



MEETING AGENDA
for
ADMINISTRATIVE & FINANCE COMMITTEE
October 22, 2019 @ 3pm
At Company Office 139 N. Euclid Avenue, Upland, CA

- Call to Order

1. Recognitions and Presentations:

2. Additions-Deletions to the Agenda:

3. Public Comments

This is the time for any shareholder or member of the public to address the committee members on any topic under the jurisdiction of the Company, which is on or not on the agenda. Please note, pursuant to the Brown Act the Committee is prohibited from taking actions on items not listed on the agenda. For any testimony, speakers are requested to keep their comments to no more than four (4) minutes, including the use of any visual aids, and to do so in a focused and orderly manner. Anyone wishing to speak is requested to voluntarily fill out and submit a speaker's form to the manager prior to speaking.

4. Approval of Committee Meeting Minutes

Regular Committee Minutes of August 27, 2019.

5. Administrative and Financial Issues:

A. Proposed Financial Policies

Discussion and possible recommendation of new policies for Company investments and reserves.

6. Closed Session: None

7. Committee Comments and Future Agenda Items:

- This is the time for committee's comments and consideration on future agenda items relative to the interests and business of the company and its shareholders.

8. Adjournment:

The next regular Administration and Finance Committee meeting is to be determined.

NOTE: All agenda report items and back-up materials are available for review and/or acquisition at the Company Office (139 N. Euclid Avenue, Upland, CA.) during regular office hours, Monday through Thursday [7:00 – 11:30 and 12:30 – 5:00] and alternating Fridays [7:00 – 11:30 and 12:30 – 4:00]. The agenda is also available for review and copying at the Upland Public Library located at 450 N. Euclid Avenue.

POSTING STATEMENT: On October 16, 2019, a true and correct copy of this agenda was posted at the entry of the Water Company's office (139 N. Euclid Avenue), on the public bulletin boards at 450 N. Euclid Avenue (Upland Public Library) and 460 N. Euclid Avenue (Upland City Hall), and on the Water Company's website.

SAN ANTONIO WATER COMPANY
ADMINISTRATION and FINANCE COMMITTEE (AFC)
MINUTES

August 27, 2019

An open meeting of the Administration and Finance Committee (AFC) of the San Antonio Water Company (SAWCo) was called to order at 3:00 p.m. on the above date at the Company office located at 139 N. Euclid Ave., Upland, California. Committee Members present were Jose Sanchez, Bob Cable, Rudy Zuniga, and ex officio Tom Thomas. Also in attendance were SAWCo's General Manager Brian Lee, Assistant General Manager Teri Layton, and Senior Administrative Specialist Kelly Mitchell. Mr. Sanchez presided.

1. Recognitions and Presentations: None.
2. Additions-Deletions to the Agenda: None.
3. Public Comments: None.
4. Approval of Committee Meeting Minutes: Mr. Zuniga moved and Mr. Cable seconded to approve the meeting minutes of June 25, 2019. Motion carried.
5. Administrative and Financial Issues:
 - A. ***Proposed Policy for On-line Payment Transaction Charge*** – Mr. Lee reported that providing shareholders the option to pay their water bills of up to \$1,500 via credit card or debit card through the SAWCo website costs the Company money in associated fees and charges. Staff determined the cost to the Company averages \$3.37 per transaction. Seeing as this is an average cost per transaction, staff is recommending initiating a per transaction charge of \$3.00.

Director Cable inquired about the difference between the two charges SAWCo incurs. Mr. Lee explained the fixed fee is a cost incurred from the billing software company and the percentage fee is a cost incurred from the online payment processing company.

The Committee discussed the various combinations and amounts the Company could use to recover their costs and public outreach if the transaction charge is approved. Concerns were expressed that some would incur a higher charge using a fixed fee than a percentage fee. For this reason the recommended fixed fee charge is below the average fee incurred by the Company.

Mr. Cable moved and Mr. Zuniga seconded to move the item to the Board for further discussion, recommendation, and possible action. Motion carried.
6. Closed Session: None.
7. Committee Comments and Future Agenda Items: Mr. Sanchez requested the two accounting reports he worked with staff on creating and the fees quoted by the billing software company be included on the next AFC agenda. He also requested the Investment Policy and the Reserve Policy be placed on that agenda along with some financial metrics he will supply staff.
8. Adjournment: The committee determined there was no further business and adjourned the meeting at 3:18 p.m.

