

FINANCE AND PERSONNEL COMMITTEE

Thursday, September 17, 2015, 5:00 PM

Location:

Joseph P. Bort MetroCenter
Association of Bay Area Governments
101 8th Street, Conference Room B
Oakland, California

The ABAG Finance and Personnel Committee may take action on any item on this agenda.

Agenda and attachments available at abag.ca.gov

For information, contact Charles Adams, Interim Finance Director, at (510) 464-7906.

1. CALL TO ORDER

2. PUBLIC COMMENT

Information.

3. APPROVAL OF MINUTES OF JULY 16, 2015

ACTION.

Minutes of July 16, 2015 meeting attached.

4. PRESENTATION AND REVIEW OF FINANCIAL REPORT FOR JUNE 2015

Information/ACTION.

Financial Report for June 2015 is attached.

5. AMENDMENT TO ABAG'S INVESTMENT POLICY

Information/ACTION.

ABAG Finance and Personnel Committee

September 17, 2015

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Amended Investment Policy is attached.

6. ORAL REPORT ON CONDITIONS IMPOSED BY MTC ON THE SIX-MONTH INTERAGENCY AGREEMENT

Information.

7. ORAL REPORT ON STATUS OF LINE OF CREDIT RENEWAL

Information.

8. ORAL REPORT ON PAYMENT OF MEMBERSHIP DUES FY 15-16

Information.

9. CLOSED SESSION

A. Public Employee Performance Evaluation

Title: Executive Director

10. ADJOURNMENT

The next meeting of the Finance and Personnel Committee will be on Thursday, November 19, 2015.

Submitted:

Charles Adams, Interim Finance Director

Date: September 1, 2015

ABAG FINANCE AND PERSONNEL COMMITTEE

Summary Minutes

July 16, 2015

Members Present

Mayor Bill Harrison
Supervisor Karen Mitchoff
Councilmember Desley Brooks
Supervisor David Cortese
Supervisor Scott Haggerty
Supervisor Mark Luce
Councilmember Julie Pierce

Jurisdiction

City of Fremont
County of Contra Costa
City of Oakland
County of Santa Clara
County of Alameda
County of Napa
City of Clayton

Members Absent

Supervisor John Gioia
Supervisor Dave Pine
Supervisor David Rabbitt

County of Contra Costa
County of San Mateo
County of Sonoma

Officers and Staff Present

Ezra Rapport, Executive Director
Bradford Paul, Asst. Exec. Director
Kenneth Moy, Legal Counsel
Charles Adams, Interim Finance
Director
Brian Kirking, HR and IT Director
Susan Hsieh, Asst. Finance Director

Guests

Mayor Pro Tem Pat Eklund
Ken Bukowski, Videographer
Andrew Totaro, Supervisor Scott
Haggerty Intern

City of Novato

1. The meeting was called to order by Mayor Harrison, Committee Chair, at 5:10 pm.
2. There was no public comment.
3. Summary Minutes of the May 21, 2015 meeting were approved. /M/
Mitchoff/S/Luce/C/approved unanimously.

4. Mr. Adams presented the financial reports for May 2015. He informed the committee of the modifications to the financial report and reported on the financial outlook. /M/Luce/S/Pierce/C/acceptance of the report unanimously.
5. Mr. Adams reported on the conditions imposed by MTC on the six-month interagency agreement. MTC requested ABAG to re-prepare our indirect overhead plans, provide a corrective action plan for recommendations made by the State Controller's Office (SCO), and provide a written response from our auditors indicating that there was inconsistency with their single audit report and issues raised by the SCO and PWC reports. MTC also withheld payment for certain charges.

Mr. Adams advised the Committee that our indirect overhead plans were prepared in accordance with federal guidelines. In addition, our oversight agency EPA issued a memo in June 2015 directly addressing MTC's concern and confirming that our allocation method is appropriate.

The SCO, PWC and our auditors followed different scope and objectives in performing their examinations. It is inappropriate to request an audit firm to make such a statement when these reports are not comparable. The SCO report concluded that the review did not identify any significant deficiencies with ABAG's administrative and internal accounting controls. The PWC Engagement Partner reported at the 6/24/15 MTC Commission Meeting that they did not identify any abuse or misuse of MTC funds as part of their procedure. Both conditions imposed by MTC are inappropriate.

The Committee discussed potential solutions and directed staff to work with MTC to resolve the issues. The Committee also directed staff to advise them the amount withheld by MTC.

6. Mr. Adams reported on payment of FY 15-16 membership dues. \$740 thousand (or 39%) of the \$1.89 million budgeted membership dues were collected through July 7, 2015. The Committee directed staff to report the status again at the next meeting.
7. Mr. Adams reported on the status of line of credit renewal and advised the Committee that an update will be provided at the next meeting.

8. Mr. Adams reported on the SCO recommendations. The SCO review concluded that the review did not identify any significant deficiencies with ABAG's administrative and internal accounting controls but noted serious weaknesses in ABAG's oversight of the Finance Authority operations. Mr. Adams reported that ABAG will continue to strength the controls over FAN and will integrate the recommendations with the recommendations from our internal investigation. He also advised the Committee of the status on other recommendations including accounts payable processing, performance evaluations, bank reconciliations, travel polices, and a centralized contract tracking system.
9. There was no reportable action from Closed Session.
10. Meeting was adjourned at 6:54 pm.

