



# The meeting teleconference will begin shortly

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# Call to Order

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Board of Directors Workshop- Policy  
Thursday, August 12, 2021

*Chairperson – Director Botello*  
*Vice-Chair – Director Kielhold*



# NOTICE REGARDING (COVID-19)

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Before we begin, the record will reflect that pursuant to the provisions of Executive Order N-29-20 issued by Governor Gavin Newsom on March 19, 2020, this meeting will be conducted by teleconference only.

# Introductions

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*Following the introduction of Directors and District staff, participants may use this time to state their name and agency/affiliation in order to be included in the formal record of attendees.*

# Public Comment

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Any person may address the Board on matters within its jurisdiction.

- *Please use the chat feature on the Zoom toolbar or digitally raise your hand to let the moderator know you would like to make a comment.*



# Summary of Previous Meeting (Pg. 3)

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Board of Directors Workshop – Policy – July 8, 2021

# Discussion Item 4.1 (Pg. 13)

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**Cindy Saks, CPA – Chief Financial Officer/Deputy GM**

Quarterly Investment Portfolio Update with PFM Asset Management

## **Staff Recommendation**

Receive and file the portfolio update report from PFM.



# San Bernardino Valley Municipal Water District

## Portfolio Update

Quarter Ending June 30, 2021

**Richard Babbe, CCM, Senior Managing Consultant**

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PFM Asset Management LLC

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601 South Figueroa Street,  
Suite 4500  
Los Angeles, CA 90017

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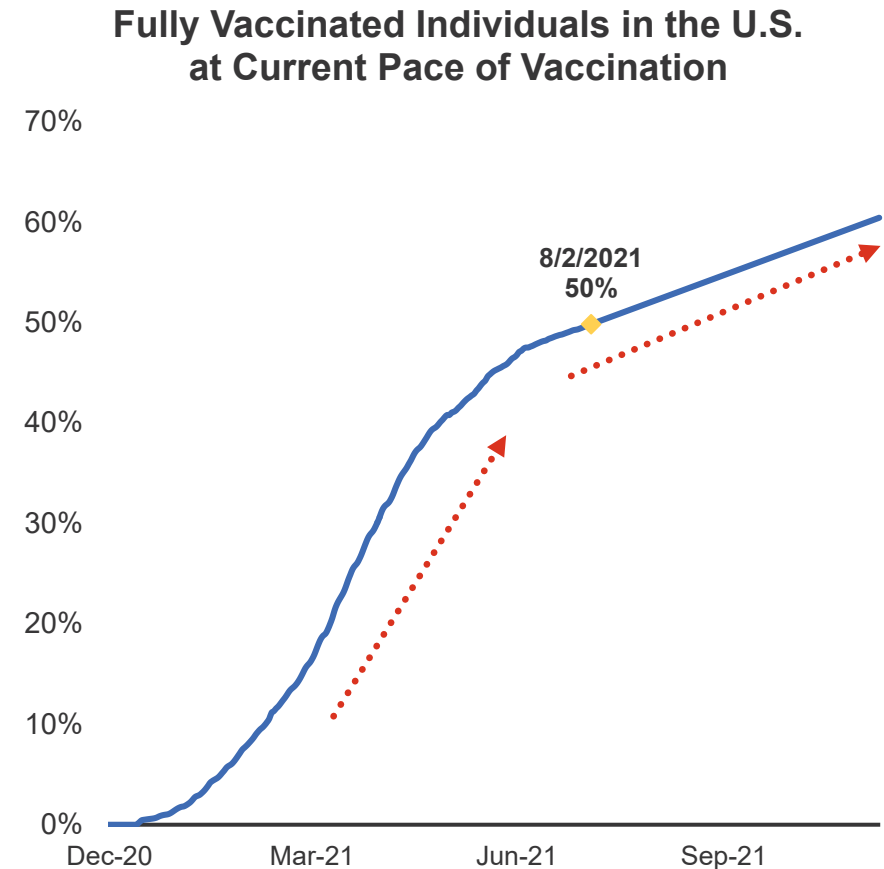
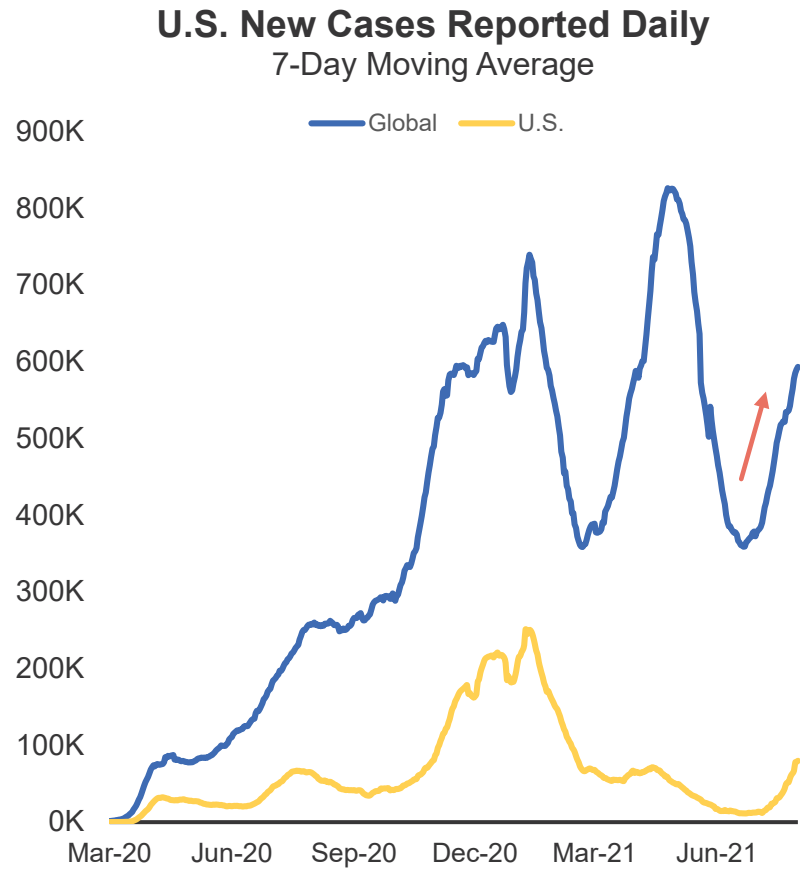
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## After Falling For Most of The Quarter, COVID Cases Are Now Rising

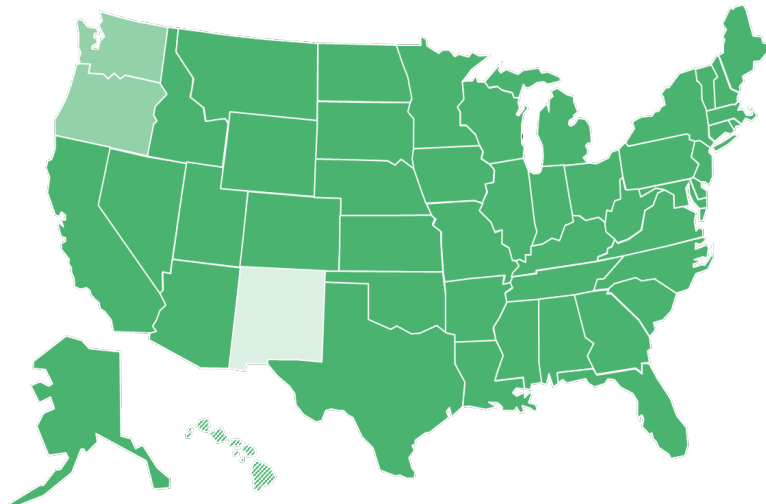


Source: John Hopkins University Coronavirus Resource Center, PFM calculations; as of 8/02/2021.