August 27, 2019

The next regular Administration and Finance Committee meeting is scheduled for October 22, 2019 at 3:00 p.m.

Assistant Secretary
Brian Lee

Agenda Item No. 5A

Item Title: Proposed Financial Policies

Purpose:

To discuss and possibly recommend new policies for Investments and Reserves.

Issue:

Should the Company establish new policies regarding investments and reserves?

Manager's Recommendation:

That the AFC recommends the Board approve new policies regarding investments and reserves.

Background:

Staff is currently reviewing the Company's current financial policies and practices. The company is financially secure thanks to past prudent practice. However, staff believes there are improvements to policy and practice that can be made to strengthen the Company's financial position.

Staff has been reviewing policies of neighboring water utilities to develop an understanding of current local 'standards'. Staff has reviewed policies from: Cucamonga Valley Water District, East Valley Water District, Moulton Niguel Water District, San Juan Water District and Western Municipal Water District.

Policies reviewed include:

- Budget
- Capital Assets
- Debt Management
- Fraud Prevention
- Investment
- Purchasing
- Reserves
- Surplus Property
- Banking
- Audit

Staff believes it would be prudent for the Company to establish similar policies. To that end, staff has prepared draft samples of an Investment Policy and a Reserve Policy for the Board's consideration. Additional policies will be considered at future AFC meetings.

Impact on the Budget:

None

Previous Actions:

None.



Purpose

The purpose of this investment policy is to establish guidelines to invest funds in a manner which ensures the safety and preservation of financial capital while meeting reasonably anticipated operation needs, achieving a reasonable rate of return and conforming to all state and local statutes governing the investment of funds.

General Provisions

Scope

This policy applies to the investment of all operating funds.

This policy does not apply to investments held in trust for the Company's retirement plans as these investments are subject to policies established by the plan trustees.

Objectives

The primary objectives, in priority order, of the Company's investment activities shall be:

1. Safety: Safety of principal is the foremost objective of the investment program. Investments of the Company shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio by mitigating certain risks. Some of those risks are:
 - a. Interest Rate Risk – the Company will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates by:
 - Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operation and avoiding the need to sell securities on the open market prior to maturity.
 - Investing operating funds primarily in short-term securities, money market mutual funds or investment pools.
 - b. Credit Risk – the risk that an issuer or other counterparty to an investment will not fulfill its obligations, will be reduced by:
 - Limiting investments to higher rated securities as further described in this policy.
 - Diversifying the investment portfolio so that potential losses on individual securities will be reduced.
2. Liquidity: The investment portfolio will remain sufficiently liquid to enable the Company to meet all operating requirements that might be reasonably anticipated.

3. Return on Investments: The investment portfolio shall be designed with the objective of attaining the best yield or returns on investments, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives.

Prudence

The standard of prudence to be used by Company officials involved in the investment program shall be the “prudent investor” standard and shall be applied in the context of managing the overall portfolio. The prudent investor standard is, “when investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the company, 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 company.”

The CFO/Treasurer and delegated investment officers, acting in accordance with written procedures and this Policy and exercising due diligence, shall be relieved of personal responsibility for an individual security’s credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

Delegation of Authority

The Board of Directors’ authority to invest Company funds is delegated to the Company’s Chief Financial Officer (CFO) / Treasurer. Such delegation shall expire and be renewed annually, by Board Resolution, in conjunction with the annual investment policy review.

The CFO/Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials in the absence of the Treasurer. All transactions will be reviewed by the Treasurer on a regular basis to ensure compliance with this Policy. No Person may engage in an investment transaction except as provided under the terms of this Investment Policy and the procedures established by the Treasurer.

Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the Company’s General Manager/CEO any material financial interest in financial institutions that conduct business within the Company, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the Company.

All bond issue participants, including but not limited to, underwriters, bond counsel, financial advisors, brokers, and dealers will disclose any fee sharing arrangements or fee splitting to the CFO/Treasurer prior to the execution of any transaction.