Submitted: Susan Hsieh, Assistant Finance Director

To: Finance and Personnel Committee

Date: September 10, 2015

From: Charlie Adams
Interim Finance Director

Re: Financial Reports
-- June 2015

The following are highlights of the financial reports for the fiscal year ended June 30, 2015.

Overall Summary

The preliminary results for fiscal year 2014-15 show revenues exceeding expenses by \$1.4 million. However, \$800 thousand of this surplus represents funds provided by MTC to finance tenant improvements in the 370 Beal Street office building in San Francisco, and does not provide any current or future operating funds for ABAG. As discussed in previous reports, there may be expenses to ABAG related to the embezzlement in the Finance Authority for Nonprofit Corporations (FAN), and the subsequent investigation of FAN operations.

A change in the accounting standard for reporting retirement plan liabilities (GASB 68) has become effective for fiscal year 2014-15. We are working with our auditors to apply these new accounting and disclosure standards. The effect on the financial statements has not yet been determined, but we anticipate that there will be a material effect on the ABAG fund balance.

Cash on Hand

The cash balance was \$8.1 million at the end of June, including \$2.2 million deposited in the Local Agency Investment Fund (LAIF). As shown in Figure 1 the actual monthly cash balances for the fiscal year are within a range of \$6.5 to \$8.1 million, with the exception of January 2015. The high cash balances of \$9.2 million in January and \$8.1 million in June are primarily attributable to grant advances for SFEP projects and advances/payments for the BayREN/Energy project. The June 30, 2015 cash balance includes San Francisco Estuary Partnership (SFEP) and San Francisco Bay Area Regional Energy Network (BayREN) advances of approximately \$5.3 million, which are recorded as unearned revenue.

Receivables

Receivables from grant and service programs were \$8.4 million at June 30. The major receivables were associated with the BayREN Project - \$1.8 million, and several projects funded by the Integrated Regional Water Management Plan grant - \$2.4 million. There are no city and county 2014-15 membership dues receivable at June 30, 2015.

Of the receivables, 60% are current, 38% are 90 days or less past due, and 2% are over 90 days past due. The over 90 days receivables are largely retentions that are being held in accordance with the grant agreements.

Revenues and Expenses

Total revenues for the year were \$37.6 million, which is 159% of the budgeted revenues. Grants of \$29.0 million were \$13 million over the budget. The major grant funded programs were BayREN - \$16.6 million, SF Estuary Partnership - \$7.2 million, Plan Bay Area - \$4.1 million and Bay Trail \$1.4 million.

Total expenses amounted to \$36.3 million, which is 154% of the budget. Salaries and benefits were 15% below budget as a result of the elimination of four staff positions during the year. Pass-through and consultant expenses were \$14 million over the budget, which corresponds to the over budget grant revenues noted above.

The preliminary operating statement for fiscal year 2014-15 shows a surplus of revenues over expenses of \$1.4 million. This surplus includes the \$800,000 MTC windfall discussed above. Also, as previously reported, the investigation into the FAN embezzlement, settlement with bond issuer, review of ABAG/FAN transactions, and settlement of ABAG insurance claims have not been completed. To the extent these items are finalized, or completed to a point that a reasonable estimate of cost to ABAG can be made, prior to the final closing of the fiscal year 2014-15 books, the costs will be recorded as a fiscal year 2014-15 expense. It should also be noted that ABAG will adopt a new accounting standard for reporting pension costs in fiscal year 2014-15. This new standard may significantly reduce the operating surplus for fiscal year 2014-15 and they will reduce the unrestricted fund equity as of June 30, 2015.

Figure 3 presents a graphic comparison of: month of June, fiscal year, and adopted budget revenues and expenses. The relationship of revenues exceeding expenses is consistent for all three comparisons shown.

Figures 4 and 5 show year-to-date revenues and expenses by major categories. Grants revenue is 78% of total revenue, compared to 74% for fiscal year 2013-14. Pass-through and Consultant expense are 64% of total expenses, compared to 51% for fiscal year 2013-14. The increasing percentages for these categories occur because of the BayREN project which has provided ABAG revenue in excess of \$27 million since its inception in March 2013.

Net Position/Fund Equity

Total fund equity \$4.2 million at June 30, 2015 is composed of \$2.6 million in general fund equity, and \$800 thousand in restricted equity for office building improvements and \$807 thousand restricted fund equity composed of working capital, self-insurance, and building maintenance reserves. Figure 6 is a graphic presentation of unrestricted, restricted, and total net equity as June 30, 2015.

Indirect Overhead Rate

The Agency's actual indirect cost (overhead) rate for the year was 44.19%, which was .76 percentage points below the budget estimate of 44.95%. The overhead "savings" of approximately \$53 thousand will be applied as a reduction of expenses in computation of the fiscal year 2016-17 indirect cost rate. Figure 7 shows a comparison between the actual indirect cost rate and the budgeted rate for the year.

Financial Information by Program

The Report by Program of Net Surplus/(Deficit) follows the financial the charts. This report presents revenue and expense information by program. It provides an overview of budgeted and year-to-date revenue and expense data for major programs such as the Planning Services, San Francisco Estuary Partnership, Bay Trail and POWER/Energy.