## Reopening Economy Drives GDP Growth

### Reopening Status of U.S. States

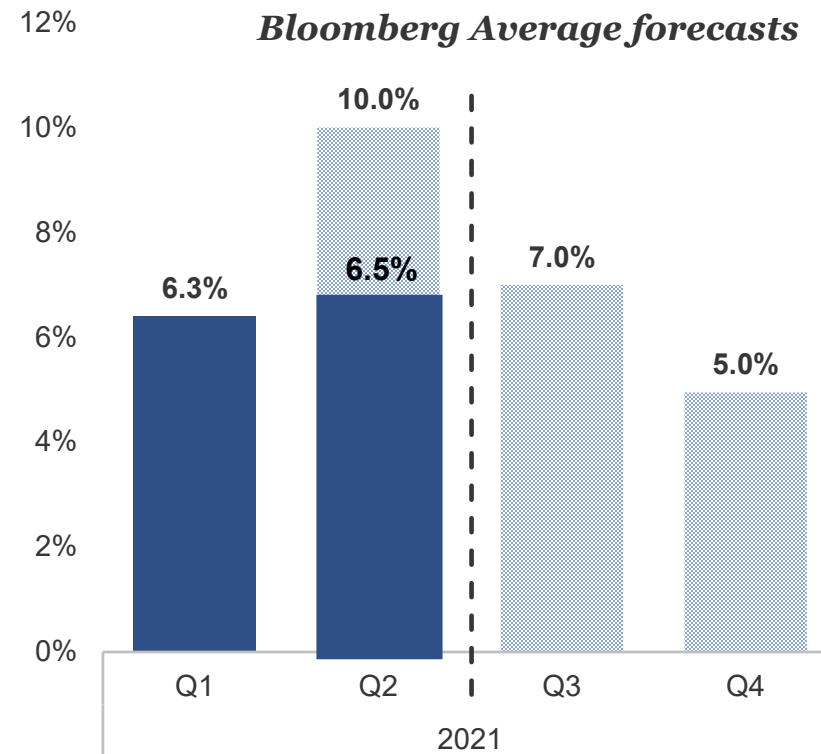


- Fully open
- Opened in June
- Opening in July
- Criteria but no date set

### U.S. GDP Forecasts

Annualized Rate

*Bloomberg Average forecasts*

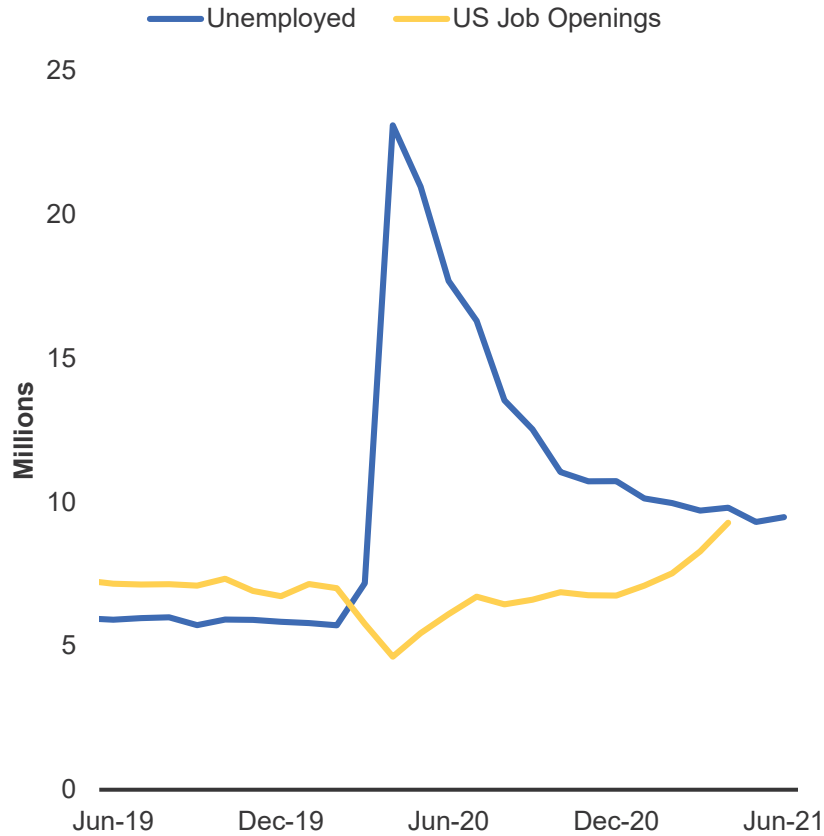


Source: New York Times (left) and Bloomberg (right), Bureau of Economic Analysis, as of 7/13/2021.