Authorized Broker-Dealers

The CFO/Treasurer will maintain a list of approved financial institutions authorized to provide investment services to the Company. These may include primary dealers authorized to buy and sell government securities in direct dealings with the Federal Reserve Bank of New York, or regional dealers that qualify under Securities and Exchange Commission Rule 15C33-1 (uniform net capital rule).

All Broker Dealers who desire to conduct investment transactions with the Company must supply the CFO/Treasurer with the following:

- Audited Financial Statements
- Proof of Financial Industry Regulatory Authority (FINRA) certification
- Proof of State of California registration
- Completed broker/dealer questionnaire (except Certificate of Deposit counterparties)
- Certification of having read the Company's investment policy and depository contracts

Authorized and Suitable Investments

The following are authorized investments:

- A. Local Agency Investment Fund (LAIF).
The Company may invest in the Local Agency Investment Fund established by the State Treasurer for the benefit of local agencies (CGC §16429.1). The fund must have 24-hour liquidity. There is no limitation on the percentage of the Company's portfolio that may be invested with LAIF.
- B. United States Treasury Securities.
United States Treasury notes, bonds, or bills for which the full faith and credit of the United States is pledged for the payment of principal and interest (CGC §53601(b)). There is no limitation as to the percentage of the Company's portfolio that may be invested in these securities, however, maximum investment maturities are limited to five years.
- C. Federal Agency Obligations.
The Company is permitted to invest in federal agency or United States government sponsored enterprise obligations, participations, mortgage backed securities or other instruments, including those issued by or fully guaranteed as to principal and interest by Federal agencies or United States government sponsored enterprises (CGC §53601(f)).

Maximum maturity is limited to five years. There is no limitation as to the percentage of the Company's portfolio that may be invested in agencies.

D. Bank Depository Accounts.

The Company may invest in insured or collateralized certificates of deposit, savings accounts, market rate accounts, or other bank deposits issued by a state or national bank, savings and loan associations, or state or federal credit unions located in California.

Real estate mortgages are not considered acceptable collateral by the Company.

All financial institutions holding Company deposits are required to provide the Company with a regular statement of pooled collateral. This report will state that they are meeting the 110% collateral rule, a listing of all collateral with location and market value, plus an accountability of the total amount of deposits secured by the pool.

Deposits are allowable in any institution that insures its deposits with the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Administration (NCUA), and a maximum deposit of up to the federal insurance limits may be deposited in any one institution without collateral. No bank shall receive Company deposits in excess of the federal insurance limits that has a long-term debt rating by Moody's investors Service, Standard & Poor's, or Fitch Ratings of less than 'A'. The maximum maturity is restricted to three years.

No deposit shall exceed the shareholder's equity of any depository bank, nor shall a deposit exceed the total net worth of any institution. No deposits shall be made at a state or federal credit union if a member of the Board of Directors or the General Manager/CEO or CFO/Treasurer of the Company serves on the Board of Directors or a committee of the credit union.

E. Municipal Securities.

Registered treasury notes or bonds issued by the State of California or any of the other 49 states, including bonds payable solely out of the revenues from a revenue producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any states.

Bonds, notes, or other evidence of debt issued by a local agency within the State of California. This includes bonds payable solely out of revenue from a revenue-producing property owned, controlled, or operated by the local agency, or by an authority of the local agency.

Securities must have a debt rating of at least 'AA' by a Nationally Recognized Statistical Rating Organization (NRSRO). Maximum maturity is limited to five years from the date of

purchase, and holdings of this type of security are limited to a maximum of 20% of the Company's investment portfolio.

F. Commercial Paper.

Commercial paper of 'prime' quality of the highest ranking of the highest letter and number rating as provided for by a NRSRO and must be issued only by general corporations that are organized and operating within the United States and have total assets in excess of \$500 million. The general corporation must have an 'A' rating or better on debt other than commercial paper, if any, assigned by an NRSRO.

Purchases shall not exceed 5% of the outstanding paper of the issuing corporation, and maximum maturity is restricted to 270 days. This type of investment shall not exceed 15% of the Company's investment portfolio.