Financial Outlook

We are now two months into fiscal year 2015-16 and there have been no operating or financial events that would create a material variance from budget. However, land use planning performed by ABAG is funded by agreement with the Metropolitan Transportation Commission (MTC), and this funding is currently jeopardized in two ways. The first jeopardy is that MTC chose to extend the fiscal year 2014-15 inter-agency agreement for six months through December 31, 2015, rather than enter into a new agreement for a full year's funding through June 30, 2016. Because ABAG operates under the principles and expectations of a going concern, the loss of MTC funding after December 31, 2015 would not only impact financial operations January 2016 forward, but would necessitate accounting revisions that would likely result in ABAG incurring an operating deficit for the six months July through December 2015.

The second jeopardy arises from conditions MTC attached to the extension of the inter-agency agreement. These conditions were not only onerous in their nature and inferences; they were not based on factual conditions making compliance impossible in some instances. MTC officials have agreed that the conditions as written were not feasible, and they agreed in principle to accept alternative actions by ABAG, to be agreed upon jointly by MTC and ABAG staff. Meetings of MTC and ABAG staff have been held and agreements on alternative actions have been reached. ABAG staff believes that we have fully complied with the agreed upon actions. However, MTC staff have expanded, modified, and added requirements; and created issues that did not previously exist. As a result, MTC has not committed to honoring the extended agreement and paying ABAG invoices for fiscal year 2015-16.

ABAG has sufficient working capital to operate without MTC reimbursement for two to three months, but it will not be able to continue full scale operations, without MTC reimbursement, beyond this three month period.

Association of Bay Area Governments
Table of Financial Report Data Elements
(thousands of dollars)

For the Month Ended June 2015

Description	Adopted Budget	Year-To-Date Actual	% of Adopted Fiscal Year Budget
ASSETS			
Cash		8,128	
Receivables		8,404	
REVENUES			
Membership Dues	1,821	1,820	100%
Grants	15,881	29,196	184%
Charges for Services and Other	5,963	6,620	111%
Total Revenues	23,665	37,636	159%
EXPENSES			
Salaries and Benefits	12,882	10,943	85%
Pass-through and Consultant Expenses	8,500	23,246	273%
Other Expenses	2,233	2,081	93%
Total Expenses	23,615	36,270	154%
Change in Net Position	50	1,366	2732%
Beginning Net Position	2,887	2,793	97%
Ending Net Position	2,937	4,159	142%
NET POSITION BREAKDOWNS			
Unrestricted	2,177	2,552	117%
Restricted - Tenant Improvements		800	
Restricted - Other	760	807	106%
Total Net Position	2,937	4,159	142%
INDIRECT OVERHEAD			
Overhead Rate	44.95%	44.19%	98%

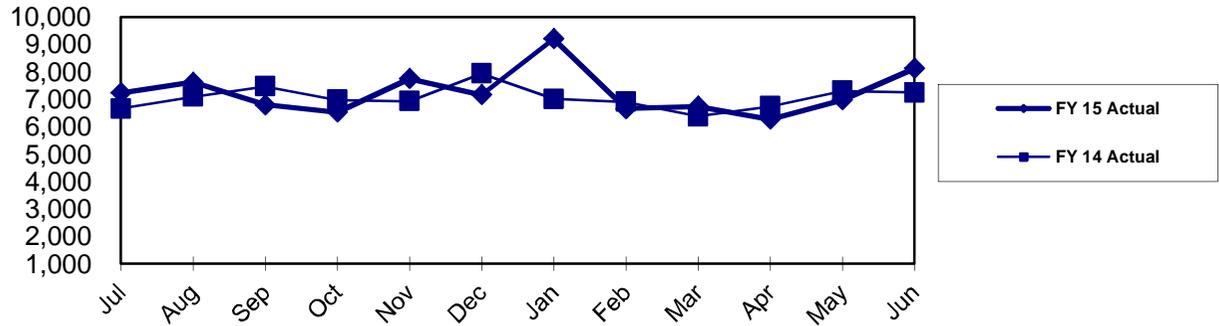
Item 4

ABAG Financial Indices

Cash on Hand FY 14-FY 15 (\$'000)												
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
FY 15 Actual	7,243	7,620	6,801	6,529	7,751	7,161	9,213	6,661	6,745	6,270	6,979	8,128
FY 14 Actual	6,667	7,091	7,472	6,974	6,933	7,943	7,017	6,907	6,385	6,741	7,306	7,248

Represents the sum total of cash deposited at our bank and the Local Agency Investment Fund. This chart shows fluctuation patterns of cash on hand for the current and prior fiscal years.

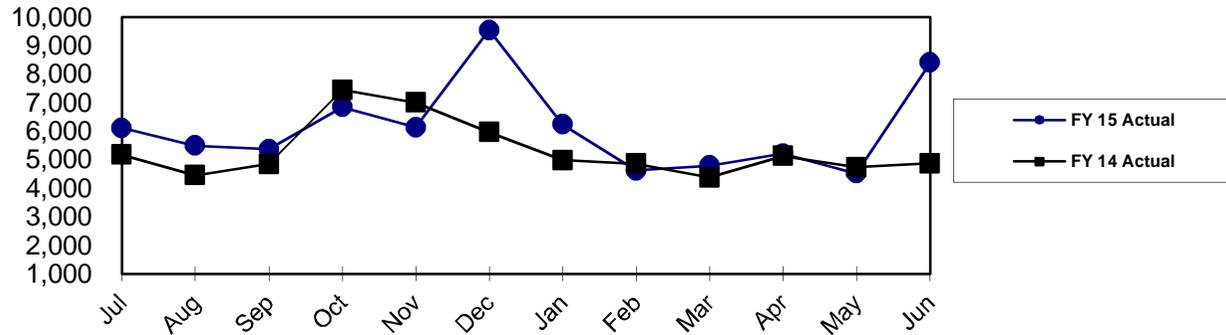
Figure 1--Cash on Hand--FY 14 and FY 15 (\$'000)