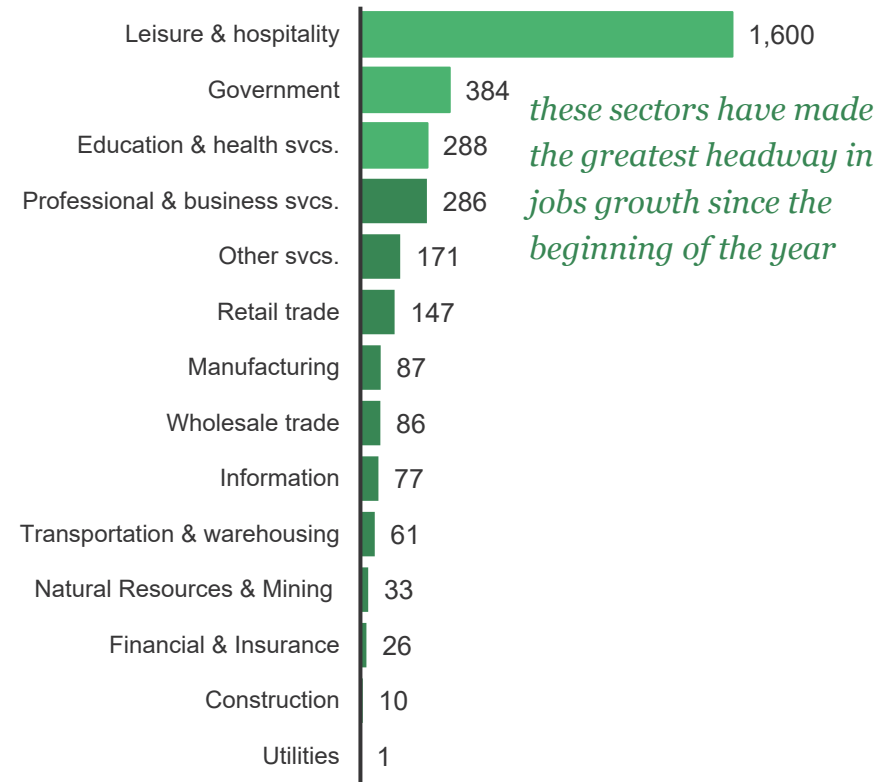


# Job Openings Hit Record High; Service Sector Leads Jobs Recovery

Job Openings vs. Unemployed Workers



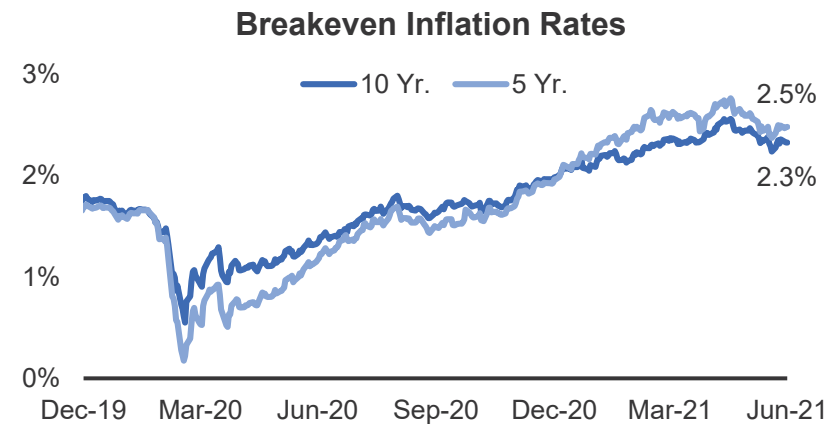
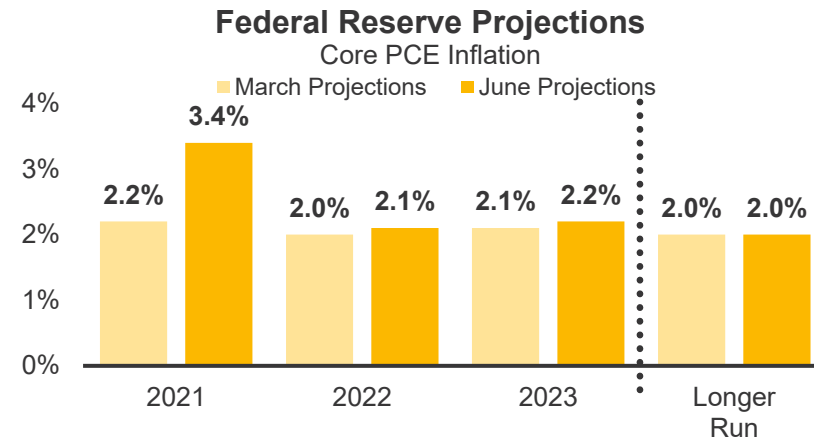
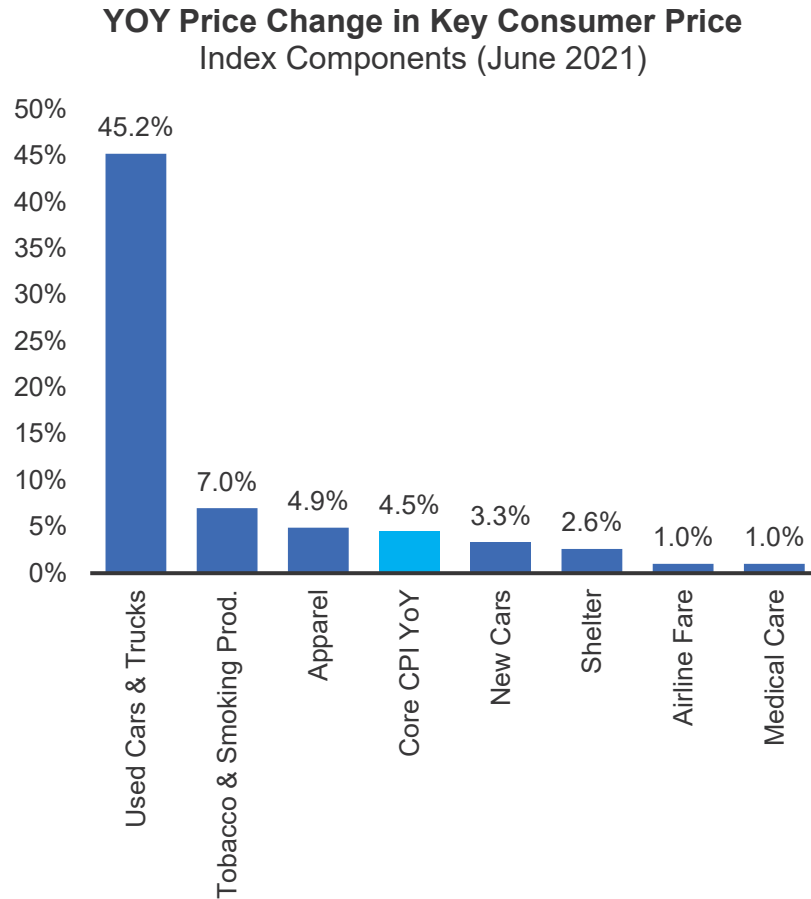
Change in Total Nonfarm Employment since December 2020 (thousands)



Source: Bloomberg, Bureau of Labor Statistics, as of 6/30/2021.



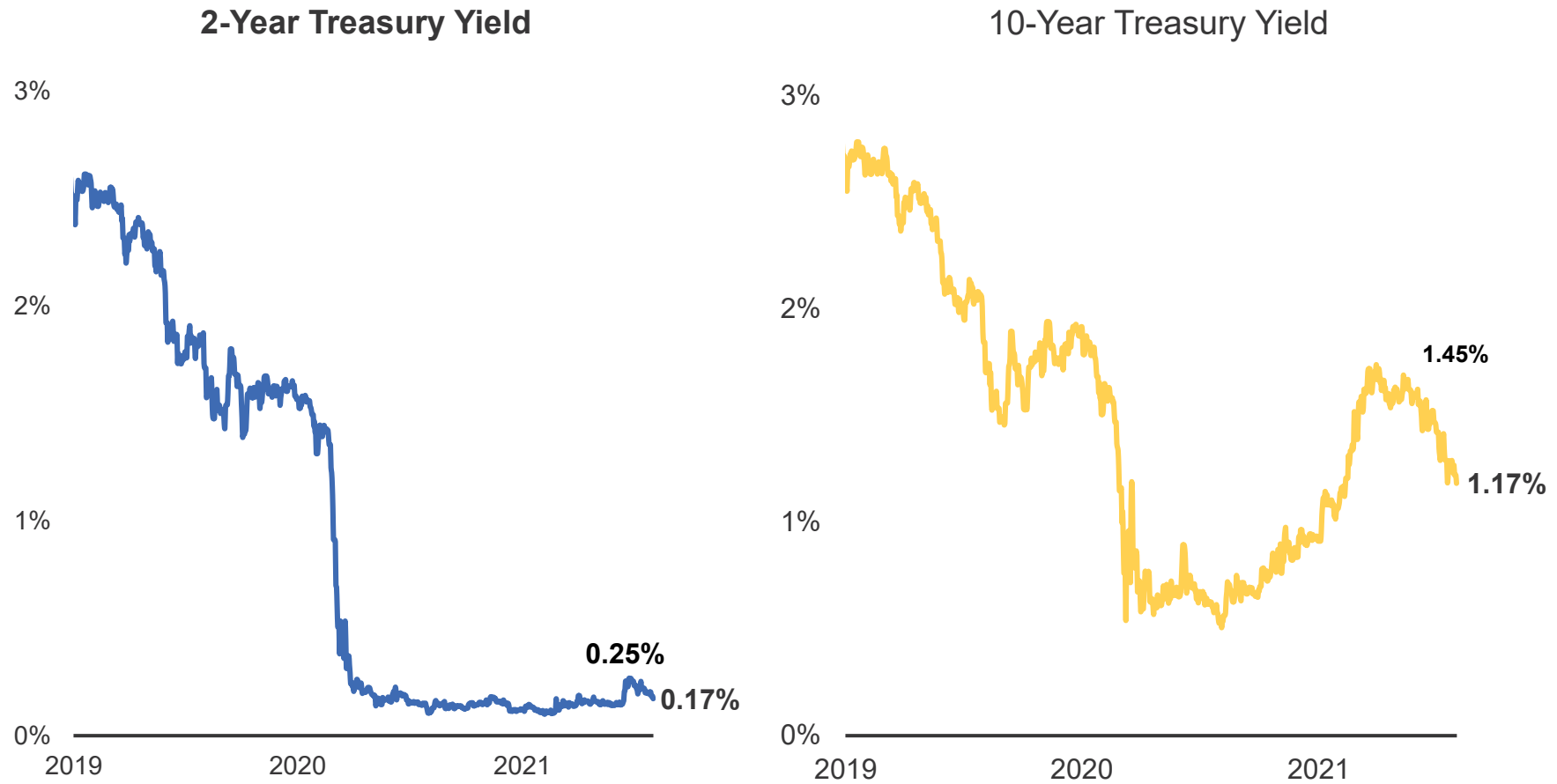
## Inflation Strengthens, But Driven by a Few Key Sectors



Source: Bloomberg, as of 6/30/2021.