G. Placement Service Deposits.

The Company may invest in Certificates of Deposit placed with a private sector entity that assists in the placement of deposits 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, in combination with bank certificates of deposit shall not exceed 25% of the value of the Company's investments at any time. The maximum investment maturity will be restricted to three years.

H. Medium Term Notes.

The Company may invest in corporate and depository institution debt securities 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.

Securities eligible for investment under this section shall be rated 'AA' or better by an NRSRO. The maximum maturity is restricted to five years, and investment in this category of security shall not exceed 30% of the Company's investible funds, and not more than 5% from a single issuer.

I. Money Market Funds.

Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission.

The diversified management company shall either

- 1) have attained the highest ranking or the highest letter and numerical rating provided by not less than two NRSROs or

- 2) retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years of experience managing money market mutual funds with assets under management in excess of five hundred million dollars (\$500,000,000). A maximum of 15% of the Company's investible funds can be invested in Money Market Mutual funds.

J. Prohibited Investments.

The Company shall not invest any funds covered by this Investment Policy in inverse floaters, range notes, interest-only strips derived from mortgage pools or any investment that may result in a zero-interest accrual if held to maturity.

Review of Investment Portfolio

The securities held by the Company must be in compliance with the above section 'Authorized and Suitable Investments' at the time of purchase. Because some securities may not comply with this section subsequent to the date of purchase, the CFO/Treasurer shall at least quarterly review the portfolio to identify those securities that do not comply. The CFO/Treasurer shall establish procedures to report to the Company's Board of Directors, major and critical incidences of non-compliance identified through the review of the portfolio.

Investment Pools / Mutual Funds

When the Company's investment portfolio includes Investment Pools and Mutual Funds, as permitted in the section 'Authorized and Suitable Investments', the CFO/Treasurer shall as a matter of due diligence, monitor the assets held by the pools/funds. At least quarterly, the CFO/Treasurer will conduct an investigation to determine the following:

1. A description of eligible investment securities, and a written statement of investment policy and objectives.
2. A description of interest calculation and how it is distributed, and how gains and losses are treated.
3. A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited.
4. A description of who may invest in the program, how often, what size deposit and withdrawal are allowed.
5. A schedule for receiving statements and portfolio listings.
6. Are reserves, retained earnings, etc. utilized by the pool/fund?
7. A fee schedule, and when and how it is assessed.
8. Is the pool/fund eligible for bond proceeds and/or will it accept such proceeds?

Safekeeping and Custody Agreements

To protect against potential losses caused by collapse of individual securities dealers, all securities owned by the Company shall be kept in safekeeping by a third-party bank trust department, acting as agent for the Company under the terms of a custody agreement executed by the bank and the

Company. All securities will be received and delivered using standard delivery versus payment (DVP) procedures with the Company's custodial bank and evidenced by safekeeping receipts.

Diversification and Maximum Maturities

The Company will diversify its investment by security type and institution. With the exception of the US Government, its agencies and instrumentalities, and the Local Agency Investment Fund, no more than 5% of the Company's total investment portfolio will be invested in a single security type with a single financial institution.

To the extent possible, the Company will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the Company will not directly invest in securities maturing more than 5 years from the date of purchase. Reserve funds may be invested in securities exceeding 5 years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of the funds.

Internal Controls

The CFO/Treasurer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Company are protected from loss, theft, or misuse. The internal control structures shall be designed to provide reasonable assurance that these objectives are met. Internal controls shall be in writing and shall address the following: separation of transaction authority from accounting and record keeping, safekeeping of assets and written confirmation of telephone transactions for investments and wire transfers.

The external auditors will annually review the investments and general activities associated with the investment program. This review will provide internal control by assuring compliance with the Investment Policy and Company policies and procedures.

Performance Standards

The investment portfolio will be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints, and the cash flow needs.

The Company's investment strategy is passive. The performance of the Company's investment portfolio will be evaluated and compared to an appropriate benchmark in order to assess the success of the investment portfolio relative to the Company's Safety, Liquidity, and Return on Investments' objectives.

Investment Reporting

The CFO/Treasurer will prepare a quarterly Investment Report and render the report to the Board of Directors no later than 30 days after the close of each calendar quarter.