Accounts Receivable FY 14-FY 15 (\$'000)												
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
FY 15 Actual	6,116	5,495	5,377	6,846	6,141	9,544	6,239	4,625	4,802	5,213	4,526	8,404
FY 14 Actual	5,182	4,463	4,851	7,445	7,006	5,973	4,985	4,862	4,379	5,132	4,742	4,874

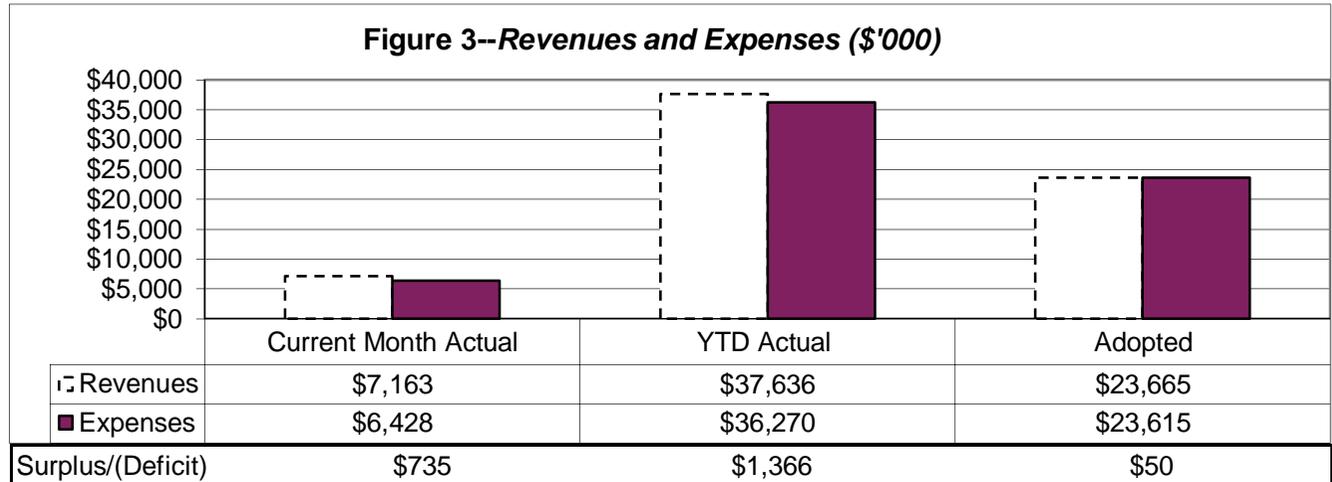
Accounts receivable include receivables generated by grants and service programs over two fiscal years. The December 2014 balance was exceptionally high due to the final billing for phase one of the BayREN project. The June 2015 balance was high primarily due to first time billing from the subrecipients on the Integrated Regional Water Management Program.

Figure 2--Accounts Receivable--FY 14 and FY 15 (\$'000)



ABAG Financial Indices

Presents a comparison of current month actual, year-to-date actual, and adopted/projected revenues and expenses.



Shows year-to-date revenues by major category including membership dues, grants, and charges for services and other.

Shows year-to-date expenses by major category including salaries and benefits, pass-through and consultant expenses, and other expenses.

Figure 4-- Year-to-date Revenues by Category (\$'000)

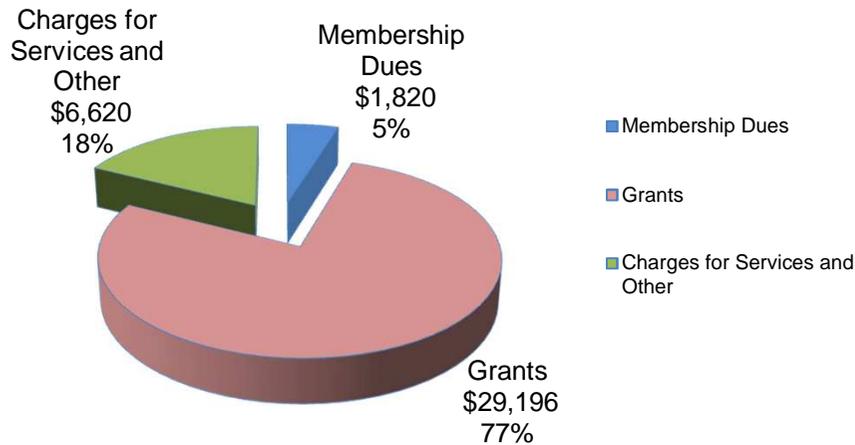
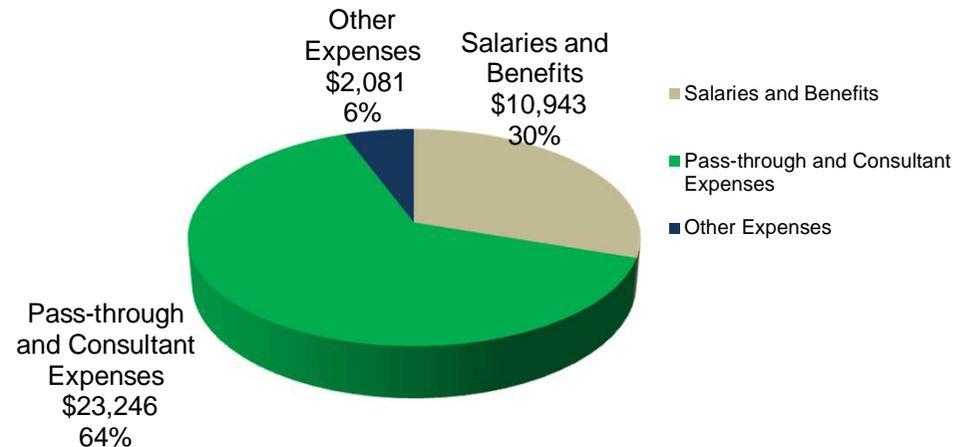