## Long-Term Yields Falling Despite Inflation Fears and Possible Tapering



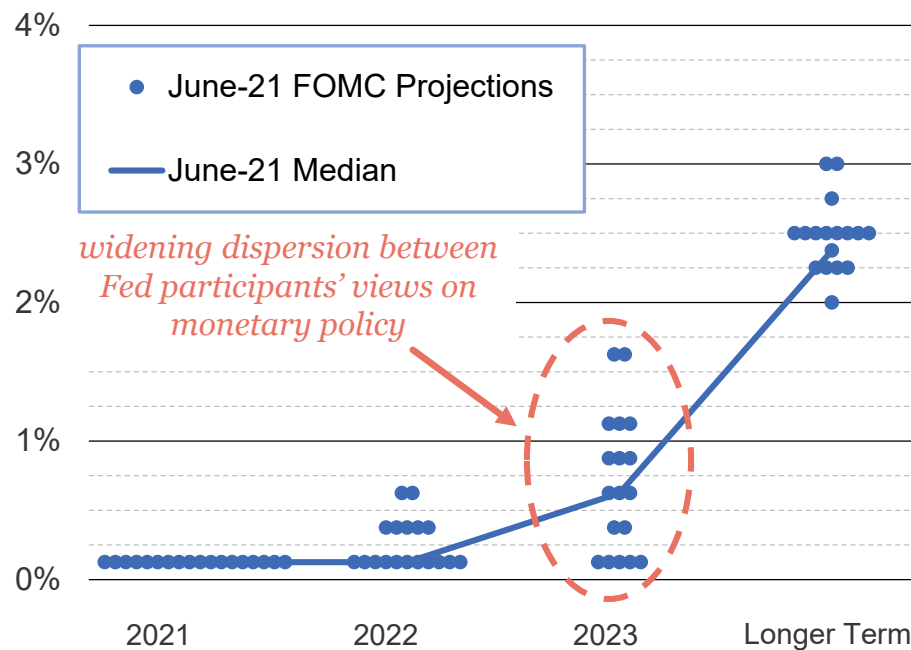
Source: Bloomberg, as of 6/30/21 and 8/2/21.



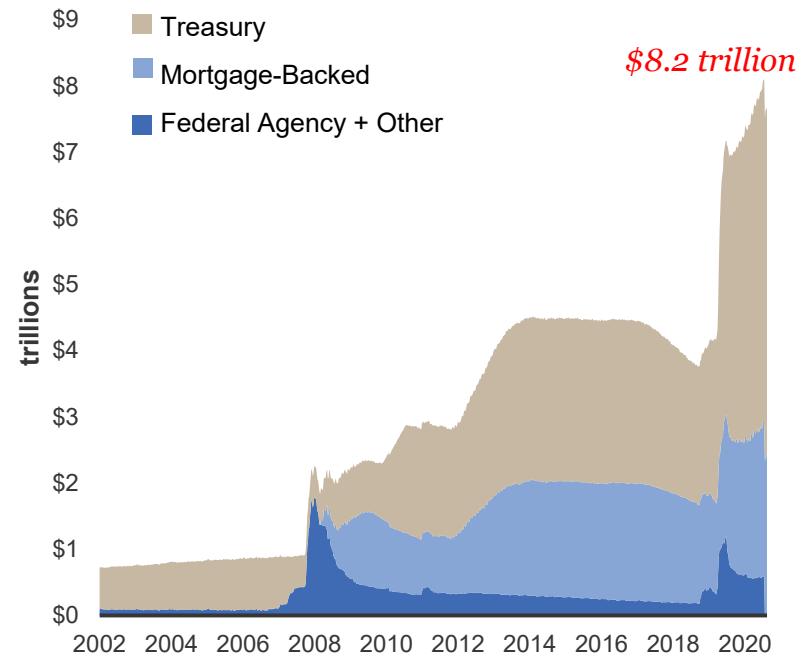
## Fed Kept Interest Rate Near Zero and Asset Purchases at \$120 B/month

*“...the Committee seeks to achieve inflation that averages 2 percent over time... following periods when inflation has been running persistently below 2 percent, appropriate monetary policy will likely aim to achieve inflation moderately above 2 percent for some time.”*

### Fed Participants' Assessments of 'Appropriate' Monetary Policy



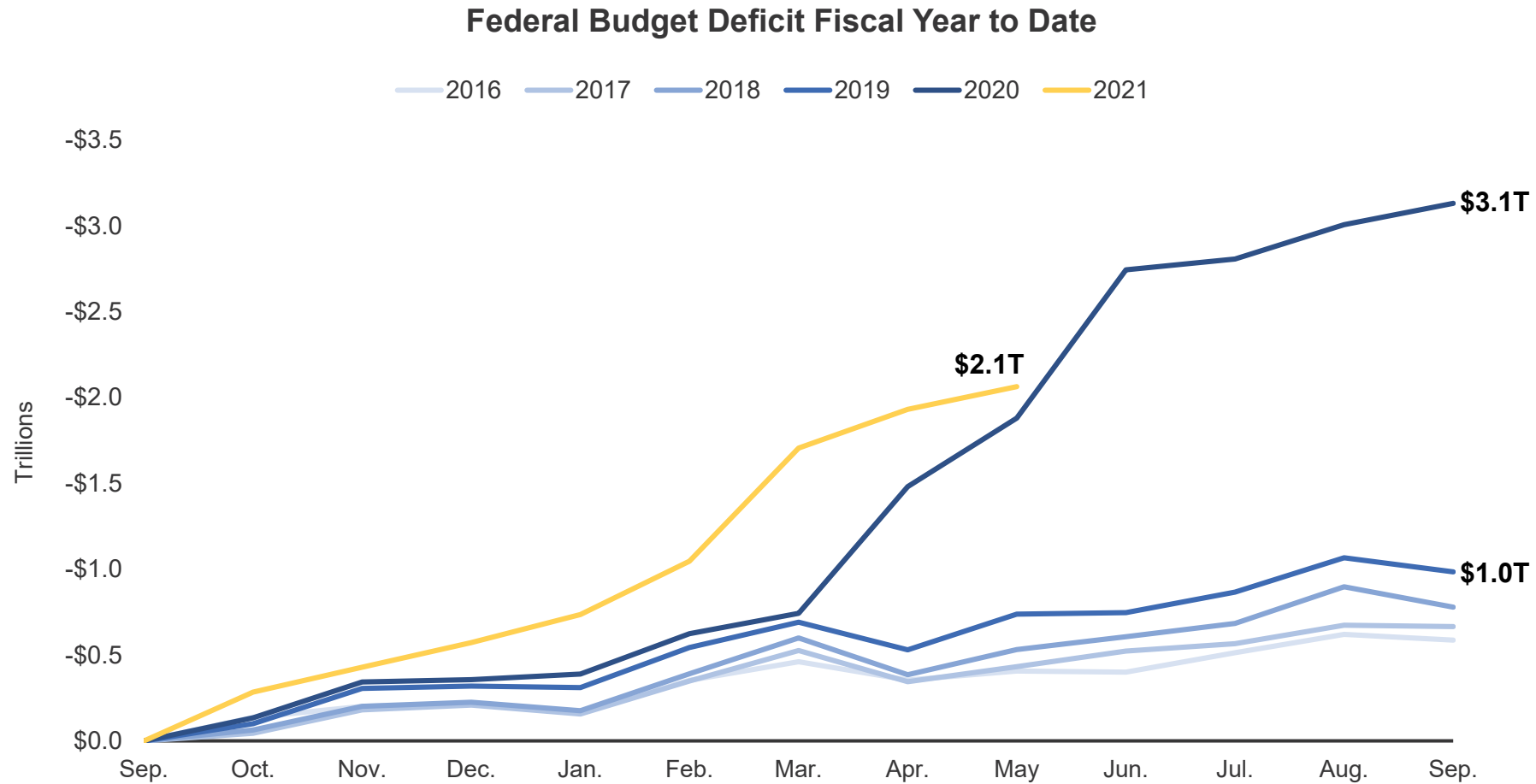
### Assets of the Federal Reserve



Source: Federal Reserve and Bloomberg. Individual dots represent each Fed members' judgement of the midpoint of the appropriate target range for the federal funds rate at each year-end.



## U.S. Federal Budget Deficit



Source: Bloomberg, as of 6/30/2021.



## Combined Portfolio Composition – By Fund

<b>Fund</b>	<b>March 31, 2021</b>	<b>June 30, 2021</b>
General Fund	\$143,364,447	\$147,528,238
State Water Contract Fund	\$383,457,882	\$417,688,350
Devil Canyon/Castaic Fund	\$4,392,517	\$5,297,111
<b>Total</b>	<b>\$531,214,846</b>	<b>\$570,513,699</b>

Individual securities shown at market value including accrued interest. Numbers may not add to total due to rounding.





## Combined Portfolio Composition – By Sector

- The portfolio is in compliance with the District’s Investment Policy and the California Government Code.

