIPLE 1-005870

380 E VANDERBILT WAY  
SAN BERNARDINO, CA 92408

268 West Hospitality Lane San Bernardino, CA 92415, (909) 387-8308

[www.MyTaxCollector.com](http://www.MyTaxCollector.com)

#### PROPERTY ASSESSMENT

CNTL-0000007

10 Description	ASSESSED VALUES
Land	
Improvement Fixtures	
Improvement Penalty	
Personal Property	
Personal Property Penalty	
Homeowners Exemption	
Other Exemptions	
<b>Net Value</b>	

Questions regarding values should be directed to the office of the Assessor, see item J on back.

1 Parcel Number	2 Bill Number	3 Tax Rate Area	4 Total Tax Rate
[REDACTED]	220940661	0018115	01.202900

5 Owner(s) of Record  
AS OF JAN 01, 2022  
SB VALLEY MUNICIPAL WATERDISTRICT

6 D.B.A.

7 Property Address

8 Description of Property  
WELLSITE LOCATED 1N SE COR W 10 AC SE 1/4 SW 1/4 SEC 2 TP 1S R 3W UND 5/8 1NT

**9 Important Messages**

This is a CORRECTED bill issued by the Assessor's Office. For questions concerning corrections to the assessed value of your property please contact the Assessor's Office at (909) 387-8307.

#### TAX DISTRIBUTION

11 Service Agency	Amount
GENERAL TAX LEVY	71.30
*HIGHLAND VECTORCONTROL	.01-
SAN BDNO COMM COLLEGE BOND	3.20
SCHOOL BONDS	.00
REDLANDS UNIFIED BOND	1.98
SCHOOL STATE REPAYMENT	.00
SB VALLEY MUNI WTR DBT SVC	9.26

<b>12 TOTAL AMOUNT DUE</b>	<b>\$ 85.73</b>
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Para información de su factura de impuestos de propiedad en español, por favor visite [www.colecciondeimpuestos.com](http://www.colecciondeimpuestos.com) o llame al (909) 387-8308.

## OWNERSHIP ON THE LIEN DATE DETERMINES OBLIGATION TO PAY TAXES

The sale, removal, transfer or disposal of property after the lien date (January 1) does not relieve the assessee of his tax liability for the ensuing year. (California Revenue and Taxation Code Section 2192). Failure to pay this bill timely will result in additional collection fees. See item D on back.

SEE REVERSE FOR IMPORTANT ADDITIONAL INFORMATION

YOU CAN PAY ONLINE VIA E-CHECK OR CREDIT CARD AT [WWW.MYTAXCOLLECTOR.COM](http://WWW.MYTAXCOLLECTOR.COM)

**Make checks payable to SBC Tax Collector**

KEEP THIS PORTION OF YOUR TAX BILL