Figure 5-- Year-to-date Expenses by Category (\$'000)



ABAG Financial Indices

Presents actual and adopted/projected general, restricted and total fund equities for the current fiscal year. General fund equity represents unrestricted equity. Restricted equities include building improvements, building maintenance, self-insurance, capital and contingency reserve. These restricted equities represent the Association's equities set aside for specific purposes. Total equity is the sum total of general and restricted equities.

Shows a comparison between the actual indirect cost rate and the approved/projected rate. The approved indirect cost rate is computed by dividing total estimated overhead expenses by total projected direct labor cost for a fiscal year. This rate is used as a standard overhead cost rate to allocate indirect costs to all projects. This process is performed in accordance with an indirect cost plan, which is prepared annually in accordance with federal guidelines.

Figure 6--Net Position/Fund Equity (\$'000)

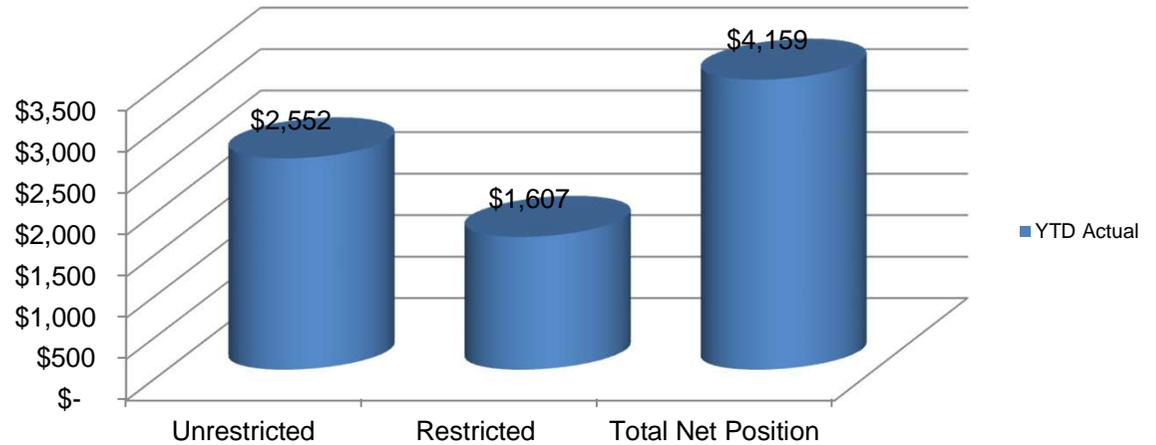
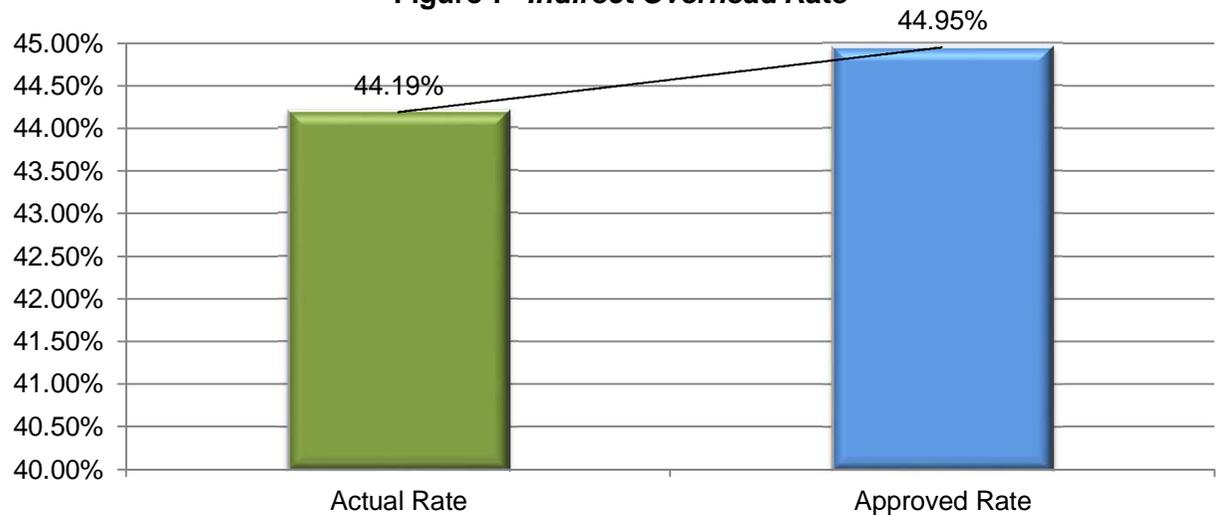