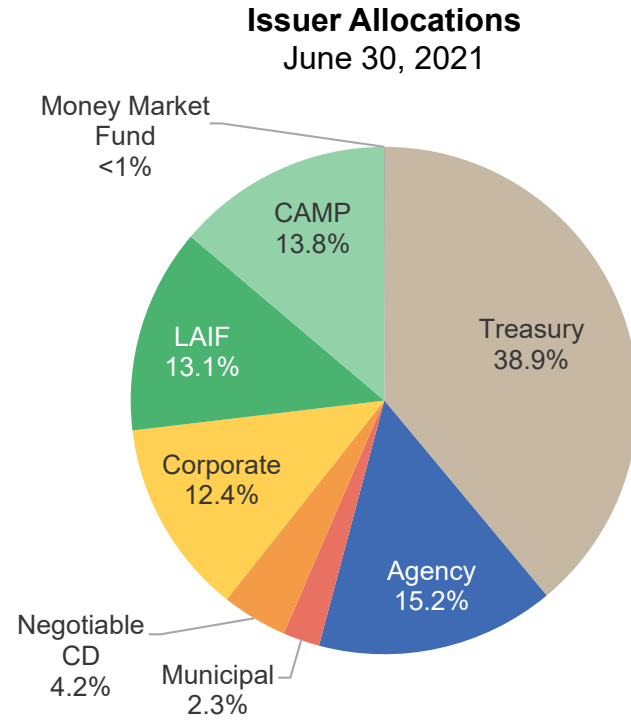
Security Type	Market Value as of March 31, 2021	% of Portfolios	Market Value as of June 30, 2021	% of Portfolios	% Change vs. 3/31/21	Permitted by Policy	In Compliance
U.S. Treasury	\$186,865,357	35.2%	\$221,790,836	38.9%	3.7%	100%	✓
Federal Agency	\$86,599,074	16.3%	\$86,557,487	15.2%	-1.1%	100%	✓
Municipal	\$13,315,579	2.5%	\$13,326,311	2.3%	-0.2%	30%	✓
Negotiable CDs	\$23,867,030	4.5%	\$23,795,360	4.2%	-0.3%	30%	✓
Corporate Notes	\$65,266,696	12.3%	\$70,864,141	12.4%	0.1%	30%	✓
<b>Securities Sub-Total</b>	<b>\$375,913,736</b>	<b>70.9%</b>	<b>\$416,334,134</b>	<b>73.1%</b>	<b>2.2%</b>		
Accrued Interest	\$1,012,828		\$1,088,696				
<b>Securities Total</b>	<b>\$376,926,564</b>		<b>\$417,422,830</b>				
LAIF	\$74,347,765	14.0%	\$74,426,696	13.1%	-1.0%	\$75 Million	✓
Money Market Fund	\$474,434	0.1%	\$87,581	0.0%	-0.1%	20%	✓
CAMP	\$79,466,083	15.0%	\$78,576,593	13.8%	-1.2%	50%	✓
<b>Total Liquidity</b>	<b>\$154,288,282</b>	<b>29.1%</b>	<b>\$153,090,869</b>	<b>26.9%</b>	<b>-2.2%</b>		
<b>Total Investments</b>	<b>\$531,214,846</b>	<b>100.0%</b>	<b>\$570,513,699</b>	<b>100.0%</b>			

Numbers may not add to total due to rounding. Current investment policy as of August 2020.



## The District's Portfolios are Well Diversified

<b>Corporate Notes</b>	<b>12.4%</b>
Toyota Motor Credit	1.1%
JP Morgan	0.9%
Amazon	0.8%
Citigroup	0.8%
Bank of America	0.6%
BNY Mellon	0.5%
American Honda	0.5%
Caterpillar Financial	0.5%
Morgan Stanley	0.5%
Apple	0.4%
Honeywell International	0.4%
Goldman Sachs	0.4%
Deere & Co	0.4%
PCarr Financial	0.4%
Merck & Co	0.3%
Truist Financial	0.3%
AstraZeneca	0.3%
National Rural Utilities	0.3%
Bristol Myers Squibb	0.3%
Blackrock	0.3%
American Express	0.3%
UnitedHealth Group	0.2%
Wal-Mart	0.2%
Charles Schwab	0.2%
3M Company	0.2%
Chevron	0.2%
Comcast	0.2%
Visa	0.2%
US Bancorp	0.2%



<b>Corporate Notes</b>	
PepsiCo	0.2%
Adobe	0.1%
Unilever	0.1%
PNC	0.1%
Home Depot	0.0%
Pfizer	0.0%

<b>Negotiable CDs</b>	<b>4.2%</b>
Nordea Bank NY	0.6%
DNB Bank	0.6%
Société Générale NY	0.6%
Skandinav Enskilda Bank	0.6%
Credit Agricole NY	0.6%
Credit Suisse NY	0.5%
Sumitomo Mitsui Bank NY	0.5%

<b>Municipal</b>	<b>2.3%</b>
NY Urban Development Auth.	0.6%
NY NJ Port Auth.	0.4%
State of Maryland	0.3%
State of Florida	0.2%
State of Mississippi	0.1%
California DWR	0.1%
NJ Turnpike Auth.	0.1%
California Earthquake Auth.	0.1%
Los Angeles CCD	0.1%
California State University	0.1%
San Juan USD	0.1%
State of Connecticut	0.0%

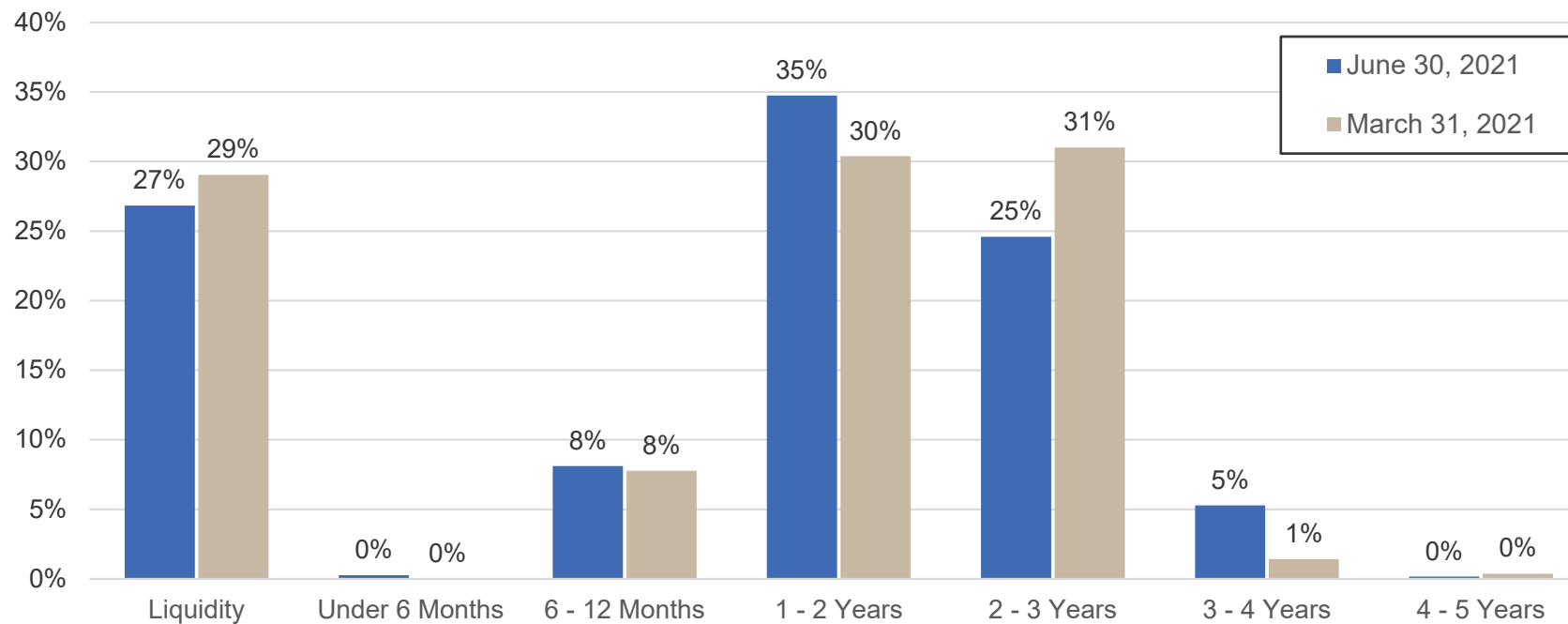
<b>Federal Agency</b>	<b>15.2%</b>
Freddie Mac	11.7%
Fannie Mae	2.9%
Federal Home Loan Banks	0.5%