The report shall provide the type of investment, issuers, the date of maturity, par values and market values of each investment, transactions occurring during the reporting period, and identification of funds managed by third party managers. The report will also include 1) certification that all investment transactions have been made in compliance with the Company's Investment Policy, and 2) a statement that the Company has the ability to meet all of its expenditure requirements during the next six months.

Policy Adoption

Adoption. This policy shall be reviewed annually with the Board of Directors and adopted by Board Resolution.

Delegation of Authority

The Board has sole authority to amend or revise this Investment Policy.

DRAFT



Purpose

Fiscal responsibility requires anticipating the likelihood of, and preparing for, unforeseen events. It is the purpose of this Reserve Policy to ensure that sufficient funds are available for current operating, capital, and debt service needs. Reserve Funds (Funds) will be accumulated and maintained to allow the Company to fund expenditures in a manner consistent with the Company's Capital Improvement Plan and avoid rate fluctuations due to changes in cash flow requirements.

The Board of Directors will designate specific fund accounts and establish minimum fund balances that it has determined to be in the best interest of the Company. The Board will annually review the level of Funds.

General Provisions

Guidelines

The Company has established and will maintain the following primary reserve funds:

- Operating Reserve Funds
- Capital Reserve Funds
- Debt Service Reserve Funds

Each fund will be maintained in a manner that ensures financial soundness and provides transparency to Company Shareholders. Minimum fund balances stated in this policy are considered the minimum necessary to adequately provide for: compliance with applicable statutory requirements, financing repair and replacement of capital facilities, economic uncertainties and financial hardship due to disasters or economic downturn.

The minimum established for each Fund represents the baseline financial condition that is acceptable to the Company.

Fund balances will be reviewed by the Board on an annual basis at or near the end of the fiscal year. Operating Reserve Fund balance that exceeds the established maximum will be transferred annually into the Capital Reserve Fund.

On an as-needed basis, monies from the Capital Reserve Fund can be used to pay for operating emergencies as a supplement to the Operating Reserve Fund.

If the Capital Reserve Fund balance exceeds the established maximum, the Board will make a determination regarding reallocation of excess monies.

Delegation of Authority

The Board has sole authority to amend or revise the Reserve Funds Policy.

Operating Reserves

Purpose

The Operating Reserve Fund is used for unanticipated operating expenses and to meet routine cash flow needs.

Target Level

The minimum target level for the Operating Reserve is 90 days of Company's budgeted total operating expenses.

The maximum target level for the Operating Reserve is 180 days of Company's budgeted total operating expenses.

Events or Conditions Prompting the Use of the Fund

Staff may routinely utilize this fund to cover temporary cash flow deficiencies caused by timing differences between revenue and expenses.

The Board may determine to use this fund for extraordinary decreases in revenues or unexpected increases in expenses.

Periodic Review Dates for Balances

Operating Reserve fund balance will be approved by the Board during preparation of annual budget.

Capital Reserves

Purpose

The Capital Reserve Fund is intended for the replacement of capitalized assets when they reach the end of their useful lives.

Target Levels

The Company will strive to maintain a minimum balance totaling 5% of Company's Total Property, Plant and Equipment value as reported in the most recent Independent Auditors' Report.

The Company will strive to maintain a maximum balance below 20% of Company's Total Property, Plant and Equipment value as reported in the most recent Independent Auditors' Report.

Events or Conditions Prompting the Use of the Fund

The Board will determine when a condition exists matching the purpose of this fund.

Periodic Review Dates for Balances

Capital Reserve fund balance will be approved by the Board during preparation of annual budget.

Debt Service Reserves

Purpose

The Debt Service Reserve Fund is intended to comply with restrictions set forth in legal documents pertaining to the Company's borrowing of money. These funds may be held in trust in favor of the loan holder.

Target Level

The Company will maintain a minimum balance as determined by conditions set forth in the borrowing documents.

The Company will strive to maintain a maximum balance that is no more than required to ensure continued compliance with conditions of the borrowing documents.

Events or Conditions Prompting the Use of the Fund

As stipulated in the borrowing documents authorized by the Board.

Periodic Review Dates for Balances

Debt Service Reserves will be reviewed by staff on a regular basis consistent with the payment schedule conditions of the borrowing documents.