Figure 7--Indirect Overhead Rate



Association of Bay Area Governments

Report by Program of Net Surplus/(Deficit) Through June 2015 / 100% of Year Elapsed

Program Description	Adopted Fiscal Year Budget Expenses	Year-To-Date Revenues	Year-To-Date Expenses	YTD Surplus/ (Deficit)	% of Expense Budget	Comments
	A	B	C	D = B - C	E = C/A	
Planning Services	3,967,523	4,070,882	4,098,265	(27,383)	103%	
San Francisco Estuary Partnership	5,549,917	7,200,897	7,291,468	(90,570)	131%	Higher than projected expense is due to first time billing from some partners for the Integrated Regional Water Management Plan (Round 2). \$20M was awarded to ABAG. There are 19 partners for this project including ABAG members and other agencies within member jurisdictions. \$31M was awarded to ABAG for Round 3; ABAG submitted a grant application for Round 4 for \$41M. The year-to-date deficit is primarily attributed to the timing of collecting contributions from partners for a project, but the partnership has a positive fund balance as of June 30, 2015.
Disaster Recovery	400,000	524,180	524,704	(524)	131%	
Bay Trail	1,737,560	1,400,739	1,402,675	(1,936)	81%	Spent less than budgeted. Unspent funds will be spent in future years.
Green Business	120,000	77,455	77,455	-	65%	Spent less than budgeted. Unspent funds will be spent in future years.
Training Center, Web Hosting and Publications	672,500	671,291	552,046	119,245	82%	The surplus is primarily attributed to excess revenue from the Training Center.

Association of Bay Area Governments

Report by Program of Net Surplus/(Deficit) Through June 2015 / 100% of Year Elapsed

Program Description	Adopted Fiscal Year Budget Expenses	Year-To-Date Revenues	Year-To-Date Expenses	YTD Surplus/ (Deficit)	% of Expense Budget	Comments
	A	B	C	D = B - C	E = C/A	
POWER/Energy	4,650,000	16,937,001	16,973,592	(36,591)	365%	Actual expenses for the BayREN project are much higher than budgeted. Excess revenues from prior years are used to identify new funding opportunities and support efforts that benefit members and local governments. The energy program has a positive fund balance as of June 30, 2015.
Finance Authority	1,500,000	1,724,412	1,544,829	179,583	103%	A pooled financing was closed out/matured. Funds were returned to ABAG in accordance with the financing agreement and resulted in a one-time income.
Plan Corporation - Property & Liability Insurance Pool	2,900,000	2,188,969	2,188,969	-	75%	Actual expenditures are much lower due to the outsource of the claims unit in August 2014.
SHARP - Worker's Comp Pool	140,000	133,148	133,148	-	95%	
Fiscal Agent Services	101,200	116,217	119,073	(2,856)	118%	
Communications/Legislative	860,000	596,483	594,483	2,000	69%	
Agency Administration	1,016,061	1,993,079	973,019	1,020,060	96%	\$800K of the surplus is associated with extraordinary income provided by MTC for the new building in San Francisco. The MTC Commission approved the revised eight year Funding Framework in June 2014. The funding framework provides \$31M for the Planning Department and \$4.2M for tenant improvements covering FY 13-14 to FY 20-21. During FY 14-15, MTC paid \$800K to BAHA on behalf of ABAG.

Association of Bay Area Governments

Report by Program of Net Surplus/(Deficit) Through June 2015 / 100% of Year Elapsed

Program Description	Adopted Fiscal Year Budget Expenses	Year-To-Date Revenues	Year-To-Date Expenses	YTD Surplus/ (Deficit)	% of Expense Budget	Comments
	A	B	C	D = B - C	E = C/A	
Payroll Clearing		-	(205,148)	205,148	N/A	The surplus is primarily attributed to low vacation/other leave usage (high billable hours) during the year and favorable recovery from some benefits. This account can result in a surplus in some years and a deficit in some years depending on the timing of vacation usage and payments for benefits (unemployment insurance, retiree health, pension, etc.). Savings/excess collections from one year may be used to offset excess expenses and under recovery of benefits in future years.
Central Overhead	3,229,454	3,189,118	3,189,118	-	99%	
Totals	26,844,215	40,823,870	39,457,695	1,366,176	147%	

ASSOCIATION OF BAY AREA GOVERNMENTS

INVESTMENT POLICY

Adopted: July 17, 2003
Reaffirmed: January 19, 2006
Revised: September 18, 2008
Revised: January 21, 2010
Revised: September 17, 2015

Association of Bay Area Governments
Investment Policy

1.0 Policy

It is the policy of the Association of Bay Area Governments (ABAG) to invest public funds in a manner which will provide the highest investment return consistent with maximum security while meeting the daily cash flow demands of ABAG and conforming to all state and local statutes governing the investment of public funds.

2.0 Scope

This investment policy applies to activities of ABAG with regard to investing the financial assets that arise from ABAG's operation.

3.0 Prudence

The investment portfolio of ABAG will be managed under the Prudent Person Rule which states, in essence, that "a trustee shall exercise the judgment and care, under the circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived." The application of this rule opens up a broad spectrum of investment opportunities as long as the investment is deemed prudent and is permissible under currently effective legislation of the State of California and this policy.