## 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 portfolio's benchmark.

**Portfolio Maturity Distribution**  
March 31, 2021 vs. June 30, 2021

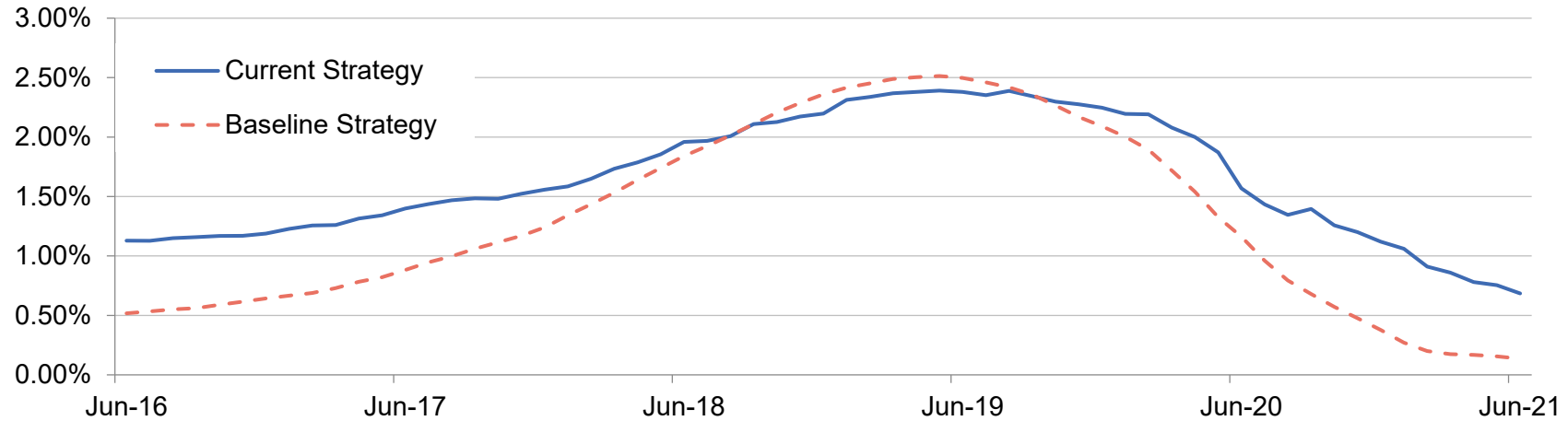


\*Numbers may not add to total due to rounding.

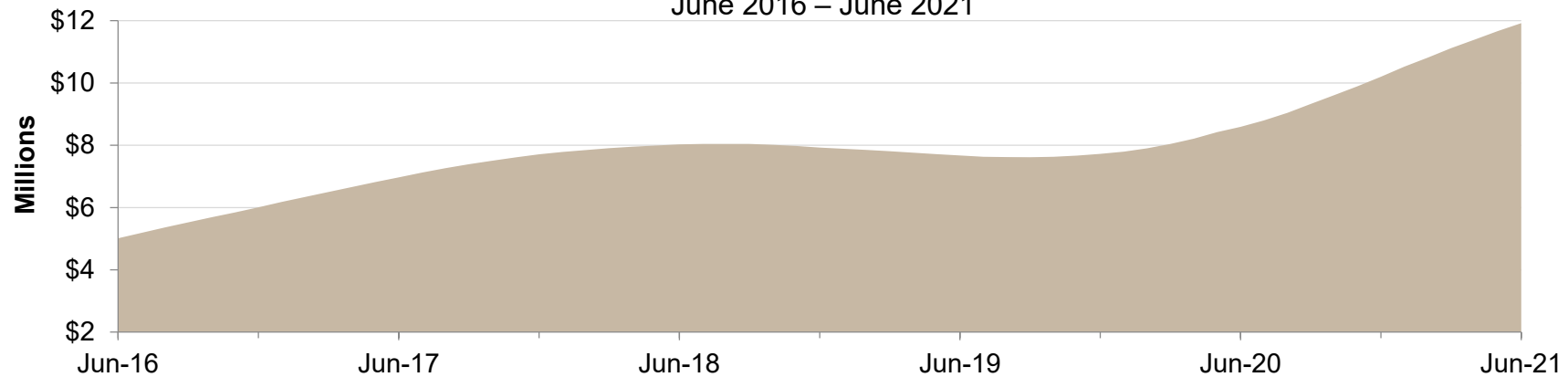


## Combined Portfolio Yield and Earnings Comparison

**Portfolio Month End Yields - Current Strategy vs. Baseline Strategy**  
June 2016 – June 2021



**Estimated Cumulative Incremental Earnings - Current Strategy vs. Baseline Strategy**  
June 2016 – June 2021





## Managed Portfolio Total Return Performance

- Total return expresses annualized rate of return over a specified period and takes into account all changes in the portfolio, including market value changes, reinvestment rates, cash flows, and interest earned plus realized gains/losses.

Periods Ending June 30, 2021					
			Annualized		
BofAML Indices	Duration (years)	Quarter	Past 12 Months	Past 3 Years	Since Inception
<b>State Water Contract Fund</b>	<b>1.86</b>	<b>0.03%</b>	<b>0.39%</b>	<b>2.92%</b>	<b>1.56%</b>
<b>General Fund</b>	<b>1.87</b>	<b>0.04%</b>	<b>0.40%</b>	<b>2.94%</b>	<b>1.58%</b>
ICE BofAML 1 Year UST Index (GC03)	0.91	0.02%	0.22%	2.01%	0.98%
ICE BofAML 1-3 Year UST Index (G1O2)	1.84	-0.03%	0.07%	2.68%	1.25%
ICE BofAML 1-5 Year UST Index (GVQ0)	2.60	0.11%	-0.27%	3.26%	1.52%

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).

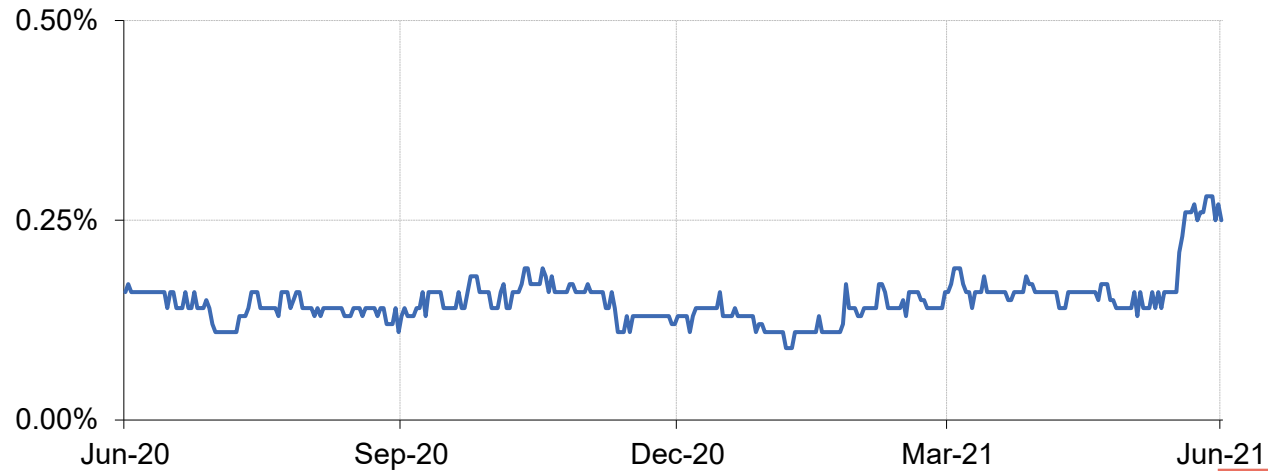
Periods less than one year are on an unannualized basis. Periods greater than one year are on an annualized basis.

Portfolio inception date as of June 30, 2012



## Managed Portfolio Earnings

**2-Year Treasury Yields**  
June 30, 2020 – June 30, 2021



Period	Q3 20	Q4 20	Q1 21	Q2 21	12-Mo. Totals
<b>Change in 2-Yr Treasury</b>	-0.02%	-0.01%	0.04%	0.09%	<b>0.10%</b>
<b>Market Value Earnings</b>					
Interest Earned	\$1,559,911	\$1,343,466	\$1,129,911	\$1,048,813	<b>\$5,082,101</b>
Change in Value	(\$762,844)	(\$735,960)	(\$1,202,575)	(\$944,400)	<b>(\$3,645,780)</b>
<b>Portfolio Earnings</b>	<b>\$797,067</b>	<b>\$607,506</b>	<b>(\$72,664)</b>	<b>\$104,413</b>	<b>\$1,436,321</b>
<b>Accrual Earnings</b>					
Interest Earned	\$1,559,911	\$1,343,466	\$1,129,911	\$1,048,813	<b>\$5,082,101</b>
Change in Value	\$755,572	\$792,350	\$495,593	\$497,679	<b>\$2,541,194</b>
<b>Portfolio Earnings</b>	<b>\$2,315,484</b>	<b>\$2,135,816</b>	<b>\$1,625,504</b>	<b>\$1,546,492</b>	<b>\$7,623,295</b>

Note: Earnings are for the PFM managed portion of the District's portfolio only. Accrual earnings calculated on a trade date basis. Change in value calculated as the ending period value (market or amortized cost) less the beginning period value, plus net principal activity. Interest earned calculated as the ending accrued interest less beginning accrued interest, plus net interest activity.



## U.S. Bank Acquires PFM's Asset Management Business

- On July 8, 2021, U.S. Bank announced that it entered into a definitive agreement to purchase PFM Asset Management LLC. The deal is expected to close in fourth quarter 2021, subject to regulatory approval and satisfaction of customary closing conditions.
- PFM Asset Management will operate as a separate entity under U.S. Bank's subsidiary, U.S. Bancorp Asset Management.
- PFM's financial advisory business is not part of this acquisition and will continue to operate independently.
- PFM Asset Management is confident the acquisition will allow us to advance our goals of (1) providing the highest level of investment advice and client service, (2) making significant investments in our technology infrastructure due to increased cyber security risks, and (3) accessing additional portfolio management resources in an increasingly complex and competitive market. More specifically, your investment program will benefit from:
  - Continuity of our same investment process and philosophy
  - Continued commitment to excellence in customer service and customized investment advice
  - Additional investment capacity supported by broader resources in credit research and portfolio management
  - A more robust and larger platform, which includes additional resources in technology and cybersecurity
  - The financial strength and security of partnering with a large, well-capitalized parent company
- The transition will take place over the next six months or so.
- PFM does not anticipate that there will be any disruptions in service or changes to your primary service or investment team.
- All statements as to what will or may happen under certain circumstances are based on assumptions, which may or may not be proven correct as actual events occur.



## Portfolio Yield and Earnings Notes

- **Portfolio Month End Yield**

- The “Baseline Strategy” yield is a weighted average calculated by assuming 29% of the portfolio is invested in LAIF (at the average monthly yield) and the remainder of the portfolio invested in 1-year U.S. Treasury (12-month rolling average of the month-end yield). The Baseline Strategy was reflective of the District’s investment strategy at the time PFM assumed management of the portfolio.
- The “Current Strategy” yield is a weighted average of the current yield of all of the investments in the portfolio. In aggregate, the Current Strategy represents a fundamentally different investment than the Baseline Strategy approach with a different risk profile.

- **Estimated Cumulative Incremental Earnings**

- The earnings are on a yield basis and do not include realized or unrealized market value gains or losses.
- The chart shows an estimate of the cumulative additional earnings being generated by the Current Strategy versus what the Baseline Strategy would have earned over the same period.
- The estimated monthly earnings for each of the strategies is calculated by multiplying the monthly yield of the strategy by the current balance of the overall portfolio.
- The incremental earnings is simply the difference between the Current Strategy estimated monthly earnings and the Baseline Strategy estimated monthly earnings on a cumulative basis over the period shown.
- The estimates are approximations to illustrate differences in investment approaches. The District’s actual earnings will vary.





## Disclosures

*PFM is the marketing name for a group of affiliated companies providing a range of services. Investment advisory services are provided by PFM Asset Management LLC which is registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940. Additional applicable regulatory information is available upon request.*

*The views expressed within this material constitute the perspective and judgment of PFM Asset Management LLC 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 current opinion as of the date of issue, and are also subject to change. Opinions and data presented are not necessarily indicative of future events or expected performance. Information contained herein is based on data obtained from recognized statistical services, issuer reports or communications, or other sources believed to be reliable. No representation is made as to its accuracy or completeness. This material is intended for informational purposes only and should not be relied upon to make an investment decision, as it was prepared without regard to any specific objectives or financial circumstances. It should not be construed as an offer to purchase/sell any investment. References to particular issuers are for illustrative purposes only, and are not intended to be recommendations or advice regarding such issuers.*

*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.*

PFM Asset Management LLC has exercised reasonable professional care in the preparation of this performance report. However, information in this report on market indices and security characteristics, as well as information incorporated in the Market Commentary section, is received from sources external to PFM Asset Management LLC.

PFM Asset Management LLC relies on the client's custodian for security holdings and market values. Transaction dates reported by the custodian may differ from money manager statements. While efforts are made to ensure the data contained herein is accurate and complete, we disclaim all responsibility for any errors that may occur.

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# Director Comments and Discussion

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**Paul Kielhold**  
President



**June Hayes**  
Vice President



**T. Milford  
Harrison**  
Treasurer



**Gil J. Botello**  
Director



**Susan Longville**  
Director

## Staff Recommendation

Receive and file the portfolio update report from PFM.

# Discussion Item 4.2 (Pg. 32)

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**Aaron Jones, EIT** – Associate Engineer

**Michael R. Esquer** – Senior Project Manager

**Wen B. Huang, PE, MS** – Chief Engineer/Deputy General Manager

Consider Scope Enhancements to Borden Excavating, Inc.  
Construction Contract for the Waterman Hydroelectric  
Project (Specification 18-02)

## **Staff Recommendation**

Forward this item to the next Board of Directors' meeting for consideration.