4.0 Objectives

It is the objective of this policy to provide a system which will accurately monitor and forecast revenues and expenditures so that ABAG can invest funds to the fullest extent possible. Funds of ABAG will be invested in accordance with sound treasury management principles with the following priorities:

1. Safety of invested funds
2. Maintenance of sufficient liquidity to meet cash flow needs
3. Attainment of maximum possible yields consistent with the above principles

4.1 Safety

A. To protect the value of the principal and interest of the invested funds, ABAG will invest only in the safest securities which include those backed by the U. S. Government or its agencies; those which have insurance on principal backed by the FDIC; or those which have legally required collateral backing of the invested principal.

B. ABAG's investment portfolio shall be diversified by type of investment, issuer and maturity dates to protect against changes in the market.

C. ~~With the exception of CalTRUST,~~ ABAG will not place any funds with any institution which is less than three (3) years old.

4.2 Liquidity

Maturity dates of investments shall be timed to provide funds for scheduled administrative and operating expenses.

The State Local Agency Investment Fund (LAIF) shall be used as one means of providing liquidity. However, because of the limitation in number of transactions allowed per month, some pre-planning will be necessary. CalTRUST will be used as an investment option to augment LAIF.

4.3 Yield

ABAG seeks to attain market rates of return on its investments, consistent with constraints imposed by its safety objectives and cash flow consideration. Purchase and sale of securities should be made on the basis of competitive offers and bids, when practical, to obtain the highest possible rates.

5.0 Designation of Treasurer

ABAG's Finance Director is hereby designated as treasurer. An investment team made up by the Finance Director, the Executive Director, and the Financial Services Manager shall advise the Treasurer on investment of ABAG's funds. The Treasurer is responsible for ensuring all investment activities are within the guidelines of these policies. ABAG shall develop and maintain administrative procedures for the operation of the investment program. In order to optimize total return through active portfolio management, resources shall be allocated to the investment program. This commitment of resources shall include financial and staffing considerations.

6.0 Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activities 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 President any material financial interests in financial institutions that conduct business with ABAG or its affiliated entities, and they shall further disclose any large personal financial/investment positions that could be related to the performance of ABAG, particularly with regard to the time of purchases and sales.

7.0 Authorized Financial Dealers and Institutions

The Finance Director will maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved security broker/dealers selected by credit worthiness who are authorized to provide investment services in the State of California. These may include primary or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule). No deposit of public funds shall be made except in a qualified public depository as established by state laws.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Finance Director with the following: audited financial statements, proof of National Association of Security Dealers certification, trading resolutions, proof of state registration, and certificate of having read ABAG’s investment policy.

An annual review of the financial condition and registrations of qualified bidders will be conducted by the Finance Director. A current audited financial statement is required to be on file for each financial institution and broker/dealer through which ABAG invests.

8.0 Authorized and Suitable Investments

The following is a summary of the authorized investment instruments and the applicable limitations to each:

<u>Type</u>	<u>Backed by</u>	<u>Limits</u>	<u>Term to maturity</u>
Local Agency Investment Fund (LAIF)	State Treasurer	As determined by State Treasurer	On demand
Investment Trust of California (CalTRUST)	CalTRUST	As determined by CalTRUST	On demand
Money Market Funds	Banks/mutual funds	20% of portfolio	On demand

Investment Agreements	Financial institutions		On demand
U.S. Treasury Bills	U.S. Treasury		To one year
U.S. Treasury Notes	U.S. Treasury		To one year
U.S. Govt. Agency Issues (e.g. FNMA, GNMA)	Federal Agencies		6 mos. to 4 5 years
Banker's Acceptances	Accepting Bank	40% of portfolio	Up to 180 days
Certificates of deposit with banks or savings and loan associations	FDIC or FSLIC insured	10% of portfolio per institution	To one three years
Negotiable certificates of deposit	Issuing Bank	3 10% of portfolio	14 days to one year
Repurchasing Agreements	Issuing Bank/Collateralized	10% of portfolio	Not to exceed 15 days
Commercial Papers	Corporations Liquidity	10% of portfolio	Up to 180 days

See Appendix A for description of above securities

8.1 Prohibited Investment Practices and Instruments

Certain investment practices and instruments are inconsistent with the first objective of this policy--safety of invested funds, and are therefore prohibited:

ABAG shall not engage in leveraged investing, such as in margin accounts or any form of borrowing for the purpose of investment.

ABAG shall not invest in instruments whose principal and interest have no backing as described in Section 1.A. of this policy. Examples of these instruments are options and future contracts.

ABAG shall not invest in securities with floating coupon interest rates.

With the exception of investments in the Local Agency Investment Fund (LAIF), CalTRUST and certificates of deposit that are insured by the FDIC, the Pool shall invest in securities that are

rated within the top two rating categories of a nationally recognized rating service (e.g. Standard & Poor's and Moody's).

9.0 Collateralization

Collateralization will be required on two types of investments: certificates of deposit not insured by the FDIC ~~and~~ and repurchase (and reverse) agreements. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be (102%) of market value of principal and accrued interest.

ABAG chooses to limit collateral to U. S. Treasury and Federal Agency securities.

Collateral will always be held by an independent third party with whom ABAG has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to ABAG and retained.

10.0 Safekeeping and Custody

All security transactions, including collateral for repurchase agreements, entered into by ABAG shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third party custodian designated by the Finance Director and evidenced by safekeeping receipts.

11.0 Diversification

ABAG will diversify its investments by security type and institution. With the exception of the California State Local Agency Investment Fund and U. S. Treasury securities, no more than 50 % of ABAG's total investment portfolio will be invested in a single security type or with a single financial institution.

12.0 Maturity

To the extent possible, ABAG will attempt to match its investments with anticipated cash flow requirements, and strive to limit average maturity of the investment portfolio to less than seven years.

13.0 Internal Control

The Finance Director shall establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with policies and procedures.

14.0 Performance Standards

The investment portfolio shall 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.

14.1 Market Yield Benchmark

For its operating funds, ABAG will strive to achieve an average rate of return that is no lower than the average rate of return from the California State Local Agency Investment Fund

15.0 Reporting

The Finance Director will submit a monthly investment report which summarizes total investment return and budgetary expectations. The report shall also disclose all investment transactions during the period as well as a complete list of securities in the portfolio showing type, institution, coupon rate, effective yield and current market value.

16.0 Policy Adoption

ABAG's investment policy shall be adopted by resolution of the Board of Directors. The policy shall be reviewed by the Finance Committee and any modification made thereto must be approved by the Board.

Appendix A

Explanation of Allowable Instruments

Local Agency Investment Fund (LAIF). The LAIF was established by the State of California to enable treasurers to place funds in a pool for investments. There is a maximum investments limit for each investing agency (currently \$50 million) ~~limitation of \$450 million per agency set by LAIF, and are limited~~ subject to a maximum of 15 ~~total~~ transactions per month. ABAG uses this fund when interest rates are declining as well as for short-term investments and liquidity.

Investment Trust of California (CalTRUST). Shares of beneficial interest issued by the Investment Trust of California (CalTRUST), pursuant to California Government Code Section 6509.7; and authorized for local agency investment by California Government Code Section 53601(o). As a public agency, CalTRUST's investment portfolio is subject to the same Government Code restrictions and limitations as ABAG's, although its portfolio may contain investments not otherwise permitted under this policy. As such, the portion of ABAG's assets invested in CalTRUST shall be governed by the CalTRUST investment policy.

Money Market Funds. Diversified investment funds which invest in government-backed securities, provide daily liquidity and have no risk in principal. No more than 10 percent of the agency's funds may be invested in one issuer.

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Investment Agreements. Government investment contracts with financial institutions rated within the two top rating categories of a nationally recognized rating agency; provided that if such rating falls below the two top rating categories of such agency, the investment agreement shall allow for the option to replace such financial institution or shall provide for the investment agreement to be fully collateralized by U.S. Treasury and Agency securities, provided further

that if so collateralized the agency or its trustee, as the case may be, has a perfected first security lien on the collateral.

U.S. Treasury Bills. Commonly referred to as T-Bills, these are short-term marketable securities sold as obligations of the U.S. Government. They are offered in three-month, six-month, and one-year maturities. T-Bills do not accrue interest but are sold at a discount to pay face value at maturity.

U.S. Treasury Notes. These are marketable, interest-bearing securities sold as obligations of the U.S. Government with original maturities of one to ten years. Interest is paid semi-annually.

U.S. Government Agency Issues. Include securities which fall into these categories: 1) Issues which are unconditionally backed by the full faith and credit of the United States, 2) Issues which are conditionally backed by the full faith and credit of the United States and 3) Issues which are not backed by the full faith and credit of the United States.

Issues which are unconditionally backed by the full faith and credit of the United States include: Small Business Administration (SBA) and General Services Administration (GSA).

Issues which are not backed by the full faith and credit of the United States include: Federal National Mortgage Association (FNMA), Federal Home Loan Bank (FHLB), Farm Credit System, Banks for Cooperation (Co-ops), Federal Lands Banks (FLB), and Federal Intermediate Credit Banks (FICB).

While all the above issues are not unconditionally backed by the full faith and credit of the United States, they do in fact have defacto backing from the federal government, and it would be most unlikely that the government would let any of these agencies default on its obligations.

Banker's Acceptance. This is a negotiable time draft (bill of exchange) with a maturity of six months or less drawn on and accepted by a commercial bank. Banker's acceptances are usually created to finance the import and export of goods, the shipment of goods within the United States and storage of readily marketable staple commodities.

Certificate of Deposit (CDs) is a receipt for funds deposited in a Bank or Savings and Loan Association for a specified period of time at a specified rate of interest. The first \$250,000 of a certificate of deposit is guaranteed by the Federal Deposit Insurance Corporation (FDIC). CD's with a face value in excess of \$250,000 can be collateralized by Treasury Department Securities, which must be at least 110% of the face value of the CD's, in excess of the first \$250,000, or by first mortgage loans which must be at least 150% of the face value of the CD balance in excess of the first \$250,000.

Negotiable Certificate of Deposit is a form of Certificate of Deposit, usually supported only by the strength of the institution, but can be sold at any time. Interest on CD's with maturities of

one year or less is typically paid at ~~maturity,maturity~~; while interest on CD's with maturities over one year is typically paid semi-annually.

Repurchase Agreement (REPOS) is a contractual arrangement between a financial institution, or dealer, and an investor. This agreement normally can run for one or more days. The investor puts up his funds for a certain number of days at a stated yield. In return, he takes a given block of securities as collateral. At maturity, the securities are repurchased and the funds repaid plus interest.

Commercial Paper notes are secured promissory notes of industrial corporations, utilities and bank holding companies. Notes are in bearer form starting at \$100,000. State law limits an agency to invest in United States corporations having assets in excess of five hundred million dollars with an "A" or higher rating. ABAG may not invest more than 30% of idle cash in commercial papers.