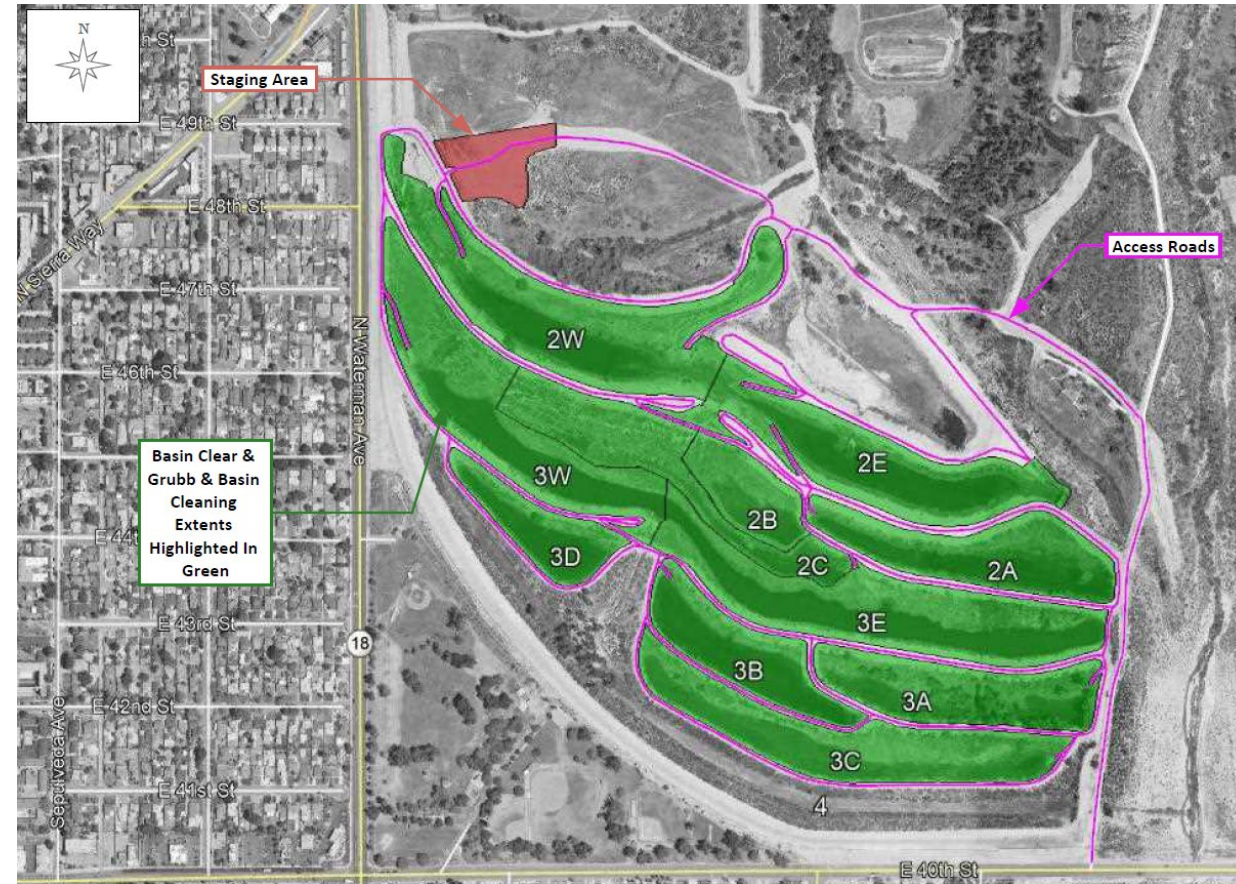
# Background

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- Valley District has been recharging water in San Bernardino County Flood Control detention basins, when they are not needed for flood control, since the 1970s.
- The Waterman Basins, owned and operated by Flood Control District, is one of the primary State Water Project water recharge basins for the San Bernardino Basin Area.
- Since 2010, Valley District has recharged, on average, **11,205 acre-feet** of SWP water per year.
- Due to differences between Valley District's mission for recharge and Flood Control's mission for flood attenuation, the proposed cleanup work will be focused on activities specifically designed to benefit our recharge operations.
- In addition, these proposed clean-up activities will help further utilize the newly installed hydroelectric facility at Waterman Basins, of which Valley District and the City of San Bernardino have made substantial investments to date.

Staff is requesting the Board to consider a scope enhancement to the construction contract with Borden Excavating, Inc. for the Waterman Hydroelectric Project.

- **Scope of Work:** Clean Waterman Basins to improve water recharge.
- **Cost:** The total cost for the enhancement will be performed on a time-and-materials basis, not to exceed \$400,000.
- **Schedule:** Due to seasonal constraints, the work may only be performed after the end of the bird nesting season (usually in August or early September) but before the beginning of the rain reason (October).
- **Permits:** This basin cleaning work will be done in compliance with existing five-year permits received from the California Department of Fish and Wildlife and U.S.Army Corps of Engineers, which expire in March 2022.
- **Benefits:** Reduced mobilization costs and meets scheduling constraints.



# Director Comments and Discussion

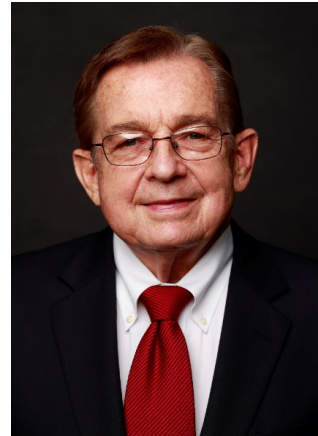
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**Paul Kielhold**  
President



**June Hayes**  
Vice President



**T. Milford  
Harrison**  
Treasurer



**Gil J. Botello**  
Director



**Susan Longville**  
Director

## Staff Recommendation

Forward this item to the next Board of Directors' meeting for consideration.

# Discussion Item 4.3 (Pg. 46)

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**Kristeen Farlow, MPA** – Strategic Communications Manager

Discuss Santa Ana River Mayors' Breakfast

## **Staff Recommendation**

Discuss venue options and Mayors draft list to provide feedback to Staff.



## Mayors to be Invited

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- Colton Mayor Frank Navarro
- Corona Mayor Jacque Casillas
- Grand Terrace Mayor Darcy McNaboe
- Highland Mayor Larry McCallon
- Jurupa Valley Mayor Lorena Barajas
- Loma Linda Mayor Rhodes Rigsby
- Norco Mayor Berwin Hanna
- Redlands Mayor Paul Barrich
- Rialto Mayor Deborah Robertson
- Riverside Mayor Patricia Lock Dawson
- San Bernardino Mayor John Valdivia

# Venue Options

<b>Venue</b>	<b>Est. Cost (+tax)</b>	<b>Dates Available</b>
Crestmore Manor (Riverside County Parks and Open Space District)	\$2,550	Oct. 27
Mission Inn (Riverside)	\$1,100	Oct. 27
Silver Lakes (Norco)	\$3,322.69	Oct. 25, 26, 27
University of Redlands	\$3,494.50	Oct. 27

# Director Comments and Discussion

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**Paul Kielhold**  
President



**June Hayes**  
Vice President



**T. Milford  
Harrison**  
Treasurer



**Gil J. Botello**  
Director



**Susan Longville**  
Director

## Staff Recommendation

Discuss venue options and Mayors draft list to provide feedback to Staff.

# Discussion Item 4.4 (Pg. 48)

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**Heather Dyer, MS, MBA** – Chief Executive Officer/General Manager

Discuss Rescinding Ordinance 77 Regarding the Advisory Commission on Water Policy and Direct Staff to Develop a Concept Plan for Convening a Reformatted Regional Water Policy Advisory Group for the Upper SAR Watershed

**Staff Recommendation**

Direct staff to:

- Place an item on an upcoming board meeting to rescind Ordinance 77; and
- Direct staff to develop a concept plan for convening a reformatted regional water policy advisory group to a future Board Workshop for discussion



# Support Letters/ E-mails shared w/ Board of Directors

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Source	Type	Location	Date Received
Daniel Cozad-GM	E- mail	Conservation District	15-Jul-21
Richard Corneille- Chairperson	Letter	San Bernardino Valley Conservation District	19-Jul-21
David Mlynarski- Commissioner	Letter	San Bernardino Municipal Water Department	24-Jul-21
Dr.Gonzalez-Council member	E- mail	City of Colton	28-Jul-21
Denis Kid- Representative	Letter	Riverside Highland Water Company	29-Jul-21
Darcy McNaboe-Mayor	Letter	City of Grand Terrace	4-Aug-21
Boby Duncan- Mayor Pro Tem	E- mail	City of Yucaipa	9-Aug-21
Paul Barich-Mayor	Letter	City of Redlands	9-Aug-21
Daniel Cozad-GM	Letter	Conservation District	10-Aug-21
Joe Baca Jr- Supervisor SB County	E- mail	SB County Board of Supervisors	11-Aug-21
Gil Navarro/Mark Alvarez -Advisory Commission Appointee	E- mail	Office of Supervisor Joe Baca Jr.	11-Aug-21
Bhavin Jindal- Councilmember	Letter	City of Loma Linda	12-Aug-21
Richard Corneille- Chairperson	Letter	Chair of the Advisory Commission	12-Aug-21
Bob Stewart- Advisory Commission Appointee	Letter	Bear Valley Mutual Water Company	12-Aug-21

# Director Comments and Discussion

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**Paul Kielhold**  
President



**June Hayes**  
Vice President



**T. Milford  
Harrison**  
Treasurer



**Gil J. Botello**  
Director



**Susan Longville**  
Director

## Staff Recommendation

Direct staff to:

- Place an item on an upcoming board meeting to rescind Ordinance 77; and
- Direct staff to develop a concept plan for convening a reformatted regional water policy advisory group to a future Board Workshop for discussion.

# Future Business

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# Adjournment

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